

Approved 3/15/88
Date

MINUTES OF THE SENATE COMMITTEE ON TRANSPORTATION AND UTILITIES

The meeting was called to order by Sen. Bill Morris at
Chairperson

9:00 a.m./p.m. on March 8, 1988 in room 254-E of the Capitol.

All members were present ~~except~~.

Committee staff present:

Hank Avila, Legislative Research Department
Ben Barrett, Legislative Research Department
Tom Severn, Legislative Research Department
Robin Hunn, Legislative Research Department
Bruce Kinzie, Revisor of Statutes
Louise Cunningham, Committee Sec.

Conferees appearing before the committee:

Horace Edwards, Secretary, Department of Transportation

Secretary Edwards appeared before the committee to report on the status of the agency since the 1987 Special Session. He said the agency will not have sufficient funds to continue current construction and maintenance levels, that the Department's ability to fully match federal-aid is precarious and current estimates indicate a \$286 million shortfall through FY 1996. The Governor had been informed of this shortfall by former Secretary John Kemp.

The Secretary discussed the maintenance program, major modifications and improvements, and new construction initiatives. A copy of his statement is attached. (Attachment 1). He said S.B. 137 deals only with new construction and if it is enacted the state would still need maintenance for existing highways. S.B. 633 provides for only new construction in one area and has the same drawbacks as S.B. 137. S.B. 555 provides more. He said deferring action on a road plan will increase costs of such a plan. The federal deficit continues to grow and the possibility has been raised of increasing fuel tax by 15¢ at the federal level. This would be a terrible setback to the state and we are inviting an increase at the federal level if we delay an increase at the state level.

The committee discussed funding and whether routes should be determined or left up to the Department to make the decisions. He said if there was not adequate funding and with the extensive needs the Department would be subjected to tremendous pressure.

The Secretary was asked about his regional multi-state plan and he said he had met with the Kansas congressional delegation in Washington and legislation was being drafted. The current interstate programs end in 1991 and Kansas has asked for a pilot to proof test the concept with Kansas being the pilot. He had met with secretaries of other regional states about the concept and they should know something fairly soon. The Secretary was asked if he thought an interim committee should be formed. The Secretary said we had to have something. He said routes, fiscal characteristics, two-lane versus four-lane should all be considered and a first and second proposal should be submitted on the basis of cost.

On a motion from Sen. Hayden and a second from Sen. Francisco the Minutes of March 7, 1988 were approved.

Meeting was adjourned at 10:00 a.m.

Unless specifically noted, the individual remarks recorded herein have not been transcribed verbatim. Individual remarks as reported herein have not been submitted to the individuals appearing before the committee for editing or corrections.

DATE: 3/8/88

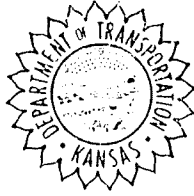
ROOM: 254-E

GUEST REGISTER
SENATE

TRANSPORTATION AND UTILITIES COMMITTEE

NAME	ORGANIZATION	ADDRESS
Jenna Coulter	Kansas Contractors Assoc.	Topeka KS
Dan Raulon	Ks. Contractors Assn.	Topeka
BILL PERDUE	Economic Lifelines	TOPEKA
Ray ARVIN	SELF	TOP
Terry Heidner	KDOT	Topeka
FRANK EATON	S.E. KS CITIES' COALITION	MANHATTAN
Christy Young	Topeka Chamber of Comm.	Topeka
David W. Damsalt	Manhattan Chamber of Commerce	Manhattan
John A. Bottenberg	Economic Lifelines	Topeka
Bernie Koch	Wichita Chamber	Wichita
Horace B. Edwards	KDOT	Topeka
Mary E. Tomington	Ks. Motor Carriers Assn.	Topeka
Tom Whitaker	Ks. Motor Carriers Assn.	Topeka
Sam Van Leunen	KDOT	TOPEKA
Suzene Rice	Individual	Sylvia
Louis Rice	Individual	Sylvia
Judy Smith	Econ. Lifelines	Wichita
Joe Eisenhower	KLPGA	Topeka
Charles Nicolay	KOMA	Topeka
Ron Calbert	U.I.U.	Newton
RICH DAME	BLE	HOISINGTON
Red BRADLEY	KS Assn of Counties	Topeka

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Horace B. Edwards
Secretary of Transportation

March 8, 1988

Mike Hayden
Governor of Kansas

MEMORANDUM TO: Senate Transportation Committee
FROM: Kansas Department of Transportation

Earlier this year, I briefed this Committee on the fiscal condition of the agency since the 1987 Special Session. The main points were:

- + The fiscal condition remains the same as during the Special Session; in the near future the agency will not have sufficient funds to continue current construction and maintenance activities.
- + The Department's ability to fully match federal-aid is precarious; requiring adjustments in the FY 1989 program to remain solvent.
- + Current estimates indicate that the difference between the normal program and the one which we can afford without new revenues, creates a \$286 million shortfall through FY 1996.

These funding concerns, you may recall, were also identified by the Governor's Highway Task Force during the course of their deliberations.

Highway Infrastructure

The Kansas Department of Transportation's statistics indicate that a substantial portion of the 10,000 mile state highway system has multiple deficiencies with regard to current (AASHTO) design standards for lane width, shoulder type and width, and vertical and horizontal alignment. Many local roads suffer from these design deficiencies as well. Also, key elements of the highways in Kansas are its 25,658 bridges and many small drainage culverts. The typical bridge is designed to last approximately 50 years. Almost 30 percent of Kansas' bridges have already exceeded their life expectancy and 43 percent are at least 40 years old. According to federal statistics, Kansas ranks third among states for the greatest number of structurally deficient or functionally obsolete bridges.

ATT. 1
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Users of the existing public road system have expressed a desire for improvements in the service, comfort, capacity, condition and safety of the system. Communities and businesses throughout the state have also sought improvements in the development of both existing and potential business opportunities. The public debate concerning highways points to the need for a highway program with two main themes:

First, the improvement and modernization of existing highways to improve the comfort and safety of the system, and

Second, improvements to assist economic development.

Governor's Comprehensive Highway Program

Last summer, Governor Hayden submitted his recommendations for a comprehensive highway program to the 1987 Special Session of the Kansas Legislature. The Governor's recommendations provided for expenditures during FY '88 through '96, of:

	(\$ Millions)
State Operations (including Maintenance)	\$1,732
New Construction Initiatives	\$1,717
Major Modifications and Improvements	\$1,025
Substantial Maintenance	\$ 639
Debt Service	\$ 467
Special City and County Highway Fund	\$ 813
	<u>\$6,393</u>

Similarly, funding for the program was recommended from the following revenue sources:

	(\$ Millions)
Motor Fuels Taxes	\$1,597
Vehicle Registration Fees	\$1,166
Federal Funds	\$ 967
Sales Tax	\$ 405
Miscellaneous	\$ 143
	<u>\$4,278</u>

To facilitate the completion of the plan within the desired time, the Governor recommended elimination of certain impediments. In addition, the Governor also recommended: 1) an additional \$3.0 million in funding for public transportation of elderly and handicapped in rural public transportation systems, and 2) \$5.0 million in increased funding for city connecting links.

Task Force Review

The Governor's plan centered around three priorities:

1. The agency's operations funding shortages,
2. The adequacy of the current level of maintenance, and
3. Need for new construction and reconstruction initiatives.

Of particular concern was the assumption embedded in earlier highway funding proposals that there was adequate funding to continue current levels of programs. Former Transportation Secretary John Kemp advised Governor Hayden during the transition to the current administration that the transportation agency would be unable to continue its current level of maintenance and continue matching federal-aid without a substantial increase in revenue. Without additional funds, the agency would have to make adjustments in the program by Fiscal Year 1989. The Task Force was required to address this funding shortfall prior to addressing other issues facing them. These issues were:

1. Needs Versus Revenues.

One approach considered was to develop a list of needs, in accordance with a set of standards or assumptions, then provide revenues sufficient to finance that level of need. The problem was, of course, the difficulty of quantifying the benefits to highway users. Such an approach would place the highest value on the performance level of the system.

The alternative approach was to determine some level of financing that would be palatable and keep improvement needs, by some measure of priority, within that limit. This approach assumed that available revenue would be the controlling factor in the real world of limited resources.

Conclusion. The Task Force identified various levels of need consisting of two major categories of program expenditures. The first was the level of "core" expenditures which includes ongoing operating expenditures for KDOT and the level of effort for protecting the investment of the current system by maintaining the condition of the existing roads and making structural modifications to improve service. Added to the base of "core" expenditures was spending for new

construction. The list of total identified needs were weighed against various revenue levels to find an appropriate balance. The recommended level of \$1.6 billion of new construction initiatives, in addition to "core" expenditures, was a result of this process. The Task Force recognized that the total of identified needs, which exceed costs of \$4 billion (in 1986 dollars), could not be met by the ambitious program that was recommended. Thus, only the most serious needs would be addressed.

2. New Versus Existing Highways.

The early to mid-1980's were characterized as a time of transition, when it became necessary because of the decline in the growth of financial resources, to shift emphasis from building new transportation facilities to preserving existing ones. This fundamental question of emphasis, even among the demands for new or significantly improved facilities has lost none of its timeliness. Even if significant financial resources were expended, all identified needs would not be met and difficult choices would still have to be made on the scope of the program.

Conclusion. The Task Force concluded that it would not be prudent to embark on a massive effort of new road construction at the expense of the existing highway system. The comprehensive plan would be required to have as its foundation, a level of funding for state operations, maintenance, and structural modifications sufficient to preserve and modify the existing system to an acceptable standard of operation. Based upon a foundation of "core" funding, the Task Force recommended a number of major new construction initiatives.

3. Ongoing Versus Potential for Economic Development.

Other issues considered by the Task Force related to the economy and what segment should be given emphasis for development. One such emphasis analyzed was investment in local or regional economies already growing and developing.

An alternative strategy was to emphasize the development of economic growth where little or no growth now exists, requiring specific efforts to attract industry to rural areas and encouraging internal economic development.

Conclusion. The Task Force concluded that there should be an optimum mix of projects that will enhance ongoing development of the economy in areas where the economy is already growing and stimulate development in other areas where it is not.

4. State Versus Local Participation.

It is important that the state play an active part in effecting needed change. However, since much of the demand for new and improved roads derives from local units of government, consideration needed to be given to a desirable equilibrium of state and local contributions to the plan.

Because of the benefits they will receive in the form of traffic improvements and development of the local economy, local units of government would be expected to pay some of the costs of transportation improvements.

Conclusion. It was concluded to limit local participation to certain improvement categories readily identified as directly benefitting local economies and the local traveling public. Also, the Task Force recommended that certain debottlenecking projects should be financed exclusively by the state, whereas the cost of others should be shared with local governments on the basis of the 75% state/25% local financing arrangement. The Task Force also recommended that revenues from increasing the base rates of motor fuels taxes and from indexation of those proposed increases should be shared 95% by the state and 5% by local governments.

5. Short Versus Long-Term Construction Schedule.

A short-term construction schedule of five years to let projects was felt to have several advantages. The most obvious perhaps were the benefits derived from early use of improved facilities and early realization of benefits from improvements related to economic development.

The issuance of bonds was a necessary feature of a short-term construction schedule because it provides capital to begin construction immediately. The advantage of having the capital early offsets the disadvantage of the increased interest expense.

On the opposite side of the construction schedule issue are the advantages of long-term scheduling. Here greater use could be made of the pay-as-you-go method of financing so as to reduce or eliminate the need for debt financing and the resulting interest expense. As a consequence, greater reliance would be placed on the available revenues.

Another long-term consideration is the extent to which in-state construction firms would be used. Given that the use of Kansas-based firms is worth promoting because of jobs and economic development, construction could be spread out over a longer period of time. There are no restrictions on out-of-state construction companies bidding on Kansas jobs. However, Kansas firms over the long term would ultimately receive a larger portion of the work.

Conclusion. The Task Force concluded that a short-term schedule of five years to let improvement projects and seven years to complete construction would be the most advantageous. The proposed timetable balances with the benefits of using improved facilities as soon as possible to maximizing use of Kansas-based firms.

Program Description

The comprehensive highway improvement program recommended by the Task Force consisted of two programs. One was the "core" program comprising substantial maintenance, major modifications and improvements, and state operations. The second program consisted of new construction initiatives.

I. Core Program.

Substantial Maintenance. As a result of reductions in maintenance staff, as well as insufficient funds for such work as bridge painting, some needed work had to be dropped from maintenance efforts. This deferred maintenance caused a gap between the necessary level of maintenance and the actual level of maintenance. In order to fill the gap, seven contract work programs were identified and grouped into the category of substantial maintenance, in addition to routine maintenance functions and state operations. Increases in the most deficient categories would allow for more cost effective management of the economic life cycle of bridges and an improved level of service for the road user. The increased expenditures were for work performed by contractors not for increasing in house staff.

Major Modifications and Improvements. The second item in the "core" program consisted of major modification and improvements. The substantial maintenance program just described underscores a need to preserve the existing highway system. The major modification improvements program was intended to improve the system based on changes in need and use over time. A total of \$1,025.0 million for geometric

improvements, pavement reconstruction, and bridge improvements on the state highway system was recommended by the Task Force. The recommendation generally continued the program at its current level of activity through Fiscal Year 1996. All facilities were presumed to be improved in conformance with prevailing AASHTO standards. The recommendation also assumed maximum use of available federal dollars.

State Operations. State operations, the third part of the "core" program, included three categories: salaries, other operating expenditures, and other expenditures and transfers to state agencies.

II. New Construction Initiatives.

In addition to the "core" program, the Task Force recommended a program of new construction initiatives totalling \$1,585.5 million for 1,319 miles of new construction and major improvements to designated highway corridors and for improvements to interchanges, intersections and bridges where bottlenecks have been a problem. I would note that only 85 miles of new state highways were included in the new construction initiatives. This type of program requires large expenditures well beyond the funding limits of the substantial maintenance and major modification programs.

Corridors. A program of new construction initiatives addresses long segments of highway corridors linking major cities and providing vital transportation links between regions in other states. These corridor improvements generally followed existing routes that carried high volumes of traffic and function as major truck routes. A program of major new construction initiatives addresses all needs and improvements on long-route corridors so that when completed the corridor will be constructed to the most modern standards from beginning to end, be it two lane or four lane.

Debottleneckers. The new construction initiatives also included spot location improvements that were of such magnitude that they could not be addressed by ongoing programs. These projects were understood to provide major safety improvements, decrease congestion, and/or enhance economic development. The total recommended for debottlenecking projects was \$247.8 million.

III. Governance.

The recommended comprehensive highway plan of the Task Force was significantly larger than and a major departure from the present program. The size of the program, in terms of the amount of work to be done, was felt to require a specific plan for management if the program was to be implemented successfully. This was felt to require possible changes in statutes, administrative regulations, and agency policies and procedures. The Task Force recommended the Secretary of Transportation have the necessary authority and discretion to manage the plan effectively.

IV. Finance.

In arriving at a funding proposal for the plan, the Task Force considered the following issues:

Ending Fund Balance Strategy. The ending fund balance is an indication of the ability of the fund to provide continuity for the program. The Task Force considered various strategies such as using all the resources of the fund by a certain time, providing for substantial maintenance beyond Fiscal Year 1996, etc. The Task Force concluded that the funding proposal should provide for a solvent Highway Fund during the life of the plan.

Debt Strategy. The Task Force considered the use of debt as a source of funds for the new construction initiatives. The use of bonds as a financing strategy advances the time when money becomes available. The interest cost on the bonds would be at least partially offset by inflationary costs that would result without the use of the bonds because construction under the pay-as-you-go method proceeds only as the revenue stream allows.

Indexation. While current motor fuel taxes are indexed, from a practical perspective they are fixed. Since expenditures are sensitive to price increases, a gap develops over time between revenues and costs. The Task Force therefore recommended indexing motor fuels taxes and vehicle registration fees to enable revenues to keep pace with expenditures. The Task Force did consider non-user taxes for funding but concluded that adequate revenues could be raised from traditional highway user fees and taxes.

Gallonage Adjustment. Motor fuel use is not stable over time. Some states such as Wisconsin have established a procedure to adjust for fluctuations. The Task Force recommended use of a gallonage adjustment factor applied to motor fuels taxes to smooth revenue fluctuations.

V. Financing the Plan.

The Task Force recognized that the use of debt should be included in the financial program and that the Secretary of Transportation must be given adequate authority to issue and administer the debt with the ability to react to changing market conditions and practices.

The following revenue enhancements were recommended to take effect January 1, 1988:

1. Increase motor fuel taxes by five cents per gallon and index them (annually adjusted to the nearest one-tenth of a cent) to the Gross National Product -- Implicit Price Deflator. The recommendation included a gallonage adjustment factor to compensate for reductions in consumption.
2. Increase vehicle registration fees as follows:
 - a. Compact passenger cars by 100 percent.
 - b. Small passenger cars by 89 percent.
 - c. Standard passenger cars by 80 percent.
 - d. Large passenger cars and pickup trucks by 50 percent.
 - e. Trucks 54,000 pounds or less by 50 percent (local and 6,000-mile trucks 48,000-54,000 pounds by 47.6 percent).

Vehicle classes "a" through "e" would be indexed to the GNP Implicit Price Deflator adjusted to the nearest 25 cents.

- f. Trucks greater than 54,000 pounds by 25 percent (local and 6,000-mile trucks 54,001-60,000 pounds by 34.3 percent).

3. Receipts generated from increases in the base rates of motor fuel taxes and from the indexation of those increases were recommended to be shared 95 percent by the state and five percent by local governments.
4. All new revenues raised at the state level were recommended to be credited to the State Highway Fund. Bond proceeds to finance the new construction initiatives would be accounted for separately within the State Highway Fund.

In conclusion, I would like to provide you with my suggested prospectus for further discussion and study on two topics: 1) Issues regarding current highway proposals presented to this Committee, and 2) opportunities and pressures affecting a road program.

1) Current Highway Legislation.

- + Senate Bill 137 only provides for new construction.
- + Similarly, Senate Bill 633 only provides for new construction and that restricted to one region of the state.
- + Senate Bill 555 provides more, including funding for corridors, debottlenecks, and agency operations.

2) Opportunities and Pressures Affecting Road Programs.

- + Deferring action on a plan now, increases future costs.
- + Federal concern with deficit reduction continues to grow. A 15 cent per gallon federal motor fuel tax increase has been recently proposed by Alan Greenspan, Chairman of the Federal Reserve Board.
- + Recent Legislative actions to restore maintenance funding in FY 1989 to present levels. Such actions could have serious consequences by FY 1990.

That concludes my prepared remarks and extemporaneous comments.
Thank you.