

MORNING SESSION
Thursday, November 17, 1988

Financing Future Transportation

Moderator

Merl Hackbart, Associate Dean
College of Business and Economics
University of Kentucky

Panelists

Kevin Hable, Secretary
Kentucky Finance and Administration Cabinet

Senator Mike Moloney, Chairman
Senate Appropriations and Revenue Committee

Rep. Joe Clarke, Chairman
House Appropriations and Revenue Committee

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INTRODUCTIONS

Merl Hackbart is Associate Dean of UK's College of Business and Economics.

Kevin Hable currently is the State Budget Director. Prior to becoming Budget Director, Mr. Hable was a partner at Wyatt, Tarrant, and Combs, concentrating on corporate financing and banking. He received his undergraduate and law degrees from the University of Kentucky.

Mike Moloney, Chairman of the House Appropriations and Revenue Committee for the past 10 years, has been a member of the Senate since 1971. He is a partner in the law firm Geraldts, Moloney and Jones. Senator Moloney is a graduate of Xavier University and UK's College of Law.

Joe Clarke, Chairman of the House Appropriations and Revenue Committee since 1972, is currently serving his ninth term in the Kentucky House of Representatives. A native Kentuckian, Mr. Clarke holds a civil engineering degree from the University of Notre Dame and a J.D. from Georgetown University Law Center. He is a partner in the law firm of Clarke & Clarke.

PRESENTATIONS

Merl Hackbart

We're very pleased that you are here again this year and we hope that you are enjoying the Forum. I know Mr. Grayson has put together an excellent conference and I'm sure you've gained a lot already during the discussions yesterday.

I'm not exactly sure why I'm on this panel. You know Calvin's pretty tough about qualifying people to be on the panel and to be presenters during the Forum. I guess he was looking at my resume one day and discovered that prior to coming to Kentucky, I served as deputy secretary of transportation in South Dakota and he thought that was at least a sufficient acknowledgement of my interest and commitment to transportation to permit me to serve on this panel this morning. So, even though I'm in the College of Business at UK, I guess that's why Calvin asked me to serve in this capacity.

This morning we have a very important topic -- that's the topic of the future financing of transportation in the Commonwealth of Kentucky. I think we all realize that transportation plays such an important role in terms of economic development and in improving the lives of Kentuckians. Certainly, as we look to the future, we realize we have a very definite challenge to continue to be able to finance a sound and efficient transportation system in Kentucky.

There have been a lot of changes over the last several years in terms of the federal financing approach to transportation, and certainly Kentucky has experienced a number of difficulties in financing, not only transportation, but also in financing the provision of general public

services to the residents of our State. So, I think it is very timely and very important that we explore this general problem, look to the future, and consider options and opportunities to maintain the soundness of our system.

This morning we have distinguished panelists to share their ideas with us about the financing of transportation in Kentucky. They are experienced in this area, and are notable individuals in terms of their knowledge of the general financial situation of the State, the fiscal outlook, and they have a very detailed knowledge of transportation finance as well. I'm sure we're going to gain a lot of insights and information from their ideas and experiences and thoughts about the challenge that we're facing.

Representative Joe Clarke...

I don't think I can talk about the future of financing transportation without talking about financing, period, as far as Kentucky is concerned. It's been interesting for me, and I hope for you, over the last several days since the Presidential election was over. If you've been reading the paper you're finding out now, if you didn't already know, what the Presidential election was really about. You weren't told what it was about during the election -- that the deficit is the problem. I'd like to tell you my perspective on where we are as far as transportation funding is concerned today.

I don't think you could take transportation funding out of the context of the total problems that the State has right now. I went over to Shakertown for a couple of days and listened to discussions there about Kentucky's needs -- it wasn't just education, but I guess the main thrust was education. They were talking about raising \$700 or \$800 million in new money for the general fund, they were even talking about maybe raising property tax levels in the State up to the 66-cent-level to equal Fayette County. Someone came to me and said, "Have any of these people ever been on the third floor of the Capitol, are we really talking about the real world?" I think they were talking about the real world in terms of needs and I think that's what you need to know. If we're going to move forward in the State, we need education. We won't need roads if we don't have an educated electorate -- there won't be anybody here to ride on the roads. (It will be like a couple of our major roads that don't have anybody riding on them now because they were the pet project of a particular governor.) We need to deal with the State's problems overall, and if we don't do that, you can forget transportation because transportation won't mean anything. If we don't have jobs for people, they won't need roads, they can just stay home and draw welfare. That's what we've been doing in some sections of the State already. So, I think it's important that you



Joe Clarke

understand we have a major problem in financing and many major problems that contribute to our financing difficulties.

We talked a lot about education in Shakertown last weekend, but we also had several people there as local government representatives who pointed out what had happened to them in terms of lost monies from the federal level and you people who are interested in transportation know all about that too, that's happened to you as well. It's happened in every sector except defense in the last eight years.

They didn't even talk about some of the things that concern people like Mike and me, such as what are we going to do about the prison problem if the electorate insists that we lock up every felon and do it as long as possible. We're probably two thousand beds short now. What will we do about our jail situation (we're housing a lot of prisoners in jails now, and the jails are falling down)?

What do we do about the roughly 300,000 people in the State who are either underinsured and/or uninsured? We're not talking about people on welfare, they've got cards so they're insured -- we're talking about the working poor. How do we deal with that problem?

What do we do with our deteriorating -- and this is a magic word -- infrastructure. You know that includes water and sewer and roads as part of the infrastructure too. What do we do with all those things, and how do we deal with them? I guess the message I'm bringing to you is that you've got to break your mindset to looking at transportation and get behind doing something with the State's fiscal situation. You're not doing badly, really.

The best part of the budget right now is the transportation budget. We may produce more money than we thought we were going to have. If you want, you can call that surplus. I have trouble with definitions -- they always talk about surpluses, but surplus is more money than you thought you were going to have, it's not more money than you need; you need to understand that first. But, we may wind up with \$20 million more than we anticipated in the road fund. Now, I think what you in this group need to think about is trying to help the State deal with the general fund so the transportation fund isn't raided anymore to deal with general fund problems. I think that's the best you're going to do, I really don't see us raising road fund taxes because I think we have really suffered in the last several years because of court decisions. We thought we'd solved our road fund problem, that sticker tax looked like it was enforceable, looked like it was going to bring in a substantial amount of money and the next thing we know, the Supreme Court is blowing it out of the water. So we had to go back to ground one and start all over again, and look at the weight-distance tax, which is a great tax in theory, but very difficult to enforce. And now we have to go with that because the federal courts have essentially said we don't have any options. We're going to have to spend money to enforce that law but so far that seems to be working. We're not doing too badly, and we can do better -- we have to make sure that we do better in that regards, which means more weigh stations, more mechanisms to make sure that we collect all the dollars that are out there as far as the weight-distance tax is concerned. I'd have to say it's not the weight-distance tax that's producing the surplus, the

only place we've got any growth is in the sale of vehicles. We're making more money there and that's where the growth is -- that's where your \$20 million surplus is coming from.

We're going to have to do better with what we've got in the transportation area, and if you all really care about having more money for transportation, then you're going to have to help us do what we need to do in terms of Kentucky's base, and then maybe we won't have to raid the road fund to pay for the State Police, which happened in this last session. I don't want to be very optimistic about this (it hasn't happened in a long time, but it's possible), but if we had an adequate financial base for the general fund, the transportation fund would be able to receive the \$42 - \$43 million in severance tax dollars that have been utilized in the general fund for the last several years. So, what I'm telling you is not to get hung up about transportation, because if you do, you won't help us in doing what we have to do for the State and you won't help transportation either.

Let me throw out another thought that will interest you. One of the suggestions that came up at the Shakertown conference was that we don't have a sales tax on gasoline, and that might provide more money for the general fund. The statement was made that that would be a really easy tax to impose. Now, I'm not sure I know of any easy taxes to impose, but the suggestion that we put a sales tax on gasoline would bring in general fund dollars that aren't available now. This would be one way to easily solve our serious difficulties in the general fund. I know this isn't what you expected to hear, but I don't know how to tell you where we are without talking about the whole problem. I know the transportation fund is a trust fund, but you'll notice that trust is kind of slippery and money slips in and out of there all the time, so you have to realize only if you're supportive of doing what we have to do to get the State on an even keel will we be able to do what we need to do in the area of transportation.

Senator Mike Moloney

I'd like to discuss a couple of specific areas to try to put into perspective what we as a state need to be doing. I don't think it's we as a state but we as a nation. As Joe just mentioned, we've just come through a Presidential campaign, when, at times, I thought we really were having an election for sheriff. We didn't seem to be talking about national issues confronting the Nation. I read in the paper this morning that Allen Greenspan and George Will both are saying we're looking at a major recession and high inflation unless President-elect Bush changes his perspective on no new taxes. I wonder if that's just something that struck them in the middle of the night, like Saul on the road to Damascus, but I doubt it.

We've got the same problem in Kentucky, we have demonstrated over 20 years that we as Kentuckians are proven tax cutters and have cut over a half billion dollars out of our general fund tax base since 1972; that's not a figure that I'm making up, I can show you where it came from. We took the sales tax off food, took the sales tax off groceries, we

took the sales tax off of almost anything that somebody had an interest in, tombstones, gumball machines, you can go up and down the line, there's a two-page list of what was taken off. We've frozen property taxes effectively for the State, we've limited property tax increases at local levels, we've eliminated inventory taxes for business, and it adds up to a half billion dollars in this year's money.

Now think about where we would be if we had a half billion dollars, and yet, we hear we'll have no new taxes. Are we being candid with the people when we say that? Are we being candid when we say we'll put \$43 million in the road fund from the severance tax receipts when, at the same time, we take \$35 million out of the road fund to pay for the State Police. No, I don't think we're being candid. We talk about needing financing in education. I wonder if we are being honest and candid when we say we support what Judge Corne says about fully funding education, but we're opposed to raising taxes to do it. Folks, \$300 million to \$400 million isn't going to pop out of a jar you find floating in the Kentucky River with a genie in it; it just isn't going to happen. The growth that we're going to experience in this State over the next two years isn't going to produce it either.

We are going to have to face reality in the State, if you, as people interested in transportation, want to see additional money in that area, you're going to have to see additional money in the general fund. I can identify \$88 million real quickly to put into the road fund -- \$35 million that's now funding the State Police and \$43 million that's from the severance tax receipts that can go over there to retire the resource recovery road bonds. That's an additional \$88 million, that's a pretty good kick if you look at the size of the road fund, that's close to 12 percent. That would make everybody happy.

But, that's not going there unless the general fund gets increased, it just flat can't happen. We've got a budget in the Commonwealth this year that is balanced in such a way, that if you were running a household on it, you'd be in bankruptcy court. We borrowed \$35 million from the road fund, we borrowed from the trust and agency accounts throughout state government, we borrowed from teachers' retirement, we've tried to borrow from Fish and Wildlife -- that one didn't work. But those are one-time monies, or so we were told in 1988. I don't know that they are, that may happen again. But, should we not have the obligation to pay those monies back? I think those are the problems we're facing in Kentucky.

We just can't say growth is going to pull us out of this, we're going to have to look at reality, we're going to have to look at increasing our revenue base, and for the Governor or anyone else to say that we cannot ask the people of Kentucky to pay more taxes until we know that the money is being well-spent, I think is evading the question. I don't mean to be combative, that's not my nature. But, for us to say for that line to continue to be used is really evading the issue.

The folks who are in charge of spending the money in this State now have been in charge of it for a year, and if they don't know where

the money's being spent now, then Judge Corne's decision on the need for increased funding for education is way short because we're going to have to spend a lot more money on remedial education.

We have got to face reality, we've got to increase the revenue budget. It's not anything I've not said before, in fact, I'm old, worn out, and mouthy for saying these kinds of things, but I'm going to keep saying them, although I don't believe there's anybody in this room who doesn't recognize that, I don't believe there's anybody in state government who doesn't honestly recognize that we need additional money in government. Whether they'll admit it or not, I don't know, but I don't think there's anybody who doesn't honestly recognize it.

Joe has hit the points we're talking about -- we're talking about education funding, how our universities are in trouble, we're seeing the best faculty leave our institutions of higher education. Now, they're being replaced, but they're not being replaced by people of comparable value, of comparable intelligence, and ability. We can't afford that. If we're going to compete, we've got to educate our students and it's going to take money to do it. It's not going to just appear, we're going to have to produce it.

Our needs in human services are just awesome, they're not going to be met with the proceeds of a lottery; they're too big. You just keep going up and down the line, corrections, everything, you can't think of an area in government that is better financed today, considering resources, than transportation, because I just don't think there is one. So, I'll reiterate what Representative Clarke said, you must talk about funding transportation as a component of funding all of government because even though there is a transportation fund, I think we've seen that it is part of the overall pot out of which government must fund itself.

Kevin Hable

Mike and Joe hit the point exactly on the head, which is that those of us who are interested in transportation and the future of transportation financing in this State ought to have a vital and keen interest in the health of the general fund and the other fund sources for government. I view all of those sources, as Mike said, as being in the same pot. We have over the years, I think, traditionally looked at the road fund as something separate and apart from the rest of government and something distinct from the general fund and somehow insulated from the same kind of scrutiny and examination that we give to some of the other funds in government. But, I don't view it that way and I don't think the Legislature does either anymore.

Mike and Joe mentioned a couple of good examples, one of which is the use in this biennium of \$35 million a year from the road fund to fund a portion of the operating budget of the State Police. That entire budget for the State Police had heretofore been funded out of general fund, not road fund, dollars, but because the shape the general fund was in at that time, the general fund needed that supplement, needed that additional source of money from the road fund, and we were fortunate there was enough money in the road fund to supplement the operating budget of the State Police by that \$70 million in this biennium. It's not

something that I particularly like, but it's also something I don't apologize for either because we were confronted this time with a very difficult fiscal situation throughout government, and as Mike stated, we were forced to look at all the fund sources, wherever they were in government, to be used to fund the entirety of government.

We found, what I guess I would call surpluses in several of the trust and agency accounts that we used to supplement general funds, and we did use that money from the road fund for the same purpose. I think that illustrates the point perfectly, that we all have to be interested in and knowledgeable about the general fund because I think not only in this biennium, but in every succeeding one from now on, road fund considerations are going to be matched against the considerations of the general fund, its health, and how we can use those general fund monies.

Mike and Joe raised a lot of good issues and covered the ground pretty well about the important issues that are confronting us with respect to our general fund and how we are going to fund the operations of government for the next few years, but let me get a little more specific and talk for a minute about transportation.

Right now, I think I can report to you that our transportation fund is in good health. I would like to see it a little healthier than it is, but I do believe I can tell you today that the road fund -- the transportation fund -- is sound. You will note though, when you look at the transportation fund, there are no bond funds that have been allocated to that fund in this biennium; that is to say, we did not propose and the Legislature did not adopt any major bonding program through the Turnpike Authority to build major road construction projects in this biennium. I think to be able to build those big projects (some of which we can identify the need for right now), we're going to need in the future to have the ability to issue bonds, to issue turnpike bonds.

Now, today, our road fund is fairly highly leveraged. We will pay this year about \$132 million out of the road fund for debt service alone, that's probably somewhere around 20 percent of the entire road fund receipts this year that we'll pay out in debt service. We felt, in preparing the budget this time, that because of the fairly high leverage in the road fund, and I would tell you that the general fund leverage factor (if I can use that term) is somewhere between 5 and 10 percent, so the road fund is much higher leverage, that is to say, has a much greater portion being paid out in terms of debt service, than the general fund does. Because of that, because we were going to have to use the road fund to supplement a need, a transportation-related need -- highway safety in the general fund through the State Police -- and because we had a gap in the road fund because of the decal tax decision that you're all familiar with, we couldn't go forward and in good faith and in good conscience recommend a new bonding program for this biennium. I think we need to get the road fund in sufficient shape and in sufficient good health to be able to do that.

I would like to see us have the ability to pay that \$35 million back that we're taking every year, in this biennium at least, from the road fund to supplement the general fund. We need, if we're going to increase the debt in our highway fund by issuing turnpikes bonds, we're probably going to need to find the capability to put that approximately

\$43 million a year, back into the road fund from the coal severance tax receipts, for repayment of the resource recovery road bonds that are outstanding. I think until we can get the road fund in a little better health by doing some of those things, we're going to have a difficult time issuing a major turnpike authority bond issue, which I believe we really need to do to promote economic development in this State and to enhance our transportation system.

This leads right back to Mike and Joe and the concern we all ought to have about the general fund, because until the general fund gets healthier, until we have more revenue coming into the general fund, until we have at least enough to meet all the traditional needs that have been satisfied out of the general fund, we won't be able to make that \$35 million payback, or we won't be able to stop taking the \$35 million out every year to fund the operations of the State Police. So, I do think we all ought to think more carefully than we ever have before, not only about the health of the general fund but about how we're spending it, and about how we have ordered our priorities over the years within the general fund.

I think presently (to shift gears a little bit) we are doing a good job in some of the other areas in the transportation fund. We'll have this year over \$200 million of federal money that we will be able to receive through the various 75, 25, and 90/10 matches. We were able to devote somewhere near \$90 million to the State construction and resurfacing program, which is going to allow Milo Bryant to do a significant amount of work in those areas. We're going to have \$100 million plus in the maintenance account this year, and about \$163 million will go out for the local programs through the revenue sharing program in the Transportation Cabinet, which, as you know, is divided among the rural secondary, the county road system, and the municipal road program.

So, we've got a good deal of money to spend on road projects, construction, maintenance, resurfacing, and the road fund is healthy. We have replaced, as Mike noted, the \$60 million gap in the road fund through a combination of weight-distance tax at the old 2.85-cent rate with a 1.15-cent supplement for the next two years. With some increased registration and licensing fees, we have made up that \$60 million gap. We've also provided enough money in the budget this time to hire some additional enforcement people and to open some new weigh stations and keep those weigh stations open for longer periods of time to better enforce the new weight-distance tax. So, I think we're on solid footing, and as long as we speak in the present tense, I'm not concerned, but if we're going to be able to make the progress in transportation that I think everybody in this room wants to make, we're going to need to do a little better by the road fund.