



2011 ARKANSAS INTERSTATE HIGHWAY BOND FINANCING QUESTION

INTERSTATE HIGHWAY BONDS

(Referred to the People by Proclamation of the Governor)

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

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

The 87th General Assembly determined that continued improvement of the interstate highway system is necessary and that the best way to finance those improvements in a timely manner is through the issuance of bonds to raise revenue for these purposes. As a result, the General Assembly passed the Arkansas Interstate Highway Financing Act of 2007 (A.C.A. § 27-64-401).

This act authorizes the Arkansas State Highway Commission to issue highway improvement bonds subject to a vote of the people. This authorization is a continuance of the Arkansas Highway Financing Act of 1999 (A.C.A. § 27-64-201). In compliance with Amendment 20 of the Arkansas Constitution, this authority requires the one-time approval of voters in a statewide election. The election requires a proclamation by the Governor. The election may be conducted through a regularly held general election or a special election. On August 29, Governor Beebe issued a proclamation setting November 8 as the date for a special election.

What is being proposed?

If this ballot initiative is approved by voters, the Arkansas State Highway Commission would be authorized to issue bonds for the purpose of:

- (1) Accelerating interstate highway improvements already underway or scheduled.
- (2) Funding new interstate highway improvement projects.
- (3) Financing the restoration, reconstruction and renovation of interstate highway improvements within the State of Arkansas, including roadways, bridges or rights-of-way under jurisdiction of the State Highway Commission.
- (4) Paying the costs of issuance of the bonds.

Highway improvements or highway improvement projects are defined as restoration and improvements of all of the interstate highway system within the state. Funds can be utilized for acquisition, construction, reconstruction and renovation costs related to projects.

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Total bonds issued through this authority combined with outstanding bonds issued through a previous 1999 authorization may not exceed \$575 million. If approved by voters, the 2011 bond series can be issued no later than December 31, 2015. Bonds issued can have a life up to 12 years. Bonds issued through the 1999 authority are scheduled to be retired in August of 2014.

Haven't we voted on something similar to this in the past?

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 were issued over a three-year period, 2000 to 2002. These were 12-year maturity bond issues with a repayment schedule of 2012, 2013 and 2014, respectively. Bonds from these issues were eligible to be repaid early. The last of these bonds is currently scheduled to be paid off in August of 2014.

In 2005, Arkansas voters rejected the Arkansas Interstate Highway Financing Act of 2005. This Act would have extended the Arkansas Highway Commission's authority, granted in 1999, to issue bonds to finance interstate highway improvements. However, the total principal outstanding on new and existing bonds could not have exceeded \$575 million.

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

The answer is no. Bond revenue from those issued through the 1999 authority or this new authority can only be used for interstate projects. Interstate highways make up about 4 percent of the state's highway system.

What are bonds and how do they work?

A bond is an instrument of debt issued by a state or local governmental entity. In return for purchasing the bond, the bond holder (investor) will receive interest payments as well as the original investment on a schedule predetermined at the time the bond is issued. To retire the bonds, the unit of government must repay that total amount issued, plus the interest associated with it, over a specified period of time.

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 bond purchasers 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.

How will the state pay for new bonds?

The bonds will be payable first from:

- (1) A portion of the funds received or to be received by the state from the federal government as federal highway assistance funding and designated as federal highway interstate maintenance funds, as determined by the Arkansas Highway Commission. These funds are contingent on a 10 percent match from the State.
- (2) Revenues derived from the increase in the excise tax of the distillate special fuels (diesel fuel) tax levied under the Arkansas Distillate Special Fuel Excise Tax Act of 1999 and Motor Fuel Excise Tax Act of 1999 (A.C.A. § 26-55-1005). It does not include the increase in revenue generated from the tax on motor fuel (gasoline). This is how the state currently meets the federal match requirement.

These bonds are backed by the full faith and credit of the state. To the extent that these designated revenues are insufficient to make timely payment of debt service on the bonds, payment will be made from the general revenues of the State of Arkansas.

How is the state paying for existing bonds issued through the 1999 authority?

The current outstanding debt associated with these bonds is \$206.5 million. The current debt payment is \$73 to \$74 million per year. Fifty-eight million of this is being paid with federal highway assistance funding. The remaining \$15 to \$16 million is being paid with revenue from the distillate special fuels excise tax. To date, no other state revenues have been used to repay these interstate highway bonds.

The following statements are what supporters and opponents have made public either in media statements and

literature or on web sites. The University of Arkansas does not endorse or in any way validate these statements.

What do supporters say?

- This is the best way to finance rehabilitation of the interstate highway system because no new taxes are required. Projects will be paid from existing income streams from federal highway funds and a 4 cent diesel tax already on the books.
- If passed, projects financed through the bonds will generate about \$1 billion in highway construction and will support, directly or indirectly, 27,500 jobs.
- This is not a new tax. It's a renewal of an existing bond program to fix the state's interstate system.
- Approval of the bonds in a November election will allow the highway department to be more efficient by repairing roads before they become more badly damaged. A pay-as-you-go method takes longer and costs more.
- Holding a special election for the highway bond issue helps focus attention on the state's road needs.

What do opponents say?

- This is the worst way to fund rehabilitation of the interstate highway system because highway dollars will be diverted to interest, bond fees and related expenses versus a pay-as-you-go-system.
- More debt does not create prosperity or jobs. It borrows jobs from the future. We can create more jobs using a pay-as-you-go system.
- This plan counts on the federal government delivering on promised road money for 15 years to avoid a tax increase and continues a diesel tax that could be ended or used to lower gasoline taxes with no loss in revenue to the highway department.
- Spending \$575 million in a few years is less efficient than spending \$74 million each year for 15 years.
- We tire of various government entities constantly slipping in special elections to load us down with taxes and debt.

What does a "FOR" vote mean?

A **FOR** vote means you are in favor of allowing the Arkansas Highway Commission to issue additional bonds for interstate highway improvements under the conditions specified in the Arkansas Interstate Highway Financing Act of 2007.

What does an "AGAINST" vote mean?

An **AGAINST** vote means you do not approve of giving the Arkansas Highway Commission the authority to issue additional bonds for interstate highway improvements at this time.

Where can I find more information?

Election information can be obtained through the Arkansas Secretary of State's office:

- Phone: 501-682-1010
- Web site: www.votenaturally.org

For additional information, including links to major support and opposition groups, please visit the University of Arkansas Division of Agriculture's Public Policy Center web site at <http://ppc.uaex.edu> or contact your county Cooperative Extension Service office.

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 November 8, 2011. Please vote!

Early voting begins November 1, 2011.

Absentee ballots can be picked up at county clerks' offices beginning November 1, 2011.

Here is how the Interstate Highway Bond proposal (referendum) will appear on the November 8 election ballot.

(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") from time to time provided that the total principal amount outstanding from the issuance of such bonds, together with the total principal amount outstanding from the issuance of bonds pursuant to the Arkansas Highway Financing Act of 1999, §27-64-201 *et seq.*, shall not, at any time, exceed five hundred seventy-five million dollars (\$575,000,000). If approved, the bonds will be issued in one (1) or more series of various principal amounts with the last series being issued no later than December 31, 2015.

The bonds shall be issued 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 Interstate Highway Financing Act of 2007 (the "Bond Act"), § 27-64-401 *et seq.*, 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) revenue derived from the increase in the excise tax levied on distillate special fuels (diesel) pursuant to § 26-56-201(e) and transferred to the State Highway and Transportation Department Fund pursuant to § 27-70-207(d) in accordance with § 26-55-1006(d). To the extent that designated revenues are insufficient to make timely payment of debt service on the bonds, such 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, § 27-64-401 *et seq.*

Pursuant to the Bond Act, § 27-64-401 *et seq.*, the highway improvements to be financed are limited to the restoration and improvements to all of the interstate highway system 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 such interstate highway system and facilities appurtenant or pertaining thereto.

Pursuant to the Bond Act, § 27-64-401 *et seq.*, "designated revenues" are defined as: (1) that portion designated by the commission of all funds received or to be received from the federal government as federal highway interstate maintenance funds, and (2) revenues derived from the increase in taxes levied on distillate special fuels pursuant to § 26-56-201(e) and transferred to the State Highway and Transportation Department Fund pursuant to Arkansas Code § 27-70-207(d) in accordance with § 26-55-1005(d). Designated revenues shall not include the revenues

derived from the increase in tax on motor fuel (gasoline) resulting from the "Arkansas Distillate Special Fuel Excise Tax Act of 1999" and the "Motor Fuel Excise Tax Act of 1999", §§ 26-55-1005, 26-55-1006, 26-56-201, and 27-72-305. 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 from time to time provided that the total principal amount outstanding from the issuance of such bonds, together with the total principal amount outstanding from the issuance of bonds pursuant to the Arkansas Highway Financing Act of 1999, Arkansas Code § 27-64-201 *et seq.*, shall not, at any time, exceed five hundred seventy-five million dollars (\$575,000,000); such bonds to be issued in one or more series of various principal amounts, with the last series being issued no later than December 31, 2015, and to be secured by the full faith and credit of the State of Arkansas.

AGAINST authorizing the State Highway Commission to issue State of Arkansas Federal Highway Grant Anticipation and Tax Revenue Bonds from time to time provided that the total principal amount outstanding from the issuance of such bonds, together with the total principal amount outstanding from the issuance of bonds pursuant to the Arkansas Highway Financing Act of 1999, Arkansas Code § 27-64-201 *et seq.*, shall not, at any time, exceed five hundred seventy-five million dollars (\$575,000,000); such bonds to be issued in one or more series of various principal amounts, with the last series being issued no later than December 31, 2015, and to be secured by the full faith and credit of the State of Arkansas.

FOR

AGAINST

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