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TESTIMONY BEFORE THE HOUSE TAXATION COMMITTEE

REGARDING HB 2370 REGARDING AN INCREASE IN MOTOR FUEL TAXES AND RATE TRIPS

March 12, 2019

Mr. Chairman and Committee Members:

I am Lindsey Douglas, Deputy Secretary for the Kansas Department of Transportation (KDOT). I am here today to provide neutral testimony on House Bill 2370 regarding increasing motor fuels taxes (MFT) and rate trips. The bill proposes to increase MFT \$.01 per gallon per year for three years and diesel \$.02 per gallon per year for two years. The State Highway Fund (SHF) is projected to receive \$308M in MFT in FY 2020. This bill would increase that amount by \$40 M by the end of FY 2023.

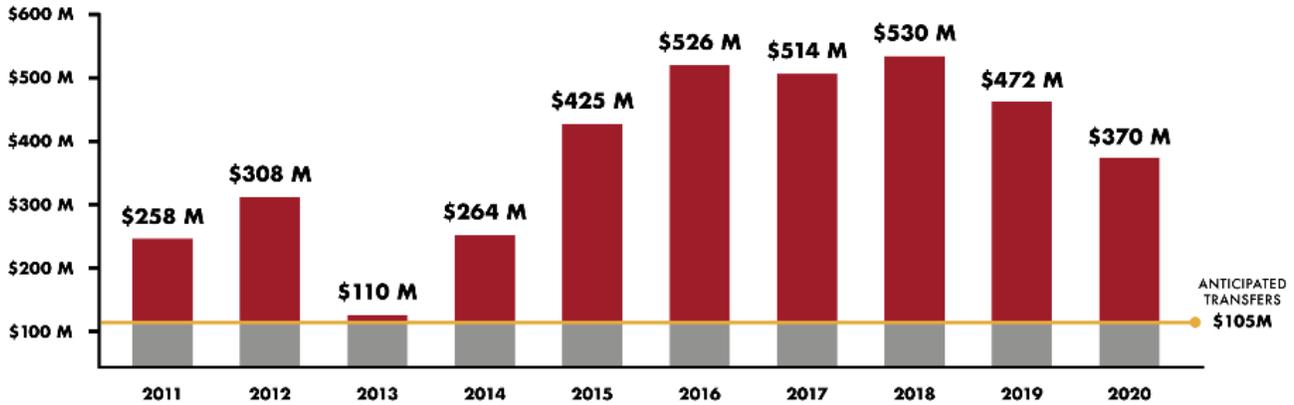
Task force transportation funding recommendation: This bill is one of several introduced this session based on the important work done by the Joint Legislative Transportation Vision Task Force last fall. Part of the task force's mission was to frame a vision for the future of transportation in Kansas and how to position the State to effectively provide a system that meets the current and future needs. Demands on the transportation infrastructure in Kansas make it critical for us to equip KDOT to be responsive to the traveling public and the movement of commerce. As we evaluate the potential funding sources that exist today, MFT is projected to grow by only 0.3%, much lower than project construction inflation.

Task Force Discussion: Even with the challenges identified by the task force, MFT is one of transportation's primary funding mechanisms. It is a per-gallon excise tax levied on gasoline, diesel, and other special fuels. MFT revenue is declining as vehicles become more fuel-efficient and hybrid and electric vehicles are added to the fleet. The MFT is a user fee for those who benefit from traveling on our road system. While there is little growth, the MFT is a protected revenue source.

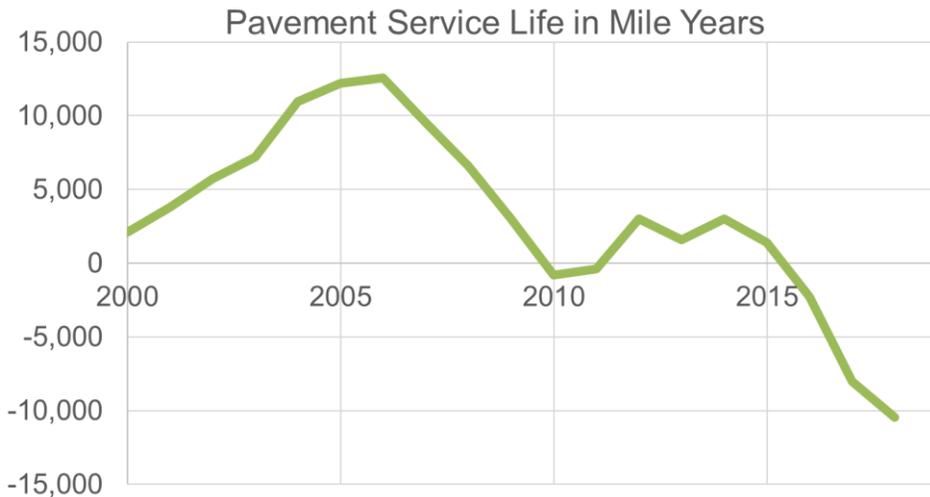
Protected Revenue Source for Transportation Maintenance and Improvements: The Kansas constitution states, "The state shall have power to levy special taxes, for road and highway purposes, on motor vehicles and on motor fuels." The constitution protects this revenue for road purposes and cannot be transferred from the State Highway Fund (SHF). T-WORKS program funding included the

existing MFT and increased the amount of sales tax to the SHF. Over time, over \$2 Billion in sales tax has been transferred from the SHF to the State General Fund, reducing the amount of preservation work and placing 21 T-WORKS projects on hold.

State Highway Fund Transfers since 2011



System Health has Declined:



Through the transfers from the SHF, our system health has declined overtime due to not meeting the needed level of preservation work, both light and heavy actions. While surface ratings may be steady, the overall system health has declined due to a reduction in heavy preservation actions that improve pavement service life. KDOT should invest an average of \$500 M in preservation and \$100 M in modernization and expansion work to sustain the right balance for system health. During the 2016-2019 T-WORKS program, the average investment for both modernization and expansion work has been far below the investment level needed to maintain system health at a rate to maintain steady pavement service life.

FY 2020 budget and SHF: Governor Kelly has proposed a budget that will provide an additional \$160 Million by reducing SHF transfers; \$60 M carry forward from legislative action in the FY 2019 budget plus an additional \$100 M. As KDOT has previously testified, if those funds remain in SHF, preservation investment for FY 2020 will be increased to \$400M and four delayed T-WORKS projects can be let to construction in FY 2020.

The Governor also set a goal to ‘Close the Bank of KDOT’ by 2023 if the proposed budget strategies are achieved. This will allow KDOT to fully fund preservation and complete T-WORKS projects which are the stated priorities of the task force.

Looking to the future: As identified by the task force, KDOT acknowledges that **stable, consistent revenue sources are needed** for the long-term preservation, modernization and expansion of the transportation system. Many other states have begun exploring transportation funding options. The federal government has long been discussing new revenue sources and recent infrastructure program discussions include structuring a future program that would incentivize leveraging state and local funding and reward innovation in project construction and delivery. We want to work with the legislature, transportation stakeholders and citizens from across the State to develop the most advantageous, forward looking and balanced revenue mix to pay for Kansas infrastructure.

Thank you for the opportunity to present testimony today. I am happy to stand for questions at the appropriate time.