

Approved: 03/17/93
Date

MINUTES OF THE HOUSE COMMITTEE ON APPROPRIATIONS.

The meeting was called to order by Chairman Rochelle Chronister at 1:30 p.m. on March 11, 1993 in Room 514-S of the Capitol.

All members were present except: Rep. Wanda Fuller (excused absence)
Rep. Delbert Gross (excused absence)

Committee staff present: Debra Duncan, Legislative Research Department
Timothy Colton, Legislative Research Department
Julian Efird, Legislative Research Department
Jim Wilson, Revisor of Statutes
Jerry Cole, Committee Secretary
Sharon Schwartz, Administrative Assistant
Mike Leitch, Intern

Conferees appearing before the committee:

Ramon Powers, Kansas State Historical Society
Clyde Toland, Allen county citizen
Sondra 'Updike-Alden, Allen county citizen

Others attending: See attached list

Chairman Chronister opened the hearings on **HB 2521**. Ramon Powers, Executive Director of Kansas State Historical Society, testified in support of the bill and explained the legislation therein. (See Attachment 1). Clyde Toland and Sondra 'Updike-Alden, Allen County, appeared as opponents to the bill. (See Attachment 2). Chairman Chronister closed the hearing on the bill.

Rep. Gatlin presented the subcommittee report for the FY 93 Kansas Department of Transportation (KDOT) budget in **SB 40**. (See Attachment 3, 3a & 3b). Rep. Hochhauser moved adoption of the FY 93 KDOT majority report and her motion was seconded the Rep. Edlund. Rep. Gatlin made a substitute motion for adoption of the minority report. The motion was seconded by Rep. Jennison. Rep. Gatlin presented the FY 94 majority and minority reports for the KDOT budget. The motion for adoption of the minority report for FY 93 was carried. Rep. Helgersen made a motion to add a proviso with legislative intent that additional funds for all construction projects applied to federal funding set forth in HB 2014 be endorsed by both the House of Representatives and the Senate. Rep. Teagarden seconded the motion which failed 9-11. Rep. Hochhauser moved adoption of the FY 94 majority report for the Department of Transportation. (See Attachment 4). Rep. Edlund seconded the motion. Rep. Gatlin made a substitute motion to adopt the minority report. Rep. Pottorff seconded his motion. Chairman Chronister recessed the committee at 3:30 p.m. and set it to reconvene at 5:00 p.m.

Chairman Chronister reconvened the committee at 5:05 p.m. The committee voted to adopt the minority report for the FY 94 Department of Transportation budget. Rep. Gatlin made a motion to pass and favorably recommend **SB 40** as amended from the committee. Rep. Pottorff seconded the motion and it carried.

Rep. Teagarden made a motion, with Rep. Pottorff seconding, to pass and favorably recommend **HB 2521** from the committee. The motion carried. Chairman Chronister adjourned the meeting at 5:10 p.m.

The next meeting is scheduled for March 15, 1993.

GUEST LIST

COMMITTEE: HOUSE APPROPRIATIONS

DATE: MAR. 11, 1993

[illegible]

TESTIMONY TO THE HOUSE APPROPRIATIONS COMMITTEE ON
HB 2521 (DISPOSAL OF FUNSTON HOUSE)
MARCH 11, 1993

Chairperson Chronister and members of the House Appropriations Committee, I am Ramon Powers, Executive Director of the Kansas State Historical Society. I appear in support of H.B. 2521, a bill to authorize the Society to dispose of the property known as the boyhood home of General Frederick Funston.

I regret that the Society has not been able to properly preserve and protect the Funston property. In the summer of 1986 the house on the property had been twisted by a tornado, and the foundation and roof had to be replaced. Through the use of prison inmates we undertook that stabilization work. However, from that time to the present, no funds have been authorized for or directed to the preservation of the Funston property.

Let me place this issue in a larger context. When I became Director of the Society in 1988, all of the states historic sites were in need of substantial work at various levels. However, so little was known about the sites, besides the fact that they had been neglected, that we undertook a two year process of assessing the conditions and the opportunities for each site. In addition to the lack of good preservation, we confronted the absence of any interpretative plans for the sites. We owned and operated sites without good documentation and no plan for properly telling the story of the site. Many of the sites were managed by a caretaker-type curator who kept the doors open and interpreted the sites as best as they could.

There had been no systematic program in the acquisition of the historic sites in our possession. Consequently, the Society's historic sites do not necessarily represent the variety of buildings typical of the state's built environment. In 1979, an internal study of the historic sites by the Society identified five properties for disposal. The Funston property was on that list.

The major problem we face today is the diminishing resource base for undertaking all of the Society's current activities. We have concluded that to responsibly administer our varied programs we must provide better focus in the programs within the Society. In the FY 1994 budget, we propose changes in the management of four historic sites including the possible removal of those sites from the state historic sites program with ownership shifted to other responsible parties. We proposed no specific time-table for making management changes such as transferring those sites. We are now discussing the future of two historic sites with certain parties.

The basic problem is the lack of adequate resources and personnel to manage all the sites we now manage. We feel that it would be more productive to shift our resources from certain sites

to other higher priority sites that don't currently have site curators and also to other existing sites that merit additional staff.

A team of staff members representing various parts of the Society evaluated all of the historic sites and established a listing of sites for development by priority. Through this process, the Funston house was at the bottom of the priority list. We understand that some people will not agree with our conclusions, and I regret that we have neglected this property over the past four years. Further, I must note that we were given discretion in the use of funds, but we did not think that the Funston property merited funds on the basis of our priorities. I feel particularly disappointed for Frank Funston Eckdall, a nephew of General Funston, who has lobbied hard for the Funston property. I met with Mr. Eckdall on various occasion to discuss General Funston and the fate of his boyhood home.

For the past three years we have discussed the options of transferring the ownership of the Funston property with Clyde Toland, a local supporter of the property, and Mr. Eckdall. Should H.B. 2521 be adopted, we would attempt again to work out an agreement first with the family that donated the property to the state, and if that failed, to seek a responsible organization in the community to take over the property. Failing that, we would solicit proposals from the public with the intent of selecting one that would provide for the future preservation of the Frederick Funston boyhood home.

TELECOPY TRANSMITTAL

TO: JERRY COLE

FACSIMILE NO. 913/296-0042

DATE: March 11, 1993

FROM: CLYDE W. TOLAND

TIME: 10:00

Sec: Becky

RE: GENERAL FREDERICK FUNSTON

Special Instructions: Confirm receipt of this transmittal, *and*
copy for committee member for today's hearing. Thank you.

Number of Pages including Cover Sheet: 9

If you do not receive any of the pages, please call the secretary noted above.

Telephone: (316) 365-6901
Facsimile: (316) 365-3678

ATTACHMENT 2

P. O. Box 404
Iola, KS 66749
March 11, 1993

Representative Rochelle Chronister
Chairman of the House Appropriations Committee
Capitol Building
Topeka, Kansas

SENT VIA FACSIMILE TRANSMISSION TO 913/296-0042

Dear Representative Chronister:

This letter is with reference to the hearing scheduled for 1:30 p.m. today on House Bill 2521 dealing with the boyhood home of General Frederick Funston. I appreciated very much the opportunity to visit with you last evening on the telephone about this pending bill. As you know, I was only advised at 4:00 p.m. yesterday afternoon that this bill had been introduced, and that the hearing on it before your committee was scheduled for 1:30 this afternoon.

In view of the shortness of time available to me to prepare this letter to you, copies of which I understand will be distributed to all committee members, I will be able to touch only upon the highlights of the reasons why I oppose the above bill. Instead of our State of Kansas divesting itself of the ownership of this historic property, I believe that the home should be restored and reopened to the public as a museum. My reasons for urging this action involve both history and economic development of this rural area of our state, with particular emphasis upon the latter point.

As to this historical reasons for preserving the Funston home as a memorial to General Funston, he had a most extraordinary career and was a key figure in our nation's history. There are not very many Kansans for whom that honor can be claimed.

In the May, 1989 issue of *Smithsonian*, there is a most interesting account of Funston's life. This article by David Haward Bain notes that Funston's "... stormy career spanned America's prodigious historical leap between the Civil War and World War I. Raw-edged and rambunctious, impetuous and improvisational, Funston was in many ways emblematic of his country's 19th-century personality and aspirations.

As the United States finally tamed a continent and began peering across the seas. Funston matched our restless thrust, gaining as much fame from fearless exploits as he did notoriety for ignoring the rules."

Enclosed is a brief summary of General Funston's life, which merely hits the highlights of the life of an extraordinary person. As I believe you and the committee members will see, Funston truly played a significant role in our country's history, and therefore the Funston home is worthy of preservation as a memorial to him and as a museum commemorating his life, as was the case for nearly 25 years before the home was closed in approximately 1980.

As to the economic benefits from the reopening of the Funston home as a museum and hence a tourist attraction, I call your attention to the Kansas Department of Commerce study on tourism which cost a hundred thousand dollars and which was released in 1991. Enclosed is *The Kansas City Star* article of August 24, 1991 about this study. Since the Funston home is located in a rural area, of particular significance in this report is the concept of promoting "the travel and tourism industry as a major aspect of the State's economic vitality, especially for the revitalization of rural economies." Having made that considerable investment to study tourism, it appears to me that our Legislature should take advantage of the results and make every effort to bring tourists and their resulting dollars into Kansas.

Obviously, an essential aspect of tourism development is adequate publicity of the Funston home and who General Funston was. As you know, Iola is 40 miles west of the National Historic Site at Fort Scott, that being the old fort, and therefore it seems to me there is a logical linking of that military site with the home of the famous General Funston. We experience tourism on a small level currently here in Iola through our Allen County Historical Society Museum. There are approximately 1400 visitors per year, and more than half of the 50 states are usually represented each year as well as, at various times, visitors from the countries of Germany, Finland, England, and Australia. Our local society is working on increasing its visibility in the hopes of drawing additional tourists.

I would like to touch briefly on the current physical status of the Funston home. Beginning in the fall of 1987 and extending into 1988 some rehabilitation of the home and its outbuildings was done with the work of Honor Camp personnel from the Kansas Department of Corrections camps at Toronto and El Dorado. Both the outbuildings and the home

itself were stabilized. The Allen County Board of Commissioners aided in this project by housing and feeding the Honor Camp personnel in the jail at Iola. In the January 1988 issue of the Kansas State Historical Society's *Mirror*, the rehabilitation work, including photographs, was reported, and it was noted that "it is anticipated that some interior work on the home can be conducted and the site reopened to the public at a future date."

Later that same year The Kansas State Historical Society's Executive Director Ramon Powers noted that the Society was committed to the Funston project, but must first complete the Phase IV addition to the Kansas Museum of History in Topeka. Dr. Powers noted that "clearly, Funston is a priority and we don't want to leave it to fall back into deterioration." (*Iola Register*, July 13, 1988.) Previously, Tom Barr of the Kansas State Historical Society had noted in 1986 following the big windstorm that damaged the Funston home that "I don't know when we'll be able to reopen the Home. We certainly plan to; it's a significant site." (*Iola Register*, August 9, 1986.)

The *Mirror* in its issue of November 1988 reported that further work had been done on the house and the outbuildings, and then stated: "Plans will be developed so that the remaining exterior work at the Funston property can be completed next spring. Interior rehabilitation, readying the house for interpretation as a house museum is expected to begin soon after completion of the remaining exterior work."

No interior work has been undertaken, and the interior of the home is not in good shape. Interestingly, the Iola Area Chamber of Commerce advises that frequently people from outside the area stop at the Chamber to express their disgust that, first, the Funston Home is not open to the public in spite of being listed as a historic site on maps, tourist information distributed by the State, etc., and, second, that the home and the grounds are in such deplorable shape. Some of these visitors are quite indignant that such an historic site could be treated in this fashion.

It appears to me that there are two key elements in the restoration of the Funston home and then its reopening to the public as a museum. First, money needs to be invested in the home to complete the substantial work that was done in 1987 and 1988. The funds for this could be a combination of privately raised funds and moneys appropriated by the Legislature for that purpose. The other key factor is the operation of the home as a museum. Only an organization such as the Kansas State Historical Society is in the position to

serve as the curator and operator of the museum, since that is not a task that is practical for private individuals or for a small group to handle. In essence, we need a combination of private and public funds with public management of the property once it is restored in order to maintain as a museum the property that our Kansas Legislature in 1955 determined possesses "unusual historical interest" (K.S.A. 76-2025).

In summary, I believe that for the state to divest itself of the ownership of this historic site which it committed itself to nearly 40 years ago as a memorial to General Funston would not only be unfair to the memory of one of the most distinguished Kansans we have ever had, but also will be a definite economic loss to our rural area, which like much of southeast Kansas, needs every economic benefit that it can obtain. Therefore, I urge the committee to reject this bill and in place thereof seek a combination of public and private funds to restore the home and reopen it as a museum. The attention of each member of the committee to my letter is much appreciated.

Sincerely yours,


(Clyde W. Toland)

CWT: klr

Enclosures

BRIEF SUMMARY OF THE LIFE OF GENERAL FREDERICK FUNSTON

General Frederick Funston was born in 1865 and died in 1917. Although born in the State of Ohio, at the age of two years Fred Funston came with his family to the farm home four miles north of Iola, Allen County, Kansas, which was to be his boyhood home.

As an adult he was small of stature, less than 5'4" tall and frequently weighing only approximately 100 pounds.

Despite his small physical stature, Funston possessed muscle power, body agility and raw fearlessness all out of proportion to his diminutive size; Funston had great courage and combativeness, never backing away from a fight, and ultimately became known as the "Fighting Doctor of the Army"

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Funston was also something of an intellectual, being widely read and having cultured tastes for poetry and music, yet also being famous for his violent and polylingual profanity.

After graduating from Iola High School Funston taught one term at a rural schoolhouse called Stony Lonesome, where his experiences included a successful encounter with a school bully much larger than Funston, who came to school armed with a loaded revolver and with the expressed intention of running the "new little teacher" off.

He attended the University of Kansas, making close friends, including future famous Emporia editor William Allen White.

Funston's interest in botany lead him to Death Valley, California, in 1891 as a Dept. of Agriculture field botanist, and where he recorded the temperature of 146°F.

In 1892 Funston began a two year botanical odyssey in Alaska, much of the time traveling alone; he made his own trail through the Klondike Country, traveling North of the Arctic Circle across the snow covered tundra region to the Arctic Ocean by dog sled, thereby penetrating the farthest north of any white man up to that time; he then returned to the Yukon and traveled alone the 1,500 miles down the river to the Bering Sea; the temperature was often 70° below zero; it is claimed that Funston recorded both the lowest and highest temperatures officially taken by an American up to that time.

In 1896, Funston became fired up with the cause of independence for Cuba from Spain; he volunteered with the revolutionary forces, and

during 18 months, fought in four battles and a score of minor engagements; was wounded three times, once through the lungs; had 19 horses killed under him; and was promoted to Lt.Col.; he was captured once, sentenced to death, but escaped death by a fictitious account of himself and the swallowing of his passport.

When the Spanish-American War broke out in 1898, Funston became Colonel of the 20th Kansas Volunteer Infantry, which became one of our country's most distinguished; the 20th Kansas was sent to the Philippines.

Following the end of the Spanish-American War, the United States retained possession of the Philippines and soon had to deal with a native revolutionary force; due to Funston's efforts in crossing the Rio Grande River under fire from strongly defended entrenchments, he was awarded in 1899 at age 33 the Congressional Medal of Honor and was promoted to Brig. General of Volunteers.

During the ensuing guerrilla warfare in the Philippines, Funston's spectacular capture of the rebel Gen. Aguinaldo in 1901 brought Funston nationwide attention; the basic concept involved in Aguinaldo's capture at his remote inland headquarters was to use loyal Filipinos who posed as guerrilla reinforcements bringing to Aguinaldo at his hideout Funston and four other Americans who posed as prisoners; the final 100 mile march over unexplored mountains, rivers, and forests imposed a cruel test of stamina and determination, and the whole expedition was premised on an unavoidably tight schedule which assumed that every step had been carried out successfully and according to the projected time-table; despite all the opportunities for failure, the entire operation worked out exactly as planned, and Aguinaldo was captured; Funston was then commissioned a Brig. General in the regular Army.

In 1906 at the time of the great San Francisco earthquake Funston was in charge of the Dept. of California with headquarters in San Francisco; by Funston's efforts following the earthquake order was maintained, relief measures were established, and the foundations were laid for an orderly program of recovery; Funston went nearly 50 hours without sleep in successfully handling an enormous crisis, and hence is known as "the man who saved San Francisco".

In 1914 Funston was promoted to Major General; during the

troubles with Mexico in 1916, Funston served as Commander of the Southern Dept., supervising army operations along the Mexican border; as Commander, Funston pioneered in the future pattern of high-level military command when his vigor, resourcefulness, and practicality resulted in successful federalization of 150,000 National Guardsmen.

On Feb. 19, 1917, Funston died instantly from a heart attack in San Antonio at the age of 51; had he lived two more months, he likely would have commanded the American Expeditionary Force in World War I rather than his subordinate Pershing; Funston's body thereafter lay in state at the Alamo where it was viewed by 10,000 people in approximately three hours, and then his body was buried in the Presidio in San Francisco.

The memory of General Funston has been commemorated in various places throughout the United States, including a bust of him in San Francisco's City Hall; by the Frederick Funston Grammar School in Chicago; at Fort Riley, Kansas, by Camp Funston; and by a former troop transport named in his honor.

The boyhood home north of Iola, Kansas, of General Frederick Funston, which is owned by the State of Kansas and managed through the Kansas State Historical Society, was open from 1955 to approximately 1980 as a museum and memorial to General Funston. The museum has been closed since approximately 1980.

See the May 1989 issue of Smithsonian for a most interesting account of the life of General Funston entitled "Manifest Destiny's man of the hour: Frederick Funston" by David Haward Bain (pp. 134-156)

C-8 The Kansas City Star Saturday, August 24, 1991

Promoting of Kansas tourism is urged

Officials must work with others, study says.

The Associated Press

TOPEKA — Kansans would be

able to reap the fruits of tourism more if state officials and business people cooperate to promote the state's attractions, according to a report released Friday.

The report indicates that the

travel and tourism section in the Department of Commerce should play more of a leadership role in promoting Kansas as a tourism spot.

Greg Gilstrap, director of the Division of Travel, Tourism and Film Development, said the study points to the need for a more comprehensive approach toward tourism promotion.

"It's a \$2.9 billion industry with a lot of potential to grow," he said of tourism.

The report, which cost the Department of Commerce \$100,000, was commissioned when Mike Hayden was governor. It was done by Economic Research Associates of Cambridge, Mass.

The report said 44 percent of the out-of-state respondents associate Kansas with flat land or agriculture, while 16 percent said nothing came to mind.

"Further analysis reveals that 77 percent of those who have said nothing comes to mind had never been to the state," the report said. "Furthermore, 28 percent of those who said nothing comes to mind think that 'Wizard of Oz' is the most appropriate phrase to describe the state."

Gilstrap said the study shows that the state's tourism motto, "The Land of Ahs," should be dropped.

"We shouldn't be promoting the Wizard of Oz image," he said.

The report said the secretary of commerce should become more involved in promoting "the travel and tourism industry as a major aspect of the state's economic vitality, especially for the revitalization of rural economies."

The report contains a recommendation that the state form a state interagency council, including the state Historical Society, Department of Wildlife and Parks, and Department of Transportation, to address tourism issues. Gilstrap said he supported that recommendation.

"The agencies have never gotten together before," he said.

The report said there is considerable enthusiasm for tourism development in Kansas but there is little unity within the state's travel industry.

The report also contained a recommendation that the division of tourism work with the state's private sector to promote tourism.

SUBCOMMITTEE REPORT

Agency: Department of Transportation

Bill No. 62

Bill Sec. 2

Analyst: Efird

Analysis Pg. No. 263

Budget Page No. 572

<u>Expenditure Summary</u>	<u>Agency Req. FY 93</u>	<u>Gov. Rec. FY 93</u>	<u>Subcommittee Adjustments</u>
All Funds:			
State Operations	\$ 220,224,042	\$ 219,170,022	--
Aid to Local Units	128,237,258	126,188,258	--
Claims	<u>200,000</u>	<u>200,000</u>	--
Subtotal--Operating	<u>\$ 348,661,300</u>	<u>\$ 345,558,280</u>	--
Capital Improvements (Bonds)	\$ 195,697,720	\$ 195,697,720	--
Capital Improvements (Other)	<u>285,491,864</u>	<u>284,736,932</u>	--
Subtotal--Cap. Improve.	<u>\$ 481,189,584</u>	<u>\$ 480,434,652</u>	--
TOTAL--ALL FUNDS	<u>\$ 829,850,884</u>	<u>\$ 825,992,932</u>	--
FTE Positions	3,308.0	3,308.0	--
State General Fund Transfers	\$ 87,996,000	\$ 85,569,000	--

Agency's FY 1993 Request

The estimate for agency operations has been reduced by a net of \$330,056 from the approved limitation. The other operations component of the Kansas Department of Transportation (KDOT) expenditures, primarily capital improvements, is reduced by almost \$70.6 million from the approved estimate for FY 1993. KDOT, in its narrative explanation of revisions to the current fiscal year budget for the state projects construction program attributes the net reduction to a revised projection of anticipated expenditures based on actual FY 1992 bid awards, changes in planned program activities, and updated project cost estimates. It is anticipated by KDOT that \$195.7 million of nonreportable FY 1993 expenditures would be funded by proceeds from the sale of bonds authorized by the comprehensive highway program. An increase in expenditures from \$1,768,908 approved for FY 1993 to \$2,701,071 is requested for the buildings, remodeling, and special maintenance account of the State Highway Fund (SHF).

Governor's FY 1993 Recommendation

The Governor's recommendations for agency operations reduce expenditures by a net of \$2,139,008 from the approved current fiscal year expenditures. The other operations component of the KDOT expenditures, primarily capital improvements, is reduced by almost \$72.7 million from the approved estimate for FY 1993. A reduction of \$4.6 million from the approved estimate for State General Fund (SGF) financing is recommended by the Governor due to revised consensus revenue estimates. The Governor concurs with the agency's revised projection of anticipated expenditures for other operations, based on actual FY 1992 bid awards, changes in planned program activities, and

updated project cost estimates. It is anticipated by KDOT and the Governor concurs that \$195.7 million of FY 1993 expenditures would be funded by proceeds from the sale of bonds authorized by the comprehensive highway program. The Governor concurs with increasing expenditures from \$1,768,908 approved for FY 1993 to \$2,701,071 for the buildings, remodeling and special maintenance account of the State Highway Fund. The Governor also recommends a technical change to account for payment of expenses related to pre-1992 freeway bonds and includes a new line item account in 1993 S.B. 62 to authorize proper recording of expenditures within the State Highway Fund.

Subcommittee FY 1993 Recommendation

The Subcommittee concurs with the Governor's recommendations and makes the following additional comments and recommendations:

1. Note that the Governor's recommendation for agency operations is \$2,139,000 less than the approved FY 1993 expenditure limitation. No reduction in expenditure authority is incorporated in the Governor's recommendations which are included in 1993 S.B. 62 as introduced. This has the effect of allowing KDOT to legally expend these funds which are projected as savings in the current fiscal year since the Governor's recommended reductions are not incorporated into the bill. This practice of not reducing the approved expenditure authority allows the agency flexibility in meeting unexpected expenses which may occur late in the current fiscal year. Additional discussion of salary turnover adjustments is included in item 3 of the FY 1994 Subcommittee report.
2. Note that KDOT revealed a multiyear plan to construct a statewide network of 800 MHz radio towers (supported by other equipment) at an estimated total cost of almost \$12 million. FY 1993 and FY 1994 expenditures would be within the budget authority recommended by the Governor. Item 4 in the FY 1994 Subcommittee report provides more details of this proposal.

Senate Committee Recommendation

The Committee concurs with the FY 1993 recommendation.

House Subcommittee Recommendation

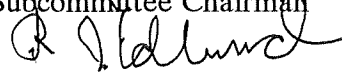
The House Subcommittee concurs with the Senate and makes following adjustments:

1. Note that the Subcommittee reviewed the status of the 1985A State Freeway Refunding Bonds (Attachment 1), the 1992 and 1992A Highway Bonds (Attachment 2), and the proposed 1993 issue of additional highway bonds (Attachments 3a and 3b). The Subcommittee also reviewed a comparison of underwriting costs for the 1992 and 1992A Highway Bonds (Attachment 4).
2. Note that KDOT has identified an additional possible savings in FY 1993 for travel expenses estimated at \$156,095 less than recommended by the Governor, which would be savings in addition to the FY 1993 expenditure reductions of

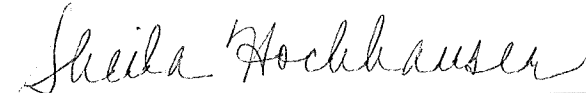
\$2,139,008 recommended by the Governor. The Subcommittee notes, as did the Senate in its report, that no expenditure limitation adjustment is included in S.B. 62 to reflect a reduction in the Agency Operations appropriation line item of \$167,566,286 approved by the 1992 Legislature and later adjusted by the State Finance Council. The Subcommittee believes that this matter should be revisited during the Omnibus period when better information may be available about other possible adjustments in estimated agency expenditures, including but not limited to additional costs for weather-related activities and other unforeseen events, as well as all other potential additional savings which the agency should identify and present during Omnibus review.

3. Identify in FY 1993 incremental investment earnings of \$25,296,106 derived from the 1992 and 1992A Highway Bond issues and suggest that a portion of these earnings be transferred to the State General Fund. These FY 1993 revenue earnings were unanticipated in the original estimates prepared during the 1989 legislative session as projections for the Comprehensive Highway Program. Specifically, the Subcommittee recommends that \$6,752,517 of the money be transferred to the State General Fund based on the KDOT estimate of savings in Attachment 2.

Representative Fred Gatlin
Subcommittee Chairman



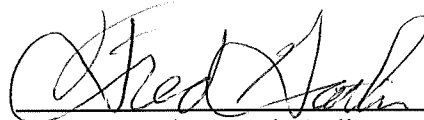
Representative Richard Edlund



Representative Sheila Hochhauser

MINORITY REPORT

1. Concur with House Subcommittee recommendations for items 1 and 2.
2. Do not agree or approve of taking money identified in item 3 of the FY 1993 Subcommittee report. Although there are year to year savings for FY 1993 and FY 1994, these actions of taking money from the Highway Fund do not take into account the estimated losses for FY 1995 and FY 1996. This action penalizes KDOT for a prudent and positive financial management decision. This action also sets a precedent for taking funds from KDOT which adversely affects agency cash flow in later years.

A handwritten signature in cursive script, appearing to read "Fred Gatlin", is written over a horizontal line.

Representative Fred Gatlin
Subcommittee Chairman

**Comparison of Debt Service Requirements
Including Incremental Investment Earnings
between the
1992 and 1992A Highway Bond Issue
and the
Projections Made During the 1989 Legislative Session**

Assumed Bond Issue During the 1989 Legislature First \$375 million		1992 1992A Bond Issues		
Issue Date(s)	July 1, 1994 July 1, 1995	March 17, 1992 September 23, 1992		
Amount(s)	\$150,000,000 \$225,000,000	\$250,000,000 \$125,000,000		
Interest Rate	8.25%	6.46% 5.94%		
	<u>Assumed Debt Service</u>	<u>Actual Debt Service</u>	<u>Incremental Investment Earnings *</u>	<u>Difference (Loss) Savings</u>
FY 1993		\$18,543,589	\$25,298,106	\$8,752,517
FY 1994		22,958,508	23,311,475	354,967
FY 1995	\$7,781,578	22,958,507	13,936,475	(1,238,454)
FY 1996	27,235,523	31,801,508		(4,565,985)
FY 1997	38,907,890	36,285,680		2,622,210
FY 1998	38,907,890	36,303,854		2,604,236
FY 1999	38,907,890	36,314,353		2,593,537
FY 2000	38,907,890	36,327,524		2,580,366
FY 2001	38,907,890	36,338,028		2,571,862
FY 2002	38,907,890	36,341,189		2,566,701
FY 2003	38,907,890	36,347,058		2,560,832
FY 2004	38,907,890	36,352,871		2,555,019
FY 2005	38,907,890	36,354,780		2,553,110
FY 2006	38,907,890	36,358,445		2,551,445
FY 2007	38,907,890	36,358,175		2,549,715
FY 2008	38,907,890	36,358,500		2,549,390
FY 2009	38,907,890	36,363,250		2,544,640
FY 2010	38,907,890	36,374,225		2,533,665
FY 2011	38,907,890	36,389,300		2,518,590
FY 2012	38,907,890	36,410,550		2,497,340
FY 2013	38,907,890	11,669,900		27,237,990
FY 2014	38,907,890			38,907,890
FY 2015	31,126,312			31,126,312
FY 2016	11,672,367			11,672,367
FY 2017				
TOTAL	<u>\$778,157,803</u>	<u>\$689,501,594</u>	<u>\$82,544,057</u>	<u>\$151,200,266</u>

* Incremental Investment Earnings are estimated at 6.25%. Actual incremental investment earnings are a function of future interest rates and actual construction payments.

ROAD WORK

How Kansas created good jobs without busting the budget

It's lunchtime in Topeka, Kan., and there's no recession at the Country Boy restaurant. Pickup trucks are swinging in and out of the parking lot, construction workers are wolfing down ham and beans, and the cash register is chiming a steady, prosperous tune.

Anyone who doubts that infrastructure spending can jump-start an economy should visit the Jayhawk State, where a \$2.6 billion highway program has created 3,400 construction jobs

man estimates that Clarkson has \$25 million worth of trucks, graders and pavers on the 10-mile construction site. Were it not for the highway program, Clarkson says, he might be unloading some of that equipment. Instead, he's thinking about buying more.

Ironically, Kansas's highway makeover wasn't sold as medicine for a sick economy. It was passed by the state legislature in 1989, a year before America skidded into recession, and was primarily conceived to fix up the

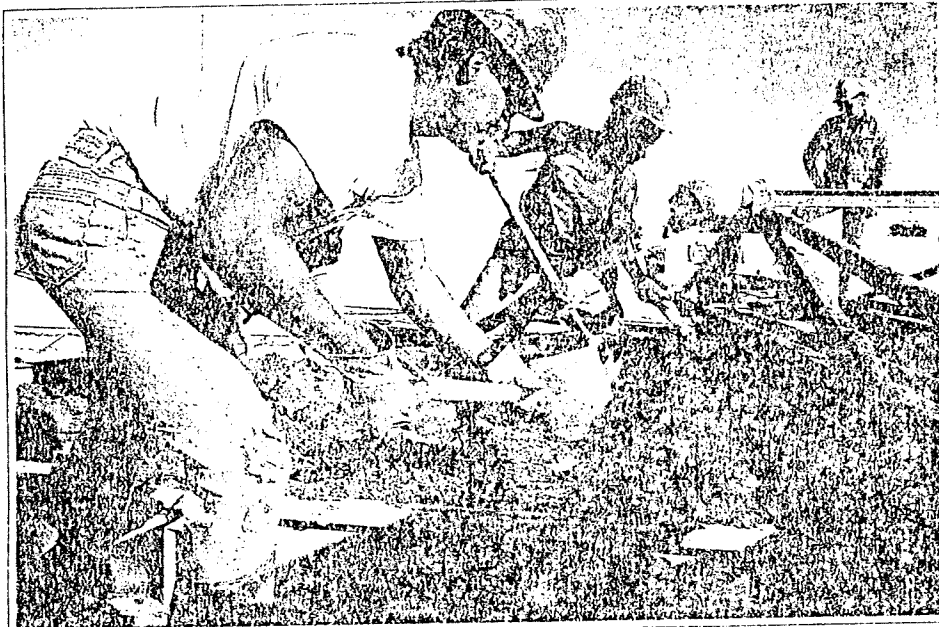
ing a torrent of dollars through checkbooks and cash registers. In what economists call the "multiplier effect," construction workers started buying boots and tools, contractors leased new equipment and engineering firms started placing help-wanted ads. As the highway money worked its way through Kansas's economic bloodstream, personal income climbed at 2.4 percent, more than twice the national average last year.

But fiscal stimulus isn't the only lesson from Topeka. In a time of tax revolts and deficit deadlock, Kansas lawmakers figured out how to finance a massive public-works program—and get voters to pay for it. About half the program is financed by user fees, including a 7-cent hike in the gasoline tax. An additional fourth comes from a quarter-cent increase in the state sales tax. Only a fifth involves debt—about \$600 million in bonds to be paid off over the next 20 years. The total tax increase will work out to about \$100 per person during the program's peak years in the mid-1990s. "There was no smoke and mirrors," says Transportation Secretary Michael Johnston, who co-sponsored the bill as a state senator in 1989. "When we laid out the needs and the cost, voters in my district didn't even hiccup."

Can the nation travel down the same road as Kansas? Deb Miller, the chief planner for Kansas's Transportation Department, is wary of claims that infrastructure is an economic cure-all. For one thing, other Americans might not be as passionate

about roads as the residents of Kansas, a state of small towns, lonely prairies and the nation's fourth-largest highway network. "When you live in a rural community, it's not uncommon to drive 40 miles for dinner at night," says Miller. "People can get very emotional about roads." But, she adds, a productive asset financed thoughtfully is a sound investment anywhere. "One of the big mistakes we've made in the American economy is we didn't spend enough on long-term investments. We've got to catch up sooner or later."

BY DAVID HAGE



Paving the way. Road crews work on a new section of highway in Kansas.

since August 1991 and helped trim the unemployment rate to 4 percent, fourth-lowest in the nation. Says Stanley Scudder, who faced joblessness three years ago and now runs a bridge-building firm with 30 workers, "My company wouldn't exist without the highway bill. Period."

Along Interstate 70 in north Topeka, 150 workers in hard hats and festive T-shirts are pouring concrete and hammering up bridge supports on a sunny September morning. All owe their jobs to the state highway program, says Don Clarkson, vice president of Clarkson Construction Co., the project's general contractor. A fore-

state's 135,000 miles of patched and pitted blacktop. Kansas faced the same glaring infrastructure needs that the rest of the nation now faces: Some 30 percent of its bridges had outlived their 50-year life expectancies, and freeways in major cities such as Wichita were carrying three to four times the traffic loads for which they were designed.

Boosting incomes. Then serendipity struck. As the nation slid into recession during the second half of 1990, highway money began to course through the Kansas economy. Road expenditures leapt from \$293 million in 1989 to \$429 million in 1991, send-

**Summary of Cash Flow
Impact from
Early Bond Sales
and the
Cash Call of
1985 A State Freeway Refunding Bonds
Compared to Projections Made During H.B. 2014**

	Early Bond Sales Cash Flow Difference (Loss) Savings	Cash Call Freeway Bonds Cash Flow Difference (Loss) Savings	Cumulative NET Cash Flow Difference (Loss) Savings
FY 1993	\$6,752,517	(\$65,722,000)	(\$58,969,483)
FY 1994	354,967	\$9,884,000	(\$48,730,515)
FY 1995	(1,238,454)	\$11,093,000	(\$38,875,969)
FY 1996	(4,565,985)	\$12,522,000	(\$30,919,954)
FY 1997	2,622,210	\$13,243,000	(\$15,054,744)
FY 1998	2,604,236	\$26,180,000	\$13,729,492
FY 1999	2,593,537		\$16,323,029
FY 2000	2,580,366		\$18,903,395
FY 2001	2,571,862		\$21,475,258
FY 2002	2,566,701		\$24,041,959
FY 2003	2,560,832		\$26,602,791
FY 2004	2,555,019		\$29,157,810
FY 2005	2,553,110		\$31,710,920
FY 2006	2,551,445		\$34,262,365
FY 2007	2,549,715		\$36,812,081
FY 2008	2,549,390		\$39,361,471
FY 2009	2,544,640		\$41,906,111
FY 2010	2,533,665		\$44,439,776
FY 2011	2,518,590		\$46,958,366
FY 2012	2,497,340		\$49,455,706
FY 2013	27,237,990		\$76,693,696
FY 2014	38,907,890		\$115,601,587
FY 2015	31,126,312		\$146,727,899
FY 2016	11,672,367		\$158,400,266
FY 2017			
TOTAL	<u>\$151,200,266</u>	<u>\$7,200,000</u>	

SUBCOMMITTEE REPORT

Agency: Department of Transportation

Bill No. 40

Bill Sec. 2

Analyst: Efird

Analysis Pg. No. 263

Budget Page No. 572

<u>Expenditure Summary</u>	<u>Agency Req. FY 94</u>	<u>Gov. Rec. FY 94</u>	<u>Subcommittee Adjustments</u>
All Funds:			
State Operations	\$ 244,668,610	\$ 241,861,944	--
Aid to Local Units	127,254,660	127,919,660	--
Claims	<u>200,000</u>	<u>200,000</u>	<u>--</u>
Subtotal -- Operating	<u>\$ 372,123,270</u>	<u>\$ 369,981,604</u>	<u>--</u>
Capital Improvements (Bonds)	\$ 289,902,285	\$ 289,902,285	--
Capital Improvements (Other)	<u>312,211,111</u>	<u>306,313,590</u>	<u>--</u>
Subtotal -- Cap. Improve.	<u>\$ 602,113,396</u>	<u>\$ 596,215,875</u>	<u>--</u>
TOTAL -- ALL FUNDS	<u>\$ 974,236,666</u>	<u>\$ 966,197,479</u>	<u>--</u>
FTE Positions	3,308.0	3,308.0	--
State General Fund Transfers	\$ 90,520,000	\$ 92,095,000	--

Agency's FY 1994 Request

KDOT requests increases totaling almost \$144.4 million in expenditures next fiscal year, with \$5.9 million for agency operations and \$138.5 million for other operations, primarily capital improvements. Increased financing of \$181.7 million would be required from the State Highway Fund as well as \$2.5 million from the State General Fund. An apparent reduction of \$39.8 million from expenditures requested from all other funds is the result of a shift of \$58.4 million of federal funds expended in FY 1993 from a restricted fees fund to expenditure in FY 1994 of \$58.4 million from an account of the State Highway Fund. It is anticipated by KDOT that \$94.2 million of increased FY 1994 expenditures would be funded by proceeds from the sale of bonds, with bond financing to pay for \$289.9 million of nonreportable FY 1994 expenditures.

Agency Operations. No change in FTE staffing is requested, but additional FY 1994 funding is requested for two special projects positions, temporary positions, and overtime pay in FY 1994. Additional funding for fringe benefits also is requested. Salary turnover savings are budgeted at 2.5 percent in both FY 1993 and FY 1994. The FY 1992 approved rate was 2.8 percent. Actual FY 1992 expenditures, compared with approved expenditures for salaries and benefits, reveal a salary turnover savings rate of 4.5 percent, or \$1.8 million of savings in addition to the approved amount. Other operating costs are budgeted as increases of \$1.2 million.

Other Operations. There are four component parts of the comprehensive highway program: major modifications, priority bridges, system enhancements, and substantial maintenance. The first three categories (included in state projects) account for \$115.8 million of increased FY 1994 expenditures, while the last category would increase almost \$4.3 million. The repayment of bonds to

ATTACHMENT 4

finance the comprehensive highway program accounts for an increase of \$16.5 million. Local aid expenditures reflect a slight decrease from FY 1993.

Governor's FY 1994 Recommendation

The Governor recommends increases totaling \$140.2 million in expenditures next fiscal year, with an increase of \$3.7 million for agency operations and of \$136.5 million for other operations, primarily capital improvements. Increased financing of \$173.5 million is recommended from the SHF as well as \$6.5 million from the SGF. An apparent reduction of \$39.8 million from expenditures recommended from all other funds is the result of a shift of federal funds from an FY 1993 restricted fees fund to an expenditure in FY 1994 of \$58.4 million from an account of the SHF. It is anticipated by KDOT and the Governor concurs that \$94.2 million of increased FY 1994 expenditures would be funded by proceeds from the sale of bonds, with bond financing to pay for \$289.9 million of non-reportable FY 1994 expenditures.

Agency Operations. No change in FTE staffing is recommended by the Governor in FY 1994. Funding is recommended for two special projects positions. The Governor recommends less funding for temporary positions and overtime pay in FY 1994 than requested by the agency. Additional funding for fringe benefits is recommended. Salary turnover savings are recommended at 2.8 percent in FY 1994, compared to 2.9 percent in FY 1993. A reduction of \$841,129 in FY 1994 other operating expenses for agency operations is attributed to a decrease in capital outlay for the regular maintenance program offsetting other increases to produce a net reduction in expenditures.

Other Operations. The Governor concurs with the agency's FY 1994 estimated increase of \$115.8 million in expenditures for the first three categories of the comprehensive highway program, as well as an increase of almost \$4.3 million in the category of substantial maintenance, the fourth category. The Governor also concurs with the estimated repayment of \$16.5 million for the bonds which finance the comprehensive highway program. FY 1994 local aid expenditures reflect an increase of \$1.7 million from FY 1993.

Subcommittee FY 1994 Recommendations

The Subcommittee concurs with the Governor's recommendations and notes the following items:

1. Because the Secretary was in Washington at the time of its final meeting, the Subcommittee requested the Secretary to brief the Committee on the status of federal funding relative to the Intermodal Surface Transportation Efficiency Act of 1991 (ISTEA). Also requested as part of the update was information on federal demonstration project financing.
2. In the Subcommittee report prepared during the 1992 legislative session on KDOT, there was a recommendation "that KDOT develop a program to transfer city highways and city connecting links which are currently on the state highway system to local governments wherever justified." This year's Subcommittee requested that the Secretary update the Committee on this program, and the financial arrangements which would provide funding to the local units of government.

3. The Subcommittee reviewed the agency's historical salary turnover savings (shrinkage) rates for FY 1990 to FY 1992 and discussed adjusting the Governor's recommendations of 2.8 percent in FY 1993 and 2.9 percent in FY 1994. Because KDOT's budget includes significant amounts of funding for both temporary salaries and overtime pay, any adjustments for turnover must take these factors into account. The Subcommittee was told that the winter weather of 1993 might result in a significant increase in overtime pay, and that any further reductions in the salary funding might force to agency to hold regular positions unfilled in order to force turnover savings. The Subcommittee concludes that the Governor's recommended savings generated by 2.8 percent in FY 1993 and 2.9 percent in FY 1994 appear to be reasonable estimates. The estimated amount of savings would be \$3,291,449 in FY 1993 and \$3,301,410 in FY 1994, based on the Governor's recommendations.
4. The Subcommittee was informed by the Secretary that he had approved implementation of a multiyear plan to install a statewide network of 800 MHz radio towers and to purchase the other radio equipment necessary to operate the network. The agency plans to begin the program in FY 1993 and FY 1994 within the resources recommended by the Governor. The Subcommittee notes that the revised budget estimates, noting the areas of reduction in the Governor's recommended expenditures in FY 1993 and FY 1994, together with the proposed expenditures for this new system, ought to be submitted for review by the Legislature and its designated committees. The following cost information about the new system was provided to staff at a briefing about the project, but has not been formally submitted to either the Governor or the Legislature at this time. The Subcommittee does not reject the proposed expenditures in FY 1993 or FY 1994, but would suggest that a more formal budget amendment be submitted to reflect the shift in expenditures. The estimated expenses are shown below:

FY 1993	\$	271,000	FY 1994	\$	717,000
FY 1995		860,000	FY 1996		822,000
FY 1997		885,000	FY 1998		1,048,000
FY 1999		992,000	FY 2000		791,000
FY 2001		762,000	FY 2002		1,000,000
FY 2003		747,000	FY 2004		890,000
FY 2005		888,000	FY 2006		564,000
FY 2007		686,000	Total		<u><u>\$ 11,923,000</u></u>

Included in the estimated cost is \$570,000 for the purchase of real estate on which to place the 300 to 400 foot radio towers. Traditionally, the Joint Committee on State Building Construction has reviewed land purchased by state agencies, and KDOT has been instructed to submit its plan to the Building Committee for review. Since this project involves telecommunications, the Joint Committee on Computers and Telecommunications also should be consulted about the proposal. KDOT also recently has submitted the proposal to the Division of Information Systems and Communications (DISC) for its approved, as required by statute.

Senate Committee Recommendation

The Committee concurs with the FY 1994 recommendation with the following change:

1. Amend item 4 to change "ought" to "shall" in line 8 so the sentence reads: . . . the revised budget estimates, noting the areas of reduction in the Governor's recommended expenditures in FY 1993 and FY 1994, together with the proposed expenditures for this new (800 MHz radio) system, shall be submitted for review by the Legislature and its designated committees (the Joint Committee on Computers and Telecommunications as well as the Joint Committee on State Building Construction).

House Subcommittee Recommendation

The House Subcommittee concurs with the Senate and makes following adjustments:

1. Note that the Subcommittee reviewed the status of the 1985A State Freeway Refunding Bonds (Attachment 1), the 1992 and 1992A Highway Bonds (Attachment 2), and the proposed 1993 issue of additional highway bonds (Attachments 3a and 3b). The Subcommittee also reviewed a comparison of underwriting costs for the 1992 and 1992A Highway Bonds (Attachment 4).
2. Concur with the Joint Committee on State Building Construction in concurring with the Governor's recommendations for FY 1994 and in adding \$500,000 to begin identifying and planning for renovations to eliminate handicapped barriers in various facilities. The Subcommittee directs that the Joint Committee be informed by KDOT of the projects and plans for renovation prior to the actual start of any renovations which might be financed from a portion of this \$500,000 funding.
3. Note that \$405,000 included in the Governor's FY 1994 recommendations is for the construction of three radio towers which will become part of a statewide network of 800 MHz facilities for KDOT and law enforcement agencies (initially the Kansas Highway Patrol) to utilized and that the Subcommittee concurs with the inclusion of the funding in the Agency Operations portion of the appropriations bill rather than in the account appropriated for capital improvements. The Subcommittee concurs with the Joint Committee on State Building Construction that it should review future radio tower projects and modifications to the propose schedule as part of its annual oversight of capital improvement projects.
4. Note that \$187,000 included in the Governor's FY 1994 recommendations is the initial cost of converting to the metric system by September 1, 1996, pursuant to a federal mandate. KDOT has estimated that an additional \$2.0 million will be required for highway signs and an estimated \$6.0 million for conversion of data processing programs. The Subcommittee requests that the Joint Committee on Computers and Telecommunications monitor this situation and that KDOT keep the JCCT informed to its revisions to estimated costs. The Subcommittee requests that the JCCT report on these matters at the start of the 1994 Legislature.

5. Note that two new data processing applications, the Comprehensive Program Management System (CPMS) and Construction Management System (CMS), are included in the FY 1994 estimates for data processing fees of \$1,634,425, an increase of \$296,494 over FY 1993, and that a portion of \$588,000 recommended by the Governor for programming modifications in FY 1994 may be used for modifying either one or both of these recently acquired new applications. The Subcommittee requests that the Joint Committee on Computers and Telecommunications review these two new applications and any modifications which have been or may be required, as well as any FY 1993 and FY 1994 "unrecognized" costs which may be in addition to the initial development costs. The Subcommittee requests that the JCCT also review any proposed new projects and report on these matters at the start of the 1994 Legislature.
6. Note that the Subcommittee reviewed projected federal funding from the Intermodal Surface Transportation Efficiency Act (ISTEA) as is currently estimated by KDOT based on the 1992-1997 apportionments (Attachment 5). The Subcommittee also reviewed the ISTEA demonstration project status for programmed and unprogrammed projects (Attachment 6).
 - a. The Subcommittee observes that it is possible that the Clinton administration may propose that 100 percent rather than 82 percent of the authorized ISTEA funding be made available to the states for future years. This would provide an additional \$30 million of money which would be required to be spend on projects not in the current plan. KDOT has identified three interstate system projects which might be included in any new plan for using additional federal funds.
 - b. The Subcommittee reviewed a map of the National Highway System designated in Kansas as required by ISTEA.
 - c. The Subcommittee notes that KDOT is implementing a new component under ISTEA which addresses scenic routes, hike and bike trails, and historic transportation buildings preservation requirements. KDOT received applications for over \$63 million in project funding and will award only \$15 to \$18 million for such projects, based on available federal funding for these projects.
 - d. The Subcommittee reviewed KDOT's progress on various management and planning requirements, and observed that KDOT has shown good progress on all the requirements which the Federal Highway Administration has defined to date.
 - e. The Subcommittee shares the Secretary's frustration with a federal mandate which will require, if the Legislature does not enact a helmet law, that the state expend \$10 million of highway construction money for safety programs to inform motorcycle riders that they should wear helmets.
 - f. The Subcommittee expresses concern about another federal mandate which requires increased use of rubberized asphalt and notes that the

current process employs a patented technology which raises the cost two to four times more than normal asphalt costs; that the 20 percent requirement mandated by 1996 may far outstrip the supply of old tires which might be converted into rubberized asphalt; and that the recycling of rubberized asphalt may be impractical or impossible due to health and pollution hazards. Currently, KDOT recycles all of the asphalt in use as highway paving material whenever resurfacing takes place, and if this practice is no longer feasible in the future, additional costs will be incurred for the removal and disposal of rubberized asphalt, not to mention to additional cost of new rubberized asphalt to replace that which is not recyclable. This is an example of how a federal mandate to solve the problem of waste tires may end up costing an excessive amount of scarce dollar resources and creating other unanticipated problems in the form of both additional solid waste and possible air pollution.

- g. The Subcommittee strongly recommends affirmative action by the Legislature to either institute a drug offender license suspension program or to recommend a concurrent resolution refusing to institute such a program, either of which action would help satisfy another federal mandate in ISTEA.
 - h. The Subcommittee heard about another federal mandate which requires random testing of 50 percent annually of certain types of drivers and persons who work on certain types of vehicles, in addition to KDOT employees.
 - i. The Subcommittee notes that passage of S.B. 26 would bring Kansas into compliance with the Clean Air Act, thereby satisfying another federal mandate of ISTEA.
- 7. Alert KDOT that next session the issue of part-time, seasonal, temporary, and overtime pay will be addressed in greater detail.
 - 8. Recognize that the Legislative Budget Committee made the following recommendations at the conclusion of the 1992 interim for review during the 1993 Legislature:

The Committee acknowledges that it is difficult for the agency to rely on estimates of uncommitted federal funds because those funds are subject to annual obligation limitation adjustments by Congress. The agency revised its earlier estimate of \$155.4 million in uncommitted federal entitlements through FY 1997 to \$58.1 million based on less optimistic assumptions and additional program commitments approved by the Secretary. The Committee concludes that the estimate is likely to change repeatedly through FY 1997 and should not be relied upon as a certain source of funding.

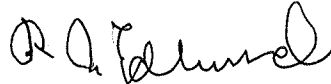
The Committee recommends that the Kansas Department of Transportation give first priority to the highway program as enacted by the Legislature in 1989, with any savings or additional federal grants to be evaluated by the Legislature in light of the needs for both federal matching requirements for highway programs and financing non-highway programs of state government. The Committee also recommends that the 1993 Legislature review the additional program commitments approved by the Secretary.

The Subcommittee believes that projects not included in the Comprehensive Highway Program pursuant to 1989 H.B. 2014 should be presented to the Legislature prior to their inclusion in any subsequent plans adopted by the Secretary or when revisions in specific project funding occurs.

9. Note that \$58.1 million of federal ISTEA funding identified in Attachment 5 remain unprogrammed and the KDOT should provide periodic updates of the status of these funds to the Legislative Budget Committee during the 1993 Interim and that a report should be presented to the 1994 Legislature on the first day of the session.
10. Note that \$40.0 million of federal ISTEA funding identified in Attachment 5 have been included as "additional commitments" in the Secretary's five year plan, but which were not part of the original Comprehensive Highway Program. KDOT should provide periodic updates of the status of these funds to the Legislative Budget Committee during the 1993 Interim and that a report should be presented to the 1994 Legislature on the first day of the session.
11. Identify FY 1994 savings of \$9,884,000 due to the early call of the 1985A Freeway Bonds and multiyear net savings estimated at \$7,200,000, a portion of which should be transferred to the State General Fund. These FY 1994 savings were unanticipated in the original estimates prepared during the 1989 legislative session as projections for the Comprehensive Highway Program. Specifically, the Subcommittee recommends that \$1,200,000 of the FY 1994 money be transferred to the State General Fund based on the KDOT estimate of savings in Attachment 1.
12. Identify in FY 1994 incremental investment earnings of \$23,311,475 derived from the 1992 and 1992A Highway Bond issues and suggest that a portion of these earnings be transferred to the State General Fund. These FY 1994 revenue earnings were unanticipated in the original estimates prepared during the 1989 legislative session as projections for the Comprehensive Highway Program. Specifically, the Subcommittee recommends that \$354,967 of the money be transferred to the State General Fund based on the KDOT estimate of savings in Attachment 2.
13. Appropriate FY 1994 Agency Operations, currently a single line item of \$169,160,788 in S.B. 40, according to three subaccounts: salaries and wages, technology-related expenditures, and other operating expenditures. The

technology-related expenditures account should include certain items specified by KDOT on its inventory of the Governor's FY 1994 recommendations, including the categories identified by KDOT in its revised budget linkage spreadsheet of February 10, 1993, for the following: communications equipment, \$832,000; CADD equipment and software, replacement and new, \$85,999; microcomputers, accessories and software, replacement and new, \$489,471; metric conversion and programming backlog, \$775,000.

Representative Fred Gatlin
Subcommittee Chairman



Representative Richard Edlund



Representative Sheila Hochhauser

MINORITY REPORT

1. Concur with the House Subcommittee recommendations 1-9.
2. I would note that item 10 is an example of KDOT volunteering information. I see this as an example of their forthright approach. The three additional projects involved were either part of H.B. 2014 or were oral commitments at the time H.B. 2014 was considered.
3. Disagree with any decision in item 11 to take money prior to 1998 based on the early call of the Freeway bonds when it will be known how much savings were realized. The Secretary should be congratulated on the decision to call the bonds and to use Highway Fund resources wisely in paying off those bonds. It appears to have been a good financial move and over a period of time, if projections of revenues and expenditures hold true, there will be \$7,200,000 realized as a net gain. In FY 1993, actual expenditures included a net of \$65 million spent from unobligated Highway Fund money. Any premature reduction in this plan will endanger the financial estimates and any decision should be delay until the end of the period, rather than acting now at the beginning of the period.
4. Do not agree or approve of taking money identified in item 12 of the Subcommittee report. Although there are year to year savings for FY 1993 and FY 1994, these actions of taking money from the Highway Fund do not take into account the long term estimates or the years in which no savings are realized. This action also effectively penalizes KDOT for a prudent financial management decision.
5. Object to any line item changes, such as recommended in item 13, which would alter the historical appropriations language for KDOT to a more restrictive format which might restrict or impede the agency's flexibility. I wish to compliment KDOT for their forthright efforts to supply information to the Committee. Creating more line items in my opinion criticizes the agency for doing a good job.



Representative Fred Gatlin
Subcommittee Chairman

Attachment 1 A -

Comparison of Alternatives 1985A State Freeway Refunding Bonds between the Cash Call of Bonds and the Paying the Bonds and Interest Until Maturity

	State Freeway Fund IF NO Cash Call	State Highway Fund IF Cash Call		
	Motor Fuel Revenues and Debt Service & Debt Service Costs	Motor Fuel Revenues and Cash Call of Bonds	Change in Investment Earnings *	Difference (Loss) Savings
FY 1993	(\$3,775,000)	(\$56,614,000)	(\$5,333,000)	(\$65,722,000)
FY 1994	(3,475,000)	18,100,000	(4,741,000)	\$9,884,000
FY 1995	(3,475,000)	18,100,000	(3,532,000)	\$11,093,000
FY 1996	(3,474,000)	18,100,000	(2,104,000)	\$12,522,000
FY 1997	(3,475,000)	18,100,000	(1,382,000)	\$13,243,000
FY 1998	7,851,000	18,100,000	229,000	\$26,180,000
FY 1999				
TOTAL	<u>(\$9,823,000)</u>	<u>\$33,886,000</u>	<u>(\$16,863,000)</u>	<u>\$7,200,000</u>

* Incremental Investment Earnings are estimated at 6.25%. Actual incremental investment earnings are a function of future interest rates and actual construction payments.

NOTES:

Column 1 represents the net cash flow to the State Freeway Fund for revenues, excluding investment earnings, and debt service if no cash call were made. A beginning balance existed which would cover the cash flow shortfall.

Column 2 represents the net change in the cash flow to the State Highway Fund for revenues, excluding investment earnings, and the payment to call the bonds. The State Freeway Fund is terminated and all assets used in calling the bonds.

Column 3 represents the net change in the investment earnings resulting from a cash call of the bonds.

Column 4 is the sum of columns 1, 2 and 3.

**Comparison of Debt Service Requirements
Including Incremental Investment Earnings
between the
1992 and 1992A Highway Bond Issue
and the
Projections Made During the 1989 Legislative Session**

Assumed Bond Issue During the 1989 Legislature First \$375 million		1992 1992A Bond Issues		
Issue Date(s)	July 1, 1994 July 1, 1995	March 17, 1992 September 23, 1992		
Amount(s)	\$150,000,000 \$225,000,000	\$250,000,000 \$125,000,000		
Interest Rate	8.25%	6.46%		
		5.94%		
	<u>Assumed Debt Service</u>	<u>Actual Debt Service</u>	<u>Incremental Investment Earnings *</u>	<u>Difference (Loss) Savings</u>
FY 1993		\$18,543,589	\$25,298,106	\$6,752,517
FY 1994		22,956,508	23,311,475	354,967
FY 1995	\$7,781,578	22,956,507	13,936,475	(1,238,454)
FY 1996	27,235,523	31,801,508		(4,565,985)
FY 1997	38,907,890	36,285,880		2,622,210
FY 1998	38,907,890	36,303,654		2,604,236
FY 1999	38,907,890	36,314,353		2,593,537
FY 2000	38,907,890	36,327,524		2,580,366
FY 2001	38,907,890	36,336,028		2,571,862
FY 2002	38,907,890	36,341,189		2,566,701
FY 2003	38,907,890	36,347,058		2,560,832
FY 2004	38,907,890	36,352,871		2,555,019
FY 2005	38,907,890	36,354,780		2,553,110
FY 2006	38,907,890	36,356,445		2,551,445
FY 2007	38,907,890	36,358,175		2,549,715
FY 2008	38,907,890	36,358,500		2,549,390
FY 2009	38,907,890	36,363,250		2,544,640
FY 2010	38,907,890	36,374,225		2,533,665
FY 2011	38,907,890	36,389,300		2,518,590
FY 2012	38,907,890	36,410,550		2,497,340
FY 2013	38,907,890	11,669,900		27,237,990
FY 2014	38,907,890			38,907,890
FY 2015	31,126,312			31,126,312
FY 2016	11,672,367			11,672,367
FY 2017				
TOTAL	<u>\$778,157,803</u>	<u>\$689,501,594</u>	<u>\$62,544,057</u>	<u>\$151,200,266</u>

* Incremental Investment Earnings are estimated at 6.25%. Actual incremental investment earnings are a function of future interest rates and actual construction payments.

Attachment 3a

Michael L. Johnston
Secretary of Transportation

KANSAS DEPARTMENT OF TRANSPORTATION
Docking State Office Building
Topeka 66612-1568
(913) 296-3566
FAX - (913) 296-1095

Joan Finney
Governor of Kansas

February 25, 1993

Memorandum To: Financial Services Negotiating Committee

From: Dale Jost, Chief Bureau of Fiscal Services

Regarding: RFP No.95000 for Bond Underwriter.

Per the Financial Services Negotiating Committee's decision, the attached letters were faxed February 24th and mailed today to all firms that submitted proposals. Additionally, the firms selected for oral presentations were contacted by telephone prior to sending fax notifications.

The following schedule has been confirmed verbally with each firm:

Firm	Date (1993)	Time
1 Bear Stearns	March 3	8:30 - 9:15 A.M.
A 2 A. G. Edwards	March 3	9:30 - 10:15 A.M.
[Prudential]x	March 3	10:30 - 11:15 A.M.
3 Working Lunch	March 3	11:30 -12:00 Noon
B 4 Smith Barney	March 3	12:00 - 12:45 P.M.
[Goldman Sachs]x	March 3	1:00 - 1:45 P.M.
5 Kidder Peabody	March 3	2:00 - 2:45 P.M.
[First Boston]x	March 3	3:00 - 3:45 P.M.
6 B. C. Christopher	March 3	4:00 - 4:45 P.M.
7 George K. Baum	March 3	5:00 - 5:45 P.M.
[Piper Jaffray]x	March 4	8:00 - 8:45 A.M.
Merril Lynch	March 4	9:00 - 9:45 A.M.
Z 8 Lehman Brothers	March 4	10:00 - 10:45 A.M.

x eliminated from Management Group (not from Selling Group)

⊕ 3 Co-senior managers ⊕ lead banker or book manager

KDOT Bonding Program

March 2, 1993

Historical Review of the Process to Issue the 1992, 1992A, and Proposed 1993 Bonds

The Secretary of Transportation is authorized by K.S.A. Supp. 68-2320 to issue bonds for the Comprehensive Highway Program in the amount not to exceed \$890,000,000. The Secretary of Transportation has used bond resolutions to document and authorize major events for the hiring of professionals and for selling the bonds. Several Committees or task forces have been used to assist the Secretary in issuing the bonds. The Financial Services Negotiating Committee which includes the Director of Purchases, Director of Accounts and Reports, and Secretary of Transportation or their designees, is used to obtain Financial Advisory and Underwriting Services. The committee is established by K.S.A. 75-3799. A Bond Counsel Review Committee is used to recommend a Bond Counsel to the Secretary of Transportation. A Bond and Investment Task Force was formed to assist the Secretary in preparing for the issuance of bonds. The following information lists the various events in the process of issuing bonds.

Secretary Gary Stotts, on March 13, 1991, issued the first Resolution No. 91-1 that authorized the employment of Special Counsel. This action was taken to provide guidance and assistance to the Secretary.

Resolution 91-2, dated March 29, 1991, signed by Secretary Stotts, authorized the employment of a Financial Advisor since the required specialized professional expertise is not available within the Department of Transportation. This same resolution requested the convening of the Financial Services Negotiating Committee for the purpose of obtaining a Financial Advisor.

Secretary Stotts by Resolution 91-3, dated March 29, 1991, established a Bond and Investment Task Force for the purpose of conducting research, performing analysis, performing administrative tasks and contract those services as may be necessary to support the Secretary. The members of this task force included the Special Counsel, the Financial Advisor, Director of Accounts and Reports, President of the Kansas Development Finance Authority, and KDOT staff. It was the intent to use financial resources within State Government and KDOT to assist and advise the Secretary regarding the issuance of the bonds.

On April 1, 1991, a draft Request for Proposal for the Financial Advisor services and other information were forwarded to more than 200 entities. A public hearing was held on April 3, 1991. Thirty attendees provided clarification and suggestions regarding the RFP content. The Financial Services Negotiating Committee and the Bond and Investment Task Force met jointly on April 9, 1991, to modify the draft RFP based on the vendors comments.

On April 30, 1991, seven proposals were received by the Division of Purchases for financial advisor services.

On May 20-21, 1991, representatives of three firms provided a written and oral presentation to the Secretary Stotts, the Financial Services Negotiating Committee, the Bond and Investment Task Force, and KDOT staff. Follow-up interviews were conducted on June 5-6, 1991.

Secretary Stotts, met with Michael Johnston (Secretary Designee), the Special Counsel, and Robert Haley on June 18, 1991, to review the progress to date. Secretary Stotts suggested that Mr. Johnston meet with representatives of the leading firms.

On July 9, 1991, Secretary Johnston met with the Financial Services Negotiating Committee, the Bond and Investment Task Force and KDOT support staff to discuss the criteria for selection of the Financial Advisor. It was determined that significant emphasis should be assigned to the firm's experience. Based on all considerations and needs, the Financial Services Negotiating Committee selected Public Financial Management for negotiations. The committee negotiated various contract provisions with Public Financial Management and issued a Letter of Intent to enter into a contract on July 22, 1991.

The Bond and Investment Task Force met numerous times starting on August 16, 1991, through December 12, 1991, to discuss a financial plan, timing and size of bond issue, issuing bonds, financial modeling, and other related issues.

On November 8, 1991, Public Financial Management, as part of their role as Financial Advisors, recommended the following actions:

1. begin immediate preparation for issuance of it's first series of Bonds under the Comprehensive Highway Program enabling legislation ("The Act"), with an anticipated sale date at the end of the first quarter of 1992;
2. plan on issuing, subject to market conditions, between \$200 and \$250 million of fixed rate, KDOT special revenue bonds as the first series of debt under the Act; and
3. sell its first series of debt for the program through negotiation with a group of investment banking firms acting as underwriters selected by means of a competitive Request For Proposal process.

PFM further stated that the overwhelming number of state transportation agencies sell bonds by means of negotiated sale.

Resolution 91-4, dated November 12, 1991, signed by Secretary Johnston authorized the employment of Bond Counsel and a Request for Proposal was issued. The Bond Counsel Review Committee reviewed the proposals received in response to the RFP. The committee provided a recommendation to the Secretary for Bond Counsel.

On November 12, 1991, Resolution 91-5 authorized the employment of a Senior Managing and Co-managing Bond Underwriters. The resolution respectfully requests that the Financial Services Negotiating Committee convene to obtain the services of Bond Underwriter(s).

The Division of Purchases, on November 14, 1991, issued a Request for Proposals for Bond Underwriter(s). Proposals from interested underwriters were due December 9, 1991. The RFP was mailed to 96 underwriting firms/offices and 37 responded by submitting a proposal.

On December 10, 1991, the Secretary, Financial Services Negotiating Committee, Bond and Investment Task Force and KDOT staff met to discuss the proposals. It was determined by the committee that 10 firms would be invited to give oral presentations.

The oral presentations were conducted on December 17-18, 1991. On December 19, 1991, the Financial Services Negotiating Committee met with the Secretary and it was decided that the underwriting syndicate would consist of five firms.

The first bond issue occurred on March 17, 1992. The investment banking syndicate issued \$250 million of bonds through a negotiated sale as recommended by the Financial Advisor.

On March 31, 1992, the Secretary, by Resolution 92-3, adopted the "Statement of Investment and Reporting Policy" for the 1992 bonds.

Resolution 92-5 dated April 22, 1992, authorized the redemption of the State of Kansas Highway Refunding Bonds, Series 1985A.

PFM recommended by letter (dated August 21, 1992) that KDOT issue its second series of bonds. The letter confirmed earlier discussion with PFM and Bond Counsel regarding issuing bonds. Bond Resolution 92-6 dated August 19, 1992, authorized a competitive bid sale in the second half of calendar year 1992. PFM indicated a modest sized sale to lock in historically low tax-exempt interest rates. "Also PFM indicated that a sale is prudent, appropriate, and in their opinion, fully consistent with KDOT's financial policy objectives for the Comprehensive Highway Program." The competitive method of sale was used to take advantage of the low interest rates at that time.

The second sale occurred on September 23, 1992, in the amount of \$125,000,000 sold competitively.

December 18, 1992, Secretary Johnston sent a letter to Secretary Seltsam requesting that another Financial Services Negotiating Committee be convened for the purpose of selecting another investment banking syndicate for future bond sales.

On January 28, 1993, an RFP for Underwriting Services was mailed to firms that had shown an interest in the past. Also the Services were advertised in the Bond Buyer, and the Kansas Register. The closing date for the RFP is February 18, 1992. Twenty seven firms responded to the RFP.

The Financial Services Negotiating Committee on February 24, 1993, reviewed and recommend that 12 firms present oral presentations. The presentations are scheduled for March 3-4, 1992.

The policy of the Secretary of Transportations for issuing bonds dictates that the agency be ready to issue bonds by having the appropriate professionals in place to facilitate a quick sale. The decision to issue bonds considers a wide range of factors in the market and program needs.

Attachment

COMPARISON OF UNDERWRITING COSTS**Cost per \$1,000 Bond**

	1992 ISSUE	1992A ISSUE	Transportation Average 1/90-2/92
Underwriters Discount "Gross Spread"	\$7.11	\$5.37 *	
Management Fee			
Underwriter's Takedown			
Underwriter's Expenses			
Other Expenses which may be included in "Gross Spread"	1.13	1.13	
Registrar/Paying Agent			
Rating Agency			
Auditor			
Printing, advertising, etc.			
"GROSS SPREAD"	\$8.23	\$6.50	\$9.51
Expenses NOT included in "Gross Spread"	1.36	1.60	
Bond Counsel			
Special Counsel			
Financial Advisor			
TOTAL SPREAD	\$9.59	\$8.10	

NOTE: Information about expenses included and not included in the "Gross Spread" was obtained from PFM.

* Spread shown is per bid and does not reflect realized spread.

1992 Bond Issue

		COST PER	
		<u>FEES</u>	<u>1,000 BOND</u>
Investment Banking			
Management Syndicate: Smith Barney (Lead Banker)		Management Fee	\$250,000
Lehman Brothers		Underwriters' Takedown	1,328,713
Bear Stearns		Expenses	197,558
A. G. Edwards			
B. C. Christopher			
		Underwriter's Discount	\$1,776,270
			\$7.11
Selling Group:			
Bank IV Wichita			
George K. Baum & Co		Kidder, Peabody & Co.	
Beecroft, Cole & Co		Merrill Lynch & Co	
Boatmen's National Bank		Paine Webber Inc	
Columbian Securities		Piper, Jaffry & Hopwood, Inc	
Commerce Bank of KC		Prudential Securities, Inc	
Cooper, Malone, McClain		Raymond, James & Assoc	
Dain Bosworth, Inc		Rodman & Renshaw Inc	
J.O. Davidson & Assoc		Seltsan-Hanni & Co	
First Securities Co of Kansas		Stern Brothers & Co	
Hanifen Imhoff, Inc.		Stifel, Nicolaus & Co	
Edward D. Jones & Co.		United Missouri Bank of KC	
Kemper Securities Group		Dean Witter Reynolds Inc	
Bond Counsel: Burke, Williams, Sorensen & Gaar		105,000	
Special Counsel: Jon Small		50,000	
Financial Advisor: Public Financial Management		185,000	
Registrar/Paying Agent: State Treasurer		49,213	
Auditor: Deloitte & Touche		8,000	
Rating Agency: Standard & Poors		40,000	
Moody's		40,000	
Fitch		15,000	
		\$2,268,483	
Printing, advertising and other costs:		130,237	
		<u>\$2,398,720</u>	<u>\$9.59</u>

1992A Bond Issue

		<u>FEEs</u>	<u>COST PER 1,000 BOND</u>
Underwriting Syndicate:	Lehman Brothers (Lead Banker)	\$671,250	\$5.37
	Merrill Lynch & Co.		
	Goldman, Sachs & Co.		
	First Chicago Capital Markets		
	Lazard Freres & Co.		
	B.C. Christopher		
Syndicate Members:	Craigie Incorporated		
	Piper, Jaffray & Hopwood		
	R. Seelaus & Co.		
	Muriel Sibert & Co.		
	Sterne, Agee & Leach		
	A.H. Williams		
Bond Counsel:	Burke, Williams, Sorensen & Gaar	77,000	
Special Counsel:	Jon Small	15,000	
Financial Advisor:	Public Financial Management	108,000	
Registrar/Paying Agent:	State Treasurer	39,478	
Auditor:	Deloitte & Touche	4,000	
	Arthur Andersen	17,000	
Rating Agency:	Standard & Poors	20,000	
	Moody's	20,000	
	Fitch	10,000	
		<hr/>	
		\$981,728	
Printing, advertising and other costs:		<hr/>	
		30,522	
		<hr/>	
		<u>\$1,012,250</u>	<u>\$8.10</u>

Attachment 5

KANSAS 1992-1997 APPORTIONMENTS
Adjustments to Apportionments & Obligation Limitation
(In Millions)

	<u>JAN. 1992</u> <u>ESTIMATE</u>	<u>SEPT. 1992</u> <u>ESTIMATE</u>
TOTAL 6-YEAR APPORTIONMENTS	\$1,321.0	\$1,306.4
Deductions:		
95/87% Obligation Limitation	(66.0)	(149.8)
Funds for Locals	(234.2)	(210.9)
New Requirements	(59.1)	(53.1)
Match for New Requirements	(14.8)	(4.4)
Other	(80.9)	(83.1)
Demonstration Projects	(146.6)	(143.0)
Comprehensive Highway Program	<u>(564.0)</u>	<u>(564.0)</u>
Subtotal of Deductions	(1,165.6)	(1,208.3)
Total Uncommitted Funds	155.4	98.1
Additional Commitments		(40.0)
TOTAL UNPROGRAMMED FUNDS		58.1

ISTEA DEMONSTRATION PROJECT STATUS

(\$ in millions)

PROGRAMMED

<u>PROJECT</u>	<u>DEMO FUNDS</u>	<u>PROJECT COST</u>	<u>FUNDED BY</u>
RIVERTON TO I-44	\$14.5*	\$20.2	KANSAS CHP
I-435/ROE/NALL	7.7*	34.6	KANSAS CHP
LEAVENWORTH TRAFFICWAY	8.6	12.8	LOCAL GOVT
US-54/OLIVER	6.6	64.3	LOCAL GOVT
US-81 {PE Only}	----	4.6	KANSAS CHP
HUTCH BYPASS {PE Only}	----	2.3	KANSAS CHP
SOUTH LAWRENCE TRAFFICWAY	3.3	59.3	KANSAS CHP
OAKLAND EXPRESSWAY			
-- NORTH {Construction}	5.9	54.2	KANSAS CHP
-- SOUTH {PE, R/W & Util}		1.5	KANSAS CHP

UNPROGRAMMED

<u>PROJECT</u>	<u>DEMO FUNDS</u>	<u>PROJECT COST</u>	<u>FUNDING SHORTFALL</u>
US-81	\$52.6 ⁽¹⁾	\$97.6	\$45.0
HUTCHINSON BYPASS	48.8	48.8	9.8 ⁽²⁾
LAWRENCE CIRCUMFERENTIAL			
-- EASTERN PARKWAY	----	4.6	4.6
-- U.S. 40 IMPROVEMENT	----	7.6	7.6
-- SO. TRAFFICWAY (4-lane)	----	35.7	35.7
OAKLAND EXPRESSWAY			
-- SOUTH {Construction}	----	19.6	<u>19.6</u>
TOTAL			\$122.3

* Includes funding from FY 1992 US DOT Appropriations Act

(1) Amount available subject to interpretation

(2) Required 20 percent match

February 9, 1993