

Meeting Future Transportation Funding Needs

6.1 Approaching the Funding Gap

Transportation in Kansas has been well-funded for 20 years. As a consequence, the state's highway system is in good condition. Other modal transportation networks including aviation, rail, transit and bike and pedestrian trails are operating moderately well.

Through the LRTP process, technical analysis, combined with stakeholder input, established future transportation needs and compared those to projected revenues. The conclusion is clear: Kansas is facing a large transportation funding shortfall over the next 20 years. Absent some action, the future poses many challenges.

The extent to which the gap should be closed is not obvious. High levels of cooperation and informed policy discussions will be needed among stakeholders to establish relative priorities and to set the desired performance level for each transportation component.

We already know that funding levels will need to increase. The more complicated issue is how to increase them. As part of the LRTP process, stakeholders examined detailed information on current and potential new funding sources with an eye toward closing the anticipated funding gap. This chapter summarizes the information the stakeholders considered and the recommendations that could help frame discussions regarding the next transportation program.

6.2 The Difficulty of Closing the Gap

There are six issues that will make addressing the funding shortfall difficult.

Inflation erodes purchasing power

Historical figures and future projections indicate that annual revenues should grow at around 2 percent, but even modest projections predict an inflation rate of about 3 percent. In the long term, this difference means a significant loss in purchasing power.

When the price of gasoline increases, revenues can decrease

The Kansas motor fuels tax is fixed at 24 cents per gallon – regardless of the price of gasoline – so higher fuel prices may actually reduce motor fuels tax receipts should fuel consumption decline. More fuel-efficient vehicles also reduce the amount of revenue raised via motor fuels taxes.

The dispersed population of Kansas doesn't create many opportunities for tolling or private investment

Toll roads and other initiatives that use private investment in transportation projects (e.g., public-private partnerships) are sometimes suggested as solutions to funding problems. These options can be effective in highly populated, heavily-traveled corridors, but the state's dispersed population limits their impact in Kansas.

Significant new funding sources, such as taxes on distance driven, aren't feasible within the next 10 to 15 years

Some suggest that new tax mechanisms - such as mileage taxes - could replace such core funding sources as motor fuels taxes, vehicle registration fees and dedicated sales taxes. These tax mechanisms may be viable in the distant future, but not, in all likelihood, within the next 10 to 15 years.

Although some room for increased bonding exists, past levels probably can't be reached

Prudent use of bonding has allowed KDOT to build important projects and take advantage of low interest rates. KDOT's ratio of bond debt to overall revenues will range from 9 percent to 14 percent over the next 15 years, which is well within industry standards. Future borrowing could be possible at previous program levels if additional revenues were available to support the debt payments.

Kansas transportation taxes and fees tend to be near the average nationally, but on the low side regionally

At 24 cents per gallon for gasoline, Kansas motor fuels tax rank 25th nationally and are significantly below "high-tax" states such as California and New York, where motor fuel taxes exceed 40 cents a gallon. The Kansas rate is also below the Midwest average of 27.5 cents a gallon but our rate is higher than bordering states.

With these constraints in mind, the following recommendations are made to help frame discussion about the next transportation funding program. After the recommendations, the remainder of the chapter provides detailed information on each of the state's transportation funding sources.



FUNDING RECOMMENDATIONS

Increase overall transportation funding

Stakeholders recognized that providing sufficient funding to meet all identified long-term investment needs is unlikely. However, they strongly endorsed a substantial increase in funding for all modes to address the state's highest transportation priorities.

Increase core funding

The state's core transportation funding mechanisms – motor fuels taxes, vehicle registration fees and sales taxes – are stable, easy to administer, reasonably equitable and significant revenue sources. Stakeholders widely embraced the notion that any expansion in transportation funding should start with an increase in these core sources.

Protect revenues from inflation

Motor fuels taxes and registration fees are strong and reliable funding mechanisms, but their inability to keep up with inflation ultimately results in consistent and substantial erosion of purchasing power over time. Only the Legislature can increase the levies. A potential solution to fixed rates is to index motor fuels taxes and/or vehicle registration fees to inflation. Currently, nine states use motor fuel tax indexing, and seven impose a sales tax. Ideally, indexing would be applied to all transportation funding sources. At a minimum, indexing should be established

for the portion of current revenue that funds core KDOT activities such as operations and system maintenance.

Make local/private sector transportation investment easier

Stakeholders applauded the state's emerging role in facilitating investment through the State Transportation Revolving Fund (TRF) and the Rail Service Improvement Fund. They encouraged the expansion of these loan programs through additional capitalization and allowance for a broader range of projects. In addition, they expressed a belief that the state should explore ways that these and other moneys, such as matching funds, could be used to encourage growth in supplemental revenues at the local level.

Consider additional tolling and use of public/private partnerships

The comparatively low population density and traffic volumes in Kansas limit opportunities for the state to build new toll roads or establish financially viable public/private partnerships. Nonetheless, stakeholders want Kansas to look for ways that transportation projects could be funded, at least in part, through toll financing or private investment. KDOT and the Kansas Turnpike Authority should undertake a joint project to evaluate tolling opportunities in the state. Such a project could evaluate where capacity expansions or new facilities could be supported by tolling.

Promote partnerships

Many of the state's critical needs will cost hundreds of millions of dollars to address. Financing these mega projects will be challenging and will likely require partnering between state and local government, as well as with the private sector. KDOT should, therefore, explore incentives to make cost-sharing and other forms of collaboration more workable and attractive.

Use bonding responsibly to solve problems sooner

Stakeholders generally agreed that bonding delivers important projects sooner. They support expanded statutory authority for KDOT to use debt financing. This support came with caveats: KDOT must continue to manage its debt program responsibly; keep debt service levels reasonable; and monitor the cost of borrowing so that it does not exceed the benefit of accelerating a project. Stakeholders suggested that transportation programs would benefit if KDOT were empowered to issue bonds up to a specified debt ceiling based on a prudent ratio of annual debt service to overall revenues.

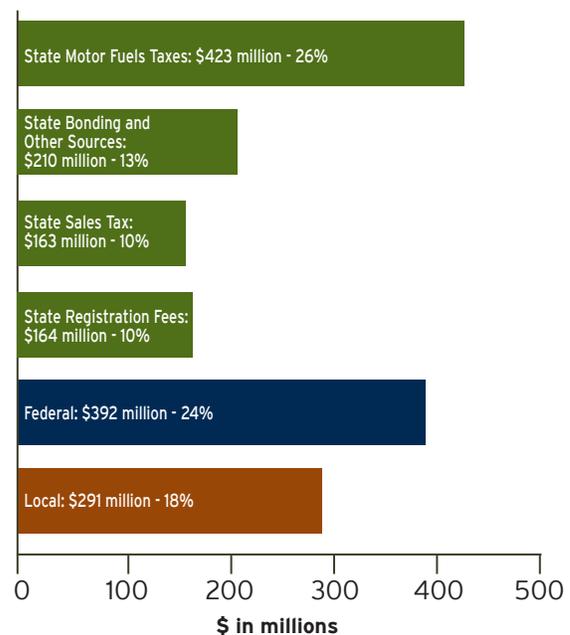
6.3 Kansas Transportation System Funding Overview

SOURCES: FEDERAL, STATE, AND LOCAL

Like most states, Kansas funds transportation from several sources, with the aim of distributing the tax burden equitably among the system's users and of guarding against revenue loss when one part of the economy is in decline.

As shown in Figure 6.1, More than half of the state's total transportation funding – 58 percent during the last 10 years - comes from state sources. These sources include motor fuels taxes, sales taxes, registration and license fees, and bond proceeds. Generally, this mix is comparable to other

Figure 6.1 - Transportation Funding by Source (average annual amount 2000-2009)





states. The majority of the funds are spent on highways and local roadways, but funds are also used for a variety of other modes including, aviation, public transit and railroads.

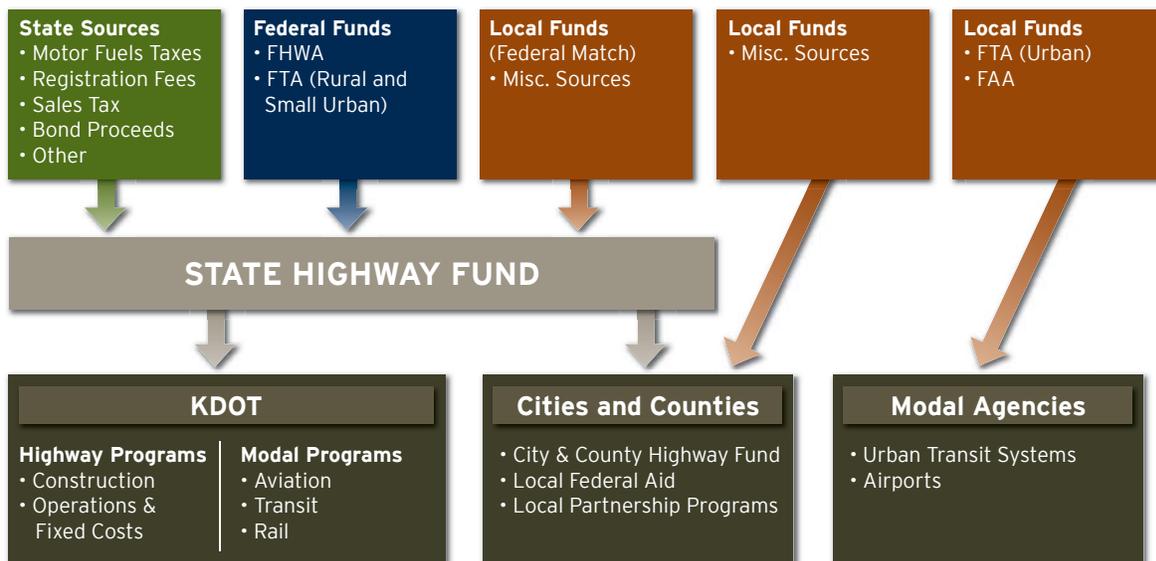
Kansas also receives a large proportion of its transportation revenues – 24 percent during the last 10 years – from federal allocations. These revenues are distributed to KDOT, cities and counties, and sometimes directly to airports and transit operators. They fund a range of improvement projects including highway, local roads, railroad crossings and pedestrian walkways.

The remaining portion of transportation revenues – 18 percent – comes from local and other sources. These are primarily local sales and property tax moneys and are allocated toward a wide variety of transportation projects.

HOW FUNDS ARE ALLOCATED

Nearly 85 percent of statewide transportation funding is allocated through the State Highway Fund and the Special City and County Highway Fund. About one third of motor fuels tax proceeds are deposited into the Special City and County Highway Fund and are distributed to Kansas cities and counties according to statutory formulas. The other two-thirds of the motor fuels tax – along with other state transportation funding sources, bond proceeds, most federal revenues and some local matching funds for federally funded, state administered local projects – are deposited into the State Highway Fund. They then are allocated to highway, transit, aviation, freight rail and local programs. Figure 6.2 illustrates the complicated nature of transportation revenues and dispersals.

Figure 6.2 - Transportation Funding Sources and Uses



DECLINING PURCHASING POWER

The cost of construction keeps rising. Increasing global competition for oil, concrete and asphalt has driven up construction costs by 8 to 9 percent annually in recent years. A more reasonable 3 to 4 percent inflation rate for construction is projected for the future – yet these estimates still exceed the 1.7 percent annual projected growth in revenue available to support the Kansas transportation system.

Table 6.1 illustrates the continuing impact of inflation on the state’s purchasing power and ability to maintain and improve its transportation system. The table compares the average annual purchasing power of projected revenues from all sources in 2010 with those of 2030, based on an assumed inflation rate of 2.8 percent. Despite annual nominal growth revenues generated over the next 20 years, inflation will cause actual declines in the purchasing power of those revenues. In

effect, transportation funding will drop by nearly \$280 million a year from 2010 to 2030. The cumulative impact: a decrease of almost \$3.5 billion over the two-decade period.

A description follows of each revenue source and the impact of inflation on the source in the next 20 years. This will affect how KDOT allocates its revenues. For example, without revenue increases, meeting the state’s preservation needs will require a greater proportion of KDOT revenue each year. Meeting preservation needs could require about 33 percent of KDOT revenues in 2010, 35 percent in 2020 and 38 percent in 2030. Therefore, the other two highway-related activities – modernization and capacity improvements – would not only get a smaller slice of the revenue pie, the dollars they did get would purchase less.

Table 6.1 - Impact of Inflation on Revenues

Funding Mechanism	Projected Annual Revenues (millions of 2006 dollars)		
	2010	2030	Difference
Federal Funding	\$386	\$276	(\$110)
State Motor Fuels Taxes	\$408	\$297	(\$111)
State License and Registration Fees	\$161	\$138	(\$23)
State Sales Tax Revenues	\$275	\$339	\$64
Net Local Revenues	\$337	\$238	(\$99)
Total	\$1,567	\$1,288	(\$279)

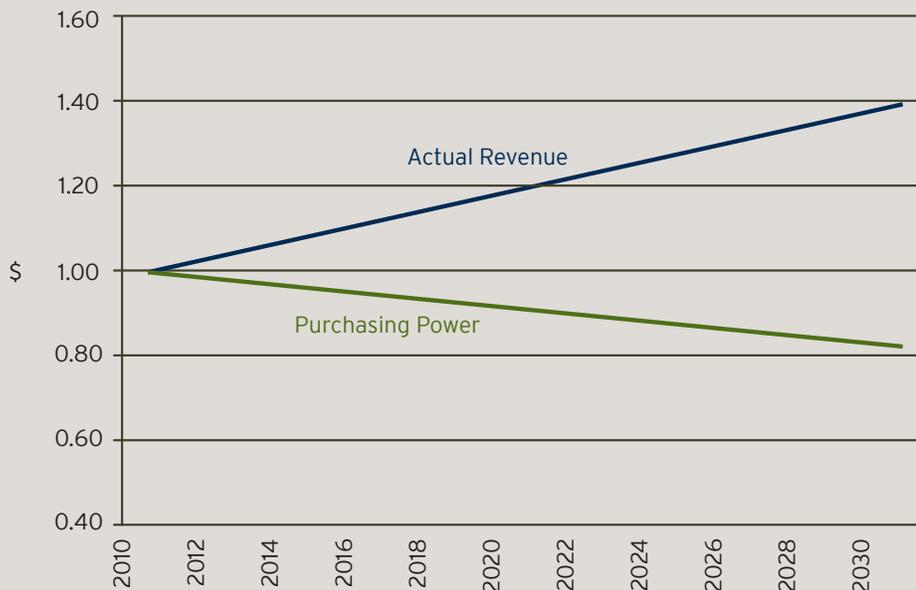


How does “purchasing power” decline?

Because of inflation, a dollar tomorrow will buy less than a dollar today. The U.S. inflation rate typically averages about 3 percent annually. That means that your dollar today will be worth only \$.97 cents a year from now.

For Kansas, the projected annual average inflation rate (2.8 percent) will be greater than the projected annual transportation revenue growth (1.7 percent) in the next 20 years. In other words, inflation will increase 37 percent faster than funding. This will effectively reduce average annual statewide transportation investments by almost \$230 million. If hyperinflation in construction costs repeats the pattern of the last decade (e.g., 6 to 8 percent annual inflation), the decrease in purchasing power could be more severe.

Figure 6.3 - Impacts of Inflation



6.4 Specific Funding Sources

STATE MOTOR FUELS TAXES

The purchasing power of annual motor fuels tax revenues is expected to decline more than 25 percent, from more than \$400 million in 2010 to less than \$300 million by 2030.

Table 6.2 - Comparison of Fuel Taxes and Revenues

	Gasoline & Special Fuels	Diesel
Kansas Rate*	24.0 ¢/gal.	26.0 ¢/gal.
National Avg.*	28.5 ¢/gal.	28.5 ¢/gal.
Regional Avg.*	27.5 ¢/gal.	28.0 ¢/gal.
Annual Yield*	1 cent = \$13M	1 cent = \$4.8M
Projected 2010 Revenue[^] \$408M/year		
Projected 2030 Revenue[^] \$297M/year		

*Figures in nominal dollars

[^]Figures in constant 2006 dollars

fuels taxes exceed 40 cents a gallon. The state's tax rates on gasoline and special fuels ranks 25th in the nation, but they are below the national average of 28.5 cents a gallon and the Midwest average of 27.5 cents a gallon according to the American Petroleum Institute (API). Kansas' current diesel tax rate ranks 17th in the nation, but also is lower than the national and Midwest averages of 29 and 28 cents a gallon respectively. The Midwest Regional Average includes 13 states and is higher than the average of the states that border Kansas.

Kansas has taxed motor fuels for nearly a century. It periodically increases the tax to maintain purchasing power and provide additional investment capital for transportation. A six-cent-a-gallon increase between 2000 and 2004 helped fund the Comprehensive Transportation Program and made up for the withholding of state sales tax transfers. Kansas now taxes motor fuels at 24 cents a gallon for gasoline and special fuels and at 26 cents a gallon for diesel. These rates are significantly below those in "high tax" states such as California and New York where motor



Will the gas tax be around in 20 years?

Many people ask whether motor fuels taxes will continue providing a stable and substantial source of funding for transportation as drivers shift to vehicles that are more fuel-efficient, or that run on alternative fuels. Recent studies suggest that it will be at least 15 years before consumption and associated tax revenues begin to decline. Thus, the gas tax likely will remain a significant funding source for transportation at least through 2025, after which it may need to be replaced with other revenues.

An alternative being explored elsewhere is a distance-based tax or vehicle-miles-traveled (VMT) fee. A VMT fee is charged to road users for each mile they travel on the roadway system. Some jurisdictions are considering the tax because it captures revenues from users who use little or no conventional motor fuels. It also enables rates to be tied to the type of roadway used, vehicle weight or time of travel. In other words, drivers pay for their actual impact on roadways.

A recent VMT pilot project conducted in Oregon found that such a system is possible, but would require addressing some significant policy and technology issues to be workable and acceptable to the public. KDOT will continue to monitor national developments about supplementation options and consult with Kansas stakeholders periodically to discuss the appropriateness of alternative funding options for the state.



Increases in fuel costs do not produce greater revenue for roadway improvements. The state fuel tax currently is set by law at 24 cents a gallon and does not fluctuate with retail fuel prices.

VEHICLE REGISTRATIONS AND LICENSE FEES

The purchasing power of revenues from vehicle registrations and license fees will decrease by nearly 15 percent from over \$160 million in 2010 to less than \$140 million in 2030.

Table 6.3 - Registration Fees and Revenues

	Car Registration	Truck Registration
Typical Kansas Fees*	\$35	\$1,770
National Avg.*	\$50	\$1,675
Regional Avg.*	\$55	\$55
Annual Yield*	1 percent increase = \$1.7M	
Projected 2010 Revenue^	\$161M/year	
Projected 2030 Revenue^	\$138M/year	

*Figures in nominal dollars

^Figures in constant 2006 dollars

The typical annual registration fee for an average mid-size car used for personal purposes is \$35 a year and \$1,770 for an average truck. These rates vary according to such factors as vehicle type and usage. Through the years, the rates for vehicle and operator-related fees have gradually increased. The most recent increase, by an average of 8.5 percent in 2002, compensated for the withholding of the state sales tax transfer. An analysis of typical fees based on national data sources and studies indicates that Kansas car registration fees are 40 to 45 percent below regional and national averages. Truck registration fees are slightly higher than the national average, but lower than the regional average. It should be

noted, however, that Colorado, with the highest truck registration fees in the country, skews the regional average upward.

STATE SALES TAXES

The dedicated state sales tax is the only current revenue source that will grow faster than inflation. The purchasing power of annual proceeds is expected to grow 25 percent over the next 20 years, from \$275 million in 2010 to nearly \$340 million in 2030.

Table 6.4 - Dedicated Sales Tax and Revenues

2007 Rate*	.65 percent
2007 Annual Yield*	.1 percent = \$32M
Projected 2010 Revenue	\$275M
Projected 2030 Revenue	\$339M

*Figures in constant 2006 dollars

Sales taxes provide some protection against inflation because revenue receipts follow prices upward.

Only a handful of states fund transportation through a dedicated state sales tax. Their rates and allocation systems vary greatly, making it impossible to show a meaningful state-by-state comparison of rates.

Historically, state sales tax revenues were allocated to transportation in two ways. In 1984, the Legislature instituted the transfer of a portion of sales tax proceeds from the state's General Fund



to the State Highway Fund. In 1989, with launch of the Comprehensive Highway Program the Legislature raised the sales tax by a quarter-cent and dedicated it to the State Highway Fund.

Unlike the dedicated sales tax deposit, which has been unchanged since 1989, the sales tax transfer has been subject to annual modification. It has rarely been funded in full. The sales tax transfer was authorized to grow from just under 8 percent of proceeds in 1999 to 12 percent in 2005, but much of the transfer was eliminated from 2000 to 2003 because of state budgetary constraints.

In 2004, statutory authority for the sales tax transfer was completely eliminated as part of a restructured revenue CTP package. The revenue package increased the sales tax deposit from 0.25 percent to 0.38 percent in 2007 and to 0.65 percent in 2008 and beyond. It also gave KDOT additional debt authority, with repayment from the state general fund.

STATE BONDING

KDOT has issued all bonding that has been legislatively authorized to fund the CTP. Issuing additional debt would require legislative authorization.

Prudently managed bonding used for capital improvements can be a powerful tool for meeting urgent needs that would not otherwise be met. In the course of the CHP and CTP, KDOT was authorized to use debt to accelerate the completion of projects important to local partners and the state.

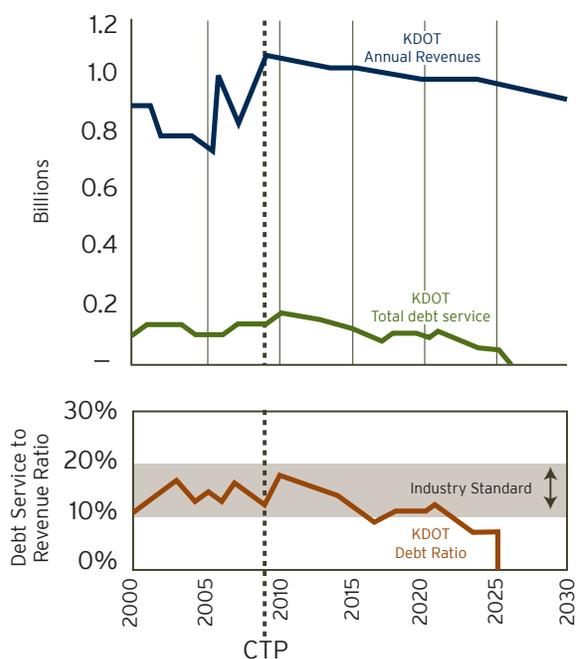
Since 1999, KDOT has issued \$1.3 billion in highway bonds and received proceeds from another \$210 million in bonds backed and serviced by appropriations of the State General Fund. That combined debt, added to remaining liabilities from the CHP, will result in an outstanding principal of about \$1.7 billion by the end of 2009.

KDOT maintains a high credit rating; AAA, Aa2, and AA by Standard and Poor's, Moody's Investors Service, and Fitch Ratings respectively. Bond covenants require that the revenues available for debt service be at least three times the debt service; KDOT has historically maintained coverage of at least five times. KDOT actively manages a diversified debt portfolio and, by using a mix of prudent bond approaches, is able to keep overall bond costs in the low 4-percent range.

Since 1999, annual debt service has averaged \$120 million (\$110 million in nominal dollars). This is about 14 percent of the annual revenues available to KDOT for operations and construction. Looking ahead, annual debt service requirements from existing debt will climb to \$150 million (\$172 million in nominal dollars) for a few years and then gradually decline until 2025, when all outstanding debt will be retired. The ratio of debt service to total revenue will remain at 14 percent through 2012, then fall gradually as revenues increase and total debt declines (refer to Figure 6.4).

A recent national survey of state departments of transportation sponsored by the National Transportation Research Board found that most departments use debt financing in some form. At least 25 states have sizable bonding programs. Although state debt levels and associated costs vary from year to year, a majority of the states with major debt programs consistently maintain annual debt-service-to-revenue ratios that exceed 10 percent. Several states have ratios above 20 percent.

Figure 6.4 - Comparison of Annual Revenues and Debt-Service Obligation (billions of 2006 dollars)



Prudent Debt Management

The following two transactions illustrate the savings achievable with prudent debt management. During the winter of 2000 KDOT issued \$200 million in variable rate demand obligations at a time when a traditional fixed interest rate would have been 5.27 percent. The variable rate has fluctuated between 0.55 percent and 4.13 percent, with a present value savings of about \$34 million through November 2007. During the winter of 2002, KDOT issued \$320 million in variable rate debt and simultaneously entered into swap contracts when a traditional fixed interest rate would have been 4.55 percent. By using the swap approach, KDOT was able to save an estimated \$13 million through November 2007.

KDOT also follows its own Investment Management Policy. By following the policy, KDOT earned \$258 million in interest between the start of the CTP and June 30, 2007. To date, this interest income has covered more than half of the cost of KDOT's debt that is backed by the revenues of the State Highway Fund.



FEDERAL FUNDS

Historically, federal transportation funding has outpaced inflation. However, the near-term outlook for federal funding is gloomy. Federal funds could decline substantially in the near future if Congress fails to address the current Federal Highway Trust Fund crisis. The uncertainty argues for a conservative approach to estimating. As a result, the cost estimate for federal funds in this document has been conservatively estimated to grow by only 1 percent a year. The purchasing power of future federal funds is projected to decline nearly 30 percent between 2010 and 2030.

Table 6.5 - Federal Funding

Projected 2010 Revenue*	\$386M
Projected 2030 Revenue*	\$276M
<i>*Figures in constant 2006 dollars</i>	

Kansas receives almost \$400 million annually from the federal government to support many modes of transportation, including highways, roads, transit and aviation.

Federal transportation funds come from the Federal Highway Administration, the Federal Transit Administration and the Federal Aviation Administration. Highway and transit funds come from the Federal Highway Trust Fund, which is primarily funded by fuel taxes. Funds for Kansas are paid to KDOT and local governments through the State Highway Fund, while transit

funding is either allocated to KDOT for distribution to small transit agencies or provided directly to large transit agencies. Money from the Federal Aviation Trust Fund, which is funded by fuel taxes, passenger charges, and landing fees, is allocated directly to local airports, except for a small amount of planning funds.

Current federal funding targets, programs and allocation formulas are a product of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users, known as SAFETEA-LU. It expires at the end of 2009. Although the average annual growth rate in federal highway and transit funding has averaged about 5 percent since the mid-1950s, there is concern that federal funding will decline drastically, beginning in 2009, unless Congress increases revenues into the Federal Highway Trust Fund. Another risk to Kansas' federal transportation funding levels is the ratio of dollars it sends to Washington, D.C., to the dollars that return. Historically, Kansas has received at least as much federal highway funding as it contributed in fuel tax revenues to the highway trust fund. Under SAFETEA-LU, however, Kansas has become a "donor" state, receiving less from the fund than it gives.

LOCAL FUNDS

The purchasing power of annual local government funding for transportation is expected to drop from nearly \$340 million in 2010 to just under \$240 million in 2030.

Table 6.6 - Local Funding

Projected 2010 Revenue*	\$337M
Projected 2030 Revenue*	\$238M
<i>*Figures in constant 2006 dollars</i>	

“Local funding” refers to all revenues allocated by city and county governments for transportation projects and services. It includes projects paid for entirely by local entities and projects that include matching funds or contributions that cities and counties pay to KDOT in order to benefit from state-administered, federally supported projects that impact local systems. City and county funding is also used to pay the sizable costs associated with local transportation program administration, maintenance and traffic operations, and transportation-related public safety costs.

In addition to the revenues that local governments raise and allocate for transportation, they receive federal funds and a large amount of state funding from the Special City and County Highway Fund. They are also eligible to apply for state funding under the local partnership programs.

Slightly more than half of local transportation funding comes from city and county general funds. Bonding for transportation is common at the local level, and a large proportion of annual local transportation funding goes to finance debt. Local transportation funding may also include revenues from dedicated sources such as sales taxes or property taxes. Cities may create transportation development districts, or TDDs, and establish a local sales tax of up to 1 percent to service transportation-related debt. Counties require legislation to implement similar initiatives.

TOLLING

The Kansas Turnpike, the state’s only toll road, includes portions of three interstates (I-70, I-335, and I-35). It runs 236 miles from Kansas City, through Topeka and Wichita, to the Oklahoma border. The facility is administered by the Kansas Turnpike Authority (KTA), which is an independent, quasi-governmental enterprise funded solely by toll revenues. The KTA collects roughly \$80 million a year in toll and concessions revenues. The money pays for debt service (about \$20 million annually) and turnpike maintenance and operations. KTA’s outstanding debt is \$250 million, most of which will be retired by 2017.



The KTA operates toll booths along I-70, I-35 and I-335.



History of State Funding for Transportation

Before 1989 – Major state transportation funding sources:

- Motor fuels tax rates: 11 cents a gallon for gasoline and gasohol, 13 cents a gallon for diesel
- Sales tax transfer (established in FY 1984) to State Highway Fund
- Proceeds from registration and license fees

1989 – Enactment of Comprehensive Highway Program (CHP)

- Motor fuels taxes increased 7 cents a gallon to 18 cents gas, 20 cents a gallon for diesel, (phased in FY 1990 and FY 1993)
- Sales tax direct deposit established at ¼-cent
- Sales tax transfer increased to 10 percent of total sales tax proceeds
- Registration fee increased: automobiles to 50 percent, trucks to 33 percent
- \$890 million in bonding was authorized

1992-Funding Changes

- Sales tax base and rate were increased, but transfer was reduced to 7.628 percent

1999-Enactment of Comprehensive Transportation Program (CTP)

- Authorized motor fuels taxes increase of 4 cents a gallon, phased in as follows: 2 cents in FY 2000, 1 cent in FY 2002, 1 cent in FY 2004 (total: 22 cents gas, 24 cents diesel)
- Maintained sales tax direct deposit at ¼-cent
- Increased sales tax transfer authorization from 7.862 percent to 12 percent, phased in between 1999 and 2005
- Authorized \$995 million in additional bonding authority

2000-Funding Changes

- Reduced authorized sales tax transfer by \$27.2 million in FY 2000 and \$39.2 million in FY 2001
- Collections from motor fuels taxes and ¼-cent sales tax direct deposit were less than expected while transfers to other agencies exceeded original estimates

2001-Funding Changes

- Reduced authorized sales tax transfer by \$20 million per year from FY 2002 to FY 2009, plus an additional \$25.3 million reduction in FY 2002
- Collections from motor fuels taxes and ¼-cent sales tax direct deposit were less than expected while transfers to other agencies exceeded original estimates
- Increased bonding authority by \$277 million to offset reductions in sales tax transfers

History of State Funding for Transportation

2002-Funding Changes

- Increased motor fuels taxes 2 cents a gallon in FY 2003 (total after FY 2004: 24 cents gas, 26 cents diesel)
- Increased vehicle registration fees: \$5 for cars and pickups, and a range of \$2 to \$10 for trucks
- Eliminated 2003 sales tax transfer (\$150 million)
- Collections from motor fuels taxes and ¼-cent sales tax direct deposit were less than expected while transfers to other agencies exceeded original estimates
- State borrowed “remaining” FY 2002 sales tax transfer of \$94 million, pledged to repay it in 2003

2003-Funding Changes

- Eliminated 2004 sales tax transfer (\$146.6 million)
- Collections from motor fuels taxes and ¼-cent sales tax direct deposit less than expected while transfers to other agencies exceed original estimates
- KDOT implemented \$800 million effort to reduce program costs
- Increased loan to SGF by \$30 million and deferred payment until 2007-2010
- Reduced transfer of State General Fund Tax transfer by half in FY 2003, and eliminated in 2004

2004-Revised CTP Funding Package

- Completely eliminated sales tax transfer
- Increased sales tax direct deposit from 25 cents to 38 cents in FY 2007 and 65 cents in FY 2008 and beyond
- Removed sunset provisions of state sales tax rate increase passed in FY 2002.
- Authorized \$150M in additional bonding (debt service paid by the State General Fund), and \$60 million more in “fail-safe” authority if the expected increase in federal funding was below \$250 million for FYs 2005-2009

2005 – Present

- Final approval to use \$60M “fail safe” bond authority (FY2006)
- State General Fund made first installment of loan repayment in FY 2007



CRITERIA FOR DETERMINING FUNDING OPTIONS

Kansans who took part in the five topical working groups identified and evaluated many options for increasing transportation revenues in Kansas from 2010 to 2030.

Led by the Funding and Finance Topical Working Group, LRTP participants looked at existing and potential revenue mechanisms, such as creation of new or replacement tax mechanisms, expanded use of bonding and debt, and development of public-private partnerships.

The working group developed the following list of objectives related to funding mechanisms. It felt this list reflected the values and expectations of Kansas residents and businesses in regard to funding options, which should be:

- **adequate** in terms of generating significant additional funding;
- **stable** and **reliable**;
- **efficient** in the sense of holding down administration costs relative to revenues delivered;
- **consistent** with a user-fee approach;
- **equitable** in their impact on different categories of individuals or businesses;
- **inflation-neutral** in the sense that revenues generated track construction-related inflation;
- **diverse** in the sources from which state transportation funds are generated, and

- **viable** because of limited legal, political or organizational barriers to implementation

After screening the funding options for viability and using these objectives as a measure, members of the planning process evaluated a range of potential funding options.

Table 6.7 provides a summary and evaluation of the various funding and finance options that were considered during development of the LRTP. Each option is ranked as high, medium, or low based on how stakeholders viewed it as a potential future funding source for transportation in Kansas.

Table 6.7 - Evaluation of Potential Funding Options

SOURCES	RANK	IMPACT	EXPERIENCES OF OTHER STATES
Motor Fuels Taxes			
Increase current motor fuels taxes	High	<ul style="list-style-type: none"> ■ 1 cent per gallon increase (all fuels) = \$17.8 million a year ■ Fails to keep up with inflation if enacted without indexing ■ Could have direct industry impacts (trucking, farming, etc.) ■ Kansas' rates are already higher than neighboring states 	Several states, including Washington and Ohio, have recently been successful in raising motor fuels taxes.
Index motor fuels tax	High	<ul style="list-style-type: none"> ■ Revenue raised would depend on level of inflation ■ Avoids need for the Legislature to continually reconsider rates, but also reduces its role in approving year-to-year changes in tax rates ■ Rates could be indexed against declines in motor fuel consumption ■ Some additional costs to administer 	At least six states – Florida, Kentucky, Maine, Nebraska, New York, and North Carolina – have some form of variable-rate tax linked to inflation.
Sales tax on motor fuels	Medium	<ul style="list-style-type: none"> ■ A 1 percent tax would raise \$35 million to \$50 million per year ■ Provides some degree of indexing ■ May require significant additional effort to administer ■ Can be highly volatile/more risky as a source of debt repayment 	At least ten states levy a sales tax on fuels or a gross receipts tax as a percentage of the retail price of motor fuels.
Petroleum franchise taxes	Low	<ul style="list-style-type: none"> ■ 1 percent tax would raise \$35 million to \$50 million a year ■ Similar to sales tax on motor fuels, but charged to oil companies ■ Oil industry likely to aggressively oppose 	This tax is used by Pennsylvania and New York.
Vehicle-Related Taxes			
Increase current vehicle registration and license fees	High	<ul style="list-style-type: none"> ■ 1 percent across the board increase in fees = \$1.7 million a year ■ Requires little or no additional administrative costs ■ A large percentage increase would have a low impact on citizens (e.g., 50% increase = additional annual charge of \$15 - \$20) 	Several states, including Virginia, California, Delaware, Ohio, and Oregon, have increased vehicle registration fees in recent years.



SOURCES	RANK	IMPACT	EXPERIENCES OF OTHER STATES
Vehicle-Related Taxes (continued)			
Dedicated transportation excise tax on vehicle sales	Medium	<ul style="list-style-type: none"> ■ 1 percent tax = \$60 million a year ■ A small increase could raise a significant amount of revenue ■ The tax cost is small in comparison to vehicle purchase price ■ Could encourage out-of-state purchases, but registration process could be used to ensure taxes on all vehicles are paid 	Several states, including Iowa, Missouri, Nebraska, and Oklahoma, use this tax to fund transportation investment.
Sales tax on automotive related parts and supplies	Medium	<ul style="list-style-type: none"> ■ 1 percent tax = \$10 million a year ■ May cause residents to buy out of state 	This tax is not currently used by other states.
Vehicle personal property taxes	Low	<ul style="list-style-type: none"> ■ 1 mill increase = \$3.1 M per year ■ Requires little or no additional administrative costs ■ One-time nature of payment is unpopular with owners 	This is used in California and Virginia, but is extremely unpopular.
Tolling, Pricing, Other User Fees, Public/Private Partnerships			
Tolling new roads and bridges	Medium	<ul style="list-style-type: none"> ■ Revenue potential based on facility characteristics ■ Can incorporate congestion pricing, weight/distance taxes ■ Could attract private sector investment ■ Opportunities in Kansas are largely limited to expansions of existing routes 	Several states, including Texas, Maryland, and North Carolina, are considering new toll facilities.
Raise existing tolls on the Kansas Turnpike for general transportation purposes	Medium	<ul style="list-style-type: none"> ■ 10 percent across-the-board increase = \$7 million a year ■ Allocating toll revenues to non-KTA activities would require authorizing legislation ■ Toll increases (particularly if used for general transportation purposes) may be strongly opposed by turnpike users ■ Diversion of toll proceeds could affect KTA's credit rating 	Several states, including Maryland, New Jersey, and New York, use toll road proceeds to subsidize other transportation investment activities

SOURCES	RANK	IMPACT	EXPERIENCES OF OTHER STATES
Tolling, Pricing, Other User Fees, Public/Private Partnerships (continued)			
Tolling existing roads	Low	<ul style="list-style-type: none"> ■ Revenue potential based on facility characteristics ■ Can incorporate congestion pricing, weight/distance taxes ■ Can attract private sector investment ■ Significant public opposition if not part of facility improvements ■ Special permission needed to toll interstates ■ Kansas has limited non-interstate options 	Several states, including Virginia, are seriously considering this option.
HOT lanes, express toll lanes, truck toll lanes	Low	<ul style="list-style-type: none"> ■ Revenue potential based on facility and program characteristics ■ Limited applicability in Kansas 	A few states have HOT lanes, including California, Colorado, Georgia, Minnesota, and Texas.
Sale of assets/concessions	Low	<ul style="list-style-type: none"> ■ Revenue generation based on facility characteristics ■ KTA is the only option for privatization ■ Only provides a one-time financial benefit ■ Stakeholders concerned that private investors may not have a strong motivation to protect public's investment 	Indiana and the City of Chicago have recently completed transactions; similar deals are being seriously considered in other states.
Vehicle Miles Traveled (VMT) fees	Low	<ul style="list-style-type: none"> ■ 1 cent per VMT= \$300 million a year ■ Faces major technological and public acceptance hurdles ■ Significant administrative costs 	Oregon and Iowa have conducted pilot projects to assess feasibility.
Local/Project Based Mechanisms			
Dedicated property taxes	Medium	<ul style="list-style-type: none"> ■ Revenue generation based on locally-set rates and property values ■ Local governments already have authority to dedicate these taxes; can be used in conjunction with transportation development districts (TDDs) ■ Transportation will compete with other funding needs 	These are used throughout the country, but same issues tend to apply.
Beneficiary charges/value capture (impact fees, TDDs)	Medium	<ul style="list-style-type: none"> ■ Revenue generation is based on local considerations ■ Can be tied to funding specific improvements ■ Cities can currently impose up to a 1 percent sales tax to retire debt, but mechanism is underutilized 	These are used in several states, including California, Florida and Oregon.



SOURCES	RANK	IMPACT	EXPERIENCES OF OTHER STATES
Local/Project Based Mechanisms (continued)			
Local option vehicle or registration fees	Medium	<ul style="list-style-type: none"> ■ Revenue generation is based on size of local population ■ May limit ability of the state to increase the mechanism to address the state highway system needs 	These are used in several states, including Colorado and Missouri.
Local option sales taxes	Medium	<ul style="list-style-type: none"> ■ Revenue generation is based on local considerations ■ Authority already exists – in 2006, 81 counties and 202 cities had local sales taxes ranging from 0.25 to 2.75 percent (total yield = \$586 million). ■ May be limited capacity for additional use of tax 	These are used in several states, including Colorado, Iowa, Missouri and Oklahoma.
Local option motor fuel taxes	Medium	<ul style="list-style-type: none"> ■ Revenue generation is based on local considerations ■ May limit ability of state to increase the mechanism to address state highway system needs ■ Additional administrative costs unknown 	These are used by some states, including Alabama, Florida, Arkansas, Hawaii, Mississippi and Illinois.
Local option income or payroll tax	Low	<ul style="list-style-type: none"> ■ Revenue generation is based on local considerations ■ Public resistance to additional income taxes is typically strong ■ Could have high additional administrative costs ■ Would need to be part of a broader local government funding initiative 	This tax is used in Indiana, Kentucky, Ohio, Oregon and Washington.
Other Sources			
Dedicate portion of state sales tax	Medium	<ul style="list-style-type: none"> ■ 1 percent sales tax = \$320 million a year ■ Transportation already receives a sizeable amount of income from sales taxes ■ Reliability is limited - the CTP experience shows that funding may be eliminated if state funding shortfalls occur 	In addition to Kansas, some other states, including Arizona, Massachusetts, Utah, and Virginia, dedicate (or annually appropriate) a portion of state sales proceeds to transportation.

SOURCES	RANK	IMPACT	EXPERIENCES OF OTHER STATES
Other Sources (continued)			
General fund transfers	Medium	<ul style="list-style-type: none"> ■ Revenue generation based on political decision ■ Transfers could be based on the contribution of transportation spending to state tax receipts (estimated at \$30 million to \$50 million a year) ■ Transportation would have to compete with other statewide priorities for funding ■ Could be a source for funding transportation mega projects 	Several states use transfers on a regular or ad hoc basis.
Financing			
Bonding	High	<ul style="list-style-type: none"> ■ KDOT could issue \$3 billion to \$5 billion in bonds over the next 20 years based on current revenues (based on debt service to revenue ratios of 15 percent to 25 percent) ■ Would require Legislature to provide additional bonding authority ■ Benefits will depend on cost of borrowing vs. the added benefits (both financially and operationally) of building project sooner ■ Logical means for funding transportation mega projects 	Most states issue some level of bonds and at least 25 states have outstanding debt of \$1 billion or more. Typical debt service to revenue ratios are 10 percent to 20 percent.
Revolving Loan Funds	Medium	<ul style="list-style-type: none"> ■ \$1 million in capitalization can support \$4 million to \$5 million in loans ■ Current program is small, but successful, since 2003, it has received \$25 million in funds, which has been leveraged to provide \$70 million in loans to local governments ■ Current cap on loan size (\$6 million) precludes use of fund to support mega projects ■ Loans are currently limited to highway projects; they could be expanded to support other modes ■ KDOT Short Line Loan Program could also be expanded with additional capitalization 	Most states operate some form of state infrastructure bank and/or revolving loan programs. The nature and use of funds varies widely from state to state.