



## ISSUE NUMBER 1

(Referred to the people by the Arkansas General Assembly)

# 0.5% Sales Tax for State Highways and Bridges, County Roads, City Streets, Bridges, and Other Surface Transportation

**POPULAR NAME:** An amendment to the Arkansas Constitution continuing a one-half percent (0.5%) sales and use tax for state highways and bridges; county roads, bridges and other surface transportation; and city streets, bridges, and other surface transportation after the retirement of the bonds authorized in Arkansas Constitution, Amendment 91.

**BALLOT TITLE:** An amendment to the Arkansas Constitution to continue a levy of a one-half percent sales and use tax for state highways and bridges; county roads, bridges, and other surface transportation; and city streets, bridges, and other surface transportation after the retirement of the bonds authorized in Arkansas Constitution, Amendment 91, as special revenue to be distributed under the Arkansas Highway Revenue Distribution Law.

### What is being proposed?

This ballot initiative proposes making permanent a 0.5% state sales tax that currently helps fund Arkansas's four-lane highway system, county roads, and city streets, by amending the Arkansas Constitution to include the tax. The existing 0.5% sales tax, which is used partially to repay highway, road and street bonds, is set to expire in June 2023.

### QUICK LOOK: What does your vote mean?

**FOR:** A FOR vote means you are in favor of changing the Arkansas Constitution to include a permanent statewide 0.5% sales and use tax for state highways and bridges, county and city streets, bridges and other surface transportation.

**AGAINST:** An AGAINST vote means you are not in favor of changing the Arkansas Constitution to include a statewide 0.5% sales and use tax for state highways and bridges, county and city streets, bridges and other surface transportation.

(continued on page 6)

The following statements are examples of what supporters and opponents have made public either in media statements, campaign literature, on websites or in interviews with Public Policy Center staff. The University of Arkansas System Division of Agriculture does not endorse or validate these statements.

## What do supporters say?

- This tax will support around 3,600 jobs each year and provide \$8.2 billion of economic activity over 10 years.
- This measure helps to pay for highway and road infrastructure without adding new taxes. It is just an extension of an existing tax. It's not a new tax.
- If the tax extension doesn't pass, you're going to have county judges and mayors looking at their budget sheets thinking I've just lost 30% of my road money. Do I take that from other things? Or, do I let my roads further deteriorate? And those are tough questions.
- There is a significant need for funding for highways and roads in Arkansas to ensure public safety, repair or replace dangerous bridges, and ensure access to reliable roads. The money could improve close to all of the roads that Arkansans use most. Funds could go towards improving almost all (7,300 out of 7,900) miles of roads that carry 90% of Arkansas traffic.
- Funding for highways and roads is a growing problem because most of that funding comes from fuel taxes, which is whittled away by increasing construction costs, increasing fuel efficiency and decreased fuel consumption. Alternative funding sources are necessary.

## What do opponents say?

- ARDOT cannot take care of its existing roads because it has too many to oversee. If the highway department were to receive \$300 million, it would ask for \$300 million more. And if it gets that, it would need \$300 million more. The amount of funding it receives is never enough.
- A huge portion of the tax revenue will go to the 30 Crossing project in Little Rock, an unnecessary "boondoggle" that will benefit only a tiny percentage of Arkansans. ARDOT is currently being sued in state and federal courts for violating environmental and planning regulations on this project as well as using "4 lane highway" tax revenue for expanding these freeways from 6 lanes to 8+ lanes. Expanding I-30 will not perform as well as adding a local street bridge crossing and keeping the freeway 6 lanes.
- Many Arkansas lawmakers have pledged not to increase taxes in Arkansas, and this increase would violate that promise.
- It is a new tax. If you got a 10 year sentence in jail, and then the judge extended it, that would be an additional sentence.
- More and more states have multi-modal transportation programs that fund public transportation. To date, ARDOT has spent virtually no dollars on public transit. It is of small benefit to Arkansans who want mobility but cannot drive.

If approved by voters, this constitutional amendment would:

- Make permanent the 0.5% state sales tax.
- Use the revenue from this tax for maintaining, repairing and improving highways, roads and streets across the state.

## How did this issue get on the ballot?

The Arkansas Senate and House of Representatives voted to put Issue 1 on the 2020 General Election Ballot. The Arkansas Constitution grants the legislature the right to include up to three constitutional amendments on the general election ballot.

Constitutional amendments require the approval of a majority of voters in a statewide election. Election Day is Nov. 3, 2020.

## Who are the main sponsors of this constitutional amendment?

Rep. Jeff Wardlaw of Hermitage and Sen. Lance Eads of Springdale.

## What is Arkansas' current state sales tax rate?

Arkansas currently levies a statewide sales tax of 6.5% on most goods and some services, including an existing but temporary 0.5% sales tax for roads.

## How much money would this proposed sales tax generate and how would it be distributed?

Revenue would be divided between the state and local governments according to the Arkansas Highway Revenue Distribution Law, the same law that governs how the existing temporary 0.5% sales tax revenue is allocated. After the state takes 3% of the revenue for administrative expenses, 70% of the remaining revenue would go to the Arkansas

Department of Transportation, 15% to counties and 15% to cities.

After deducting the 3% for administrative expenses, the proposed sales tax is expected to generate approximately \$293.7 million in annual revenue. Of that, \$205.6 million would be allocated to the State Highway and Transportation Fund, \$44 million to cities, and \$44 million to counties, according to an impact statement written by the Arkansas Department of Finance and Administration about the proposed amendment. That impact statement is available at: <https://bit.ly/3boocql>.

### Could this money be used for anything else?

No. The revenue generated from the proposed tax would be treated as special revenue, meaning that it would be dedicated for a specific purpose. Under this proposal, the revenue must be spent for the maintenance, repair and improvement of Arkansas' highways, roads and streets. This tax revenue could not be used to pay off bond debt. (Bonds are certificates of debt used by states, cities, counties or other government entities to finance large projects, such as roads, schools or sewer systems. Debt is paid off over a long period of time.)

### How is the existing 0.5% sales tax for roads used?

Arkansas voters approved a temporary half-cent sales tax to help fund the "Connecting Arkansas Program" in 2012. The Arkansas Department of Transportation (ARDOT), cities and counties each receive a portion of this existing temporary 0.5% tax, according to the Arkansas Highway Revenue Distribution law. Some of the Arkansas Department of Transportation's portion is dedicated to repaying construction and improvement bonds, which were used to generate revenues for state highways, county roads and city streets. Cities and counties receive their portion as turnback funds. This tax expires when the bonds are fully paid, which is estimated to occur in June 2023.

### Didn't the Arkansas legislature recently pass a tax increase to pay for roads?

Issue 1 is part of a larger plan put forward by Gov. Asa Hutchinson in 2019 to increase funding for highway and road infrastructure by \$300 million a year, according to his February 15, 2019 address.

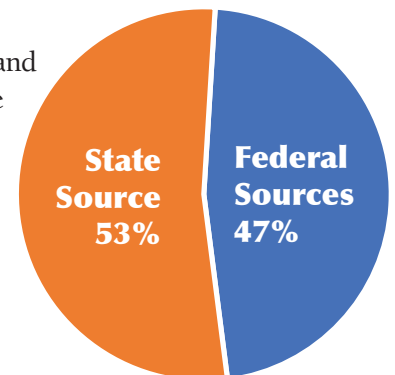
In addition to this proposed amendment, Hutchinson's plan included Act 416 of 2019, which increased the state's motor fuel tax by three cents per gallon on gasoline and six cents per gallon on diesel in October 2019. This new

state law also increased registration fees for hybrid and electric vehicles to \$100 and \$200 respectively. Act 416 also directs any new gaming tax collections that exceed \$31.2 million in a year to be used for roads. Year-to-date gaming tax revenue reached \$31.2 million in April of 2020, according to the Arkansas Department of Finance and Administration's general revenue report for that month.

### How does the state currently generate funds for road work?

Arkansas receives revenue from several sources to support all current road and bridge work and day-to-day ARDOT operations. Funding for the Arkansas state highway system totaled approximately \$1.6 billion in 2018, according to ARDOT. Approximately 47% of the revenue for the state highway system comes from the federal government. The remaining 53% comes from state sources, which include<sup>1</sup>:

- The current 0.5% sales tax
- Motor fuel taxes on gasoline, diesel, liquefied petroleum gas, compressed natural gas and other fuels
- Vehicle Registration fees
- Natural gas severance tax
- Various permit fees, transfer fees, interest and miscellaneous income
- Appropriations from general funds



**Funding for the Arkansas State Highway System (2017-2018)**

Source: Arkansas Department of Transportation

In addition to the funds above, ARDOT will receive additional funds when Act 416 of 2019 is implemented. ARDOT estimates that it will receive \$95 million from Act 416 when it is fully implemented in Fiscal Year 2021. ARDOT also estimates that cities and counties will receive about \$14 million each in additional turnback funds from this Act.

Act 416 funds will flow from the following sources:

- An increase of 3 cents per gallon on the gasoline tax and 6 cents per gallon on the diesel tax
- An increase in vehicle registration fees for hybrid and electric vehicles (\$100 and \$200 per year respectively)
- Taxes on casino gaming

<sup>1</sup>More information about highway revenue sources can be found in the 53rd Biennial Report FY 2017 & 2018 of the Arkansas State Highway Commission published by the Arkansas Department of Transportation available at: <https://bit.ly/3hKPTMe>



## How do cities and counties pay for their roads?

Cities and counties receive revenue to pay for road maintenance and construction from the state and from their own local taxes. Cities and counties receive the following revenue from the state to pay for their roads:

- **County and city road funds** - Revenue for the State Aid Road fund (for counties only) comes from one cent per gallon of the motor fuel taxes collected. Revenue for the State Aid City Street fund (for cities only) comes from an additional one cent per gallon of the motor fuel taxes collected.
- **“Turnback funds”** - Turnback funds are distributed according to the Arkansas Highway Revenue Distribution Law requiring that state revenue collected for road maintenance and construction be divided between the state, counties and cities (70% to ARDOT, 15% divided between all the counties, and 15% divided between all the cities). A portion of the existing 0.5% state sales tax makes up part of these turnback funds. According to ARDOT, cities and counties each received about \$41.6 million from the tax as turnback in Fiscal Year 2019.

Cities and counties also generate revenue from local sources to fund road and bridge work. For instance, county governments can impose a property tax, up to a maximum of three mills specifically for roads, in addition to using other sources of county government revenue<sup>2</sup>. Some of the revenue from this county road tax must be shared with any city or town within the county, according to Arkansas Code § 26-79-104. Counties and cities also generate revenue for roads through local sales taxes and from the sale of bonds.

## How would county and city road budgets be affected by the expiration of the existing 0.5% sales tax?

Cities and counties currently receive a portion of the existing half cent sales tax for road funding as part of their turnback funds. They will see their turnback funds decline when the current 0.5% sales tax expires in June



2023 unless it is replaced by the proposed permanent 0.5% sales tax. ARDOT estimates that cities and counties will experience a 30% decline in road funding without the half cent sales tax, according to their impact table. That impact table shows the turnback revenue individual cities and counties receive now and how much the amount would decline if the sales tax is discontinued. The table can be found at: [www.ardot.gov/renew/2024%20Turnback.pdf](http://www.ardot.gov/renew/2024%20Turnback.pdf).

## What does “Other Surface Transportation” mean?

This phrase typically refers to public transit, sidewalks, bike lanes, etc. though the proposed amendment does not include a definition.

## Are there any specific projects identified to be paid for with the proposed state sales tax?

The proposed amendment does not identify specific projects at the state, county or city level. ARDOT officials have said in public meetings they would use 76% of the state’s share of the tax revenue to maintain existing highways and bridges. The state’s remaining 24% would go toward funding capital projects.

April 2020 media reports indicate that current plans for the I-30 expansion project in Little Rock are partly reliant on funds that would be available only if the 0.5% sales tax is approved by voters.

While the amendment doesn’t outline any specific projects, the highway department has a draft map of projects. Those maps can be found here:

- 2024-2033 Draft Program of Bridge and Pavement Improvement Projects: [ardot.gov/renew/Statewide/Map2\\_Preservation.pdf](http://ardot.gov/renew/Statewide/Map2_Preservation.pdf)
- Potential Projects for Second Connecting Arkansas Program: [ardot.gov/renew/Statewide/Map3\\_CAP\\_2.pdf](http://ardot.gov/renew/Statewide/Map3_CAP_2.pdf)

Quorum courts and city councils would decide how the county and city shares of road funding would be used.

## How does Arkansas’ highway funding compare to other states?

Arkansas ranks relatively high among states for the number of state highway miles (12th) and public road and street miles (17th). Arkansas collects less money for every mile of road than most other states, ranking 38th in total revenues per public road mile, according to data from the U.S. Department of Transportation Office of Highway Patrol Information.

<sup>2</sup>Revenue generated from property tax is based on property assessments in the taxing unit times the millage (tax rate).

# Arkansas Highway Funding Compared to Neighboring States

State	Miles of Highways, Roads and Streets		Revenues	
	Total Public Road Miles	State Highway Agency Miles	Total Revenues for All Public Roads (All Levels of Government)	Total Revenues for All Public Roads per Public Road Mile
Arkansas Rank	17th largest	12th largest	26th largest	37th largest
Arkansas	102,622	16,467	\$2.8 billion	\$27,213
Louisiana	61,416	16,682	\$3.0 billion	\$49,231
Mississippi	77,477	10,921	\$1.8 billion	\$22,951
Missouri	132,094	33,838	\$3.1 billion	\$23,821
Oklahoma	116,065	12,249	\$2.7 billion	\$23,302
Tennessee	96,116	13,920	\$2.3 billion	\$24,177
Texas	314,648	80,455	\$21.5 billion	\$68,363

Adapted from the U.S. Federal Highway Administration's Highway Statistics (2018 tables HF-1 and HM-10)

## Would this proposed sales tax apply to groceries?

No. Groceries are taxed at a lower rate in Arkansas under state law. The proposed amendment specifically says the permanent 0.5% sale tax would not be applied to food and food ingredients.

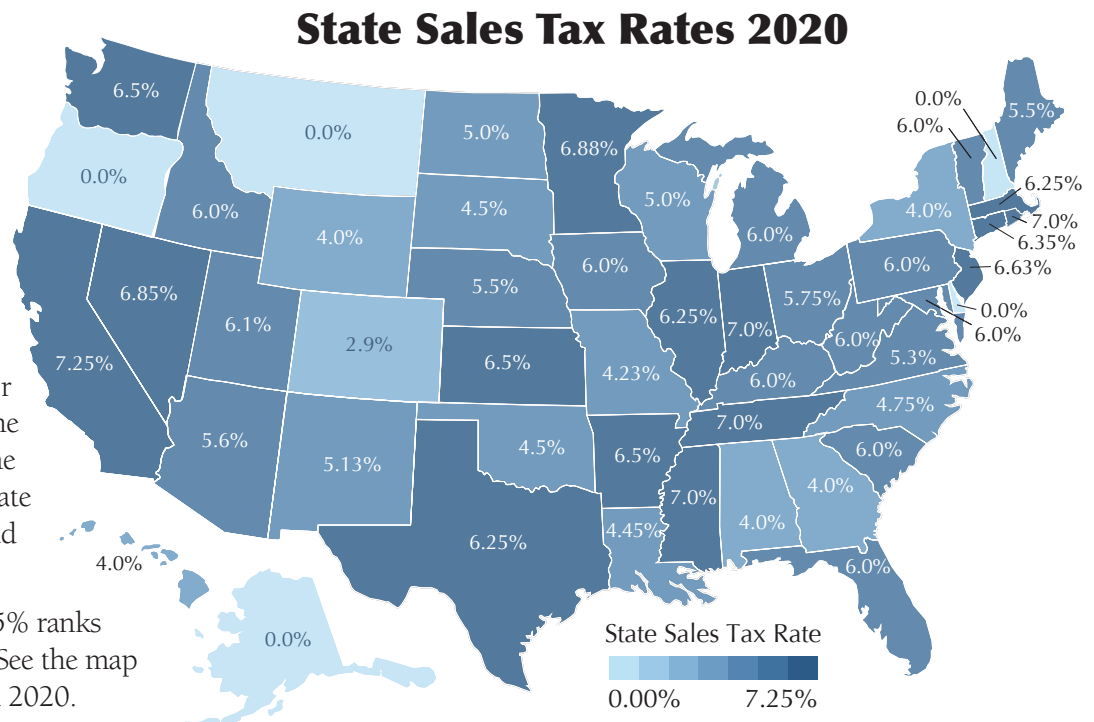
## If passed, when would the permanent sales tax rate take effect?

The 0.5% sales tax would become effective July 1, 2023 if a written statement is filed with the Chief Fiscal Officer of Arkansas before June 1, 2023. If not, the tax would be levied at the beginning of the next calendar quarter that is at least 30 days after a written statement is filed.

## How does Arkansas' statewide sales tax rate compare to other states?

Statewide sales tax rates vary and the way states use their sales tax revenues also varies. States may use their sales tax revenue for specific purposes, such as education or highways, or they may use those funds as part of their general revenue. They may also combine these two options, as Arkansas does, using some of the revenue for dedicated purposes, and some for general revenue. The same is true for other sources of state revenue, such as property and income taxes.

Arkansas' state sales tax of 6.5% ranks ninth highest in the country. See the map for statewide sales tax rates in 2020.



**Where can I find more information?**

The complete wording of this proposed amendment can be found at [www.uaex.edu/issue1](http://www.uaex.edu/issue1). The Arkansas State Sales and Use Tax fact sheet provides more information about the history, administration and household impact of the state sales and use tax. The fact sheet can be found at [www.uaex.edu/publications/pdf/FSCED20.pdf](http://www.uaex.edu/publications/pdf/FSCED20.pdf)

The following is the proposed constitutional amendment name and title as they will appear on the state's November General Election ballot.

---

Issue No. 1

(Popular Name)

An Amendment to the Arkansas Constitution Continuing a One-Half Percent (0.5%) Sales and Use Tax for State Highways and Bridges; County Roads, Bridges and Other Surface Transportation; and City Streets, Bridges, and Other Surface Transportation After the Retirement of the Bonds Authorized in Arkansas Constitution, Amendment 91

(Ballot Title)

An Amendment to the Arkansas Constitution to continue a levy of a one-half percent sales and use tax for state highways and bridges; county roads, bridges, and other surface transportation; and city streets, bridges, and other surface transportation after the retirement of the bonds authorized in arkansas constitution, Amendment 91, as special revenue to be distributed under the Arkansas Highway Revenue Distribution Law.

FOR ISSUE NO. 1

AGAINST ISSUE NO. 1