

INFORMATION RELEASE



Office of the Director

ARKANSAS STATE HIGHWAY AND TRANSPORTATION DEPARTMENT
P. O. Box 2261 – Little Rock, Arkansas Telephone (501) 569-2227

Contact:
Randy Ort

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AHTD RELEASES MORE SPECIFIC BOND PROGRAM MAP AND FACTS

LITTLE ROCK (10-31) – The Arkansas State Highway and Transportation Department (AHTD) has released an updated map showing areas of Arkansas Interstates that can be rehabilitated if the bond proposal on the November 8 ballot passes.

“Based on preliminary cost and mileage estimates developed by the AHTD staff, we believe we can improve well over 400 miles of Interstates under this proposal,” said Scott Bennett, Director of the AHTD. “We also believe we will be able to exceed \$1 billion in work. Further refinements are anticipated as the financial advisor develops a more detailed financial plan,” Bennett added.

Bennett also addressed campaign claims that are becoming more plentiful. “With the November 8 highway bond election approaching, more and more information is being distributed about the ballot proposal,” Bennett said. “As that date gets closer, both proponents and opponents will step up their efforts in providing information to our citizens. Sometimes, this information includes facts that get distorted or misused, usually unintentionally,” Bennett said.

“It’s important that people make an informed decision based on facts,” Bennett continued. “We have put together some historical facts about the 1999 Interstate Rehabilitation Program (IRP), as well as some statements and frequently asked questions about the proposed 2011 program. That information is included with this press release and can be found on our website at www.ArkansasHighways.com. Also, the University of Arkansas Division of Agriculture Public Policy Center prepares fact sheets on all statewide ballot initiatives. Their information on the proposal can be found at <http://ppc.uaex.edu/ballot/default.htm>,” he added.

“Whether a person supports or opposes the proposal, I hope they take the time to learn the pros and cons of the program and base their vote on sound judgment,” Bennett concluded.

The referenced AHTD information begins on the next page.

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FACTS ABOUT THE 1999 AND 2011 BOND PROPOSALS

Summary of 1999 Interstate Rehabilitation Program (IRP)

- Program was passed by the voters by a nearly 4 to 1 margin.
- Sale of up to \$575 million in bonds was authorized to help finance improvements. Three series of bonds were issued that reached the \$575 million maximum - \$175 million in 2000; \$185 million in 2001; and \$215 million in 2002.
- Bonds are being retired using Interstate Maintenance (IM) category of federal funds (which can ONLY be used for work on existing Interstates) and the required state match.
- State match is being provided by a 4-cent per gallon diesel tax that was passed by the legislature in 1999.
- Under the IRP, Interstate conditions went from 63% being in poor or mediocre condition in 1999, to only 14% in poor or mediocre condition upon completion of the program. 72% were in good condition at the completion of the final project.

Details of the 1999 IRP

- The principal amount of the first series of bonds issued was \$175 million and the interest rate received through the competitive issuance process was 5.273%. The principal on the second series was \$185 million and the interest rate was 4.523%. The principal on the third and final series was \$215 million at an interest rate of 4.324%.
- The outstanding balances on all three series from the 1999 program, \$253.2 million, were combined and refinanced in 2010 at a rate of 1.404%. The final maturity was not extended by doing this – it remains August 2014 – but the Commission was able to save approximately \$13 million in interest through this action.
- All three original bond series in the 1999 IRP sold at a premium, as did the refinancing bonds. This means the State got more than face value for the bonds. The total premium for all three original series plus the refinancing bonds amounted to \$44.6 million. This additional money effectively reduced the amount of interest paid. Total ‘on the books’ interest for the ‘99 program was \$264.6 million, but this amount was reduced by \$44.6 million from the premium paid, and reduced by another \$13 million from the refinance, leaving a **net interest expense of \$208 million for the ‘99 program**. This was spread over a 14-year period, amounting to less than \$15 million per year in interest expense.
- As a point of reference, interest rates are currently around 2.9% for 12-year bonds. If the bonds were issued today, that would potentially be the highest interest rate we would see. Shorter maturity bonds would have a lower rate.

Summary of 2011 Proposal

- Election to be held November 8, 2011
- Proposal is virtually identical to 1999 IRP; it authorizes the Highway Commission to issue up to \$575 million in GARVEE bonds to help finance improvements and repairs to existing Interstates
- No new taxes, and no increases to existing taxes are proposed
- Bonds must be issued by December 31, 2015
- Bonds are being retired using Interstate Maintenance (IM) category of federal funds (which can ONLY be used for work on existing Interstates) and the required state match.
- State match is being provided by the 4-cent per gallon diesel tax that was passed by the legislature in 1999.
- The combination of bond proceeds and existing federal and state revenues is expected to support approximately \$1 billion in construction on our Interstates over the life of the program.

Questions and Statements

I understand interest must be paid on bonds, but I've heard that millions of dollars go to lawyers and bond brokers. What were those actual costs for the 1999 IRP?

The total paid for bond issuance costs (bond counsel, rating agencies, financial advisor, trustee, printing, etc.) was \$938,000, or 0.16% (sixteen one hundredths of one percent) of the face value of the bonds.

If the proposal passes on November 8, when will the Highway Commission be able to issue bonds?

It would be late 2012 or early 2013, depending on the recommendations of the Financial Advisor.

If the proposal passes, can the Commission take all the time it wants to issue the bonds?

No. According to the legislation, all the bonds must be issued by December 31, 2015. After that, it would take new legislation and another election for the Commission to issue more bonds.

Can the projects be on any highway?

No. The law specifically limits the program to Interstate highways. Also, since it's the federal Interstate Maintenance (IM) funds that are pledged, that money can only be used on Interstates.

Can the money be used for any type of work?

No. IM funds can only be used to rebuild or rehabilitate what's already there. No new Interstates can be built and no additional lanes can be added using these funds.

Can the money be used to improve existing interchanges?

Generally speaking, yes. Each interchange must be looked at on a case-by-case basis, but the Commission improved several interchanges under the 1999 IRP.

What do the cities and counties get out of this?

As always, cities and counties receive 15% each of the traditional state revenues generated. Cities and counties are already receiving about \$3.5 million each from the diesel tax increase passed in 1999 to support this program. Since no new taxes or fees are proposed at this time, there will be no new revenues for the state, cities, or counties.

Are we mortgaging our future and leaving a huge debt for our kids?

No. These are short-term bonds, 12-year maturities. The improvements are designed to outlive the debt.

If this fails to pass, then what happens?

Arkansas cannot afford to let its Interstates deteriorate to the levels they were in 1999. If this proposal fails, the Highway Commission could be forced to use funds that would otherwise be used on non-Interstate highways for Interstate projects.

How do you get \$1 billion in work from only \$575 million in bond sales?

A person needs to remember that the \$575 million in bond proceeds only pays for a portion of the work. The bond proceeds are leveraged because of the timing of the federal and state revenues coming in and the construction expenditures going out. Proceeds from the issuance of a series of bonds come in all at once, and federal and state revenues come to the Department over regular, frequent intervals. However, construction expenses are paid out over the life of the contract, usually 1-3 years. That timing builds up cash balances which earn interest that further adds to the amount of work that can be accomplished.

Financial advisors will be used to formulate a plan to maximize the amount of work that the Commission could achieve through the issuance of \$575 million in bonds. By taking into consideration all revenues available (bond

proceeds, federal funds, and state funds), and structuring principal and interest payment schedules, the advisors were able to make about \$1 billion available to the Commission for Interstate projects in the 1999 IRP, and similar results are expected for the 2011 proposal.

Couldn't we get the same amount of work done under the 'pay-as-you-go' scenario?

No. Projects covering 355 miles were underway in approximately 3 years under the 1999 IRP. Using the 'pay-as-you-go' method of funding, it would have taken over 20 years to get that same amount of work underway. Taking into consideration the inflation that has occurred in recent years, that timeframe would likely be even longer, and that would have led to even greater deterioration and higher costs of repair.

How does the relationship between interest rates and inflation affect the decision to issue bonds? In other words, when is it beneficial to issue bonds versus pay-as-you-go?

Many variables are evaluated prior to the decision to issue bonds. An oversimplified answer is that a favorable environment exists to issue bonds if interest rates are lower than the inflation rate.

How can bonds be used as protection against inflation?

**The Arkansas Construction Cost Index (CCI) is the measuring stick for inflation in the construction industry. All the projects in the 1999 IRP were started between 2000 and 2004. From 2000 to 2004, the CCI was fairly stable; the 2004 CCI was 140.0. In 2005, after all the IRP jobs were under contract, the CCI rose 29.9% to 181.9. It rose another 27.9% in 2006, to
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232.7. It stayed fairly flat in 2007, then went up to 278.3 in 2008. In other words, in the four years following the awarding of the final contract, from 2004 to 2008, the CCI rose 98.8%. Getting those jobs underway quickly using the bond proceeds allowed the state to avoid a doubling of construction costs on those projects.

Why should I vote for this when highway funds are being used to build things like multi-million dollar pedestrian bridges?

No 'highway' funds have been used for pedestrian bridges. There is a category of federal funds known as Transportation Enhancement Funds. This category cannot be used for regular vehicular road and bridge projects. Enhancement funds are for "non-typical or non-traditional transportation related projects." Examples of enhancement projects would include sidewalks, pedestrian bridges, beautification projects, or historic preservation projects. Enhancement funds are not available every year, but

when they are, they are distributed through an application process. The bond proposal being voted on November 8 has nothing to do with Enhancement funds or pedestrian projects.

How much does it cost to fix an Interstate highway?

It costs anywhere from \$1 million to over \$4 million per mile, depending on the specific scope of work performed, to rehabilitate an existing Interstate highway. Although each job is unique, it cost nearly \$5 million per mile for a full reconstruction of an existing Interstate. Bridge work can substantially increase some of these costs, as it costs anywhere from \$63 to \$106 per square foot for bridge work. To help put these costs into perspective, it cost less than \$1 million per mile to originally construct Interstate 40 in the late 1960's and early 1970's from the Oklahoma state line to the Mississippi River, including right of way, bridges, etc.

I hear Congress is going to reduce federal funding to the states by 35%. What if that happens? How will we pay off this debt?

The Highway Commission's estimates for the 2011 proposal are very conservative, and a 35% reduction in federal IM funds would not affect the program. The dollar amount pledged to retire the bonds (federal IM funds combined with the 4 cents of the state diesel tax) is only about 5% of the total AHTD budget.

Newspaper article claim: "[State] didn't have an adequate plan for the bonds approved in 1999..."

Response: The plan in 1999 was to expedite Interstate maintenance and repair work by leveraging federal Interstate Maintenance funding. Arkansas addressed its most serious Interstate needs, going from having one of the worst Interstate highway systems in the country to one of the best (according to one trucking industry publication). Under the 1999 IRP, Interstate conditions went from 63% being in poor or mediocre condition to only 14% in poor or mediocre condition upon completion of the program. 72% were in good condition at the completion of the final project.

Newspaper article claim: "Arkansans will have to pay to maintain the roads built by the bonds in the future."

Response: This seems to indicate a lack of understanding of the proposal. This implies there will be new roads built with these bonds. There will be no new roads built under this program. The point of the program is to fix what we have; i.e., maintenance of the system.

PROPOSED 2011 INTERSTATE REHABILITATION PROGRAM

BRIDGE
INTERCHANGE
ROADWAY

400+ Miles
\$1.0 Billion+
2013-2027

Note: Length and cost are based on planning estimates. Subject to change once a funding analysis is completed by the financial advisor and design begins.

