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Education Center

Interstate Highway Bonds

INTERSTATE

REFERRED QUESTION NO. 1

(Referred to the People by the Governor and Arkansas General Assembly)

POPULAR NAME: Arkansas Interstate Highway Financing Act of 2005

Why is the issue on the ballot of a Special Election?

Act 685 of the 2005 Regular Session of the 85th Arkansas General Assembly authorizes the Arkansas State Highway Commission to issue highway improvement bonds subject to a vote of the people. The authority requires the one-time approval of voters in a statewide election. The election requires a proclamation of the Governor, and the election may be conducted through a regularly-held general election or a special election.

By approving Act 685, the state legislature has suggested that the best way to finance improvements in the Interstate highway system is to permit the State Highway Commission to issue bonds to raise revenue for these purposes. Because these bonds are backed by the full faith and credit of the state and could require the use of general revenue funds, authority to issue must be approved by Arkansas voters in a statewide election. The Governor's proclamation calls for a special election on December 13, 2005.

What is being proposed?

Subject to one-time approval of voters in a statewide election, Act 685 permits the Arkansas Highway Commission to issue bonds for the purpose of:

(1) Accelerating Interstate highway improvement projects underway or scheduled;
(2) Funding Interstate highway improvement projects;
(3) Financing the restoration, reconstruction, and renovation of Interstate highway improvements within the State of Arkansas; and
(4) Paying the cost of issuance of the bonds.

If this Act is approved by voters, the total principal amount of outstanding bonds at any one time (from this Act and the Arkansas Highway Financing Act of 1999) may not exceed $575 million.

Didn't voters approve something similar to this a few years ago?

Yes. In 1999, Arkansas voters approved the Arkansas Highway Financing Act of 1999. This Act authorized the Arkansas Highway Commission to issue up to $575 million in bonds to finance the state's Interstate Rehabilitation Program. Under this one-time authority, a total of $575 million in bonds was issued over a three-year period, 2000 to 2002. These are 12-year

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maturity bond issues with a repayment schedule of 2012, 2013, and 2014, respectively. Bonds from these issues can be repaid early.

If voters approve the Arkansas Interstate Highway Financing Act of 2005, it will provide ongoing authority to the Arkansas Highway Commission to issue new bonds. The total principal outstanding of new and existing bonds may not exceed $575 million. Thus, no new bonds can be issued until some of the $575 million in outstanding bonds are repaid.

According to the Arkansas Highway Transportation Department (AHTD), $90 million in Interstate highway bonds will be repaid in 2006. The remainder of the first issue is eligible to be repaid as early as 2010 if adequate revenue is available. Even though some existing bonds may be repaid, the AHTD says that no new bonds could be issued until 2010. This is because debt service costs for existing bonds are expected to require all available revenue from the two designated sources.

How is the state paying for existing bonds?

According to the AHTD, the state is paying approximately $74 million annually to service the $575 million existing bond debt. There are two sources of revenue being used to pay the costs of existing bonds:

(1) Approximately $59 million comes from federal highway Interstate maintenance funds. Because these funds must be matched 90/10, the state must provide at least 10 percent additional funding.

(2) About $15 million of existing bond costs are paid using revenue from a 4-cent-per-gallon diesel fuel tax increase. This tax was levied under Act 1028 of the Regular Session of the 82nd Arkansas General Assembly. The diesel fuel tax increase was passed to help pay the state's share of debt retirement.

How does the state plan to pay for new bonds?

Like the existing bonds, new bonds will be payable from federal highway assistance funds and the diesel fuel tax. If these revenues are insufficient to make the bond payments, general revenues could also be used.

What costs are associated with these bonds?

The use of bonds to finance large projects is similar to the use of a mortgage to purchase a house. Similar to a home mortgage there are debt service costs of bonds which include payment of principal, interest, and administrative fees.

- Principal payments are used to pay off the dollar amount borrowed.
- Interest is the amount paid to the bond purchaser for the use of their money. The interest rate will vary depending on market conditions.
- Administrative fees include expenses related to issuing the bonds. Just as a person taking out a mortgage incurs costs such as attorney fees, real estate commission, and other closing costs, there are costs associated with issuing bonds. Because many of these fees are negotiated, the actual administrative cost of issuing new bonds is unknown at this time. Administrative costs for the $575 million in bonds issued under the Arkansas Highway Financing Act of 1999 were $938,000. This represents less than one percent (0.163%) of the amount of the bonds.

The current annual debt service cost for the $575 million bonds issued under the Arkansas Highway Financing Act of 1999 is approximately $74 million. Of this amount, approximately $59 million comes from the federal highway Interstate maintenance fund and $15 million from the diesel fuel tax. Total annual debt service costs for some existing and any new bonds issued could be higher or lower than current expenditures depending on the dollar amount of bonds issued, the interest rate, and administrative costs.

How does the AHTD plan to use this bond revenue?

Revenue from these bonds will be used to maintain and improve Interstate highways so they remain in good condition. This would include Interstates that were not included in the Interstate Rehabilitation Program of 1999, such as I-540 in northwest Arkansas and I-530 between Little Rock and Pine Bluff. By using bond revenue, the AHTD can begin this work without waiting for enough revenue from their two major sources of funding or without using revenue now used to maintain other roads in the state.

Can revenue from these bonds be used for state or local roads?

No. Bond revenues can only be used for Interstate projects. Interstate highways make up about four percent of the state's highway system.

Why is this issue on the ballot now?

The Arkansas General Assembly approved two acts regarding the sale of bonds in 2005 – one dealing with bonds for higher education and this one for Interstate highway bonds. Governor Huckabee has called a single special election to address both questions at one time, which saves the state money.

By approving this issue now, the state would be in position to issue bonds should additional federal funds become available for Interstate work. If approved by voters, decisions about future bond issues will be based on the need for improvements, the amount of existing bonds outstanding, the amount of revenue available to make debt service payments, and market conditions.

The following statements by supporters and opponents of this ballot issue have been reported in the media and elsewhere. By presenting these statements, the University of Arkansas does not endorse or in any way validate these statements.

What do supporters say?

- Arkansas has received national recognition for combining best practices in financing and implementing its five-year Interstate Rehabilitation Project. By allowing the state to issue additional bonds as current ones expire, staying under the cap authorized by voters in 1999, the state can continue to improve and maintain its Interstate road system.
- Prior to 1999, 63 percent of the state's Interstate highways were in poor or mediocre condition. In 2006, only 14% of the state's Interstate highways will be in poor to mediocre condition. If the highway bond program is discontinued, the AHTD estimates that 37 percent of the highways will be in poor or mediocre condition by 2016. The state cannot afford to fall behind again.
- Because federal highway funds are linked to matching state funds, the use of highway bonds as a financing tool ensures that the state is able to effectively leverage its resources and maximize the use of federal funding received without raising taxes for individual consumers.
- The presence of quality roads plays a key role in the state's ability to attract industry and improve its economy. History has shown it is impossible to maintain a quality Interstate highway system using a pay-as-you-go method because it does not provide enough revenue. Using bonds to finance projects has proven to be an effective way of addressing highway construction needs by spreading the cost over time, similar to using a mortgage to purchase a house.

What do opponents say?

- The original highway improvement bonds authorized in the 1999 special election were financed primarily with federal highway funds and state diesel fuel taxes. Due to uncertainty surrounding how the U.S. will finance reconstruction efforts on the Gulf Coast, Arkansas cannot assume that the state will receive adequate federal funding or tax revenue to offset the costs of new or existing bonds without new taxes or tapping general revenues.
- No decision on issuing new bonds and accumulating more debt should be made until the Arkansas Supreme Court rules on the petition asking the state to provide more money to school districts to ensure adequate public education for all students in the state.
- Voters approved the original bond issue because the state had one of the worst Interstate systems in the country. Now that critical road improvements have been made, the state should resume a pay-as-you-go program to maintain the quality of these roads without incurring additional debt.
- Given the rising fuel prices and a dependence on foreign oil, the state should be investing more in public mass transportation such as light rail rather than expanding its Interstate highway system.

What does a "FOR" vote mean?

A FOR vote means that you are in favor of allowing the Arkansas Highway Commission to issue bonds for Interstate highway improvements provided the total principal of the bonds does not exceed $575 million at any one time.

What does an "AGAINST" vote mean?

An AGAINST vote means that you do not approve of giving the Arkansas Highway Commission the authority to issue bonds for Interstate highway improvements.

Where can I find more information?

The complete and official text of each ballot measure can be obtained through the Arkansas Secretary of State's office:

- Phone: 501-682-1010
- Web site: http://www.sos.arkansas.gov/elections_calendar_2005special.html

For other information, including major support and opposition groups and general information about bonds, please visit our web site (http://piec.uaex.edu), or contact your county Cooperative Extension Service office.

The following is information on this initiative as it appears on the official ballot.

POPULAR NAME

ARKANSAS INTERSTATE HIGHWAY FINANCING ACT OF 2005

BALLOT TITLE:

ISSUANCE OF STATE OF ARKANSAS FEDERAL HIGHWAY GRANT ANTICIPATION AND TAX REVENUE BONDS AND PLEDGE OF FULL FAITH AND CREDIT OF THE STATE OF ARKANSAS

Authorizing the State Highway Commission to issue State of Arkansas Federal Highway Grant Anticipation and Tax Revenue Bonds (the "Bonds") if the total principal amount outstanding from the issuance of the bonds, together with the total principal amount outstanding from the issuance of bonds pursuant to Arkansas Highway Financing Act of 1999, shall not, at any time, exceed five hundred seventy-five million dollars ($575,000,000). If approved, the bonds will be issued in several series of various principal amounts from time to time for the purpose of paying the cost of constructing and renovating improvements to Interstate highways and related facilities in the State of Arkansas.

The bonds shall be general obligations of the State of Arkansas, payable from certain designated revenues and also secured by the full faith and credit of the State of Arkansas, including its general revenues.

Pursuant to the Arkansas Highway Financing Act of 2005 (the "Bond Act"), the bonds will be repaid first from: (1) revenues derived from federal highway assistance funding allocated to the State of Arkansas designated as federal highway Interstate maintenance funds; and (2) revenues derived from the excise tax levied on distillate special fuels (diesel) pursuant to Arkansas Code § 26-56-201(e) that are available for expenditure after any distributions required by the Arkansas Highway Financing Act of 1999. To the extent that designated revenues are insufficient to make timely payment of debt service on the bonds, the payment shall be made from the general revenues of the State of Arkansas. The bonds shall be issued pursuant to the authority of and the terms set forth in the Bond Act.

Pursuant to the Bond Act, the highway improvements to be financed are limited to the restoration and improvements to all of the Interstate highway systems within the state, including roadways, bridges, or rights-of way under jurisdiction of the State Highway Commission, which shall also include the acquisition, construction, reconstruction, and renovation of the Interstate highway systems and facilities appurtenant or pertaining thereto.

Pursuant to the Bond Act, "designated revenues" are defined as: (1) the portion designated by the commission of funds received or to be received from the federal government of the United States as federal highway assistance funding allocated to the state designated as federal highway Interstate maintenance funds; and (2) revenues derived from the distillate special fuels tax levied under Arkansas Code § 26-56-201(e) that are available for expenditure after any distributions required by the Arkansas Highway Financing Act of 1999, § 27-64-201 et seq. The bonds are further secured by the full faith and credit of the State of Arkansas, and to the extent "designated revenues" are insufficient to make timely payment of debt service on the bonds, the general revenues of the state shall be used to pay debt service on the bonds.

FOR authorizing the State Highway Commission to issue State of Arkansas Federal Highway Grant Anticipation and Tax Revenue Bonds provided that the total principal amount outstanding from the issuance of the bonds, together with the total principal amount outstanding from the issuance of bonds pursuant to Arkansas Highway Financing Act of 1999, shall not, at any time, exceed five hundred seventy-five million dollars ($575,000,000), and the pledge of the full faith and credit of the State of Arkansas to further secure the bonds . . . . . [ ]

AGAINST authorizing the State Highway Commission to issue State of Arkansas Federal Highway Grant Anticipation and Tax Revenue Bonds provided that the total principal amount outstanding from the issuance of the bonds, together with the total principal amount outstanding from the issuance of bonds pursuant to Arkansas Highway Financing Act of 1999, shall not, at any time, exceed five hundred seventy-five million dollars ($575,000,000), and the pledge of the full faith and credit of the State of Arkansas to further secure the bonds . . . .[ ]

Exercise your voting privilege.

We live in a democratic society where voting is a privilege of citizenship. Democracy works best when informed citizens exercise their voting privilege. The special election will be held on December 13, 2005. Please vote!

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