Approved August 4, 1989
Date

MINUTES OF THE House COMMITTEE ON Transportation.

The meeting was called to order by Rex Crowell at
Chairperson

1:30 ~~a.m.~~/p.m. on February 21, 1989 in room 519-S of the Capitol.

All members were present except:
Representatives Gross and Blumenthal

Committee staff present:
Bruce Kinzie, Revisor of Statutes
Hank Avila, Legislative Research
Donna Mulligan, Committee Secretary

Conferees appearing before the committee:

Secretary Horace B. Edwards, Kansas Department of Transportation
Mr. Allen Bell, President, Kansas Development Finance Authority

The meeting was called to order by Chairman Crowell, and the first order of business was a hearing on HB-2119 concerning the transfer of personalized license plates.

Representative Empson, sponsor of HB-2119, briefed the Committee on the contents of the bill.

Committee discussion and questioning followed Representative Empson's remarks.

The hearing on HB-2119 was concluded.

The next order of business was a presentation by the Kansas Department of Transportation regarding the criteria to be used for selecting discretionary projects.

Mr. Horace B. Edwards, Secretary of Transportation, presented information regarding system enhancement criteria in connection with the comprehensive highway program. (See Attachment 1)

Mr. Allen Bell, President, Kansas Development Finance Authority, discussed the use of bonds as a method of funding the comprehensive highway program. (See Attachment 2)

The meeting was adjourned at 3:15 p.m.

Rex Crowell
Rex Crowell, Chairman

COMMITTEE: Transportation DATE: 2-89

PLEASE PRINT

NAME	ADDRESS	COMPANY/ORGANIZATION
Joe Weiler	Topeka	KOMA
Peter Doran	Ulysses, KS	Close-Up Ks
Rick Pfeiffer	Pittsburg KS.	CCMHC
JOHN C. BOTTENBERG	TOPEKA	3M
DAVID H FINN	OLATHE, KS	CLOSE-UP
Tom Wilhelm	Lawrence	Gov Liaison
Shelley Sutton	Topeka	KES
E.D. Landman	Topeka	KDOT
Judy Rickes		KDOT
Dave Wermuth	Pittsburg, KS	Util
Bob W. Storey	Topeka	George K. Baum & Co.
MIKE GROGAN	"	KDOT
Grant McConnell	Topeka	UPI
James V. Bush	"	KDOT
Bud Jones	Topeka	KDOT
Tom Dawlin	Hutchinson	Hwy Booster
ED DE SOIGNIE	TOPEKA	KS CONTRACTORS ASSOC.
Judy Runnels	Topeka	Economic Lifelines
R. Haley	Topeka	KDOT
Dale Miller	Topeka	KDOT
John Neal	Hutchinson	~~Hutchinson~~ Highway Comm.
Sam Dotjes	Hutchinson	Pegues
FRANK STUCKEY	HUTCHINSON	COMMISSIONER CITY OF HUTCHINSON
Jon Davis	Hutchinson	Hutchinson Highway Com.
Patrick J. Hurley	Topeka	Ks Good Roads
Terry Humphrey	Topeka	KMHA

2-21-89

COMMITTEE: Transportation

DATE: 2-21-89

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NAME	ADDRESS	COMPANY/ORGANIZATION
Tom Whitaker	Topeka	Ks Motor Carriers Assn
Mary E. Turkington	Topeka	Kansas Motor Carriers Assn
Chet Vanatta	Lawrence	Dillon, Read & Co.
Don Lindsey	Osawatomie	UTU
Carl Gipson	Wichita	City of Wichita
Nancy Welsh	Douglas Co.	Lawrence
Nancy Weeks	Sublette	Haskell County Treas.
Shirley Cardin	Lawrence	Douglas Co. Treas. office
Debbie Chalender	"	"
Jack Ranson	Wichita	Economic Lifelines
Walter Cole	Topeka	Ranson & Co
Gloria Timmer	Topeka	DOB
Catherine Holdeman	Wichita	City of Wichita
Floyd McCracken	Emporia	City of Emporia
Karleen O'Brien	"	"
Steve Sommers	"	"
Bernard A. Koch	Wichita	Wichita Chamber
Evora A. Wheeler	Emporia	Mayor - City of Emporia

2

2-21-89

STATE OF KANSAS

KANSAS DEPARTMENT OF TRANSPORTATION
Docking State Office Building
Topeka 66612-1568
(913) 296-3566

Horace B. Edwards
Secretary of Transportation

Mike Hayden
Governor of Kansas

Presentation to the House Transportation Committee on System Enhancement Criteria

by
Horace B. Edwards
Secretary of Transportation
February 21, 1989

Attach. 1

02-21-89

SYSTEM ENHANCEMENT
EVALUATION CRITERIA

Background

The Legislative Interim Committee on Transportation included in their recommendation for a comprehensive highway program, a category of projects called System Enhancements. These are to be projects which substantially improve safety, relieve congestion, improve access or enhance economic development. The projects are to be selected by the Kansas Department of Transportation based upon criteria developed by the Department. In making their recommendation that the Department develop the criteria to be used to select the System Enhancement Projects, the Interim Committee also requested that the Department develop the criteria and report them to the Legislature by the start of the 1989 Legislative Session.

Approach

A committee from the Kansas Department of Transportation met to recommend a set of criteria. It became clear that a single set of criteria would not be adequate. Many of the kinds of projects which will be appropriate for this program are so varied that they require different sets of criteria. The committee concluded that projects appropriate for this program could be grouped into three basic types of projects:

Corridor Improvements -- These are projects which substantially improve the capacity and serviceability of a route. Projects in this category might include such improvements as replacing a two-lane facility with a four-lane facility, adding a new two-lane corridor or improving a major thoroughfare in an urban area.

Interchange/Separation Improvements -- These are projects which build new interchanges, improve existing interchanges or build separation structures over the Interstate or State Highway System.

Bypass Construction -- These projects would build bypasses around cities.

Criteria

Listed below are the proposed criteria for the three categories of projects and their relative weights along with an explanation of how the weights would be applied.

CORRIDOR IMPROVEMENTS

REQUIREMENTS

1. All Corridor Improvement projects must be either on the current approved State Highway System or must be a logical addition as determined by the Department of Transportation

2. All Corridor Improvement projects must substantially improve the capacity and serviceability of the route.

EVALUATION ATTRIBUTES	Relative Weight
1. Economic Development Enhancement	20
2. Present Traffic Volume-Capacity Ratio	25
3. Estimated Future Traffic Volume-Capacity Ratio	20
4. Average Trip Length-Trip Length Index	5
5. Accident Rate	5
6. Fatality Rate	5
7. Priority Formula Rating	10
8. Truck Traffic Volume (AADT)	10
Subtotal	100
9. Percent Local Match	0 to 100

NOTE: Item 1 will be rated on a scale of 1 to 10. Data for items 2 through 8 will be converted to a scale of 1 to 10. Item 9 is a direct addition to the evaluation criteria rating.

INTERCHANGE/SEPARATION IMPROVEMENTS

REQUIREMENTS

1. All Interchange/Separation additions or improvements must be on the State Highway System.

2. The requestor will be responsible for all plan production and Right of Way costs.

EVALUATION ATTRIBUTES	Relative Weight
1. Economic Development Enhancement	20
2. Safety Enhancement	20
3. Operational Enhancement	15
4. Cost Effectiveness	15
5. Traffic Served	30
Subtotal	100
6. Percent Local Match	0 to 100

NOTE: Items 1 through 5 will be rated on a scale of 1 to 10. Item 6 is a direct addition to the evaluation criteria rating.

BYPASS CONSTRUCTION

REQUIREMENTS

1. All Bypass Construction projects must be either on the State Highway System or must be a logical addition as determined by the Department of Transportation.

EVALUATION ATTRIBUTES	Relative Weight
1. Economic Development Enhancement	20
2. Estimated Future Traffic Volume (AADT)	15
3. Percent through traffic	20
4. Truck Traffic Volume (AADT)	15
5. Current Volume/Capacity Ratio	20
6. Accident Rate	10
Subtotal	100
7. Miles Removed from City Connecting Links and/or Rural Highway system	Lane-Miles
8. Percent local match	0 to 100

NOTE: Item 1 will be rated on a scale of 1 to 10. Data for items 2 through 6 will be converted to a scale of 1 to 10. Items 7 and 8 are direct additions to the evaluation criteria rating.

To Be Considered

This program of system enhancement would be one in which KDOT would solicit applications. In order for a project to be considered, an entity, such as a city, county or combination thereof would submit an application to the Department of Transportation.

Evaluation Responsibility

The responsibility for rating all projects for their Economic Development Potential will rest with a special committee of State agencies with economic development responsibility to be appointed by the Governor. The membership will include representatives from the Department of Commerce, Kansas Inc., and the Highway Advisory Commission. The membership will remain limited with an eye towards individuals who have economic development experience with a statewide perspective.

The interchange/separation criteria are subjective, but technical and will require a panel of raters. This panel will be appointed by the Secretary of Transportation and will include a cross section of experience and disciplines from the Department of Transportation.

The Kansas Department of Transportation will be responsible for compiling the objective data and applying it where appropriate in the various criterions as well as for providing the Economic Development Potential

Rating Committee with relevant data. The Economic Development Potential Rating Committee would also solicit presentations on the economic impact of the project from the requesting entity.

Attachment 1

January 11, 1989

SYSTEM ENHANCEMENT

EVALUATION CRITERIA

CORRIDOR IMPROVEMENTS

REQUIREMENTS

1. All Corridor Improvement projects must be either on the current approved State Highway System or must be a logical addition as determined by the Department of Transportation.

2. All corridor Improvement project must substantially improve the capacity and serviceability of the route.

EVALUATION ATTRIBUTES	Relative Weight
1. Economic Development Enhancement	20
2. Present Traffic Volume-Capacity Ratio	25
3. Estimated Future Traffic Volume-Capacity Ratio	20
4. Average Trip Length-Trip Length Index	5
5. Accident Rate	5
6. Fatality Rate	5
7. Priority Formula Rating	10
8. Truck Traffic Volume (AADT)	10
9. Percent Local Match	0 to 100

NOTE: Item 1 will be rated on a scale of 1 to 10. Hard data for items 2 through 8 will be converted to a scale of 1 to 10. Item 9 is a direct addition to the evaluation criteria rating.

1. ECONOMIC DEVELOPMENT ENHANCEMENT

This attribute considers those improvements which would provide a greater expectation of development to occur than without the improvement, or at a more accelerated pace than would normally be expected. Ratings assigned would range from 1 to 10. A rating of 10 would be assigned to those improvements which have a strong tie to actual development or new committed development. A rating of 1 would be assigned to an improvement where the development activity would essentially remain the same or anticipated growth would not be expected to change as a result of the improvement.

2. PRESENT VOLUME - CAPACITY RATIO

This ratio reflects the ability of the roadway to carry the present traffic. This ratio is determined by dividing the present annual average daily traffic (AADT) by the capacity of the roadway. The existing capacity of the section is determined by using the procedures outlined in the 1985 Highway Capacity Manual.

3. ESTIMATED FUTURE VOLUME - CAPACITY RATIO

This ratio reflects the ability of the roadway section to carry the traffic which is forecast to be using the section twenty years hence. This ratio is determined by dividing the forecast AADT for the roadway by the capacity of the section.

4. AVERAGE TRIP LENGTH - TRIP LENGTH INDEX

This index indicates the volume of traffic and the length of trips on the roadway. The index relates the importance of a roadway for both the service of high volume corridors and long interregional travel. The index is the product of the average trip length times the present AADT divided by one million. The trip length data are obtained from the origin-destination surveys conducted by the Bureau of Transportation Planning.

5. ACCIDENT RATE

This rate reflects the accident experience of the roadway. The number of accidents per one million vehicle-miles of travel on the roadway is determined. An accident experience period of at least five years is used unless the roadway is of more recent construction.

6. FATALITY RATE

This rate reflects the fatal accident experience on the roadway. The number of fatalities per one hundred million vehicle-miles of travel on the roadway is calculated. An accident experience period of at least five years is used unless the roadway is of more recent construction.

7. PRIORITY FORMULA RATING

This is the rating as determined by the current Non-Interstate Roadway Priority Formula.

8. TRUCK TRAFFIC VOLUME (AADT)

This attribute reflects the (AADT) number of trucks per day on the existing highway.

9. PERCENT LOCAL MATCH

The percent of the total project cost that the City/County has dedicated toward the project will be a direct addition to the evaluation criteria rating. The requestor must identify the source and have either dedicated funds up-front or anticipated funding must be approved within one year of project selection by KDOT.

INTERCHANGE/SEPARATION IMPROVEMENTS

REQUIREMENTS

1. All Interchange/Separation additions or improvements must be on the State Highway System.

2. The requestor will be responsible for all plan production and Right of Way costs.

EVALUATION ATTRIBUTES	Relative Weight
1. Economic Development Enhancement	20
2. Safety Enhancement	20
3. Operational Enhancement	15
4. Cost Effectiveness	15
5. Traffic Served	30
6. Percent Local Match	0 to 100

NOTE: Items 1 through 5 will be rated on a scale of 1 to 10. Item 6 is a direct addition to the evaluation criteria rating.

1. ECONOMIC DEVELOPMENT ENHANCEMENT

This attribute considers those improvements which would provide a greater expectation of development to occur than without the improvement, or at a more accelerated pace than would normally be expected. Ratings assigned would range from 1 to 10. A ratings of 10 would be assigned to those improvements which would provide access for additional future traffic generated by a major activity center. A rating of 1 would be assigned to an improvement where the development activity would essentially remain the same or anticipated growth would not be expected to change as a result of the improvement.

2. SAFETY ENHANCEMENT

This attribute considers those improvements which would upgrade existing interchange features which are important to safety such as sight distance, storage length, acceleration-deceleration lanes, ramp alignments, etc. Ratings assigned would range from 1 to 10. Those interchange improvements that incorporate most of these features would be rated as 10 and those that had fewer features of this type being improved would be rated lower.

3. OPERATIONAL ENHANCEMENT

This attribute considers those improvements which would upgrade the existing interchange's capability for handling larger traffic volumes or a new interchange which would relieve traffic overloading from adjacent interchanges thereby raising the overall level of service. Also included would be the types of improvements which eliminate bottlenecks or restrictions to traffic flows on the mainline.Ratings assigned would range from 1 to 10. A rating of 10 would indicate an improvement with major operational enhancement while a rating of 1 would indicate an improvement with little or no operational enhancement.

4. COST EFFECTIVENESS

This attribute considers the cost of the improvement in relation to the overall benefits which the travelling public would receive. Generally, the higher the volume of traffic served by the interchange improvements, the greater the benefit would be to the travelling public. Highest ratings would be given to those improvements which are relatively low cost yet serve a large amount of traffic and/or significantly improve the safety and operation of the interchange.

5. TRAFFIC SERVED

This attribute considers the amount of traffic that would benefit from the improvement. A rating of 10 would be assigned to an improvement that would be expected to serve the highest volume of traffic. Corresponding lesser ratings would be assigned to those proposed improvements with lower volumes of traffic expected to use the improvement.

6. PERCENT LOCAL MATCH

The percent of the total project cost that the City/County has dedicated toward the project will be a direct addition to the evaluation criteria rating. The requestor must identify the source and have either dedicated funds up-front or anticipated funding must be approved within one year of

project selection by KDOT.

BYPASS CONSTRUCTION

REQUIREMENTS

1. All Bypass Construction projects must be either on the current approved State Highway System or must be a logical addition as determined by the Department of Transportation.

EVALUATION ATTRIBUTES	Relative Weight
1. Economic Development Enhancement	20
2. Estimated Future Traffic Volume (AADT)	15
3. Percent through traffic.	20
4. Truck Traffic Volume (AADT)	15
5. Current Volume/Capacity Ratio	20
6. Accident Rate.	10
7. Miles Removed from City Connecting Links and/or Rural Highway system.	Lane-Miles
8. Percent local match.	0 to 100

NOTE: Item 1 will be rated on a scale of 1 to 10. Hard data for items 2 through 6 will be converted to a scale of 1 to 10. Item's 7 and 8 are direct additions to the evaluation criteria rating.

1. ECONOMIC DEVELOPMENT ENHANCEMENT

This attribute considers those Bypasses which would provide a greater expectation of development to occur than without the improvement, or at a more accelerated pace than would normally be expected. Ratings assigned would range from 1 to 10. A rating of 10 would be assigned to those Bypasses which have a strong tie to actual development or new committed development. A rating of 1 would be assigned to Bypasses where the development activity would essentially remain the same or anticipated growth would not be expected to change as a result of the Bypass.

2. ESTIMATED FUTURE TRAFFIC VOLUME (AADT)

This attribute reflects the total annual average daily traffic that is estimated to use the proposed bypass when construction is completed.

3. PERCENT THROUGH TRAFFIC

This attribute helps determine the need for a bypass. This percent is determined by dividing the estimated traffic (AADT) that has both the beginning and end of the trip beyond the city that is to be bypassed by the existing total traffic (AADT)on the city connecting link.

4. TRUCK TRAFFIC VOLUME (AADT)

This attribute reflects the (AADT) number of trucks per day on the existing highway.

5. CURRENT VOLUME CAPACITY RATIO

This ratio reflects the ability of the existing highway to carry the present traffic. This ratio is determined by dividing the present annual average daily traffic (AADT) on the existing highway by the capacity of the existing highway. The existing capacity of the section is determined by using the procedures outlined in the 1985 Highway Capacity Manual.

6. ACCIDENT RATE

This rate reflects the accident experience of the existing roadway. The number of accidents per one million vehicle-miles of travel on the roadway is determined. An accident experience period of at least five years is used unless the roadway is of more recent construction.

7. MILES REMOVED FROM THE HIGHWAY SYSTEM

A credit of one will be given for each Lane-Mile taken off the City Connecting Link System and/or the Existing State Highway System. This will be a direct addition to the evaluation criteria rating.

8. PERCENT LOCAL MATCH

The percent of the total project cost that the City/County has dedicated toward the project will be a direct addition to the evaluation criteria rating. The requestor must identify the source and have either dedicated funds up-front or anticipated funding must be approved within one year of project selection by KDOT.

FEBRUARY 21, 1989

PRESENTATION ON BOND FINANCING

TO THE

HOUSE TRANSPORTATION COMMITTEE

BY ALLEN BELL, PRESIDENT
KANSAS DEVELOPMENT FINANCE AUTHORITY

I. INTRODUCTION: GOVERNMENTAL USE OF BOND FINANCING

A. HISTORY, INCLUDING BASIS FOR FEDERAL TAX-EXEMPTION, GOES BACK TO 19TH CENTURY.

B. USE OF BOND FINANCING HAS GROWN WITH THE POPULATION AND DEVELOPMENT OF PUBLIC INFRASTRUCTURE:

1. GROSS DOLLARS (1988):
   a. U.S. - $100 BILLION
   b. KANSAS - $800 MILLION (RANK 34TH)

2. RECENT GROWTH: 1947 - $2.4 B; 1960 - $7.2 B; 1975 - $29 B; 1982 - $77 B.

3. OUTSTANDING BONDED INDEBTEDNESS IN KANSAS AS OF JUNE 30, 1988 (SEE HANDOUT)

   a. TOTAL (ALL JURISDICTIONS) - $6.99 BILLION

   b. STATE LEVEL - $320 MILLION

   c. LOCAL TAXING UNITS - $6.67 BILLION
      (1) UNDER $100,000 - 1 COUNTY (WALLACE)
      (2) $100 M TO 1 MILLION - 10 COUNTIES
      (3) $1 TO 10 MILLION - 56 COUNTIES
      (4) $10 TO 100 MILLION - 30 COUNTIES
      (5) $100 MILLION TO 1 BILLION - 5 COUNTIES (DG, FI, MP, RN, SN)
      (6) OVER $1 BILLION - 3 COUNTIES (JO, WY, SG)

C. ACTIVITIES TYPICALLY FINANCED BY BONDS:
   1. CAPITAL IMPROVEMENT (INFRASTRUCTURE) PROJECTS
   2. PUBLIC PURPOSE PROJECTS
   3. NOT USED FOR ON-GOING OPERATING COSTS

Attach. 2

D. Pros and Cons of Bond Financing:

1. Cost considerations (interest cost as a component of operating costs)

2. Public policy considerations
   A. "Pay-as-you-go" vs. "Pay-as-you-use" (matching user payments with useful life)
   B. Time value of money (present value of future bond payments same as project costs)

3. Implementation issues (inflation makes pay-as-you-go more expensive)

4. Economic development issue (pay-as-you-go keeps you always behind the curve)

II. WHAT IS BOND FINANCING?

A. Issuance of a bond:
   1. Creates a binding obligation (set forth in complex legal instruments and usually evidenced by a certificate) to repay money borrowed (usually with interest)
   2. Initially sold to investors by underwriters. Later, can be sold and resold in "secondary market".

B. Bonds are classified according to the type of security involved:

1. General obligation (G.O.) bonds
   A. Full faith and credit of issuer
   B. Unlimited taxing power
   C. Not used at state level in Kansas

2. Revenue bonds (for revenue-generating projects)
   A. Utility revenue bonds
   B. Lease revenue bonds

3. Special tax obligation bonds (limited to a specified tax or user fee which is pledged as a source of repayment).
   A. Motor fuel taxes
   B. Sales taxes
   C. Taxes earmarked by law for specific use

C. State and local bonds are tax-exempt:
   1. Enables lower interest rate than if taxable
   2. Federal, state and local tax-exemption
   3. Federal tax-exemption is threatened by Congress

III. THE PROCESS OF ISSUING AND MARKETING BONDS

A. BONDS MUST BE LEGALLY AUTHORIZED:
   1. BOND ELECTION (LOCAL G.O. BONDS)
   2. ENABLING LEGISLATION (E.G. HB 2014)

B. FINANCE TEAM ASSEMBLED (REQUEST FOR PROPOSALS):
   1. BOND COUNSEL (NATIONALLY RECOGNIZED)
   2. FINANCIAL ADVISOR
   3. SENIOR MANAGING UNDERWRITER
   4. HIGHLY COMPETITIVE MARKET

C. BOND COUNSEL'S ROLE IS TO ASSURE THAT ALL LEGAL REQUIREMENTS ARE SATISFIED:
   1. BOND RESOLUTION
   2. TRUST INDENTURE
   3. OFFICIAL STATEMENT
   4. PRINTED BONDS
   5. CLOSING DOCUMENTS
   6. APPROVING LEGAL OPINIONS

D. FINANCIAL ADVISER'S ROLE IS TO ASSIST IN STRUCTURING THE BOND ISSUE:
   1. SOURCES, USES AND TIMING OF PROJECT FUNDING IDENTIFIED, ALONG WITH BOND REPAYMENT CASHFLOWS
   2. MATURITY SCHEDULE, TERMS AND CONDITIONS OUTLINED
   3. FINANCIAL FEASIBILITY ANALYSIS COMPLETED
   4. BOND RATINGS OBTAINED

E. UNDERWRITER'S ROLE IS SELL THE BONDS (AT THE LOWEST NET INTEREST COST POSSIBLE):

   1. COMPETITIVE UNDERWRITING (SEALED BID)
      a. USED FOR SMALLER, SIMPLER PROJECTS
      b. NOTICE OF SALE PUBLISHED
      c. LOWEST NET INTEREST COST CONSIDERED TO BE LOWEST BID
      d. UNDERWRITING PROFIT MADE ON RESALE OF BONDS

   2. NEGOTIATED UNDERWRITING (COMPETITIVE PROPOSALS)
      a. BEST FOR LARGER, MORE COMPLEX PROJECTS
      b. STRUCTURING DONE BY UNDERWRITER
      c. INTEREST RATES NEGOTIATED AT TIME OF SALE
      d. UNDERWRITER PAID FROM BOND PROCEEDS

F. MARKETING OF BONDS (UNDERWRITER'S ROLE):
   1. SYNDICATION (TEMPORARY PARTNERSHIPS)
   2. TESTING THE MARKET (PRE-SALE OF BONDS)
   3. TYPES OF INVESTORS (INSTITUTIONS, INDIVIDUALS, BOND FUNDS)

G. BOND CLOSING (PROCEEDS WIRED, BONDS DELIVERED, FEES PAID)

IV. SPECIAL CONSIDERATIONS

A. Determinants of market interest rates:
   1. General economic conditions (supply and demand)
   2. Credit worthiness (bond rating)
   3. Structuring of the bond issue (term, features)
   4. Effect of tax-exemption (federal, state, local)
   5. Credit enhancements:
      a. Bond reserve fund
      b. Municipal bond insurance
      c. Bank letters of credit

B. Debt management issues:

   1. Investment of funds (arbitrage restrictions)

   2. Debt restructuring
      a. To save money and/or remove restrictions
      b. Current refundings (callable bonds)
      c. Advance refundings (escrow old bonds)

C. Tax Reform Act of 1986 (and technical corrections)

   1. Treasury and Congress are hostile toward tax-exempt municipal bonds

   2. Crazy-quilt of conflicting restrictions
      a. 100% tax on any excess arbitrage earnings
      b. alternative minimum tax
      c. volume caps on private purpose bonds
      d. repeal of bank deductibility

   3. U.S. Supreme Court (South Carolina vs. Baker) has recently rejected the constitutional basis for tax-exempt bonds. What will Congress do?

V. ALTERNATIVE FINANCING APPROACHES FOR H.B. 2014 (handout)

A. Early issuance of bonds (rather than late in construction period):
   1. Use of bond proceeds in place of highway revenues for <u>capital</u> expenditures creates very large highway fund balances.
   2. Larger balances invested for longer periods at higher yields resulting in increased investment income.
   3. Increased investment income reduces the need for sales tax increase.

B. Now is the time to issue bonds:
   1. Interest rates are low
   2. Congress may eliminate tax-exempt bonds

VI. CONCLUSIONS:

A. BONDS ARE AN EFFECTIVE TOOL FOR FINANCING PUBLIC INFRASTRUCTURE AT REASONABLE COST, AND THEIR USE IN KANSAS IS WIDESPREAD.

B. ISSUANCE SOONER RATHER THAN LATER IS RECOMMENDED TO SAVE MONEY AND TO GUARD AGAINST THE POSSIBLE REPEAL OF FEDERAL TAX-EXEMPTION.

C. NEGOTIATED ISSUANCE SHOULD BE ALLOWED TO ASSURE THE LOWEST INTEREST COSTS.

D. PROVISION TO ENABLE REFUNDING OF FREEWAY BONDS IS DESIRABLE BECAUSE OF POSSIBLE INTEREST COST SAVINGS DUE TO SIMPLIFIED BOND STRUCTURE.