

Testimony of Michael Johnston, President/CEO of the Kansas Turnpike Authority

**Before the House Appropriations Committee
concerning the history of the Kansas Turnpike Authority**

January 24, 2013

Thank you Mr. Chairman for your invitation to appear here today and talk about the Kansas Turnpike Authority. As I understand it, you want me to focus on the history and operations of the KTA and I'm pleased to tell you about our business and its history.

The Kansas Turnpike Authority is a privately financed enterprise providing toll-supported transportation services. KTA was created by the legislature in 1953 as a "public instrumentality and the exercise by the authority of the powers conferred by this act in the construction, operation and maintenance of turnpike projects shall be deemed and held to be the performance of an essential governmental function."

The Authority consists of five persons; the Secretary of Transportation, the chair of the Senate Transportation committee, a member of the House Transportation committee appointed by the speaker, and two public members appointed by the governor. The governing structure has been in place now for well over fifty years. As President and CEO, I report to the Authority.

The Kansas Turnpike Authority was born of political necessity. Back in the early 1950's, a movement began to build a modern roadway to link the relative urban areas of our state. No roadway at that time existed to link Wichita, Topeka, and Kansas City. The Interstate system was still in its planning stages and some were concerned that it would bypass Kansas altogether. Politically, however, since the Legislature was dominated by the rural interests of our state, it was not possible to get rural legislators to vote to tax their citizens to build this "urban roadway". As a result, the only other alternative was a privately financed toll road. Legislation authorizing the construction and operation of the turnpike passed on votes of 84 to 7 in the House and 36 to 2 in the Senate. The bill was signed by the Governor and it became law on April 7, 1953. Essentially, the legislature outsourced and privatized the construction and operation of the turnpike at that time. The law outlined a very unique mission for the Turnpike Authority whose funding is centered on user fees from customers, not taxpayers.

The legislation authorized the sale of revenue bonds to finance the construction of the roadway. Moreover, since many at that time thought the toll road would not succeed financially, the authorizing legislation provides: "Revenue bonds issued under the provisions of this act shall not be deemed to constitute a debt of the state or of any political subdivision thereof or a pledge of the faith and credit of the state or of any such political subdivision thereof." In short, revenue bonds issued by the KTA are payable solely from revenues derived from turnpike operations. That language at the time was legislative shorthand for "bond buyer beware"!

The KTA sold \$160M of revenue bonds on October 14, 1954, and construction began on the turnpike on December 31, 1954. Though nearly impossible to comprehend in our

world today, the turnpike was built in an astonishing 22 months and opened for business on October 25, 1956.

In the early years, the turnpike struggled financially as traffic did not meet the predictions made by the traffic engineers at that time. Eventually, the turnpike's financial condition improved and I'm proud to report that our bond rating today, AA- and solely on our own name, is stronger than at any time in our history.

Our traffic has grown from 3.6 million in 1957 to 35 million in 2012. Through that same period, our annual toll revenue has increased from \$3.9 million to \$87 million. Our traffic is a mix of vehicles from passenger cars to nine axle commercial vehicles. In fact, the trucking industry is a very important part of our business. They comprise 10% of our traffic yet provide 33% of our toll revenue. Consistent with the original plan, the turnpike has never received state or federal tax revenue. Fuel tax revenue of approximately \$8.6 million generated from sales of fuel at turnpike service areas was remitted to the state and federal governments in 2012. In addition, \$1.6 million in sales tax revenue generated from sales at those same service areas was remitted to the state as well. In short, just like any other business, the turnpike relies entirely on customers for support, not taxpayers. In addition to receiving the fuel and sales taxes from our service areas, KDOT counts the KTA's 236 miles as part of the State's federal highway aid miles. That money is used on other roads in the state of Kansas. For the taxpayers of Kansas, the turnpike has been a grand bargain.

The Kansas turnpike is referred to in our industry as a closed ticket system. You get a ticket upon entry, surrender it on exit, and pay a toll based on how far you traveled and the class of vehicle that you are driving. That basic system has not changed since the turnpike opened but the advent of electronic toll systems in the early 1990's did modify the customer experience in our industry. We joined that movement in 1995 when our K-TAG system was implemented. I am sure some of you are K-TAG customers and know firsthand how the system works. That system has grown and matured to the point where today nearly 47% of our customer transactions are done electronically. We have 150,000 active customer K-TAG accounts and 330,000 transponders or electronic devices in circulation. Essentially, we have 150,000 financial relationships with our K-TAG customers and the management responsibilities that go along with it.

The turnpike began with fourteen interchanges to serve our customers and has through the years grown to 23, the last being the plaza at the new casino near Mulvane. In that instance, the casino paid the entire cost of the improvement.

The turnpike today employs 320 full time employees. They are employees "at will" and are not part of the state civil service system. These employees are involved in all aspects of our business from collecting tolls to replacing fence on our rights of way. In fact, our full time employees have been reduced since 2006 by approximately 17%. That reduction was achieved through attrition and other targeted actions brought about by my desire to structure our operating costs more defensively. I call our cost reduction effort the 9/11 and Katrina wake up call. I'll explain more in just a moment.

In addition to our own employees, by contract with the state, we support 51 uniformed highway patrol officers who are dedicated to patrolling only the turnpike. They patrol the

turnpike 24 hours a day unlike the outside patrol which does not maintain 24 hour service. The contract provides that all the costs associated with those officers are paid by the turnpike. We pay their salaries, we pay for their vehicles, we pay for their uniforms, their guns, their bullets, their badges-----in short, we pay everything.

After Katrina struck near Labor Day 2005, the nation witnessed that storm's dramatic and sudden impact on our economy. Our business was not spared. Fuel prices spiked quickly to approximately \$3 a gallon and the energy ripple was felt throughout the country. Our 2005 Labor Day traffic, right after Katrina struck, declined over 9% from the previous year. As a result, our overall 2005 traffic declined from the previous year.

The 9/11 and Katrina lesson for me was that destructive and tragic events of this kind are likely going to happen in the future. And just as certain as the events, is our inability to neither predict nor prevent them. As a result, in 2006 we began a long process to reduce our operating cost structure and that effort has served us very well.

From 1994 –2011 the Kansas Turnpike removed and reconstructed the existing pavement and sub-base on the section of I-70 from Topeka to Kansas City. The total cost (adjusted for inflation to 2013) to replace this pavement was approximately \$107M, or \$2.7M per 4-lane mile.

The remaining 183-mile segment of turnpike pavement from Topeka to Oklahoma will need to be reconstructed in the future. Since the turnpike was opened to traffic in 1956, only periodic surface treatments have been used to maintain the pavement in this area. Eventually, both age and stresses due to traffic will result in failure of the underlying sub-base and pavement. Adjusted for inflation (2013), the pavement replacement cost for this 183-mile section of turnpike would be approximately \$494M (\$2.7M per 4-lane mile). This estimate does not include design and construction engineering cost.

Finally, with KDOT/KTA in the news, let me say that our relationship with KDOT is solid and we have worked side by side with them in a variety of ways. We have a long-standing agreement with them on how we share responsibility for the urbanized section of the turnpike from K-7 at Bonner Springs to the termination of the turnpike at 18th in Kansas City, Kansas. They partnered with us on improvements to their system near both the East Topeka and Emporia turnpike interchanges when they were reconstructed in 2002 and 2009, respectively. In addition, since we have the capability to both install and repair fiber optic cable, we have done extensive work for KDOT to meet their fiber needs that has saved them hundreds of thousands of dollars.

Let me again thank you for your attention and the chance to share information with you about our unique business. I have included some additional information that may help you better understand our business and would be pleased to respond to your questions.

Attachments:

KTA information sheet (2 pages)

Exhibit 10-1 from the KTA 2010 Long-Term Needs Study conducted by HNTB; an "Executive Summary Brochure" can be found online at: ksturnpike.com/about



About the Turnpike

- The Kansas Turnpike Authority is a privately financed enterprise providing toll-supported transportation services.
- The Turnpike was planned and constructed prior to construction of the federal Interstate highway system. Federal planners later designated the Turnpike as part of the Interstate system rather than building parallel roads, saving millions of dollars.
- Tolls support all Turnpike operations — including the repayment of revenue bonds used to fund capital improvements.
- KTA contracts with the Kansas Highway Patrol and pays for all employment and training expenses for 51 uniformed officers.
- Additional revenue is received from business partners who lease facilities at our six Turnpike service areas.
- The KTA has never received any federal or state tax dollars.
- In 2012, the State (not KTA) received \$10.2 million from motor fuel and sales tax collected at the Turnpike's six service areas.
- The federal government permits the State to count the Turnpike's 236 miles of roadway for purposes of calculating the State's federal aid.
- The KTA's full-time workforce has declined 17% since 2006 and its operating expenses reduced accordingly.

Learn more: www.ksturnpike.com • [About/Annual Reports](#)

Original Construction Statistics

- The Turnpike Authority broke ground on the banks of the Kansas River near Lawrence on December 31, 1954.
- The Turnpike is 236.5 miles long.
- The entire roadway was built in 22 months and opened to traffic on Oct. 25, 1956.
- Cost was \$147 million, plus \$9 million in Capitalized Interest.

Today's Road

- The Turnpike has 23 interchanges for entry and exit
- There are six service areas located near Lawrence, Topeka, Emporia, Matfield Green, Towanda, and Belle Plaine.
- 348 bridges

Traffic & Revenue

- Grown from 3.6 million vehicles in 1957 to more than 35 million vehicles in 2012.
- More than 28 million passenger cars used the Turnpike last year.
- More than 4 million commercial vehicles used the Turnpike last year, but commercial vehicles (5 axles and above) account for more than 33 percent of revenue.
- Grown from \$3.9 million in 1957 to \$87 million in 2012

Median Barrier

32-inch concrete median barrier was installed the entire length of the roadway; all but eliminating head-on collisions. The project was completed in 1992 at a total cost of \$32 million, or \$143,000 per mile.

Employees

At the start of 2013, KTA had 320 full-time and 103 part-time employees. In addition, KTA contracts with the Kansas Highway Patrol to pay for 51 uniformed officers. KTA pays the full cost to support Troop G, which operates 24 hours a day and is dedicated exclusively to the Turnpike.

Electronic Toll Collection K-TAG program

The electronic toll collection program was officially dedicated October 25, 1995. In early 2013, there were approximately 150,000 accounts with 330,000 transponders in use.

Contact Information

9401 E. Kellogg • Wichita KS 67207-1804
316-682-4537



EXHIBIT 10-1: Historical and Projected Square Footage of Deck Replacements

