Approved: <u>January 17, 2006</u>
Date

MINUTES OF THE HOUSE TRANSPORTATION COMMITTEE

The meeting was called to order by Chairman Gary Hayzlett at 1:30 P.M. on January 11, 2006 in Room 519-S of the Capitol.

All members were present.

Committee staff present:
Alan Conroy, Director, Legislative Research
Bruce Kinzie, Revisor's Office
Chris Courtwright, Legislative Research
Betty Boaz, Committee Secretary

Conferees appearing before the committee:
Secretary Deb Miller, Ks. Dept. of Transportation
Patrick Hurley, Economic Lifeline

Others attending:
See attached list.

Chairman Hayzlett opened the joint meeting with the Senate Transportation Committee by introducing Bruce Kinzie who gave the members a briefing on the purpose of the meeting which was to comply with the provisions of KSA 2005 Supp. 68-2331 regarding the issuance of additional bonded indebtedness for the Comprehensive Transportation Program.

The Chairman introduced Secretary Deb Miller of KDOT. <u>(Attachment 1)</u> According to Secretary Miller, her purpose for appearing before the joint committee was to secure the support needed to continue with the Comprehensive Transportation Program. Secretary Miller said when the legislature passed the restructuring bill in 2004 it specified that before the $150 million in bonds could be issued by the Kansas Development Finance Authority, the House and Senate Transportation Committees must review and recommend the bonds.

Chairman Hayzlett then introduced Patrick Hurley, who represents Economic Lifeline. <u>(Attachment 2)</u> According to Mr. Hurley at a recent meeting their Board of Directors reiterated its position that the Legislature approve all the steps necessary to fully implement all the elements of SB 384, which was enacted by the Legislature in the 2004 session. Mr. Hurley said he was appearing to support the procedural steps necessary to ensure the completion of the Comprehensive Transportation Program as enacted by the Legislature in the 2004 session.

The House and Senate Transportation Committee members then asked questions of the conferees. Afterwards the Senate Transportation Committee adjourned and planned to meet at a later time. It was Chairman Hayzlett's desire to open the meeting to the House Transportation members for comments, questions and motions.

After more comments and additional questions were answered, <u>Representative Vickery made a motion to endorse the $150 million in bonds. Representative Yonally seconded the motion. The motion carried.</u>

There being no further business before the Committee, the Chairman adjourned the meeting.

The next meeting is scheduled for Tuesday, January 17, 2006.

HOUSE TRANSPORTATION COMMITTEE GUEST LIST

DATE: Jan 11, 2006

NAME	REPRESENTING
Lindsey Douglas	Hein Law Firm
Jim DeHoff	KS AFL-CIO
Tom Palace	PMCA
Jim MacMurray	KDFA
Nick Lehman	KDFA
Steve Weatherford	KDFA
Chas. C. Beamer	
Bob Totten	K-C-A
Tom Whitaker	KS Motor Carriers Assn
Deann Williams	KS Motor Carriers Assn

HOUSE TRANSPORTATION COMMITTEE

DATE Jan. 11, 2006

NAME	REPRESENTING
Ed DeSoignie	Heavy Constructors Association
Scott Heidner	ACEC Kansas
Patrick J Hurley	Economic Lifelines
Glenn Coulter	Ks. Good Roads assn
Stan Jones	John Peterson
Deb Miller	KDOT
Larry R Baer	LKM
Marci Ferrill	KDOT
Ken Gudenkauf	KDOT
Reed Davis	KDOT
Marg E. Turkington	Economic Lifelines Co-Chairman

KANSAS

DEPARTMENT OF TRANSPORTATION
DEB MILLER, SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

TESTIMONY BEFORE THE
JOINT TRANSPORTATION COMMITTEES

REQUEST FOR AUTHORITY TO BOND

January 11, 2006

Mr. Chairmen and Committee Members:

In 2004, the Kansas Legislature reaffirmed its commitment to the 1999 Comprehensive Transportation Program (CTP) by restructuring the program's funding. The restructuring provided several revenue streams to replace the loss of the sales tax transfer and other diversions, which totaled more than $1.2 billion. One of the new revenue streams authorized was the issuance of $150 million in bonds paid for by the State General Fund.

I believe that there was a clear understanding when the legislature passed the restructuring bill in 2004 that the $150 million in bonds would be issued. Over the course of the summer and fall I met with many legislators all around the state and I've heard no concern expressed about the issuance of the $150 million. However, the 2004 law specified that before the $150 million in bonds can be issued by the Kansas Development Finance Authority (KDFA), the House and Senate Transportation Committees must review and recommend the bonds, so that is why I am appearing before your committees today, to ask for that review and recommendation. The State Finance Council must also pass a resolution approving their issuance. The State Finance Council meeting has been scheduled for January 19, 2006 to take up this matter.

The 2004 restructuring also provided for a graduated increase to the sales tax that is direct deposited in the State Highway Fund (SHF). The current .25 cents was scheduled to increase to .39 cents in FY 2007 and to .65 cents in FY 2008 and beyond. The restructuring also affirmed the legislative commitment to repay the $125 million loan from the SHF to the State General Fund (SGF) and assumed an increase of $250 million above and beyond what was already anticipated from the federal reauthorization bill. The Legislature wisely included a contingency plan that provided for the issuance of $60 million in bonds paid for by the State General Fund if the increase in federal funds fell short of the assumed $250 million.

The federal bill, known as SAFETEA-LU, was approved this summer. While I truly appreciate everything that the members of the Kansas Congressional delegation did to get an increase in funding for Kansas, we now know that this funding component is approximately $117 million short of the $250 million assumption the Legislature used when it restructured the CTP's tight funding package. Consequently I have already asked for and received a favorable recommendation from the Legislative Budget Committee for the issuance of the failsafe $60 million in bonds.

We have updated our current cash flow projections to include information from SAFETEA-LU, along with state revenue and agency expenditure projections. It is clear that without the infusion of the revenue from the bond proceeds, projects contained in the CTP will have to be eliminated and the state will have failed to keep its commitment to Kansas communities.

I understand, based on press reports, that some are concerned that the state is over-extended in its debt. Clearly the financial markets don't agree with that assessment. The ultimate measure is investor acceptance, which remains strong. Our bonds are rated AA+ and are highly sought after in the financial market, both indications of their credit quality. *Standard and Poors*, in their July 2005 report on the KDFA, noted that Kansas has a "low debt burden."

I am grateful for the collaborative and cooperative approach that has been taken by many to see the CTP succeed. But, the program is not complete. Important commitments have been made to communities in all regions of the state. By making good on all elements of the 2004 funding package, including advancing the sale of the $150 million in bonds along with the additional $60 million designated as failsafe, KDOT will avoid negative ending balances in FY 2007 through FY 2009. In FY 2009, KDOT will have just enough money to complete the program as promised provided there are no major changes in funding or costs.

The Comprehensive Transportation Program not only has given Kansas one of the finest transportation systems in the country, it also has created tens of thousands of jobs, improved commerce and stimulated the economy. These successes have come about as a result of the strong support of the Governor and the Legislature and the cooperative environment in which we have been fortunate enough to work.

In order to continue that support, both the House and Senate Transportation Committees need to act today with a favorable recommendation.

2004 Legislative Funding Package

1-3

To replace Sales Tax Transfer and other diversions of more than $1.2 billion:

A) Sales Tax Direct Deposit
- Current: .25 cents
- Increases to: .38 cents FY 2007
- Increases to: .65 cents FY 2008 and beyond

B) $150 million State General Fund bonding

C) Affirmed repayment of the $125 million loan to the General Fund

D) Assumed $250 million additional federal funds through 2009
- If that falls short, additional $60 million SGF bonding

1-4

Comparison of Base Cashflow to Advance the Sale of Bonds and Use Failsafe

	Base Cashflow ($millions)				Advance the Sale of Bonds and use the Failsafe ($millions)			
Base	**FY2006**	**FY2007**	**FY2008**	**FY2009**	**FY2006**	**FY2007**	**FY2008**	**FY2009**
State General Fund Bonds		100	50		150			
Supplemental State General Fund Bonds					60			
State General Fund Loan Repayments		32.5	30.9	30.9		32.5	30.9	30.9
Available Funds	**135.4**	**(9.9)**	**(4.2)**	**(79.2)**	**349.7**	**120.4**	**76.4**	**1.0**

Testimony
of
Patrick J. Hurley
on behalf of
Economic Lifelines

Presented to the
Senate and House Transportation Committees
on
January 11, 2006

House Transportation
Date: 1-11-06
Attachment # 2

Mr. Chairmen and Members of the Senate and House Transportation Committees:

I am Pat Hurley and appear on behalf of Economic Lifelines. As you know, Economic Lifelines is a statewide coalition of organizations that supports adequate funding of the transportation needs of the state.

At a recent meeting, our Board of Directors reiterated its position that the Legislature approve all the steps necessary to fully implement all the elements of SB 384, which was enacted overwhelmingly by the legislature in the 2004 session.

As a brief background, you will recall that the 1999 Comprehensive Transportation Program funding package was comprised of a number of elements. The most troublesome element proved to be the over-reliance on the statutory Demand Transfer of Sales Tax Collections from the State General Fund to the Highway Fund. By law, those demand transfers were to reach 12% of total sales tax collections or about $200 million per year.

Due to dramatic downturns in the state's economy, which began almost immediately following the passage of the 1999 CTP, the Governors (first Governor Graves, then Governor Sebelius) began to "borrow" some of the Demand Transfer each year, and then ultimately eliminated it entirely.

Due to the overwhelming support for the CTP, both in the Legislature and in communities across the state, in the first years of the program, the legislature responded with various patchwork measures to try to keep the program fully funded.

Finally, in the 2004 session, all the parties—the Governor, the Legislature, KDOT, and Economic Lifelines—came to the consensus that it was both unrealistic, and would prove impossible, to continue to rely on these Demand Transfers as a key funding element for the CTP.

Based upon this conclusion, an agreement was reached and supported by all the parties. That agreement was that the Demand Transfer would be eliminated entirely as a funding element for the remainder of the program. The effect of this act alone was that almost $1.2 billion would remain in the State General Fund from FY2005 through 2009 to fund other important programs that rely upon the General Fund.

In direct exchange for relinquishing the Demand Transfer as a key funding component of the 1999 CTP, and in order to replace the resulting loss of that revenue, a new funding package was put together in the form of SB 384, which was ultimately approved by 97% of the Senate and 88% of the House of Representatives.

That package contained four elements:

1. The .25 cent sales tax enacted in the 1989 Comprehensive Highway Program would be increased to .38 cents in FY2007 and to .65 cents in FY2008 and beyond. And it would continue to be a **direct deposit into the Highway Fund**.

2. The $125 million "borrowed" earlier from the Highway Fund would be repaid in relatively equal installments beginning in fiscal years 2007, 2008, 2009, and 2010.
3. State General Fund Bonds in the amount of $150 million were authorized subject to review and recommendation by the Transportation Committees and approval by the State Finance Council. That is the only issue before you today.
4. An additional $60 million in State General Fund Bonds authorized if the new Federal Highway Act did not provide sufficient revenue, subject to review and recommendation by the Legislative Budget Committee and approval by the State Finance Council. The Budget Committee recommended approval of the $60 million in bonds at their meeting on December 12, 2005.

As KDOT has now determined, all four of those elements of the 2004 funding package are essential in order for all the projects of the ten-year program to be completed as publicly announced and promised to communities across this state.

And so, Economic Lifelines would urge, in the strongest possible terms, that these final procedural steps be taken, in this specific case, the recommendation by the two standing Transportation Committees for the State Finance Council to approve the $150 million in bonds.

I would close with two final comments:

First—What we are asking you to do is to follow the current law. This procedure for recommendation by your committees of the $150 million in bonds is contained in statute through the passage of SB 384. The agreement to proceed in this manner was approved by the virtually unanimous vote of both Houses. It was expected that these final steps would be taken as a matter of procedure

Second—Economic Lifelines would remind you of the tremendous importance of completing this program as promised to the citizens of this state.

While the original funding package adopted in 1999 proved to have a fatal flaw by its over-reliance on the Demand Transfers, every single year since its enactment in 1999, the Legislature has seen fit to temporarily fix the funding problem to continue toward that ultimate goal of completion of the Program. In 2004 the funding formula was permanently fixed and enacted into law.

That law and the agreement among all the parties upon which it was based should now be honored by these Committees by taking this procedural step.

We earnestly implore that you do so. Thank you and I would stand for any questions.