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Session Later this Month to Deal with General Fund Shortfall Transportation Budget Subcommittee Hears Dismal Outlook for Road Fund

Most people understand there is a serious General Fund problem. There is generally less understanding about the Road Fund problem. Governor Beshear has announced he will call a special session of the General Assembly to start June 15 to deal with General Fund issues.

The General Assembly's Interim Budget Review Subcommittee on Transportation, this week, was presented the dismal outlook for current and future Road Fund revenue by Tammy Branham, executive director of the KYTC Office of Budget and Fiscal Management. **The Road Fund, said Branham, is in "considerable worse shape than the General Fund."**

The General Fund, noted Branham, under present revenue projections by the Consensus Forecasting Group, is expected to be up by 35.3 percent from 2000 to 2012, while Road Fund growth for the same period is only 14.9 percent.

And, while she did not say it, significant highway user revenue was used last year to help balance the General Fund budget: "Balanced General Fund Costly for Highway Users"

http://kbt.net/uploads/TransportationNews2008_04_24_Revised.doc.

Branham told the subcommittee there would be a \$96 million shortfall in FY 09 revenue, which would result in budget cuts including \$56.1 million from the \$161.4 million State Construction Account and \$19.5 million from debt service. Revenue sharing will be reduced by \$5.9 million.

The FY 09 shortfall is largely the result of a decline in vehicle sales. Motor vehicle usage tax has declined by nearly \$72 million.

The CFG has forecast FY 10 Road Fund revenue to come in at \$1.166 billion compared to the budgeted \$1.405 billion -- a staggering decline of \$239 million. The \$196.4 million State Construction Account will, as in past years, bear the brunt of the shortfall.

The CFG forecast, on which the FY 10 budget was adopted, assumed the average wholesale price of motor fuels would continue to stay above the state's average wholesale price floor which is limited to 10 percent growth annually. The budgeted \$724.4 million is now projected to be \$629.7 million -- a decline of \$94.7 million. Motor vehicle usage, budgeted at \$425.3 million, is now projected to be \$313.3 million -- a decline of \$112.1 million.

The CFG's numbers for future planning purposes don't look much better -- \$1.201 billion for FY 11 and \$1.254 billion for FY 12. Actual Road Fund revenue for FY 07 was \$1.226 billion.

Branham also updated the bond program for the subcommittee. The Cabinet expects to sell later this year \$200 million of the \$400 million in revenue bonds authorized for state construction projects during the last session. She said all of the \$350 million in bonds authorized by the General Assembly in 2006 had been sold, and \$63.5 million of the \$77.1 million cash balance of the issue remaining had been obligated.

The \$290 million GARVEES authorization in 2006 has been sold and has a cash balance of \$117.7 million with \$94.6 million of balance obligated. The Cabinet has taken no action on the \$231 million in GARVEES authorized for the Louisville Bridges Project. The last session of the General Assembly replaced the cash funding programmed for the Louisville project with GARVEES. The Cabinet has essentially put the Louisville project on hold, pending enactment of infrastructure authority legislation.

Rep. Sannie Overly, chair of the House Transportation Budget Subcommittee, expressed a concern that the Cabinet was not proceeding with state projects designated to be funded with the \$400 million in revenue bonds authorized in the last session. She said the General Assembly authorized the bonds as part of an effort to stimulate the Kentucky economy.

State Highway Engineer Mike Hancock said the primary focus of the Cabinet had been on the stimulus program. He noted that stimulus and regular federal program awards would total \$370 million by July -- compared to the total program of \$435 million for CY 08.

Overly inquired about the Cabinet's pursuit of funding via the stimulus program's \$1.5 billion discretionary competitive grant program for state and local governments to use on longer-range surface transportation projects. The program requires applicants to demonstrate their projects have national, regional, or metropolitan significance. The grants -- ranging in size from \$20 million to \$300 million -- can be used for any surface transportation investment including highways, bridges, transit, rail, and port infrastructure.

Hancock said federal guidance for the program was issued last month, and the Cabinet would be seeking funds from the program.

Transportation advocates would like to see General Fund revenues adequate to support general government programs. Continuing to use transportation revenues for non-transportation purposes is self-defeating. Adequate transportation is a key element of getting and keeping good jobs. Jobs create tax revenue for General Fund programs. If additional General Fund tax measures are out of the question, expanded gaming may be the only way to generate additional revenue for the General Fund. Certainly, saving the state's equine industry -- if expanded gaming is what it takes -- would be a major bonus.

Infrastructure Authority Legislation to Be Included in Session

Gov. Steve Beshear today said he will add an economic incentives package and legislation to help build mega-transportation projects to his call for a June 15 special session.

"In a time when every job is sacred and every economic investment a cause to celebrate, Kentucky must be aggressive in identifying and seizing every opportunity that presents itself," said Beshear. "These are measures that, I believe, have deep and broad support in each chamber. It is time now to move them -- quickly -- through this process, which is exactly what a short and necessary special session is designed for."

Beshear said most of what he is proposing was approved by both chambers during the recently completed legislative session, but failed to move forward for final passage because of timing issues. But, he said, now is the time to move forward. Other states are offering incentives to existing Kentucky companies in an attempt to lure them away, taking jobs and investment.

Beshear said the funding mechanism for mega-transportation projects would foster continued “federal investment and safeguard the existing state investment, while ensuring that we maintain the bonding capacity we need over time to fund projects throughout the state.”

From the point of view of Kentucky’s economic future, no issue is more important than infrastructure authority legislation. It is critical that the state have a mechanism to proceed with major highway infrastructure to deal with growth and development.

Last session, HB [102](#), Kentucky Infrastructure Authority legislation to oversee the financing and construction of mega projects, was amended by the Senate to use the Kentucky Turnpike Authority as the vehicle to authorize the establishment of a Kentucky-Indiana bi-state authority to issue bonds and levy tolls. The House refused to agree with the Senate changes sending the bill to conference. Senate President David Williams told the Senate Transportation Committee the amendment would ensure a state authority could not advance a toll project on its own and that debt incurred by the bi-state authority would not be a debt of the State.

Williams said he anticipated the House would not go along with the change without time to consider it, but the details could be worked out by a conference committee before the General Assembly adjourned *sine die*. The Administration, the Transportation Cabinet and key legislators have acknowledged the state’s mega projects cannot advance without legislation to make financing the projects possible.

KBT supports the enactment of infrastructure authority legislation and the use of tolls as an alternative means of financing major highway projects. The legislation has broad support from across the state.

Cabinet Has Met June 30 Stimulus Obligation Deadline

With \$163 million obligated, KYTC has met the 50 percent, 120-day obligation requirement for Federal highway stimulus funds, according to Russ Romine, Executive Advisor to the Secretary, in presentations this week to the Interim Joint Committee on Transportation and the Budget Review Subcommittee on Transportation.

Romine said 10 stimulus projects totaling \$109.1 million have been bid and awarded. An additional 8 projects with an estimated cost of \$84.9 million are tentatively scheduled for letting June 12 and 26. The projects awarded so far came in nearly \$19 million under engineer estimates.

Kentucky is allocated \$421.1 million in highway and \$51.5 million in transit funds under The American Recovery & Reinvestment Act. The distribution of highway funds is \$367.8 million statewide, \$12.6 million for transportation enhancement, and \$40.6 million for the state’s four metropolitan planning organizations.

All \$421 million must be obligated by March 2, 2010. The funds must be spent by September 30, 2015. “Obligation” means the state and FHWA have agreed on the projects -- not that the projects have been awarded as some have assumed.

Stimulus Projects Awarded:

Trigg Co. – US 68/KY 80, Land Between the Lakes major widening, \$30 million.
Hardin Co. – US 31W at Ring Road safety improvements, \$82,500.
Lincoln Co. – US 150/Stanford-Mt. Vernon Road reconstruction, \$25 million.
Lyon Co. – I-24 pavement rehabilitation, \$12.227 million.
Marion Co. – US 68/Northern Bypass to Industrial Drive connector, \$4 million.
Bullitt Co. – KY 61 major widening, \$6.056 million.
Franklin Co. – US 421 Leestown Road major widening, \$9.870 million
Gallatin Co. – US 127 Big Sugar Creek Bridge rehabilitation, \$476,460
Monroe Co. – KY 90 relocation, \$7.859 million
Washington Co. – US 150 Bardstown-Springfield northwest bypass, \$13.613 million

Stimulus Projects Scheduled for Letting June

Barren Co. – Glasgow outer loop, new route, \$17.200 million
Breathitt Co. – KY 15 relocation, \$21.960 million
Campbell Co. – US 27 major widening, \$29.120 million
Grayson Co. – Western Kentucky Parkway pavement rehabilitation, \$1.100 million
Kenton Co. – 12th Street reconstruction, \$1 million
Letcher Co. – KY 15 safety improvement, \$3.410 million
Nelson Co. – KY 245 major widening, \$5.100 million
Whitley Co. – KY 92, US 27 to I-75 relocation, \$6.020 million

Highway Construction Plan

HB [330](#), the Biennial, FY 09-10, Highway Construction Plan (projects listed by county), as adopted by the legislature, is at: http://www.lrc.ky.gov/budget/09rs/HB330_SCS.pdf

The key to federal stimulus projects is FS. The key for all projects is at the end of the list of projects on page 318. A list of projects “certified” for utilization of stimulus funds by Kentucky and other states is at <http://testimony.ost.dot.gov/ARRAcerts/>. HJR [105](#), the enacted FY 11-14 plan, is at http://www.lrc.ky.gov/budget/09rs/HJ105_HCS.pdf.

Transit Capital Assistance

ARRA requires that 50 percent of transit funding must be obligated by September 1, 2009 and 100 percent by March 5, 2010. Of the \$51.5 million total coming to Kentucky, \$21.4 million will flow through the Cabinet, and \$30.1 million will go directly from the Federal Transit Agency to local transit agencies.

Nearly one-half of the funding has been awarded: Statewide Rural -- \$19.201 million awarded; Bowling Green -- \$1.140 million awarded; Elizabethtown -- \$1.076 million awarded; Owensboro -- \$1.098 million awarded; Ashland -- \$180,300 award pending; Ft. Campbell -- \$409,999 award pending; Lexington -- \$5.489 million award pending; Louisville -- \$18.129 million award pending; Henderson -- \$330,000 award pending; Northern Kentucky -- \$4.485 million award pending.

New McAlpine Lock Dedicated

The new 1,200-foot lock at McAlpine Locks and Dam -- a project started in 1996 -- was dedicated last week. The \$430 million project includes a new operations building, wharf area for stand-by gates, and a new bridge over the two locks.



Col. Keith Landry, commander of the Louisville District, U.S. Army Corps of Engineers, presided at the McAlpine Locks and Dam dedication ceremony last week. Others from left, are Rep. Baron Hill; Lt. General Robert VanAntwerp, Commanding General, Corps of Engineers; Rep. John Yarmuth; Louisville Mayor Jerry Abramson; and Christopher Traylor, Traylor Brothers, contractor for the project.

The Ohio River and its navigable tributaries move some 280 million tons of cargo annually -- more tonnage than is moved through the Panama Canal. Over 50 million tons moves through McAlpine annually. The new lock replaces a 600-foot lock built in the 1920s. The new lock, along with an existing 1,200-foot lock completed in 1964, will mean traffic can move more efficiently. The standard Ohio River tow of 15 barges is just under 1,200 feet in length. Coal makes up over half of all cargo moved on the Ohio River system. Efficient waterway transport helps keep Kentucky coal and other bulk products competitive.

The McAlpine locks have the highest lift (37 feet) of any of the locks on the Ohio. The dam creates a 75-mile pool to Markland Locks and Dam in Northern Kentucky. There are 20 locks and dams on the Ohio. McAlpine and Smithland, near Paducah, and



American Commercial Lines' *Mary Ann* and tow performed the ceremonial "lock through" during the dedication ceremony last week of the new 1200 foot McAlpine lock. ACL is a waterway member of KBT.

Olmsted, near Cairo, are the only facilities with twin 1,200-foot locks. Olmsted is scheduled for completion in 2018 and will replace the last two of the Ohio's wicket dams.

Inland locks and dams are funded 50 percent with federal general funds and 50 percent with funds from the Inland Waterway Trust Fund. Commercial vessels pay a 20 cents per gallon user fee on diesel which generates some \$90 million annually for the trust fund.