

TESTIMONY BEFORE THE HOUSE TAXATION COMMITTEE

REGARDING HB 2381 PROVIDING FOR A \$.06 INCREASE IN MOTOR FUELS

March 12, 2019

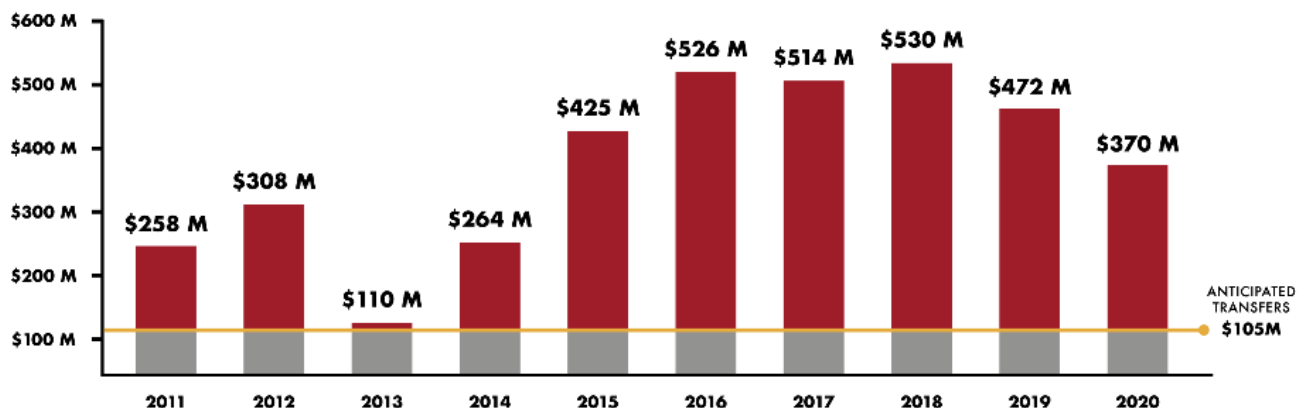
Mr. Chairman and Committee Members:

I am Lindsey Douglas, Deputy Secretary for the Kansas Department of Transportation (KDOT). I am here today to provide neutral testimony on House Bill 2381 regarding increasing motor fuels taxes (MFT) \$.06 per gallon, and offsetting that increase by decreasing the amount of sales tax deposited into the State Highway Fund (SHF). The SHF is projected to receive \$308 M in MFT in FY 2020. This bill would decrease the amount of sales tax percentage to match the amount of new MFT received.

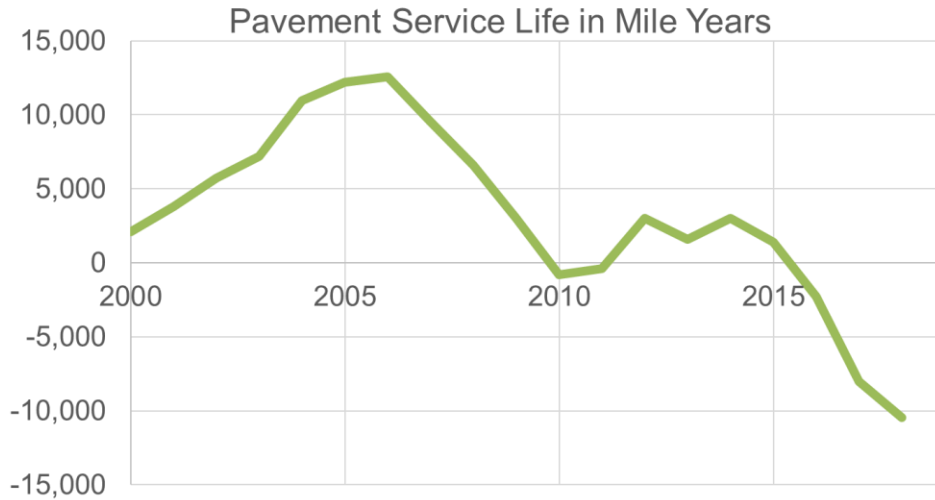
Task Force Discussion: Even with the challenges identified by the task force, MFT is one of transportation’s primary funding mechanisms. It is a per-gallon excise tax levied on gasoline, diesel, and other special fuels. MFT revenue is declining as vehicles become more fuel-efficient and hybrid and electric 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. Overtime, 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 optimum system health.

FY 2020 budget and SHF: Governor Kelly has proposed a FY 2020 budget that will provide an additional \$160 M 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 new revenue sources are needed for the long-term. 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.

While this bill is structured to protect more of the funding flowing into the SHF, it will reduce the overall revenues received to fund preservation, modernization and expansion. 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. Sales tax, while an unprotected source, is projected to grow by 1.6%. Over the long-term, the growth projections and inflation will reduce the overall buying power of the MFT tax increase included in the bill.

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