

Chapter 7 Financial Assessment

OBJECTIVE

This chapter documents the assessment of current and anticipated financial resources and their ability to address the projected transportation deficiencies and needs of Boone County through the year 2030. The assessment is intended to provide public officials with information upon which decisions about project prioritization, allocation of funds, and alternative funding sources can be made.

FUNDING PROGRAMS

Funding for state highway improvements in Kentucky comes primarily from two sources – the Federal Highway Trust Fund (federal funds) and the Kentucky Road Fund (state funds). The main source of income for these two funds comes from federal and state taxes on motor vehicle fuels. Historically, Kentucky has used a portion of Road Fund monies to provide the required matching funds for federally funded projects on the state-maintained highway system. For projects not on the state system, Kentucky has required the use of local funds or alternative funding sources such as public-private partnerships.

The Transportation Equity Act for the 21st Century (TEA-21) has provided the most recent federal funding programs. The TEA-21, which was enacted in 1998, expired in 2003, but has been extended to 2005. Under TEA-21, the following federal programs provided funding for most of Kentucky's federal aid improvements:

- Interstate Maintenance (IM)
- National Highway System (NHS)
- Bridge Replacement (BR)

- Surface Transportation Program (STP)
- Congestion Mitigation and Air Quality (CMAQ)
- Appalachian Development (APD)

Under TEA-21, Kentucky received \$485.6 billion in federal funding from FY 1998 through FY 2003.

On August 10, 2005, President Bush signed the six-year reauthorization of federal highway and transit programs, known as the Safe, Accountable, Flexible and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). Over the six-year period from 2003 through 2008 (the act is retroactive to cover the TEA-21 extensions through 2005), Kentucky will receive approximately \$632.6 billion in highway and transit funding, a 30 percent increase over TEA-21. Further review of the program is necessary to identify differences between SAFETEA-LU and TEA-21 programs and how they may affect funding of Boone County transportation improvements.

HISTORICAL TRENDS

An evaluation of Kentucky Transportation Cabinet expenditures for Boone County capital construction and maintenance projects was performed for fiscal years 1995 through 2004. Several expenditure categories were examined, including:

Highways

- State Funded Construction
- Federally Funded Construction
- Bond Funded Construction
- Maintenance

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Revenue Sharing

- County Road Aid
- Municipal Aid
- Rural Secondary Road Aid

A summary of 10-year expenditures by the Cabinet in the aforementioned categories, along with General Administration/Support and Vehicle Regulation categories, is presented in **Exhibit 7-1**.

Several conclusions are drawn from these figures. First, state funded and federally funded construction expenditures varied widely from year to year. This is primarily due to construction project schedules and not to an annual allocation of dollars. Maintenance expenditures are more reflective of annual allocations and averaged a little over \$3.5 million annually.

Next, the combined state funded and federally funded construction expenditures averaged \$15.7 million per year for the 10-year period, with an average annual increase of about 10 percent. This is shown in **Exhibit 7-2**. However, the increasing trend was a result of the overall increase in federal funding, as shown in the federal fund expenditures chart in **Exhibit 7-3**. State funded expenditures actually showed an overall decline during this period, which is seen in **Exhibit 7-4**. This negative trend was influenced primarily by higher-than-normal state funded expenditures

early in the period, from FY 1996-1998; the trend was otherwise relatively flat during the 10-year span.

There were \$164 million in bond funded construction expenditures from FY 1995 through FY 2004, primarily from issuance of bonds in the mid-1990's. Revenue sharing programs – County Road Aid, Municipal Aid, and Rural Secondary Road Aid – were relatively constant in Boone County for the period, averaging a total of \$1.7 million per year and reflecting a trend of a two percent annual increase.

REVENUE PROJECTIONS

So what can be expected in terms of revenue projections for highway improvements between now and the year 2030? Given recent history, several assumptions can be made:

- (a) Federal funding likely will continue to increase beyond the SAFETEA-LU, which expires in 2008. There is an increasing awareness among elected officials, including legislators, that the American transportation infrastructure is in a serious state of decline and that increasing financial resources will be needed to rebuild and maintain it.
- (b) Kentucky will continue to struggle with generating Road Fund revenues to match federal dollars and to fund improvements to

Exhibit 7-1. Historical Kentucky Transportation Cabinet Expenditures in Boone County

Category	FY Ending										Total 1995-2004	Average 1995-2004
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004		
General Administration and Support	8,040	4,935	5,337	3,986	2,745	122	338	165	4,941	244	30,853	3,085
Highways												
State Funded Construction	3,094,123	10,114,352	7,903,795	7,226,434	3,383,739	2,279,288	4,143,734	2,717,072	2,560,858	3,031,514	46,454,909	4,645,491
Federally Funded Construction	6,606,317	2,287,717	1,521,144	1,938,433	12,833,692	3,735,082	35,648,841	9,078,790	21,117,565	15,671,329	110,438,910	11,043,891
<i>Total State and Federal</i>	<i>9,700,440</i>	<i>12,402,069</i>	<i>9,424,939</i>	<i>9,164,867</i>	<i>16,217,431</i>	<i>6,014,370</i>	<i>39,792,575</i>	<i>11,795,862</i>	<i>23,678,423</i>	<i>18,702,843</i>	<i>156,893,819</i>	<i>15,689,382</i>
Bond Funded Construction	28,885	31,760	20,376	720				382			82,123	16,425
Maintenance	3,067,891	2,691,052	2,791,370	3,006,074	3,785,817	3,195,398	3,553,127	4,091,099	5,490,464	3,897,326	35,569,618	3,556,962
All Other						10,377	548	1,630	1,334	303	14,192	2,838
Revenue Sharing												
County Road Aid	1,545,386	1,836,213	1,463,728	1,545,975	1,644,084	1,157,346	1,507,044	1,636,181	1,994,949	2,243,878	16,574,784	1,657,478
Municipal Aid	498,539	594,187	652,089	595,896	592,160	60,008	614,163	627,970	719,926	734,362	5,689,300	568,930
Rural Secondary	312,016	293,555	258,441	294,828	289,097	286,349	301,326	275,521	718,702	618,405	3,648,240	364,824
Vehicle Regulation	734,831	948,471	553,198	655,251	762,827	810,989	591,555	732,690	556,321	891,111	7,237,244	723,724
Totals	25,611,705	31,218,720	24,607,381	24,445,605	39,525,597	17,564,649	86,170,752	30,975,272	56,859,359	45,805,468	382,784,508	20,941,222

Source: Kentucky Transportation Cabinet



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the state highway system. Historically, increases in the state motor fuels tax rate have been difficult to implement due to public resistance and the prospects for any increases do not appear likely. Thus, it is anticipated that the current trend will continue where increasing federal transportation monies for highway construction are offset by decreasing state funds.

(c) The factors described in (a) and (b) above will offset each other, with an overall continued trend of modest increases in state and federal highway construction funding.

(d) Boone County will receive a proportionally fair share of Kentucky's total state and federal highway construction funding over the next 25 years.

For the period FY 1995 through FY 2004, approximately \$157 million was spent on combined state and federally funded highway construction projects in Boone County. Projecting to the year 2030, under a "no growth" scenario where funding at this level would continue, an estimated \$392 million would be allocated to highway construction in Boone County. This can be assumed to constitute a "worst case" scenario in which current increases contained in the SAFETEA-LU would be offset by decreases in future federally legislated spending levels and the overall result would be no increased funding over the next 25 years.

At the other end of the spectrum, combined state and federal construction dollars increased at an average annual rate of 10 percent from 1995 through 2004, but this increase was radically influenced by a "spike" in federal funding in FY2001. Removing that peak, a more modest trend of around 7 percent per year occurred. Projecting this trend to the year 2030, about \$1 billion would be anticipated for Boone County.

Exhibit 7-2. Combined Federal and State Highway Construction Expenditures in Boone County - FY 1995 to 2004

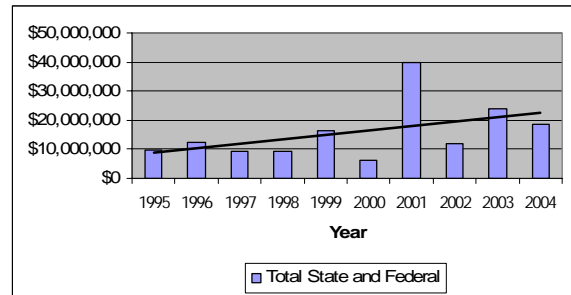


Exhibit 7-3. Federal Highway Construction Expenditures in Boone County - FY 1995 to 2004

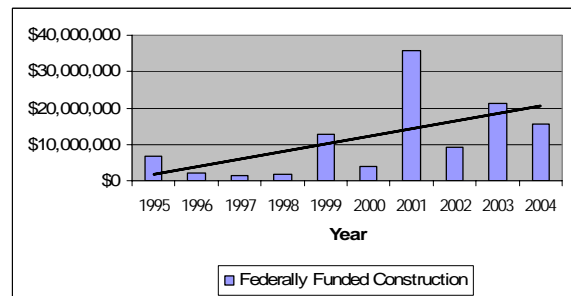
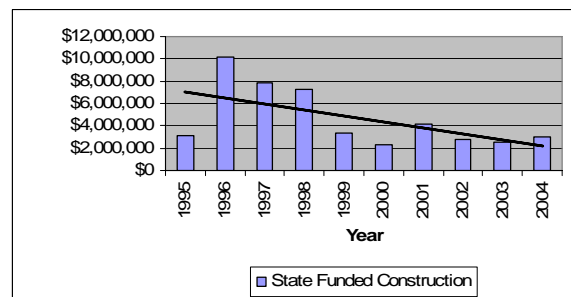


Exhibit 7-4. Federal Highway Construction Expenditures in Boone County - FY 1995 to 2004



The likely scenario is that total state and federal highway construction dollars spent in the county through year 2030 will be somewhere in between \$392 million and \$1 billion. As a starting point, the consumer price index for all goods across the country increased at an average rate of 2.1 percent per year from 1995 to 2004 (source: U.S. Department of Labor, Bureau of Labor Statistics). Applying this same rate increase for the next 25 years would yield about \$520

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million in state and federal highway construction dollars for Boone County. If this annual average were increased to 4.0 percent per year, about \$680 million would be anticipated. In current dollars, there is a good probability that the total state and federal dollars available for highway construction projects in Boone County will be in the \$520 million to \$680 million range.

FUNDING COMMITMENTS

The current Kentucky Six Year Highway Plan contains 16 projects for Boone County that total \$156 million, as shown in **Exhibit 7-5**. It should be pointed out that the Industrial Road project (KY 1829, Item 06-106.00) lies partially in Boone County and partially in Kenton County. Of these Six Year Plan projects, six of them are only partially funded. Subsequent funds to complete these projects will come from future versions of the Six Year Plan. The Kentucky Transportation Cabinet estimates that it will take an additional \$104 million (in current dollars) to complete these projects.

Cost estimates for projects in the Year 2030 Transportation Plan total \$270.5 million. These costs include engineering, construction and utility relocation costs. For the entire group of projects, assuming that right-of-way

costs contribute an additional 25 percent, the total cost of all projects is approximately \$338.1 million. These costs are in current dollars.

Recommended long-range transportation improvement projects are anticipated to occur over a 25-30 year time frame. Estimated project costs are based on current prices, but these costs should be indexed for inflation to provide a more accurate estimate of total costs if projects were constructed according to their prioritization and time frame.

A three-percent annual inflation rate was used to index the estimated project costs (including right-of-way) by group. For projects in the High Priority group (constructed within 10 years), the mid-point of the time frame, 5 years, was used for computing the inflation factor. For Medium Priority (11 – 20 years), the midpoint, 15 years, was used. For Low Priority group projects (beyond 20 years), a 25-year period was used to compute the inflation factor.

Estimated total costs for each priority group, indexed for inflation, are presented in **Exhibit 7-6**.

Exhibit 7-5. Kentucky Six Year Plan Projects in Boone County

Item No.	Route	Description	Funding	D	R	U	C	Total
06-9.00	I-275	I-275 Ohio River Bridge inspection	Federal (IM)				\$ 13,000	\$ 13,000
06-10.00	I-71	I-71 weigh station modifications	Federal (IM)		\$ 50,000		\$ 770,000	\$ 820,000
06-14.00	I-75	Reconstruct I-75/KY 536 interchange	Federal (IM)	\$ 1,500,000	\$ 1,250,000	\$ 1,000,000	\$ 16,000,000	\$ 19,750,000
06-18.00	I-75	Reconstruct I-75/KY 338 interchange	Federal (IM)	\$ 1,500,000	\$ 1,750,000	\$ 1,500,000	\$ 18,000,000	\$ 22,750,000
06-106.00	KY 1829	Widen KY 1829 from US 42 to Turkeyfoot Rd.	Federal (STP)				\$ 14,000,000	\$ 14,000,000
06-152.00	KY 237	Reconstruct/widen KY 237 from I-275 north 3 miles	Federal (STP)		\$ 4,000,000	\$ 2,500,000	\$ 5,000,000	\$ 11,500,000
06-152.01	KY 237	Reconstruct/widen KY 237 from I-275 north 3 miles	Federal (STP)				\$ 14,000,000	\$ 14,000,000
06-152.02	KY 237	Reconstruct/widen KY 237 from I-275 north 3 miles	Federal (STP)				\$ 5,000,000	\$ 5,000,000
06-158.00	KY 536	Reconstruct KY 536 from west of US 42 to I-75	Federal (STP)		\$ 5,500,000	\$ 2,500,000	\$ 15,000,000	\$ 23,000,000
06-351.00	US 25	Widen US 25 from KY 1829 to KY 338	Federal (STP)		\$ 8,500,000	\$ 10,000,000	\$ 20,000,000	\$ 38,500,000
06-960.00	KY 20	KY 20 at KY 237 construct right turn lane	Federal (HES)			\$ 4,000	\$ 296,715	\$ 300,715
06-1046.00	CS 3011	Replace bridge and approaches over railroad	Federal (BR)		\$ 1,000,000	\$ 60,000	\$ 3,550,000	\$ 4,610,000
06-1058.00	KY 842	Replace bridge and approaches over Utterback Creek	Federal (BR)	\$ 100,000	\$ 200,000	\$ 100,000	\$ 400,000	\$ 800,000
06-1064.00	CR 1329	Replace bridge and approaches over Ashbys Fork Creek	Federal (BR)	\$ 100,000	\$ 50,000	\$ 20,000	\$ 420,000	\$ 590,000
06-8000.11	I-275	Construct new interchange at I-275 and KY 20	Federal (NH)	\$ 1,500,000	\$ 3,000,000	\$ 2,500,000	\$ 5,000,000	\$ 12,000,000
06-316.01	KY 1017	Widen KY 1017 from US 25 to KY 717	State (SP)				\$ 11,300,000	\$ 11,300,000
06-8001.10	KY 237	Reconstruct and widen KY 237 from US 42 to Woodcreek	State (SP)		\$ 5,400,000	\$ 750,000	\$ 6,653,000	\$ 12,803,000
06-8001.20	KY 237	Reconstruct and widen KY 237 from Woodcreek to Rogers Ln.	State (SP)		\$ 4,500,000	\$ 625,000	\$ 7,222,000	\$ 12,347,000
06-8001.25	KY 237	Reconstruct and widen KY 237 from Rogers Ln. to KY 18	State (SP)		\$ 8,100,000	\$ 1,125,000	\$ 15,050,000	\$ 24,275,000
06-8200.00	US 25	Widen US 25 from KY 1829 to KY 338 (special appropriations)	Federal (STP)		\$ 6,000,000	\$ 5,000,000	\$ 20,000,000	\$ 31,000,000
Total (All projects, all phases)								\$ 259,358,715
Total (Six Year Plan components only)								\$ 155,858,715

Remaining phases not funded under current Six-Year Plan



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Exhibit 7-6. Long Range Transportation Plan Project Costs Indexed for Inflation

Priority Group	Time Frame	Mid-Point	Estimated Current Cost* (in \$1,000's)	Inflation Factor**	Estimated Cost Indexed for Inflation
High	0 - 10 years	5 years	\$193,400	1.159	\$224,204
Medium	11 - 20 years	15 years	\$56,600	1.558	\$88,181
Low	20+ years	25 years	\$88,100	2.094	\$184,462
Totals			\$338,100		\$496,846

* Total Cost - Engineering, construction, utilities, and right-of-way

** Assumed at 3 percent per year and calculated to the mid-point of the time frame for each group

Operational Improvement Plan project costs were estimated at \$1.8 million (in current dollars), excluding right-of-way. These costs could easily exceed \$2 million with the addition of right-of-way acquisition costs.

The following is a comparison of anticipated state and federal highway construction revenues that would be applied in Boone County versus anticipated Transportation Plan project costs for the 25-year planning horizon:

Revenues (in \$ millions)	
Anticipated state and federal revenues spent on construction projects in Boone County	\$520 - \$680
Costs (in \$ millions)	
Current Six Year Plan projects in Boone County	\$156
Costs to complete remaining Six Year Plan projects	\$104
Recommended Boone County Transportation Plan Projects – Long Range (indexed for inflation)	\$497
Operational Improvement Plan Projects (indexed for inflation)	\$2
Total Costs	\$759

OPTIONS FOR NEW FUNDS

To fully implement the Year 2030 Boone County Transportation Plan, additional funds will be necessary. Revenue projections are uncertain at best; the anticipated revenues through state and federal highway and transit funding sources could be less than the total

cost estimates for projects contained in the Plan.

Local agencies do participate in transportation improvement programs within Boone County. The County itself typically transfers \$4 million to \$5 million every year from its General Fund to the Public Works Fund. These monies contribute to state road improvements like KY 237 North Bend Road, where the County contributed \$1 million, and KY 1829 Industrial Road, where the County contributed \$941,800. The City of Florence also contributed \$134,000 to the Industrial Road project.

These local contributions, while helpful, are not enough to bridge the funding gap. Alternative funding mechanisms should be considered. Some of these currently are not allowed in Kentucky and would require enabling legislation. Others could be enacted by local ordinance. A discussion of those that could best address the funding gap follows:

Tax Increment Financing

Tax Increment Financing (TIF) programs are a form of special property owner assessments where transportation improvements are financed through the creation of special taxing districts. The principle is that property owners within a TIF district directly benefit from transportation improvements in the form of increased property values and earnings potential. Recent legislation in 2002 clarified

previous TIF legislation in Kentucky and outlined three distinct TIF programs:

- Local Revenue Only Development Areas
- Infrastructure Development Areas
- Project Specific Development Areas

Boone County will create its first TIF district in September 2005 under the Local Revenue Only Development Areas option. The County will impose a two percent assessment fee, but revenue projections from this fee are not available at this time. Other TIF districts in Boone County, particularly in developed or rapidly developing areas, should be considered.

Local Option Motor Vehicle Fuel Tax

Other states like Georgia have experienced great success with local option fuel tax programs. It is estimated that 95 million gallons of gasoline and special motor vehicle fuels are sold in Boone County every year. A one cent per gallon local tax on this fuel would generate almost \$1 million of additional revenue every year that could be applied to transportation infrastructure improvements. This mechanism currently is not allowed by Kentucky statute and would require enabling legislation.

Local Option Sales Tax

Local option sales tax programs are used in other areas of the country to generate revenues for locally-provided government services and infrastructure. Every year, \$75 million to \$80 million in state sales tax revenues are collected from businesses in Boone County. An additional one cent local sales tax would generate \$12 million to \$13 million in revenue every year, part of which could be used to fund transportation infrastructure improvements. This mechanism also is not allowed in Kentucky at present and would require enabling legislation.

Local Occupational Payroll Tax

Kentucky statutes permit the use of local occupational payroll taxes to fund governmental services and infrastructure improvements. Boone County currently has a payroll tax rate of 0.8 percent, capped at \$373 per year, of which the proceeds go into the General Fund. The County also has a 0.15 percent tax, capped at \$25 per year, to support aging, mental health, and mental retardation services. Increases in the current payroll tax structure could be considered and these incremental proceeds would be transferred from the General Fund to the Public Works Fund.

Development Impact Fees

These fees are assessed to developers in order to mitigate the impacts of new developments on infrastructure and services. The premise is that new development creates additional demand which must be provided, in part, by local government. Impact fees allocate the “fair share” of the cost for additional infrastructure and services back to the developer. Although Boone County does not charge impact fees per se, it can achieve the same objective by requiring developers to include infrastructure “amenities” such as sidewalks.

Accommodations Tax

Accommodations taxes are applied to all guest rooms in Boone County. These are in addition to the six percent state sales tax. Local accommodations taxes (city and county) total five percent in Boone County. An accommodation tax increase of one or two percent could be applied to generate additional revenue for infrastructure improvements in the county.

Utility Fees

These fees are charged to owners of residences and businesses to help pay for public utilities such as electricity, natural gas, water, sewer, waste collection/disposal, and transportation. An incremental rate increase could be applied to the existing utility rate structure, with incremental fee revenues dedicated wholly or partially to transportation infrastructure improvements.

connector streets between residential neighborhoods or from neighborhoods to state and local roads.

Parking Fees

Parking rates vary throughout the incorporated and unincorporated areas of Boone County. An additional county-wide parking fee could be imposed for all paid public parking facilities, but additional revenues from this fee increase likely would be small.

Vehicle Registration Fees

Vehicle registration fees are state and local fees charged to owners as part of the motor vehicle registration process. This fee would be applied as an incremental addition to local registration fees and the receipts would be applied to transportation infrastructure improvements. Increasing vehicle registration fees would require enabling legislation.

Public-Private Partnerships

Public-private partnerships represent one of the best opportunities for funding additional transportation improvements in Boone County. Unlike the other alternative financing mechanisms discussed, public-private partnerships are applied most typically to specific projects. A common example would be where a developer pays all or part of the cost for transportation improvements that serve his new development. This mechanism would be extremely useful within the Connector Street element of the Year 2030 Boone County Transportation Plan where developers would be required to construct