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[AGENCY 27]

SENATOR HEIDEMANN: Thank you. Is there any other testimony on this agency's budget? Seeing none, we will close up the public hearing on Agency 17 and open up the public hearing on Agency 27. Hopefully, it's going to be as short as the other two agencies we just heard. Welcome. [AGENCY 27]

JOHN CRAIG: (Exhibit 7) Good afternoon, Senator Heidemann and members of the Appropriations Committee. My name is John Craig and I'm the director of the Nebraska Department of Roads. My comments this afternoon will be brief and to the point. I will provide you a copy of my testimony with an attachment following my presentation. Our surface transportation system plays a vital role in our economy and quality of life. Nebraska serves as a Midwest connection for the movement of goods and products by commercial trucks and railways and our transportation systems provides connectivity to foreign trade. Transportation connects people to jobs, family, medical care, entertainment, and goods and services that we all need for everyday life. This past year was perhaps the high-water mark for the Department of Roads. We produced the largest transportation program in our history, with the fewest employees in 50 years, and the highest performance on record. I am very proud of the accomplishments made by our transportation partners and our employees. As we move forward to the next few years, we many challenges ahead of us. In fiscal year 2006 we produced a surface transportation program of \$390 million, today we stand at \$350 million program. And during the next biennium we expect the program size to be in the vicinity of \$330 million. Over the next few years, the vast majority of our efforts will be directed towards system preservation, that is maintaining the transportation system that exists today. Relatively speaking, there will be few new capital improvements that add capacity, that is additional lanes, interchanges, so on and so forth. Declining revenue combined with increased construction costs has led to an internal reevaluation of the current criteria used by the Department of Roads to prioritize projects and to determine state highway needs in the future. Our previous needs criteria was last established in 1988. We

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requested a total reduction of \$1,728,613 Cash Funds for fiscal year 2008-2009 for support of public transportation. This is a 15 percent reduction from the level of funds provided by laws 2005, LB425, for public transportation funding, which was the same proportionate funding reduction included in the Highway Construction Program. I will also provide you with information, as requested by committee staff, of how we calculated our Highway Cash Fund request in September of 2006 for fiscal years 2008 and 2009, in order to establish an appropriation that maintains the existing overall gas tax rate. While a revised estimate today might suggest that a minor revision in the Highway Cash Fund appropriation is possible, we are not recommending such a change at this time. This concludes my remarks. I would be happy to answer any questions at this time. And if I could get the clerk to pass these copies out. [AGENCY 27]

SENATOR HEIDEMANN: Are there any questions? We have a couple. Senator Nantkes. [AGENCY 27]

SENATOR NANTKES: Hi, thanks so much for joining us this afternoon and for your testimony. [AGENCY 27]

JOHN CRAIG: You bet. [AGENCY 27]

SENATOR NANTKES: As we look over all with the budget and how that affects plans and activities, I've heard some rumbling that as...if we stick with our current numbers here, we're really going to be in preservation mode rather than in growth and expansion mode. And that, in fact, we're losing some local companies because of those kinds of projects here in Nebraska, and instead we'll have to rely on Iowa, Kansas, or other companies to help us down the road. And I'm wondering if you could share with us some of your expertise or any information you may have in that regard, because that's quite concerning. [AGENCY 27]

JOHN CRAIG: I can't speak to the businesses. There's not really a practical way to

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measure that. Although it is alleged, almost on a daily basis that business are won or lost, based on roads. I don't know the facts of the matter at all. I can say that as we've reevaluated our criteria and the needs of the state highway system this last year, just to preserve the current system, I mentioned that last year we did a \$390 million program, this year we're at \$350 million, the next two years we expect a \$330 million program. And it could be worse than that. It could go down substantially due to a lack of federal funds. Our estimate is right now that it will cost at least \$170 million just to preserve the current system, not one new anything, that's just...it will look like construction sometimes, but it's really reconstruction. It's just to keep those lanes in good condition, those bridges in good conditions, so on and so forth. Another way to articulate this downside, if you will, about three years ago, for those members that are not familiar, the director of Department of Roads, whomever they are, provides a needs assessment by law to the state Legislature and then testifies for a joint Transportation-Telecommunications-Appropriations Committee every year. That report is due on the first of December of every year. Three years ago, I reported to that joint committee and the Legislature that the Department of Roads was \$65 million a year short. In the bigger scheme of things, that's not a great amount of money. Two years ago, we reported that we were \$100 million a year short. And finally, this last year, 1 December 2006, we were fully \$280 million a year short in funding. I'll also make comment that this is not unique to the Department of Roads, this is true for virtually every state in the country and it's also true for cities and counties. And so those are some responses that I would make relative to the needs of the state highway system. [AGENCY 27]

SENATOR NANTKES: Thank you. [AGENCY 27]

SENATOR HEIDEMANN: Senator Wightman. [AGENCY 27]

SENATOR WIGHTMAN: Can you tell us, Mr. Craig, how...if we were to allocate a substantial portion out of cigarette tax that would come directly to your department

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for...but it would be earmarked, I think. Is that correct? Or would that all be handled through your department? [AGENCY 27]

JOHN CRAIG: Is this Senator Hudkins bill that you're referring to? [AGENCY 27]

SENATOR WIGHTMAN: Right. [AGENCY 27]

JOHN CRAIG: As memory serves me, and I'd have to go back and look at that particular bill, that money is allocated, it is given to the Highway Allocation Fund. The Highway Allocation Fund is split between cities and counties. None of that money comes to the Department of Roads. If you think about the Highway Trust Fund, which the cities, counties, and state share proportionately, that Highway Trust Fund is split to Highway Cash Fund, which comes to the Department of Roads. The Highway Allocation Fund is then split between cities and counties. So it's... [AGENCY 27]

SENATOR WIGHTMAN: It goes directly to the cities and counties? [AGENCY 27]

JOHN CRAIG: Yes. So as I understand that, none of that money would come to the Department of Roads. [AGENCY 27]

SENATOR WIGHTMAN: You indicated in your testimony that your employees, number of employees was at the lowest in the last 50 years or so? [AGENCY 27]

JOHN CRAIG: The low...you'd have to go back to...I'd have to look back directly, I think it's 1957 or 1958 to see fewer employees than what are in the department today. [AGENCY 27]

SENATOR WIGHTMAN: How many do you have at the present time? [AGENCY 27]

JOHN CRAIG: We have about 2,130, about 150 fewer than we had eight or nine years

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ago. Great, great people. [AGENCY 27]

SENATOR WIGHTMAN: I was just looking at the figures here, and they're close to that. But I see that it shows in 2005-2006 you had 2,128. But I figure maybe... [AGENCY 27]

JOHN CRAIG: It varies depending on the day. So that's close. [AGENCY 27]

JOHN WIGHTMAN: That's all I have. [AGENCY 27]

SENATOR HEIDEMANN: With fewer employees, how much more are you relying on contracted services? [AGENCY 27]

JOHN CRAIG: Well, we haven't really contracted much services out. I can talk to that, but it's almost miniscule. I would say, through technology and our equipment fleet and a whole variety of efficiencies, we're not done yet, but we probably...we've probably done the low-lying fruit. We're just more efficient. I think we're more productive, more efficient now than we were eight or nine years ago, with 150 fewer people. It can be done. Some of our own employees have to prove that to themselves. I'd give one example. We had a large equipment fleet, as you might imagine, this is a relatively simple example, relatively large equipment fleet to cover the entire state on the state highway system. And if you look at what it costs for new equipment you get one cost; if you look at what the net cost is, that's what does it cost you for a new piece of equipment, what does it cost you for maintenance, what does it cost you for net downtime, and what do you get when you sell it on the auction block, you come up with a net cost; you come up with a different figure. So, in effect, we are spending now less money in net cost than we were seven or eight years ago, yet we have a fleet and the operators that operate that fleet that I believe are more productive than ever. If you look at last week's snow storm, we had fewer people to deal with that, and they did, in my opinion, an outstanding job at least on the state highway system. Contracting out--we have spent a good deal of time looking at a whole variety of areas and functions with the Department of Roads to ask

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the question, is it more cost-effective to do it internal in the Department of Roads or do it externally? And you come up with a bit different answer, as you might imagine, depending on the function. If you look at design as an example, and we do about two-thirds of our own designs internal to the Department of Roads, and we do about one-third, don't hold me to that, but it's fewer than one-third right now, as I recall, by consultants. And there's a very good reason for that. Because as our program changes and the complexity of designs, those consultants don't have permanent work. They are extensions of our workforce. So as you can imagine those fluctuations of work occur, when we don't need a full-time staff for the next several years or 10 to 20 years, we'll give it to a consultant. It's a one-time event. Sometimes on the consulting side there is a particular expertise that it's not worth us keeping within the Department of Roads. So there is one answer. We do a good deal of our design within the Department of Roads. If you look at mowing, it's another good example that gets a fair amount of discussion, both good and bad. We started exploring, eight or nine years ago, is it more cost-effective for us to do our own mowing, as an example, or contract it out? And we essentially sent a request for information out and got some responses from mowers. And the first year we contracted out a portion, basically as an experiment, in our District 2, which is basically centered around Omaha, a large, congested area, reasonably small, a good place to start. And we saved \$10,000. Not a great amount of money, but enough indication that there was more promise in that. As the last seven or eight years have continued, we are saving about, again don't hold me to this, \$500,000 or \$600,000 a year in mowing costs. And we've gone perhaps two-thirds of the way across the state. The savings are greatest in the eastern part of the state for a whole variety of reasons, and then they begin to diminish the farther west we go. We continue to look at it, but the common denominator is, is it cheaper for us to do mowing or is it cheaper for a mower to do mowing? There's a whole variety of other functional areas. You mentioned, someone, I thought, mentioned contractors. One hundred percent of our construction, every state in the country, is done by contract. We don't do any construction ourselves. That's just a little bit of response on the contracting side. [AGENCY 27]

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SENATOR HEIDEMANN: You even are starting to contract out even snow removal in places, though, aren't you? [AGENCY 27]

JOHN CRAIG: No, we do not. [AGENCY 27]

SENATOR HEIDEMANN: You don't hire a private contractor to...like a motor grader to go up and down the road? [AGENCY 27]

JOHN CRAIG: No. There are cities and counties, and I know more about some of the cities and less about the counties, so I'll retract the county portion. But there are cities that contract out part of their snowplowing operations. Now, I'm...for some reason I recall because I'm familiar with this. Omaha, several years ago, contracted out virtually all of their snow removal operations. It created so much wear and tear for those that...those contractors in their normal business that they got out of it and the city of Omaha got back into the snowplowing business. But we do 100 percent of our own plowing operations. Cities and counties, they make their own decisions on how they come to grips with that. And I think you probably saw some of that in this last week as they had to essentially augment their efforts by going out to whatever resources they could acquire to be able to remove snow. It took them a while to do it. [AGENCY 27]

SENATOR HEIDEMANN: The reason I say that, there's a little confusion here and it might be on my part. But every time it snows very much my brother leaves and runs for a private contractor, and he runs up and down the state highway system. [AGENCY 27]

JOHN CRAIG: No, we do not contract out for any snowplowing. So I don't know... [AGENCY 27]

SENATOR HEIDEMANN: I think that's something you need to look into that, because I know the highways... [AGENCY 27]

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JOHN CRAIG: I have no idea what he's doing. [AGENCY 27]

SENATOR HEIDEMANN: ...that he's going up and down, it's Highway 50 and out to the west of Tecumseh. [AGENCY 27]

JOHN CRAIG: He could be plowing the entrances to county roads, he could be...I have no idea what he's doing. If you can give me his name and phone number, I'd be happy to check. (Laughter) [AGENCY 27]

SENATOR HEIDEMANN: We'll look into that because I lose him every time it snows. (Laughter) [AGENCY 27]

JOHN CRAIG: I'd be happy to check. Well, and there is...there is...it's not unusual that there is some confusion between where do city systems and county systems and state systems...where do they meet? For all practical purposes, the average person does not recognize the difference in those roads and who has jurisdictional responsibility. So there may be some confusion. But if you give me his name and phone number, I'll check. [AGENCY 27]

SENATOR HEIDEMANN: I will do that. You might be surprised on this one. (Laughter) [AGENCY 27]

JOHN CRAIG: Well, I might, I might. [AGENCY 27]

SENATOR HEIDEMANN: Are there any other questions? Senator Harms. [AGENCY 27]

SENATOR HARMS: Yes. What do you now have proposed or currently spending for expressways in this last year's budget, roughly? [AGENCY 27]

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JOHN CRAIG: You know, I can't...I don't know. [AGENCY 27]

SENATOR HARMS: I guess, what I'm... [AGENCY 27]

JOHN CRAIG: I can tell you that in the past, and as we've redone our criteria, the first priority was to the 9,000 miles...we have about 10,000 in the state highway system. The first priority was to the 9,000 miles of what we call the primary system. Most of that is two-lane roads, but they are most of the roads that are networked around the state. The second priority was the Interstate, and this is by a joint Highway Commission-Department of Roads policy. The third priority was to the so called 600-mile expressway system. And so, as I go through that, the expressway system is the bill-payer. I could have approximated, some years ago, about what we would spend, but this last year I don't know. This last year and this year are substantial changes for us. [AGENCY 27]

SENATOR HARMS: What are you proposing for (inaudible) in this present budget?
[AGENCY 27]

JOHN CRAIG: I can...well, I can tell you that for at least the next three to four years, and if I'm the least bit pessimistic it will be longer than that before we let any other expressway system project to contract. The money is just not there. We have about 420, 421 miles of the 600-mile expressway system completed. And that other 179 miles, frankly, it has never been funded. And so that's where things stand. [AGENCY 27]

SENATOR HARMS: How does rural America stack up in regard to your highway funds versus urban, versus rural America? [AGENCY 27]

JOHN CRAIG: Could you be more...I'm not sure what...how to answer that? That's a very broad question. [AGENCY 27]

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SENATOR HARMS: Well, I'm just asking what are you spending in urban America versus what are you spending in rural America? [AGENCY 27]

JOHN CRAIG: I'd say there are three ways that we set priorities. And the vast majority of states do the very same thing. There are three broad categories that we use to establish our priorities. One is safety, one is the condition of the system, the road--if it needs to be replaced, has to be working like a car, worked on like a car or anything else; and the third one is traffic volume. So there's no question about it, and I believe this is true again for any state in the country that there is a propensity for roads funding, highway funding, transportation funding, for that matter, which is a broader category, to migrate towards urban areas that are growing. It's true in Nebraska. Every year we're spending more in the eastern part of the state than the rest of the state. It's not unique here, and that's the brutal facts. [AGENCY 27]

SENATOR HARMS: Well, have you taken any consideration at all for future economic development in your criteria? Give us to three... [AGENCY 27]

JOHN CRAIG: We could do that. And if we used an economic development factor, and one is called a benefit-cost analysis, it is our belief that that would further accelerate dollars west to east. And so we've never gone there, to be blunt, because we don't want to make things more difficult than they are. [AGENCY 27]

SENATOR HARMS: Well, and too it depends upon what kind of a factor you really use, because, quite honestly where I live in rural America, and that's Scottsbluff, that's key to us. And the infrastructure for rural America is the key to its growth. But my concern is, and I'll tell you exactly what I told a group here just previously in regard to LB42, my concern is that if we're going to help rural America roads is important to us, air transportation is important to us. Infrastructure is critical for us. And I just have a real concern about the fact that we're not going to be able to get that done. And then we become...what happens to us is we become a drag on the tax structure because we're

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unable to produce our fair share that we should produce, and a lot of that is hinged upon the simple fact that we've never completed the expressway, we've never completed some of the roads. And I think that's tragic. And so we've become more of a burden rather than an asset to this state. And somewhere along the line I think we have to rethink just a little bit our criteria here, because I don't see us having an opportunity to grow. And I can tell you because I've been heavily involved in economic development for 33 years. And I've sat across the table for people in the negotiations. And we've lost companies and we've lost businesses because, quite frankly, we don't have the connection, we don't have the road. And you have the work values, you have the work ethics. Agriculture...rural America is a wonderful place to live and people will give you eight hours of hard work. And in order for us to get our jobs where they need to be, in order to give ourselves an opportunity to be a contributing member to the state this infrastructure is important and highways are critical. And so that's really what I'm after so you know up front what I'm talking about. [AGENCY 27]

JOHN CRAIG: You bet. Actually, I couldn't agree with you more on the vast majority of what you just said. The expressway system is an example, and it's a good topic to talk about. In 1988, when the 600-mile expressway system, there are some other categories or subjects called expressways, but they are not necessarily part of the 600-mile expressway system, it was contemplated by both the Department of Roads and the Legislature, in 1988, that the fuel tax would be ratcheted up from, it was 19 or 20 cents per gallon, it would ratchet up over 15 years, that is...and the 15 years would have been 2003 that that 600-mile expressway would have been done, up to 30 cents, something like 35 cents per gallon and then go back down to pay for it. Within the first two years the political will was lost and the money was never generated. I couldn't agree more with what you're saying, but it costs money. And again, it's not unique to the state of Nebraska, it's true for cities, it's true for counties, it's true nationally, it's true for every state. [AGENCY 27]

SENATOR HARMS: Let me tell you one other factor... [AGENCY 27]

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JOHN CRAIG: It is a huge challenge. [AGENCY 27]

SENATOR HARMS: Let me tell you (inaudible) factor for you now. You know that we have now, at least in the planning stages is the (inaudible) Plain Highway, Alaska to Mexico. Now, where I live that's going to come right through there, that is if this state is willing to make that contribution and so that we can complete this. And I think for the future of that part of Nebraska, there's such a phenomenal amount of history, there's such a phenomenal opportunity here for us to capitalize on, if we're unwilling to start to put that into the planning process, and if the federal government stays on target and the (inaudible) Plain Highway comes about, rural America is going to come alive with activity and growth and we will then be a contributing member. And so I hope as you look at this, because I'm not going to go away for awhile, (laugh) and I'm being very honest and I'm not being threatening here,... [AGENCY 27]

JOHN CRAIG: No, no, I appreciate the comment. [AGENCY 27]

SENATOR HARMS: ...I've got a purpose here, and it's for rural America. And I think it's time that we address the issue. I'm sure that Valentine and other places have some of the same issues. [AGENCY 27]

JOHN CRAIG: You bet. [AGENCY 27]

SENATOR HARMS: I think we've got to find a way to rejuvenate it, and you can't do it without roads and good structure. [AGENCY 27]

JOHN CRAIG: And that costs money. If you've been a city councilman or a county highway commissioner, you know full well the cost for those roads as well. And it is a significant issue. [AGENCY 27]

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SENATOR HARMS: It does cost, but it's a matter of priority. [AGENCY 27]

JOHN CRAIG: It is, it's a... [AGENCY 27]

SENATOR HARMS: (Inaudible) priority (inaudible). [AGENCY 27]

JOHN CRAIG: It is, there gets to be a fine line, where do you let go and deteriorate and what do you build? I would...I have this little speech, and I won't give it here because I don't want to take up your time, but there has probably not been such a sea level change relative to highways in this country since prior to the Interstate. There is a commission, at the national level, to contemplate much of what you're referring to, it's called the SAFETEA-LU Commission, SAFETEA-LU is the acronym for this last transportation act, proved about two years late for a lot of these same reasons at the national level. But on the 50th anniversary of the Interstate system, which we celebrated last year, what the Interstate or highway system or transportation system for the next 50 years, which is complicated enough. The difficulty is, how are you going to pay for it? And their mission is to provide recommendations to Congress on how are they going to do that. And they're supposed to deliver the recommendations formally by July of 2007, this year. They've asked for an extension to December of this year, and no doubt that will be approved. But they are supposed to make recommendations to Congress. And I frequently tell folks, watch for those recommendations because they will give all of us and the other 49 states some clues of what's the political will out there to do all of this, whether it's urban or rural America. It's a big change and just now beginning to get some discussion in our society, just now beginning. [AGENCY 27]

SENATOR HEIDEMANN: Senator Fulton. [AGENCY 27]

SENATOR FULTON: I'd like to point out first that you're probably the first person in here to tell us that we've reached...or that there was high water mark reached. Our water level is pretty low is what I understand, but... [AGENCY 27]

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JOHN CRAIG: Maybe a bad analogy, I'm sorry. [AGENCY 27]

SENATOR FULTON: We're talking about cost, I mean the roads cost money. The raw materials associated with building roads are increasing, and it's not just for roads, this is for heavy machinery and heavy industry OEMs, just across the board. This is largely due to the industrialization of South Asia, China particularly. I don't see that trend going the other way. So in a sense, from an Appropriations standpoint I feel, and perhaps my colleagues feel we're in somewhat of a race. So we need to pay \$10 today in order to build this road, because in a couple of years it's going to be \$20 to build the same road, just due to what's happening to raw material costs. [AGENCY 27]

JOHN CRAIG: You bet. [AGENCY 27]

SENATOR FULTON: So you know you don't have money for western Nebraska because some need to be built in eastern Nebraska. And eastern versus western likewise. We're in the same predicament here. So how do I say it? When put in an urgent situation, it's time to start thinking outside the box. So I guess my question is, have you and the Department of Roads given thought to different ideas--intrastate partnerships when buying raw materials? I don't know if that's a possibility, but it's something we need to consider, design techniques, design standards, different materials. I mean we need to start thinking outside the box because the money is not there for everything we want to do. [AGENCY 27]

JOHN CRAIG: The answer is yes. But we don't have more money, so as an example if you...and we will report, by the first of December this year, on how we're changing our needs criteria. Eight or nine years ago, we reported, no it's \$6.5-\$6.4 billion dollars over the next 20 years. And that's how far we look out is 20 years, that's reasonably reliable over a 20 year period, although that's an estimate. This last year, as I recall, it was \$9.3 billion. As we revise the criteria more in line with surrounding states and the American

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Association of State Highway and Transportation officials, which sets by convention most of the criteria by which roads are built in this country, the federal government does not, it's by agreement between the 50 states, that will reduce those needs \$1.5 billion. Now that's a good thing, but it really doesn't change the prerogatives, it doesn't produce any more money. So I mentioned some of those efficiencies, whether it's mowing, whether it's...there's a whole variety of things that we're looking at all the time to try and free up money. Those 150 fewer people we have in the department, it wasn't just by our good graces that we decided to change that; that freed up, at the time that many of those were not hired, we did it by not...we didn't release people, we just didn't hire them back once they retired. That was \$8 million or \$9 million. I had a figure at one point in time, but it's a few years old and things change, how much money we in fact had saved. And it goes right back into the system for both construction and then system preservation. So we're continuously doing it, there's no question about it. But I don't think there are any silver bullets either, there just aren't. Mentioning the China factor, or to a lesser extent the India factor, but China is going through an industrial revolution. They've caused the price of oil to go up, they've contributed to that. But they've actually caused the price of steel and cement to spike worldwide. We're in a global economy, it's a reality. Back to the asphalt side, which is primarily oil, most of us see the price of oil reflected in the price of gas at the pump. But asphalt for us, over the last couple of years, has gone from roughly \$250 a ton to almost \$500, some states it more than that. And so that's a reflection of the declining buying power. So the answer is yes, we're continuing to look at it. There are no silver bullets, though, and I don't anticipate any. It's a huge challenge that all of us face. If you have suggestions, boy, I'm absolutely open to them, too. [AGENCY 27]

SENATOR HEIDEMANN: I think he has a suggestion. (Laugh) [AGENCY 27]

SENATOR FULTON: I mean I'm...this is...I'm not one to think crazily, okay? I'm also an engineer. I like to have these things like this. But that's...we've got to think outside the box. Is the idea of interstate agreements to increase buying leverage with providers of

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raw materials? Is that possibility, or is that just pie in the sky? [AGENCY 27]

JOHN CRAIG: No, I'd say it's possible. We've had, we and some other states have talked about that. But we've never done it. And in theory we do that within the state. So what you're suggesting is not a new idea, but it's normally intrastate and not interstate. And by that I mean as an example I'll just take equipment as an example. I was talking about that few minutes ago. Cities and counties can buy off the state contract. You get a benefit for buying in bulk and that's the same thing you're suggesting, several states getting together and buying. And that could well be looked at. Of course, that depends upon the cooperation of those other states. But you bet, we can do that and we've talked about it, but I can't say that we've ever pursued that one interstate. [AGENCY 27]

SENATOR HEIDEMANN: I just was letting you ride there a second. I was just going to throw one more thing out. I don't know if we've got anymore question. But just looking at the makeup in Nebraska, one of the brightest things that I think we've got going for us right now is ethanol. And if you look at ethanol and you look back 20 years ago when there wasn't...the ethanol definitely like we see today, grain moved by rail, fuel moved mainly by pipeline. Now we have these ethanol plants popping up every place. Grain moves by semi, the wet or the by-product moves by semi, and also the ethanol moves by semi--the effect on the road system? I'm just...I think it's something that we're going to have to deal with down the road, or it's going to affect the road system. And I look at your...where you're spending a lot of your money--on the Interstate system and on maybe areas that aren't anywhere near any of these ethanol plants--and I think there's going to be a lot of pressure because of all the truck traffic on these ethanol plants. And just your thoughts on that. [AGENCY 27]

JOHN CRAIG: All I can say is it's a dynamic situation. We try and look at all of that all of the time. We're doing traffic counts and measuring the...we measure the conditions of the pavement annually, bridges every other year, and we have 16,000 bridges in the state, about 3,500 on the state system as an example. So there's a lot of infrastructure

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out there and it darn well bears being taken care of. It's generally accepted conjecture that heavy trucks damage the roads most. Now, those heavy trucks they are either delivering those goods and products that we're consuming, whether it's corn to an ethanol plant or whether it's products to a Wal-Mart. In fact, the only part of fuel, at least in Nebraska and it may well be true in other states, that consumption is growing is diesel, most likely because of the trucks. We're the consumers. They are just delivering those goods. And that freight traffic is projected to grow, whether it's truck traffic or train traffic. It is a complicated picture. The railroads, if they were sitting here and I can't speak for them, but they would characterize their business as being capital heavy or capital rich. They don't get any public money to build their roads, you know they call them steel rails. And so they are driven 100 percent by the market. We're not quite driven that way. And they, frankly, in this SAFETEA-LU Commission, nationally, they, like a whole variety of other interest groups, are looking for money because they want to serve those markets. But they get no portion of public funds, yet they are expected to compete from a business standpoint with other freight, including trucks. So it is a complicated picture. Ethanol plants, specifically, just a couple of things, we work almost on a daily basis providing access working with ethanol plants. There is a group of state agencies that works together to try and make the whole process of getting an ethanol plant permitted environmentally and so on and so forth easier. There's a rail council that had about, now I can't remember, about \$3.5 million of money sitting in the bank, federal money not state money, could be used for state purposes, that had never been spent. Could have been used for loans, could have been used for grants. And that rail council, of which I am a member, finally got off the dime this last year and granted that money predominantly for short-line railroads that are servicing ethanol plants. So I'm just indicating those are the Department of Roads, rail council and other efforts are, I think, sensitive to the dramatic growth that we're seeing in ethanol plants and trying to do everything we can to help. [AGENCY 27]

SENATOR HEIDEMANN: Okay. Any other questions? Seeing none, thank you for your testimony. [AGENCY 27]

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JOHN CRAIG: Thank you. [AGENCY 27]

SENATOR HEIDEMANN: Is there any other testimony on this agency budget? It's always a pleasure. [AGENCY 27]

SENATOR FISCHER: Always a pleasure. I'm getting to be a regular here. Senator Heidemann and members of the Appropriations Committee, my name is Deb Fischer, F-i-s-c-h-e-r, and I'm the Senator representing the 43rd District in the Nebraska Unicameral. I'm here today to speak to your committee concerning our roads needs in Nebraska. My first point is to emphasize the historic connections that this committee and that the committee I chair have regarding roads and roads funding in this state. The Transportation and Telecommunications Committee spends at least one-half of its time and effort on transportation issues. We look at everything from license plates and speed limits, but throughout our goal is to give the citizens of this state a safe, reliable, and adequate system of transportation. And we work with you on this committee who appropriate the funds for that endeavor. The two committees, Appropriations and Transportation and Telecommunications, meet annually toward the end of the year to receive a report from the Department of Roads setting forth the state highway system needs for that year. Director Craig referred to that in his testimony. That report is required by law. On November 25, 2006, the department met with our two committees in our committee's hearing room to present that report. Some who are on the two committees now were not on the committees then. And actually, some had just been elected. Therefore it's good to review Director Craig's testimony and the report. I'd like to highlight some of the features that he commented upon. These are quotes from his testimony. Over the last few years we have been producing the highway program at \$380 million to \$390 million range. The next few years we will only be able to financially support a program size in the range of \$300 million to \$350 million. Revenues are declining. Five of the last six years, state highway Cash Fund revenues have fallen short of meeting the appropriation set by the Legislature, a loss of \$22 million. Motor

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fuel consumption has declined the last two years. State sales taxes on new and used motor vehicles have declined at the rate of 5 percent each of the last two years. Core federal highway funds for the last two years have been less than we received in the federal fiscal year 2004. Inflation is eroding the purchasing power of the transportation dollar, 60 cents on the dollar compared to 1997. Demands and needs on the transportation system are significantly outpacing revenues. The net result is smaller programs and fewer projects for the next several years. In addition, balances in the highway account or the Federal Highway Trust Fund are projected to reach a zero cash balance in federal fiscal year 2009. This may result in another \$70 million reduction for Nebraska. The 2006 state highway system needs, they're estimated at \$9.2 billion, as he told you in today's dollars. Last year's needs stood at \$8.3 billion. If we alter our criteria as contemplated, the impact would be as follows: our first priority will be system preservation. Several capital improvement projects will not get built, including many roads that were previously planned as four-lane improvements. Six-lane reconstruction of the Interstate will not proceed as rapidly as anticipated. Expressway system projects that are currently under contract will be completed, however, we do not anticipate letting to contract any new expressway project for at least three to four years. Essentially, we will be a system preservation mode. Capital improvements will be significantly reduced over the next several years. I find that alarming. Mr. Chairman and members of this committee, our state highway system simply cannot afford to be in a preservation mode for the next two years. With the inflationary pressures in the construction industry, we will simply be getting less construction for the construction dollars spent. For those communities who have been waiting for years to be connected with the Interstate system by the planned expressway system, they cannot afford to be put on the back shelf. To get further behind in meeting our needs will make it more difficult to catch up in the future years as federal assistance drops even further to zero. Now is in fact the time to anticipate future federal funding reductions, and we must fund more now so that we are not faced with trying to catch up later on with less. As this committee and you struggle to appropriate funds and determine what the appropriate size is for our Department of Roads in this state, I would offer you my continued assistance in building

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a safe, reliable, and adequate state highway system. Thank you, Mr. Chairman and members. [AGENCY 27]

SENATOR HEIDEMANN: Are there any...would you take questions? [AGENCY 27]

SENATOR FISCHER: Maybe. (Laughter) I would be thrilled to. [AGENCY 27]

SENATOR HEIDEMANN: Are there any questions for Senator Fischer? Senator Nelson. [AGENCY 27]

SENATOR NELSON: Thank you, Senator Fischer. You had a couple of big dollar figures there that went by me in a hurry. Could you just repeat those again. [AGENCY 27]

SENATOR FISCHER: The \$9 billion was for the 20-year projected needs that... [AGENCY 27]

SENATOR NELSON: That's a 20-year projection. [AGENCY 27]

SENATOR FISCHER: Yes, that Senator (sic) Craig spoke about. I believe you have copies of the needs report. And I know there are probably some people who have brought copies to give you, too. [AGENCY 27]

SENATOR NELSON: Okay, thank you. [AGENCY 27]

SENATOR HEIDEMANN: I'll give you the opportunity to sit in on the Appropriations Committee just for a little bit. Where would you set the appropriations for this? [AGENCY 27]

SENATOR FISCHER: Where would I set the appropriations for this? It depends on how

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you want to fund it. I think I'm probably going to get stomped from behind here. We need millions and millions of dollars. How that? I would say \$20 million to \$22 million more would be appropriate for this committee to put in the budget for the Department of Roads. [AGENCY 27]

SENATOR HEIDEMANN: Would that include or not include LB305? [AGENCY 27]

SENATOR FISCHER: That would not include LB305. [AGENCY 27]

SENATOR HEIDEMANN: Okay. Any other questions? Thank you for coming and testifying today. [AGENCY 27]

SENATOR FISCHER: Thank you. And I appreciate the work and the time and the decisions this committee makes. Thank you. [AGENCY 27]

SENATOR HEIDEMANN: Thank you. Is there any other testimony on this agency budget? [AGENCY 27]

MIKE HYBL: Senator Heidemann, members of the committee, my name is Mike Hybl. It's spelled H-y-b-l. I'm the registered lobbyist for the Nebraska Trucking Association. The association represents the commercial truck and bus industry in Nebraska and has 860 members located throughout our state. It will come as no surprise that Nebraska's trucking industry continues its strong support for the state's roads program. While we respect the need to control spending in the state's budget, we have deep concerns about the continuing downward trend in road's funding. It's for this reason that we ask this committee to consider exceeding the appropriations figure of \$348 million that's currently on the table and we ask that you consider a level of funding in the \$373 million to \$375 million range to support a program that is vital to the public benefit in a state where we have great distances. This figure does not begin to cover the costs of construction inflation, nor does it allow the Department of Roads to meet all the needs

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identified throughout its extensive planning process. But it is in the best interests of the state...excuse me. But is it in the best interests of the state to continue the slide toward a maintenance only program, with no funds available for new construction? Choosing to increase the road building budget by the modest amount we have suggested allows the Department of Roads to at least move forward with all its most important projects in each of the state's highway districts. It buys time for all stakeholders to consider the options for future roads funding, hopefully, before the next budget cycle begins. And that discussion is critical to Nebraska's future because we recognize that we are approaching our limit when it comes to relying primarily upon the motor fuels tax to fund our road's. We've seen what happens when states fail to react soon enough and their highway programs deteriorate. They trade short-term catchups for long-term debt service; they tempt to impose tolls on existing highways that have already been paid for through fuel taxes and registration fees; they lease their highways to foreign interests who do not answer to the voters of those states. If you'll forgive the pun, we don't think you want to see the state of Nebraska go down that road. However, unlike many programs competing for dollars from the state's General Fund, our state's roads program is funded exclusively by taxes the users of the roads, through fuel, sales taxes, and registration fees paid. So choosing to increase the road building budget does not take away dollars from other important needs the state has. It's with that in mind that we hope you'll consider increasing the dollars available this biennium to keep our roads program moving forward. I want to thank you for your time. And I'd be happy to take any questions. [AGENCY 27]

SENATOR HEIDEMANN: Senator Harms. [AGENCY 27]

SENATOR HARMS: Mike, how would you distribute those funds? You know, you represent a pretty good group of people and so you're saying you'd like for us to go up to \$375 million. How would you distribute those funds? [AGENCY 27]

MIKE HYBL: You know, I think in terms of the priorities that our association sees for the

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state highway program, I think it's pretty much as Director Craig has laid it out--maintenance of the existing system first. Our industry, of course, has a great interest in the Interstate, making sure that the capacity expansion on the Interstate continues. And then, to the extent possible, expansion of the expressway system. But, you know, we pay the taxes, we use the roads, and you know, the department, through its planning process, I think has laid out, through the one-, three-, and five-year plans, I think pretty much where the priorities exist as they've been identified, and generally we support the priorities that have been established. [AGENCY 27]

SENATOR HEIDEMANN: Senator Kruse. [AGENCY 27]

SENATOR KRUSE: Mr. Hyble, I remember you around here for about 100 years. (Laugh) In fact, I'm guessing you go back as far as anybody on roads and the funding of it. Would you just share your thoughts about the gas tax. Has it been, you know, I'm curious about the history. Has it been floating about there? We've been told that we have one the high percentage of taxes for our roads. And we've looked into it, and we found that that's not true. What...just isolating that one factor, what thoughts do you have about the stability of it, the increase of it or what? [AGENCY 27]

MIKE HYBL: Well, I think traditionally, you know, I think we have seen, you know, the gas tax has been the most stable source that we have for financing road work. [AGENCY 27]

SENATOR KRUSE: Um-hum. [AGENCY 27]

MIKE HYBL: I think our state, back in the late seventies when we adopted the concept of the variable component to the fuel tax, that that has served the state well. I think as we look at where we are today in terms of, you know, there are other competitors for oil in the world and where we've seen the markets go, I think there should be some concern about, is the motor fuel tax going to be that stable, reasonably growing source

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of revenue that it has been in the past? I think we're seeing some of those impacts over the two or three years with the funding we have now. So, you know, I wish we were innovative and creative enough that in one afternoon we could kind of sit down and figure out what the future of finance for roads are in both the state and the country, because it is an issue that we need to address, as I said, not just here but in our country. [AGENCY 27]

SENATOR KRUSE: What was the gas tax 15 years ago? [AGENCY 27]

MIKE HYBL: Fifteen years ago we were just coming out...just starting the implementation of some of the goals from the '88 needs study process. I think we were around 21 or 22 cents a gallon. [AGENCY 27]

SENATOR KRUSE: And we can figure out what percentage of the total price of gas it was at that point, which would be a much higher percentage than today. Thank you. [AGENCY 27]

MIKE HYBL: Yeah. [AGENCY 27]

SENATOR HEIDEMANN: Senator Wightman. [AGENCY 27]

SENATOR WIGHTMAN: When you gave us this figure of \$375 million, where are we? I'm not able to tell because it's blended in with other figures. The \$375 million, I see that you had requested \$348 million. I think is the \$375 million in comparison to that \$348 million? [AGENCY 27]

MIKE HYBL: Yes,... [AGENCY 27]

SENATOR WIGHTMAN: You're not asking for \$375 million... [AGENCY 27]

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MIKE HYBL: No, we're looking to move from \$348 million, that I think is front of you right now, to a range around \$375 million. [AGENCY 27]

SENATOR WIGHTMAN: And that would no doubt take an increase in the gas tax if we were to cash fund that, is that correct? [AGENCY 27]

MIKE HYBL: Assuming current revenue sources at the rates they're at generate what we think they will, yes, I think to go to that \$375 million level would... [AGENCY 27]

SENATOR WIGHTMAN: ...would require some increase. [AGENCY 27]

MIKE HYBL: ...I think, roughly, around 2 cents on the motor fuel tax. [AGENCY 27]

SENATOR WIGHTMAN: And you would propose doing that? [AGENCY 27]

MIKE HYBL: That's the position of the association and a level we would recommend to you. [AGENCY 27]

SENATOR WIGHTMAN: Thank you. [AGENCY 27]

SENATOR HEIDEMANN: Any other questions? Yes, Senator Fulton. [AGENCY 27]

SENATOR FULTON: Thanks for your testimony. I'm curious to know, I see this 2 cents a gallon increase is an increase...overhead costs on the balance sheet for a trucker and a trucking company. Is this a unanimous request for a 2 cent increase in the gas tax? I mean there's a choice that has to be made here. I'm curious how firm is this from the trucking industry? Nine out of ten, seven out of ten, or can you do that? [AGENCY 27]

MIKE HYBL: It's...I think sometimes if you put two truckers in a room, it's tough to get unanimity. As I said, we have 860 members. This is a position that the leadership has

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taken, along with doing, over the past several days, just some cold calling of members and getting reaction from them. So it's essentially a consensus view of the leadership.
[AGENCY 27]

SENATOR FULTON: Your testimony is significant. [AGENCY 27]

SENATOR HEIDEMANN: Senator Nantkes. [AGENCY 27]

SENATOR NANTKES: Mike, just to follow up a little bit on Senator Fulton's line of questioning there. I'm guessing that from the associations perspective, being one of the highest users, consumers of gas in the state, not only are you looking at that personally for your membership, but overall for the greater economic benefit that increased revenues to this department, and increased activity by the department on building those infrastructure facilities and otherwise is what the association is also looking at there?
[AGENCY 27]

MIKE HYBL: Um-hum. The industry is one where time is money and safety is extremely important. And to the extent that a well-funded highway program deals with issues such as congestion, deals with safety on the roadway. That is a factor that goes into our decision as far as, you know, what we think an appropriate level of any taxation is to support the highways. [AGENCY 27]

SENATOR NANTKES: Thank you. [AGENCY 27]

SENATOR HEIDEMANN: Any other questions? Seeing none, thank you for your testimony. [AGENCY 27]

MIKE HYBL: Thank you. [AGENCY 27]

SENATOR HEIDEMANN: Is there any other testimony on this agency budget?

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[AGENCY 27]

CURT BECK: (Exhibit __) Good afternoon, Senator Heidemann and members of the committee. My name is Curt Beck, C-u-r-t B-e-c-k. I'm the executive director of the Associated General Contractors of Nebraska, AGC. I'm here today to support an increase in the appropriation for the Nebraska Department of Roads for the highway construction program. Our economy and quality of life depend upon a well-functioning transportation system. Over \$56 billion of commodities are transported on Nebraska's highways annually. Our transportation system connects people to jobs, family, medical care, schools, entertainment, and the goods and services we need for everyday life and plays a critical role in our emergency response and recovery. Director Craig has said that Nebraska is at a crossroads, actually we are facing a crisis. In FY '04 the state program was \$380 million, in FY '05 it was \$380 million, in FY '06 it was \$390 million. However, in FY '07 it drops to \$337 million, and in FY '08 it drops again to \$337 million. Director Craig has indicated in previous testimony that this could go even below that, to \$330 million. We are asking that you consider the long-term effects of decreasing the construction program size by almost \$60 million per year. Revenues are declining, but the needs and demands on the system are significantly increasing. In the past 20 years, motor fuel consumption in Nebraska has increased only 31 percent, while vehicle miles traveled has increased over 50 percent. Stated another way, highway usage has increased at a much faster rate than the revenue generated to support that system. As the Appropriations Committee, you deal with financial numbers every day. So let me try to give you this in a more graphic and pictorial way. If you could look in your packet to the first chart that's headlined "Crisis in Roads Funding", you'll notice again, just as a visual, to see the actual impact on roads construction in Nebraska, we're at \$380 million, \$380 million, \$390 million, and we dropped down, a significant drop to \$337 million. And several of you have asked the question, how you come to that number? And in my next chart I will try to explain how we come to that number. If you...the current appropriation request is for \$348 million. Of that, about 52 percent goes into actual...is available for construction, the remainder goes to the Department of Roads for

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what they call routine maintenance, heavy equipment purchase, etcetera. So that makes about \$180 million available for construction. You add that to the \$157 million we get from the federal government, from the federal tax, that number was derived because we get I think it was approximately \$225 million, and the state gets 70 percent, and the locals get 30 percent. So that's how the appropriation was derived at \$348 million. Of that again, only \$337 million is available for construction. If you were to increase the appropriation to the requested amount, in the \$373 million to \$375 million range, actually those additional revenues go directly to roads construction, and that would increase the amount, in this next graph, and up to \$205 million would be available for construction, added to the \$157 million, and that way you can see that the actual amount available for road construction would equal close to \$360 million, which again goes back to our original graph that would show that would not necessarily that significant of a drop, but it would be a decrease in the amount of road construction that is happening. The other question that was raised was in regards to the billions of dollars that we are in fact behind in being able to keep up with the demands. The current figure that I have, which is provided for you in that needs document, actually is \$12.4 billion, subject to a 3 percent inflation over the 20 years. Vehicle miles traveled are rising. The demands are growing and inflation is eroding our purchasing power. In fact, there are fewer projects being let for work. A few years ago, the state was working on 200 projects a year; there are only 124 projects this year. According to the Department of Roads, there will be even fewer projects next year. This will have a devastating effect on the ability to keep up with the needs and demands of our state highway system. It has been said, and John Craig has been quoted as saying, this will basically become a preservation mode. So I'd ask you to question, what do Nebraskans get for a \$337 million roads program? The preservation of existing roads and very, very little new roads construction, which translates to no more work on the expressways, slowing down the work on the Interstate and no additional infrastructure for economic development. One solution to addressing the \$12.4 billion over the 20 years will be to divide that amount by 20, which actually equal \$620 million per year. That's an awful expensive solution. So we believe that an increase of approximately 2 cents a gallon is

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reasonable. We ask you to increase the appropriation from \$348 million currently requested to the \$373 million to \$375 million range, as this will result in highway construction programs closer to \$360 million. I know that you receive a lot of requests for funding. I would argue that roads are a core function of our government. Thank you. I'd be happy to answer any questions. [AGENCY 27]

SENATOR HEIDEMANN: Senator Wightman. [AGENCY 27]

SENATOR WIGHTMAN: From the standpoint of a general contractor, would you also be talking about an increase in the fuel tax? You're not looking at general funding? [AGENCY 27]

CURT BECK: No, sir. In fact, as pointed out, the contractors spend an awful lot of money on gas and diesel fuel, so we also pay a lot of that gas tax as well. But we would be looking at that increase in the variable that would not come from general revenue dollars. [AGENCY 27]

SENATOR WIGHTMAN: Is 2 percent a sufficient amount to do that? I guess, I'm looking at those figures and it almost looks to me like it would maybe take more than 2 cents, but perhaps that's in the ballpark. [AGENCY 27]

CURT BECK: I believe that that is a reasonable amount to move us in the right direction. And if you're asking me if we would like to have more, certainly. Because again, we believe it goes back to... [AGENCY 27]

SENATOR WIGHTMAN: But when you say you'd like to have more, are you talking about a higher tax than 29.1? [AGENCY 27]

CURT BECK: We believe at this current time that the gas tax is our best and most stable route. And that would be the way to address the need. [AGENCY 27]

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SENATOR WIGHTMAN: So if we look at 30 cents, you might support that as well, huh?
[AGENCY 27]

CURT BECK: AGC would support that, yes. [AGENCY 27]

SENATOR WIGHTMAN: Thank you. [AGENCY 27]

SENATOR HEIDEMANN: Are there any other questions? Seeing none, thank you for your testimony. [AGENCY 27]

CURT BECK: Thank you. [AGENCY 27]

SENATOR HEIDEMANN: Is there any other testimony on this agency budget?
[AGENCY 27]

DEANNE CASPERS-MOON: Senator Heidemann and members of the committee, my name is Deanne Caspers-Moon. Everyone else has a short name, mine is long. C-a-s-p-e-r-s hyphen M-o-o-n. I'm the president of DK Contracting Corporation in Beatrice. My parents started the business 34 years ago. We do pavement repair in eastern Nebraska, as well as other types of general construction. Curt talked about inflation eroding our purchasing power. And he didn't give you any statistics, but I have some and they're also in your packet. In the last three years, the Consumer Price Index has increased about 9 percent. The construction costs price index has increased by approximately 33 percent, so there's a significant difference there. This means that Nebraskans are getting less for their construction dollar. This compounds the negative impact of reducing the funding for the state's construction program. I'm also concerned about jobs. To cut the highway construction program from consistently being at \$380 million and \$390 million per year to \$337 million will eliminate a lot of jobs in Nebraska. The U.S. Department of Labor estimates that for each \$1 million spent on highway

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construction, 47.50 jobs are created annually. That means that for each \$10 million cut from the highway construction program, Nebraska loses approximately 500 good paying construction-related jobs. AGC estimates that these are \$40,000 to \$50,000 a year jobs. We're already seeing a negative impact on employers in Nebraska. I think Senator Nantkes touched on this, too. We know that two companies in Nebraska are getting out of the construction business altogether. Due to the reduction in 2007 work that's already been let, I know I'll be hiring about ten fewer employees this year. So we hear a lot about job creation and economic development. I urge you to consider raising the appropriation for the highway construction program to \$373 million by raising the gas tax for 2 cents. I'll try and answer any questions that you have. [AGENCY 27]

SENATOR HEIDEMANN: Senator Wightman. [AGENCY 27]

SENATOR WIGHTMAN: I'll ask the same question. If it appears it would take 2.5 or 3 cents, would you support that as well? [AGENCY 27]

DEANNE CASPERS-MOON: Yes. [AGENCY 27]

SENATOR WIGHTMAN: Thank you. [AGENCY 27]

SENATOR HEIDEMANN: I have to disclose that it's a lot harder to say no now, because this is my first cousin, who I didn't realize was going to be here today. (Laughter)
[AGENCY 27]

DEANNE CASPERS-MOON: And I have to disclose that facing you is a lot harder than facing a whole room full of men, which I thought was really intimidating when I first got into construction. (Laugh) [AGENCY 27]

SENATOR HEIDEMANN: Are there any other questions? Thank you for your testimony.
[AGENCY 27]

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DEANNE CASPERS-MOON: Thank you. [AGENCY 27]

RAY HERWEG: Senator Heidemann and members of the Appropriations Committee, my name is Ray Herweg, H-e-r-w-e-g. I am the legislative chairperson for the American Council of Engineering Companies in Nebraska and I also appear before you today on behalf of the Professional Engineers Coalition. I am also vice president with TranSystems, we are engineering transportation consulting firm. ACEC and the Professional Engineers Coalition support an increase to the Nebraska Department of Roads budget proposed to you earlier by both the AGC and the Nebraska Trucking Association. I think it's safe to state that public and private sector, engineers like myself who work for the Department of Roads across the state are certainly dealing with a growing gap between the number of transportation projects that need to be completed and the available funding that's currently existing. By increasing the Department of Roads budget, I think both ACEC and the Professional Engineers Coalition feel that this would certainly reduce the shortfall between the current available funding and Nebraska's infrastructure needs. ACEC Nebraska and the Professional Engineers Coalition want to recognize certainly the outstanding effort and accomplishments by the Department of Roads in continuing to remove, replace, and rehabilitate the state's highways. Certainly, there is an ever increasing demand balanced with maximizing the available funding. Funding is certainly a critical issue in allowing the department to service the infrastructure needs across the state. Unfortunately, as funds diminish and as inflation drives the cost of labor and materials up, the opportunity to address the needs for the Nebraska communities diminishes, therefore some projects have to be delayed or put aside. So with both the Nebraska Trucking Association and the Associated General Contractors, ACEC Nebraska certainly recognizes the need to continue the investment in Nebraska's roadway system. Addressing these needs is certainly critical, not only from the standpoint for continuing to maintain and enhance the state's roadway system, but doing so with the intention that this work and these projects are certainly a major part of the overall growth of our state. Our economy and our

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quality of life depend upon a well-functioning transportation system, and this system and this funding will certainly help us move ahead. So with that, I'd like to answer any questions that I may be able to. [AGENCY 27]

SENATOR WIGHTMAN: I'd ask the same question, if I might. Would you agree to support, I assume they're in favor of it, 2 cents? [AGENCY 27]

RAY HERWEG: We are certainly in favor of increasing the appropriations to the Department of Roads. I can't necessarily speak from the same standpoint as the contractors and the Trucking Association. As engineers, we do more work on the design side than the construction management side. But we certainly in favor of what they have. [AGENCY 27]

SENATOR HEIDEMANN: Any other questions? Thank you for your testimony. [AGENCY 27]

RAY HERWEG: Thank you very much. [AGENCY 27]

SENATOR HEIDEMANN: Is there any other testimony on this agency budget? [AGENCY 27]

LYNN REX: Senator Heidemann, members of the committee, my name is Lynn Rex, representing the League of Nebraska Municipalities. Rex is spelled R-e-x. We strongly support an additional increase in funding by raising the variable by about 2 cents. We think that this would, along with LB305, which would raise an additional \$10 million, would basically assist in providing this additional funding. We think it is almost close to catastrophic to say that the Department of Roads would be limited from going from \$390 million down to \$348 million to afford on this. And I think some of the issues (inaudible) that you've raised in terms of what this means in terms of the economy across the state, it's just a vital concern to cities and villages across the state of Nebraska. The economic

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development programs that you fund in the hundreds of millions, which come from your state General Fund, and we support those incentive programs, how do those interface when you don't have the infrastructure in place? Because as Senator Harms said, and I know he has worked on economic development programs for probably 30-some years, if not longer and our organization has as well. And anyone that's worked in trying to cut a deal with anyone coming to this state, they will tell you they look at education, they look at infrastructure, and they look at also tax incentives. And sometimes in that order, sometimes infrastructure is first, depending upon what kind of industry is involved or commercial or business is involved. So it is extremely important that we do something here so we're just not on a maintenance perspective. With that, I would just tell you that we strongly support this. We support the 2 cent increase in the variable. We strongly support LB305, which would generate another \$10 million as well. I'd be happy to respond to any questions that you might have and strongly encourage you to do this. Thank you. [AGENCY 27]

SENATOR HEIDEMANN: Are there any questions? Thank you very much for testifying. [AGENCY 27]

LYNN REX: Thank you so very much for your time. [AGENCY 27]

TIM KEIGHER: Good afternoon, Chairman Heidemann. Members of the committee, my name is Tim Keigher, that is K-e-i-g-h-e-r. I appear before you today as the executive director of the Nebraska Petroleum Marketers and Convenience Store Association. I guess, I'm lucky I get invited to the party, but I'm hardly even the party pooper. (Laugh) NPCA represents over 275 independent petroleum marketers, operating over 1,200 retail outlets throughout the state. I guess, we have never come in and testified on the appropriations budget for the Department of Roads so I'm in kind of uncharted territory here. My members like good roads, just as everybody else that has testified in favor of increasing the appropriations to the Department of Roads. Our problem is we have to raise the money to do it. My members in the central part of the state, North

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Platte is an example, have a member who owns seven direct retail outlets and delivers farm and industrial fuel. The motor fuel tax doesn't really have that big of an impact on him. On the other hand, my members who are on the borders, especially on the eastern border in Omaha, the disparity that we have in the motor fuel tax right now is huge to them. Depending upon how you want to look at where we rank, that question has come up, if you look at just the motor fuel tax and no other sales taxes, underground storage tank taxes, etcetera, we rank eighth, eighth highest. If you look at where we rank adding in underground storage tank taxes, sales taxes, and other local taxes that are on gasoline, we rank 17. But I guess it doesn't matter where we rank with California, New York, New Jersey, or Florida, what we care about is where we rank with Iowa. We're currently 7 cents a gallon higher on gasohol, 6 cents on regular gasoline, 13 cents higher than Wyoming, 3 cents higher than Kansas, and 4 cents higher than South Dakota. So, you know, as a comparison of the other question that came up is the percentage that the state motor fuel tax is of the retail price of gasoline doesn't make any difference to us because we're competing with these other states. We understand this is a problem. We wish we had a solution as well, and we don't. So it's hard to come here and tell you don't raise our tax, but I can't come here and give you a solution either. I guess, you know, basically we would be opposed to raising the appropriations budget. We understand there is a problem, don't have a solution. And as the other testifiers that testified on Senator Hudkins bill, I guess I ask that you hold us harmless as well. So with that, I'd be happy to take any questions. [AGENCY 27]

SENATOR HEIDEMANN: You see us having pressure to raise our variable, raising our gas tax to fund roads because things have gotten more expensive. And I think down the road we're going to lose federal funding that's going to make it that much worse for the states. My question to you is, you don't like this because it will be uneven compared to the states around us. Don't you think the states around us are going to have the same pressure that Nebraska is? And don't you think they'll have the same pressure to raise their gas tax at the same time, and then maybe at that time keeping the playing field somewhat level or does it...so it won't be any worse? [AGENCY 27]

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TIM KEIGHER: So you're saying just keeping the playing field proportionate to where it is today. I'm sure other states are going to have pressure; a lot of them already have. I think that if you look at what other states do, and I get all of my counterparts newsletters, you know the big thing is--don't raise our tax, we have a competitive advantage. I have members who are based in Omaha who own locations in Council Bluffs. They tell me 75 percent of the license plates at their locations are Nebraska plates. I know people who are not lower income by any means that will drive three or four miles, they live in the Omaha area, they'll drive to Council Bluffs to buy gas. It doesn't make a lot of sense to me. I don't see where they're saving that much money. It's a psychological thing. I agree with you that other states are going to have pressure, and I guess I don't want to be the first one to go up because that business is going outside of the state is what we've seen. [AGENCY 27]

SENATOR HEIDEMANN: All right. The other states are either going to have to raise their gas tax, General Fund, sales tax, or something, or their roads are going to go...have to deteriorate you would have to think. And I understand your position, there's no doubt about it. I live next to Missouri, which is considerably lower, and Kansas is 3 cents lower, and it affects those people down there because you go across the border. And I understand your position. But I just would have to think there's going to be pressure on the other states to also raise some kind of revenue. [AGENCY 27]

TIM KEIGHER: How about if we wait until they raise theirs? (Laugh) [AGENCY 27]

SENATOR HEIDEMANN: And then you won't be in opposition? [AGENCY 27]

TIM KEIGHER: I wouldn't say that. (Laughter) We'll let some of that business from Council Bluffs come back over to us. I mean the state of Connecticut, several years ago, lowered their motor fuel tax a nickel a gallon and increased revenues because of the increase in sales. Now, I understand the state of Connecticut is not a very big state,

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so it was easy for people to drive through it. Nebraska does not have that luxury. But...
[AGENCY 27]

SENATOR HEIDEMANN: Senator Wightman. [AGENCY 27]

SENATOR WIGHTMAN: Do you know any of the border that you're talking about, and we discussed this when (inaudible) budget (inaudible), whether any of those are using General Funds to support (inaudible)? [AGENCY 27]

TIM KEIGHER: To my knowledge, other states do use General Fund revenue. Of the surrounding states, I don't know which ones would and which ones would not.
[AGENCY 27]

SENATOR WIGHTMAN: Yet as a matter of fairness, wouldn't it be a correct statement that the user maybe should be paying for the expense of maintenance construction?
[AGENCY 27]

TIM KEIGHER: I guess, I'm not opposed to that. It's just that when you become this uncompetitive, I mean I've got members in Omaha that are looking to get out of the business because (number one) there is a very, very low profit margin, if any, at this time in the business, and with the competitive disadvantage they have with Council Bluffs it's...they're just saying it's not worth the investment anymore. [AGENCY 27]

SENATOR WIGHTMAN: But offhand, you don't know whether Iowa maybe is using any (inaudible)? [AGENCY 27]

TIM KEIGHER: No, offhand, I do not. [AGENCY 27]

SENATOR WIGHTMAN: Thank you. [AGENCY 27]

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SENATOR HEIDEMANN: Senator Kruse. [AGENCY 27]

SENATOR KRUSE: I can see Iowa from my front window and have carefully calculated, as this crowd would know I'm a tight one, I've carefully calculated if it, leaving time out...taking everything into effect here, just if I could drive my care over there and fill it and come back and make some money. And I cannot. So I'd agree with you that it is psychological. There are quite a few people that are already in Council Bluffs and that may be where some of those license plates are coming from. My question is, have you checked with any of the surrounding states to see what their plans are or where they are in raising the gas tax? [AGENCY 27]

TIM KEIGHER: No, I mean just reading my counterparts newsletters, I have not seen any of them talking about raising it. [AGENCY 27]

SENATOR KRUSE: Thank you. [AGENCY 27]

TIM KEIGHER: I could go over and testify and encourage them to raise it. (Laughter)
[AGENCY 27]

SENATOR KRUSE: Yeah, that would be helpful. But I can't pay you mileage. (Laughter)
[AGENCY 27]

TIM KEIGHER: Okay. [AGENCY 27]

SENATOR HEIDEMANN: I'm thinking we should just make the bridges across the Missouri in Omaha like toll bridges. [AGENCY 27]

SENATOR KRUSE: Yeah. [AGENCY 27]

SENATOR HEIDEMANN: Charge a dollar and it might just encourage them not to go

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over there. [AGENCY 27]

TIM KEIGHER: Well, I think you would find that at least the trucking industry, they are very, very sophisticated in how they buy fuel, you'll find them avoiding us if you get too far out of range, because they can go down Interstate 70, they go Interstate 90. They're very, very sophisticated in how they buy their fuel. [AGENCY 27]

SENATOR HEIDEMANN: Senator Nantkes. [AGENCY 27]

SENATOR NANTKES: Hi, Tim. Thanks for being here. I'm trying...I'm going to try and state this as clearly as possible, and I apologize is this logic is a bit circular in nature. But overall, your organization membership is opposed to an increase in fuel tax at this proposed level or even more so, potentially, and that's because of loss of business, right? [AGENCY 27]

TIM KEIGHER: Um-hum. [AGENCY 27]

SENATOR NANTKES: Okay. But overall, would you generally agree that if we did have a strong and vibrant infrastructure which helps to provide additional economic development and more business within Nebraska, that that would be a benefit to your member businesses as well,... [AGENCY 27]

TIM KEIGHER: Well, I think if we... [AGENCY 27]

SENATOR NANTKES: ...more consumers to visit their shops? [AGENCY 27]

TIM KEIGHER: ...if we had good roads, it would make it easier for them to drive out of the state to buy their fuel. (Laugh) Don't get me wrong. I'm being sarcastic. [AGENCY 27]

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SENATOR NANTKES: Right. [AGENCY 27]

TIM KEIGHER: Sure, we like good roads. I mean my members use those roads, too, especially to go to the terminals and get the fuel. I mean it's hard on their equipment if we don't have good roads. Those that deliver, you know, farm fuel want good roads. It's the chicken and the egg. I mean I wish it was simple to say, yeah, raise it and, you know, we'll build better roads and everybody will be happy. But it just doesn't seem to work that way. [AGENCY 27]

SENATOR NANTKES: Okay, thanks. [AGENCY 27]

SENATOR HEIDEMANN: Any other questions? [AGENCY 27]

SENATOR KRUSE: In full disclosure, Mr. Chairman, I need to say if I drive west from my house I will save 6 cents a gallon. So, you know, those prices vary by 10 to 15 cents around town on a regular basis. [AGENCY 27]

TIM KEIGHER: Um-hum. In the state of Indiana, compared to the state of Illinois, there's a big discrepancy in gas tax. And a marketer from Illinois bought a station in Indiana and put up a sign three miles from the border that said, last chance to buy cheap gas. And it was unbelievable the amount of business he did. [AGENCY 27]

SENATOR KRUSE: Um-hum. [AGENCY 27]

SENATOR HEIDEMANN: Senator Wightman. [AGENCY 27]

SENATOR WIGHTMAN: It would be helpful if every station put up a little sign that said, or a big sign maybe, that said, pay our taxes, support our roads or something.
(Laughter) [AGENCY 27]

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TIM KEIGHER: We've already got a big sign up that says what the price is, so I don't know if we've got any room for anymore big signs. (Laughter) [AGENCY 27]

SENATOR WIGHTMAN: Maybe you should downsize the one and increase the other. [AGENCY 27]

TIM KEIGHER: I think my members would go for that. [AGENCY 27]

SENATOR HEIDEMANN: Thank you for your testimony. [AGENCY 27]

TIM KEIGHER: Thank you. [AGENCY 27]

SENATOR HEIDEMANN: Is there any other testimony on this agency budget? Seeing none, we will close the public hearing on Agency 27. [AGENCY 27]