ROADS AND HIGHWAYS COMMITTEE MEETING --- MARCH 25, 1971

The Roads and Highways Committee met in room 535 at 2:45 P. M. on March 25, 1971. Chairman Dierdorff called the meeting to order and all members were present except Representatives Allison, Davis, Dugan, Jacobs (excused) and Ossmann.

Conferees on Senate Bill 137 were: Ed Weilepp, Topeka, Kansas Contractors' Association; Will H. Shears, Jr., President of Kansas Contractors' Association, Hutchinson; M. A. Lucas, Jr., Kansas City, Missouri, E. F. Hutton and Company.

SENATE BILL 137 - AN ACT relating to the state system of modern express highways and freeways; providing for the issuance of highway bonds of the state of Kansas.........

Mr. Weilepp introduced Mr. Shears, and Mr. Shears presented the attached statement.

Mr. Steffes asked Mr. Shears if he would recommend a $300 million bond program or $30 million a year, and Mr. Shears said they would like a reasonably even program.

Mr. Ratner said that as he recalled, someone from the Highway Commission indicated their studies over a ten year period said construction costs have increased about 10%. How do these costs increase?

Mr. Shears said the roads are being designed today different than they were ten years ago. Safety devices and ecology have made a difference. On a bid basis, the costs have not risen that fast.

Mr. Lady asked if that average he was talking about was across the state or to area, and Mr. Shears said it was across the state.

Mr. Lady asked if they have risen more than 25% in the metropolitan areas and Mr. Shears indicated they have.

The Chairman introduced Mark Lucas, Vice President and General Manager of E. F. Hutton and Company of Kansas City.

Mr. Lucas said he had no prepared statement. He was called by Mr. John Montgomery and asked to appear before the committee to answer questions regarding bonds.

Mr. Lucas said currently they are handling $150 million in bonds for the airport in Kansas City.

Mr. Dierdorff asked if we would sell bonds today, what would the interest rate be?

Mr. Lucas said the Bond Buyer's Index is published every Friday and that a week ago it was 5%, the lowest since February, 1969. He said it is pleasing to say the bond market is very good. He thinks we could sell today at anywhere from 4½% to 5% - probably 4 3/4%.

Mr. Dierdorff asked if he would want to say what he thinks the market will be in the future.

Mr. Lucas said he has been wrong so many times that it is hard to guess. So many times the problem is brought on because you need the money. They are going to sell $27 million for the airport in April. The trend is down. Interest rates have been going down steadily each month since a year ago. Mr. Lucas thinks for the year 1971 we will have cheap interest rates. He thinks by 1974 the figure will change. Our economy was changed by tight money.

Mr. Hayes said we have another proposal in the legislature, which, if enacted would call for issuance of $80 million in turnpike bonds, with a guarantee from the highway tolls, plus a guarantee on the gasoline tax. How would that look?

Mr. Lucas said that would be as good as a double A bond - about 5%. It would not be as good as state treasury bonds. Kentucky sold $90 million last year at 6.9% - that was with a guarantee of straight tolls.

Mr. Lady said the question facing us here is trying to decide whether to sell $300 million at once or $30 million over a ten year period. What are your thoughts on that?

Mr. Lucas asked if the question is based on whether you should authorize and sell $300 million at one time?

Mr. Lady said we have two proposals. He is just speaking of which is the best way to go if Mr. Lucas were making a recommendation.

Mr. Lucas said if you had $300 million authorized for sale and we were advising you, and you had some plans for the expenditure for a certain amount of that or if you could show us you were going to spend $50 million in the next five years, I think I would say sell $50 million - not $300 million. The IRS will not let you sell bonds for arbitrage purposes.

Mr. Ratner said he would be interested in looking at a long range chart, showing over the years how the bond market has gone.

Mr. Lucas told Mr. Ratner that he would mail him a chart.

Mr. Dierdorff asked if there would be a better rate of interest on 20 year bonds or 30 year bonds, and Mr. Lucas said today there would be a better interest on 20 year bonds. He said the yield shows on 1 year bonds it would be 2½% -- on 10 year it would be 4% -- 20 year bonds would be 5%.

Mr. Lady asked what the rate would be on thirty year bonds, and Mr. Lucas said 4 3/4% to 5%.

Mr. Dierdorff asked if we were to issue $300 million in bonds at one time in comparison to $30 million, would it be higher on $30 million than $300 million?

Mr. Lucas said it would be a little more but not much.

Mr. Lucas said if we issued $300 million over a thirty pear period at 5% , the principal and interest would be $18 million a year.

Mr. Steffes asked how much would 1¢ gas tax bring in?

Mr. Dierdorff said it would take about 1½¢ to raise $18 million.

The meeting was adjourned.

Fran Stafford, Recording Secretary

APPROVED:

Arden Dierdorff

ARDEN DIERDORFF, CHAIRMAN

March 29, 1971

Roads and Highways
3-25-71

STATEMENT BY WILL H. SHEARS, JR., J. H. SHEARS SONS, INC., HUTCHINSON
PRESIDENT OF THE KANSAS CONTRACTORS ASSOCIATION

The Kansas Contractors Association is made up of more than 100 individual and independently-owned and operated construction firms building highways, roads, streets, public utilities, water purification facilities, sewer pollution control facilities and other public works in Kansas. It was founded in 1923 and maintains offices at 316 West 33rd Street, Topeka, Kansas.

We believe that a sound, well-planned, continuing program for the improvement of the entire statewide highway system--including multilane highways, state primary and secondary routes, county roads and city streets--is a prime requisite to the continued economic growth of Kansas.

But more than one third of our roads, streets and highways are below acceptable standards for the needs of modern traffic. Even with a two-cent increase in the gasoline tax and a one-cent increase in the diesel fuel tax two years ago, inflation has so eaten into the new funds that present programs are barely keeping pace with obsolescence and no real improvement can be expected unless the program is substantially accelerated.

It would appear that the most equitable method of stepping up highway construction is a sound bonding program, amortized by present user revenues. We strongly support an accelerated and continuing program as opposed to a crash program of attacking the state's highway network needs.

Contractors must make long-term commitments for plant and equipment, and must train qualified, skilled workmen. To do this they must rely on a balanced, orderly, properly-financed highway program. Peak and valley construction--crash programs followed by periods of inactivity--always cost the owner, in this case the tax-paying public, substantially more than those programs which are planned and carried out in an orderly manner.

In 1970 the Kansas highway construction industry performed about $75 million worth of work for the Kansas Highway Commission. This included $61.9 million on the Interstate and state system and $13.4 million on the county secondary system. This total is up slightly from the $73 million done in calendar year 1969.

A survey conducted in December by a construction magazine which serves Kansas showed that Kansas highway contractors could have done 34.3 percent more work in 1970 1969 than they did, without adding substantially to their equipment spreads or work force. The magazine survey further revealed that 61 percent of those answering said they did 50 percent less work in 1970 than in 1969. Our own estimate indicates our industry is working at about 70 percent of equipment capacity.

With the exception of increases over which we have no control--inflation-caused raises in wage rates and materials prices, which are going to occur with or without an accelerated program--our industry could in the first year following assurance of an accelerated program perform another $35,000,000 to $40,000,000 worth of work immediately with no increase in bid prices. Equipment purchases will not be a cost increase factor in handling a greater volume of work as most of it is already on hand and not being utilized to its full potential.

Our only possible problem would be certain classes of skilled labor which are presently in short supply. But, we believe if they are assured of steady employment in their home state, we could recruit and train sufficient workers from the Kansas labor market to meet this demand.

The recruiting and training we are currently doing is almost exclusively in the field of minority and disadvantaged persons. But with an almost stable work volume, we are merely replacing workers whom we have lost for some reason and are not adding to our total work force. With an accelerated highway program, we could make much more progress in this area.

If we were assured of a continuing program at a higher level--say around $110,000,000 to $120,000,000 a year or more on the part of the highway department--Kansas firms would be willing to make the huge investment in new equipment necessary to meet the program. Our producers of crushed stone, gravel, sand, cement, asphalt and other materials which our industry uses in enormous quantities, could also expand their facilities, being willing to make the necessary investments in capital improvements to meet the increased demand. But the important word here is "continuing". Prudent businessmen are not going to borrow the necessary capital to tool up for a construction program which may be a boomer this year and a bust the next.

Nor do we desire to embark on an ambitious and expensive recruitment and training program without assurance that there will be jobs and work for the people we train.

Virtually all of the money from such a continuing program would remain in Kansas since the very largest of heavy equipment and raw steel are the only ingredients of highway construction which are not produced right here in Kansas. And we have a surprisingly large number of Kansas firms which are producing smaller roadbuilding machines which we use. Also we have many firms which fabricate, shape, bend and prepare the steel which is used in our bridges and concrete paving and other firms which manufacture precast-prestressed concrete girders for bridges.

The highway construction industry in Kansas is one of the state's largest employers of people and users of raw material. Its size and the employment it generates warrant the state's best efforts to keep it operating with efficiency and economy. It cannot remain efficient, however, if it is to be subjected to sudden peaks and valleys of activity at irregular intervals.

The Kansas Contractors Association strongly endorses a continuing accelerated highway program financed by bonds and assures the people of Kansas that it can handle such a program with efficiency, economy and dispatch.

My sincere thanks to the committee for the opportunity of appearing here today and presenting this statement of what we feel our industry is capable of accomplishing.