

Committee in session at 8:00 a.m. Senator Floyd R. Lamb was in the Chair.

PRESENT: Senator Floyd R. Lamb, Chairman
Senator James I. Gibson, Vice Chairman
Senator Eugene V. Echols
Senator Norman D. Glaser
Senator Thomas R.C. Wilson
Senator Lawrence E. Jacobsen
Senator Clifford E. McCorkle

ABSENT: None

OTHERS Ronald W. Sparks, Chief Fiscal Analyst
Eugene Pieretti, Deputy Fiscal Analyst
Howard Barrett, Budget Director
Joe Souza, State Highway Engineer
Donald Crosby, Deputy Highway Engineer
Gene Phelps, Business Manager, Highway Department
Bill Moell, Budget Representative, Highway Department
Wes Baumann, Budget Representative, Highway Department
Bob, Guinn, Nevada Motor Transport Association
John Rice, Associated Press
Cy Ryan, United Press International

HIGHWAY DEPARTMENT - Page 732 Attachment A

Gene Phelps, Business Manager of the Highway Department explained the budget they will present will show some significant changes in the federal aid portion, much less in real terms because of inflation. In the maintenance portion there are some increases; strictly related to inflation and some very limited growth in terms of the facilities they maintain. There are no increases in personnel. Employment has remained stable since 1973-74. They have budgeted at a level of 1325 employees, and that has been constant since 1973-74.

Mr. Phelps stated that there is going to be increasing deterioration in some of the roads over the next couple of years. The Department is not able to do the kind of contract overlays that are required, so there is going to be more of the problems that have been seen over the last few months. Mr. Phelps' second point is the traffic condition deterioration in some of the metropolitan areas. Construction funds available from the federal government are not adequate because of growth within the State, and the Department certainly does not have the funds to fill up the gap.

Mr. Phelps continued that the program differs substantially from most federally-supported programs in that they don't get any federal funds up front. The Highway Department goes into agreement with the federal government; actually does the work; starts in on the project, pays the contractor; and then bills the federal government for their share of the project. So the Department receives the federal aid after the fact; after the work is done. They bill them on a project basis. The federal government doesn't provide any of the operating capital; and cash flow is going to be a significant problem for the department over the next couple of years. There are no federal funds available for maintenance. It is strictly a State responsibility, and is becoming an increasing burden.

Senator Wilson asked why this is not a line item budget. Mr. Phelps explained that this is the budget format that the Department has provided the Committee for many years. If they put theirs on a line item basis, it would probably be another document the size of the State budget. Mr. Phelps stated they would change the budget presentation any way the Committee wishes them to.

Senator McCorkle asked how long it would take to make this a line item budget. Mr. Phelps said it already is one; he said they do it for themselves.

Senator Gibson said to continue with the hearing.

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Senator Lamb asked to breakdown the State funds where they have been spent, then the amount, what for, etc. Mr. Phelps commented that all of that is in the presentation.

Senator Lamb asked who pays for the construction of highway maintenance stations. Mr. Phelps said State funds. Senator Echols asked if it would be an unbearable burden to tell the Committee right now what each one of those figures mean. Mr. Phelps stated again that their presentation explains this. He continued that they will go over the revenue sources, fuel taxes, DMV licensing, manpower levels, and then expenditures by program, maintenance and other expenditures, in summary form.

Senator Lamb told the Committee to listen to the presentation, and then see what is needed after that.

Mr. Phelps explained that they are accountable for the Highway Fund which is similar to the General Fund. The Highway Fund is financed at the State level from those motor vehicle fuel taxes and motor carrier and passenger licenses that the DMV collects; those revenues are earmarked for highway purposes. They cannot be spent for anything else.

The Highway Department is only one of the users of the Highway Fund. They receive the gross user revenues, about 50 percent of which is fuel (or gasoline) tax; the other 50 percent is those revenues collected by the Department of Motor Vehicles (drivers' licenses', vehicle registration, motor carrier fees, and special fuel taxes. Off the top of these are those revenues that are shared with local governments. Most of the gasoline sold in the State has an 8 cents a gallon tax; 3-1/2 cents of that goes to local government; the balance of 4-1/2 cents goes into the Highway Fund. Some of the Motor Vehicle Department collections operate the same way. Over the biennium that amounts to \$90.4 million which does not include federal aid. The State spends the money first; contracts for the construction work; completes it; then bills the federal government for their share. The federal aid revenues in the budget will be those revenues that will actually be earned over the next two year period. The work will be accomplished, and then there will be federal aid reimbursement.

All revenues flow into the Highway Fund; then there are appropriations from the fund made to other agencies, primarily the DMV. However, there are small appropriations made to other agencies; the balance flows through to the Highway Department, and they are called an authorized agency. The Department is authorized to spend the balance of what is available in the Highway Fund from those user revenues and federal aid (which is limited to the highway purposes.) Over the biennium the Department anticipated that roughly \$27 million will be appropriated from the fund for other users. The biggest user is the DMV.

Mr. Phelps continued that the Department anticipates gross highway user revenues to be \$93.6 million in 1979-80, and \$101.8 million in 1980-81. Appropriations to the DMV are anticipated to be \$11 plus million the first year and \$11.9 million the second year of the biennium. The balance remaining of those State dollars that is available for highway purposes is \$37.1 million in 1979-80, and \$40.7 million in 1980-81.

Originally the Department has requested approximately \$17 million in General Fund support each year. However, the Governor is recommending \$5 million for purchase of equipment as a "one-shot" appropriation.

The federal aid reimbursement is \$74.8 million in the first year, and \$81.6 million in the second year of the biennium. Miscellaneous revenue is a whole array of different kinds of revenues. One of the big items is third party agreements where they let a highway contract, and a local government unit wants parts of their work done as a part of that contract for an intersection, etc. So the Department administers the contract, bills the federal government for its share and the local government for its share.

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Senator McCorkle asked what was the matching fund formula. Mr. Phelps replied that it is 95-5, because of Nevada being a public lands state. Normally, in the Federal aid program there are 36 categories, but the main one is the interstate (highway) program and normally that would be matched 90-10. The primary and secondary programs would normally be 70-30 matching if we were not a public lands state. The federal government matches all programs with the exception of beautification. Nevada has the highest public land ratio in the nation.

Mr. Phelps stated that where there is no growth in gas tax revenue, there is still 25 and 30 percent increases in the major items such as asphalt, concrete, steel and aggregate. The other problem area in the gas tax revenues is that, although traffic is increasing at a fast rate, gas tax collections are not increasing at the same rate. The major reason collections are not increasing is due to the smaller and more fuel-efficient cars which get better gas mileage. Since that tax is a gallon basis, it doesn't keep up with inflationary costs. The inflationary costs of the kind of things that highway departments buy have been substantially growing at a higher rate than the cost of living.

The DMV revenues have done a little better because they are more a function of population increase, particularly registration. If you collect the tax on the retail price of gasoline you create a collection problem because you need to push it out to the retailer or make the wholesaler do some things he is not used to doing. There are some problems with converting the gallonage tax to a percentage tax on gasoline.

Senator Lamb asked what would be gained by doing that. Mr. Phelps said that way it would be possible to take advantage of the inflation caused by increases of the price of gasoline. It would work like a sales tax rather than a gallonage tax. Right now, when the price goes up, the gallons go down. When they get a substantial increase in the price of gasoline for a couple of months, the demand tapers off, and starts right back up again. If further price increases have a significant impact on demands for gas, there is going to be trouble on the gas tax revenues; in fact, there already is trouble. Nevada ranks in the bottom 15 nationally on gas tax.

The primary effect (of loss of gas tax revenues) is on fund balance when you get down to the bottom line. Mr. Phelps stated that the Department would have to cut some pretty important programs, such as contract overlays and equipment purchases. The State is experiencing a growth in vehicle miles that is much faster than the growth in gallons sold; there isn't any change with the federally-mandated mileage requirements on each manufacturer's fleet.

The Department has little control over where the interstate dollars are spent. Those priorities are pretty well-established by the federal government to complete the interstate network. Now the bulk of the effort is going on Interstate 80 to complete the gaps the next big item is the spur in Clark County, then the first five miles of the Henderson expressway, and the north-south freeway in Reno. The second biggest item is the primary system. These are those highways in the State that carry a US route number. They have identified 13 priority projects that are around the State, more than half in Clark County, on the primary system that the flow of traffic warrants should be met now. They should be on the ground now, the traffic is there. Total cost of those projects is \$325 million. Over the five to seven year period it will take to construct those projects, the State will receive roughly \$90 million in federal aid, leaving a shortfall of \$225 million. The growth has been so explosive that there are not the State funds to cover it. The State has relied for so many years on federal aid to take care of the construction program, in spite of using every penny of federal aid that's available, there are still needs that exceed that aid substantially, with no relief in sight at this point.

Mr. Phelps continued that in 1972 they had a total of 1,522 full-time positions. With a reduction in force they dropped to around 1,300 and got down to about 1,266; which includes all permanent

positions but does not include the CETA people on board now that they are in the process of phasing out; nor does it include temporary construction help or summer help. Employment for the last several years has stayed right around 1,300. They have budgeted for 1,325 full-time positions. Because of the construction program during the summer they may add to that mostly with temporary help to manage construction projects. One of the reasons that they have been able to maintain that employment level in maintenance is through the use of highly productive equipment. They have been able to take the equipment fleet and take advantage of the technology with highly efficient equipment. There is a big line striper that is probably 5 to 10 times as productive as the old fashioned one.

Regarding inmate labor, they don't have any problem with using inmates, with the caution that Highway Department personnel are not security people. There are some risks involved. The traveling public is being exposed to a risk they are not used to. Maintenance on the highway is a dangerous occupation. They have had many people get hurt, some of them fatally. In terms of finding something for the inmates to do Mr. Phelps agreed.

The budget breakdown shows the relative size of the program. Construction engineering includes the contractors and design work, preliminary engineering, right-of-way acquisition, etc. Mr. Phelps said they anticipate about \$91 million the first year and about \$99 million the second year of the biennium. This is the federal aid program although there are some State dollars in it. In the maintenance portion of the budget about \$26 million is anticipated the first year of the biennium, and about \$28.5 million in the second year. This is 100 percent State funded.

Mr. Phelps continued that there are about 5,600 road miles in the State for which the Department is responsible. They broke that down to 14,000 lane miles because of the multi-lane miles. There is 3,600 miles of roadside clean-up that is required. They have 80 roadside rest areas in varying sizes, from the little ones with one table to the major rest areas that are seen on the interstate. Line striping is a big item in terms of miles. In linear feet of guard rail, Mr. Phelps stated, there are over a million feet that require maintenance. Landscape areas is another very expensive program to maintain. Roadside maintenance, landscaping in rest areas, and cleanup amounts to \$5.2 million and \$5.5 million for each year of the biennium. The maintenance stations include those costs of operating the 58 major stations around the State (and the 6 district offices) with the maintenance stations in some very unlikely places.

Construction engineering is the big cost item. They have received federal aid for design of projects and they anticipate over \$44 million in the first year of the biennium and \$48.6 million in the second.

Mr. Phelps stated that the next item is the area where they have real concern. This is the 100 percent State funded construction; contract overlay work where they contract for re-surfacing. There is some capital building construction in that also. By putting in some General Fund money into equipment they will be able to maintain a higher level that they otherwise could not maintain. At the present time their planning people tell them they should be spending \$23 million for contract overlays just to half-way stay even and maintain what they have. Over the past few years they have been able to spend only \$5 to \$7 million on this. They anticipate, that with some General Fund support, to go to \$11.1 and \$12.3 in the upcoming biennium; which is about half of what the annual need in that area is. They have some \$41 million in deferred maintenance. That kind of thing should be done now, but they are not able to get to it.

Construction engineering is project costs. These are the costs of supervising construction projects. Crews are out supervising the projects and also doing some engineering work. The right-of-way area is another big item at the present time. There is going to

be some drop-off seen in right-of-way acquisition. Right now they are involved in acquiring the rights-of-way on the interstate spur in Las Vegas. This is the metropolitan-urban portion of the five-mile freeway there. There are some 3,000 people to relocate and 155 businesses. In that project alone there are \$35 million in right-of-way acquisition costs.

Preliminary engineering is the planning and design work that goes into getting projects ready for contract. A major interstate project from the time that it is a gleam in somebody's eye, from the time the project is identified, they are averaging 9 years from that point until the first shovel of dirt is turned over.

Mr. Crosby stated that the environmental impact studies have averaged 3 years; and it takes a full year for the air quality study alone. Salaries are approximately \$29 million in the first year of the biennium and \$30 million in the second. The operating costs are for the things they buy for the maintenance operation asphalt, oils, etc.

The bulk of the equipment purchases is in the maintenance and construction kinds of equipment needed. Substantial amounts are spent in travel which is mainly the construction supervisors that are moved all over the State.

One of the ways that the shortfall on revenues has been taken care of since the layoff is with the Highway Fund balance. However, on July 1, 1978, the Highway Fund balance was \$13.5 million and if expected revenues for the upcoming two years are added in, and the expected expenditures subtracted, the balance left is \$2.6 million if nothing changes. Mr. Phelps commented that the fund balance cannot get that low; something between \$5 million and \$8 million must be maintained in the fund balance to provide working capital to pay their bills as they come due. He said they will have to make adjustments to get the figure back up to an operating level they can live with. The first areas to go will have to be some of the maintenance.

Senator Gibson asked how sure the Department was of receiving the federal funds they are projecting. Mr. Phelps replied relatively sure. They have already received the obligation authority to obligate the money. By contract they have agreed to allow the Department to obligate this kind of money. They are going to have to make adjustments in their program to get that working capital balance up to a more reasonable level. Five million dollars represents less than a month's expenditures. They are asking for the authority to borrow to the tune of 100 percent of their federal vouchers plus 100 percent of the State revenues that have been collected, but not yet distributed to the Department, which would allow them to operate.

Mr. Phelps commented that back in 1973-74 is when they started deficit spending. Ever since then, the users of the Highway Fund have spent at a rate substantially greater than the revenue available. They were able to do that because they had a large fund balance that they had been operating on since that time. They have to get revenues and expenses back together because they do not have a fund balance to operate on any more over the next two years. That is going to require either an increase in revenues or an adjustment in the program that will live within the revenues available. He said the Department will be back in the 1981 session asking for some revenue increases or some guidance on what kind of a highway program the legislature wants them to run.

Senator Lamb stated that the Committee has to more than provide the \$5 million.

Senator McCorkle asked why they are waiting for the gas tax increase. Senator Gibson replied that for the last eight years the Governor had a prohibition on any increases in taxes. The new Governor has the same prohibition. Senator Lamb remarked that they can't look at the General Fund to resolve this problem.

Senator Jacobsen asked what increase in tax would put them back on the course again, realizing the gas tax is going down. Mr. Phelps replied that the equivalent of two cents on the gas tax.

Senator Gibson asked whether there are any other motor vehicle funds subsidized from the Highway Fund other than the drivers' license division. He said in earlier testimony it was indicated that the drivers' license fees do not pay for the cost of that division in the DMV. Mr. Phelps answered that is the only one that doesn't.

Senator Gibson said that one of the suggestions that he had been considering is to take drivers' licenses and make it a General Fund agency. They they would subsidize that out of the General Fund or they could increase the fees.

Senator Gibson noted that on Page 734 of the budget, the highway agency request, under legislative appropriations for highway users revenue, indicates a higher figure than the Governor recommends. He wanted to know if the difference is to be made up out of the General Fund. Mr. Barrett replied that this is the money requested by DMV. When the Highway Department put the budget together, they assumed that amount was going to be funded out of the highway fund.

Senator Gibson commented that the basic difference in the figure is just that they curtailed the budget by that much. Mr. Barrett said they held back the other users of the Highway Fund by that amount.

Senator Gibson asked what the turnover was in the Highway Department. Mr. Phelps answered that last year it was right at 14 percent.

Senator Gibson asked how much money they are putting out in overtime costs. Mr. Souza explained they have cut these overtime costs in half. Senator Gibson asked if the nature of this overtime is such that it doesn't relate to size of staff. Mr. Phelps answered that is a large portion of it; another large portion has to do with construction crews who work at the whim of the contractor. If he decides to work on a holiday or weekend, their crews have to be there and they pay overtime. The largest single amount is for snow removal; they try to budget for an average year and make adjustments depending upon what kind of winter we have.

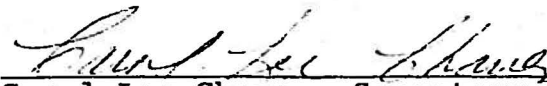
Senator Gibson said he was trying to relate their average salary; projecting \$31 million in salaries, with 1,300 employees, the average salary is \$24,000 a year. Mr. Phelps replied that the average salary in most recent figures he has is around \$16,000.

Senator Gibson asked about the reversion in 1977-78; who do they revert to? Mr. Phelps answered that was the reversion of the appropriations made from the Highway Fund for salary increases that were not used and were returned to the Highway Fund.

Mr. Bob Guinn, representing Nevada Motor Transport Association, spoke in behalf of the Highway Department.

Meeting adjourned at 9:35 a.m.

Respectfully submitted,


Carol Lee Chavez, Secretary

APPROVED:


Floyd R. Lamb, Chairman

A G E N D A

Senate Committee on _____ Finance _____

Date Friday, March 23, 1979 _____

Time 7:30 a.m. _____ Room 231 _____

Bills or Resolutions
to be considered

Subject

Counsel
Requested*

Budget Page 732

Highway Department

*Please do not ask for Counsel unless necessary.

March 23
Attached A

EXHIBIT A

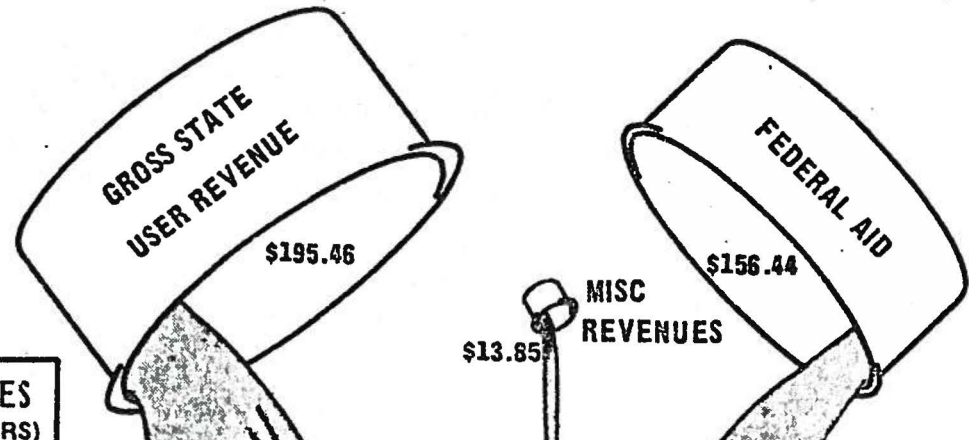
1986

DEPARTMENT OF HIGHWAYS

Budget Summary

1979-1981 Biennium

**BIENNIUM REVENUES
(MILLIONS OF DOLLARS)**



MISC REVENUES
\$13.85

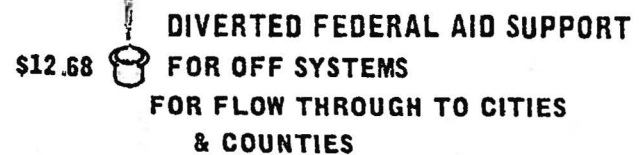
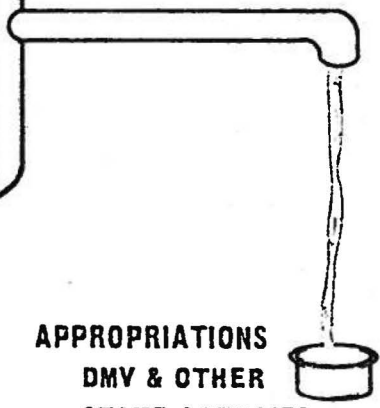
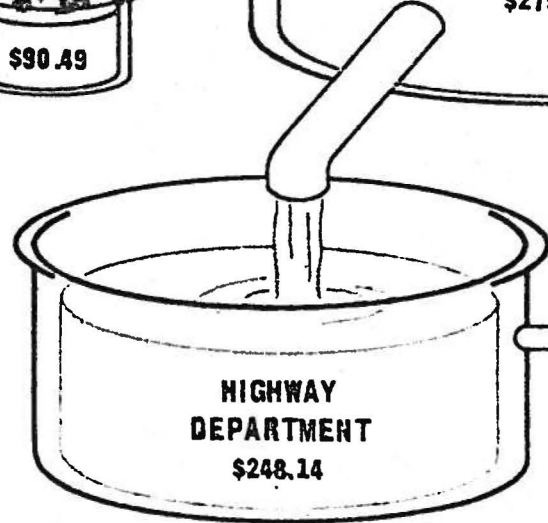
DIVERSIONS

\$104.97

GENERAL FUND
?



SHARED REVENUE
TO CITIES & COUNTIES
TO STATE AGENCIES
MISC COLLECTION COSTS



GROSS STATE
USER REVENUE
\$195.46

FEDERAL AID
\$156.44

HIGHWAY FUND
\$275.26

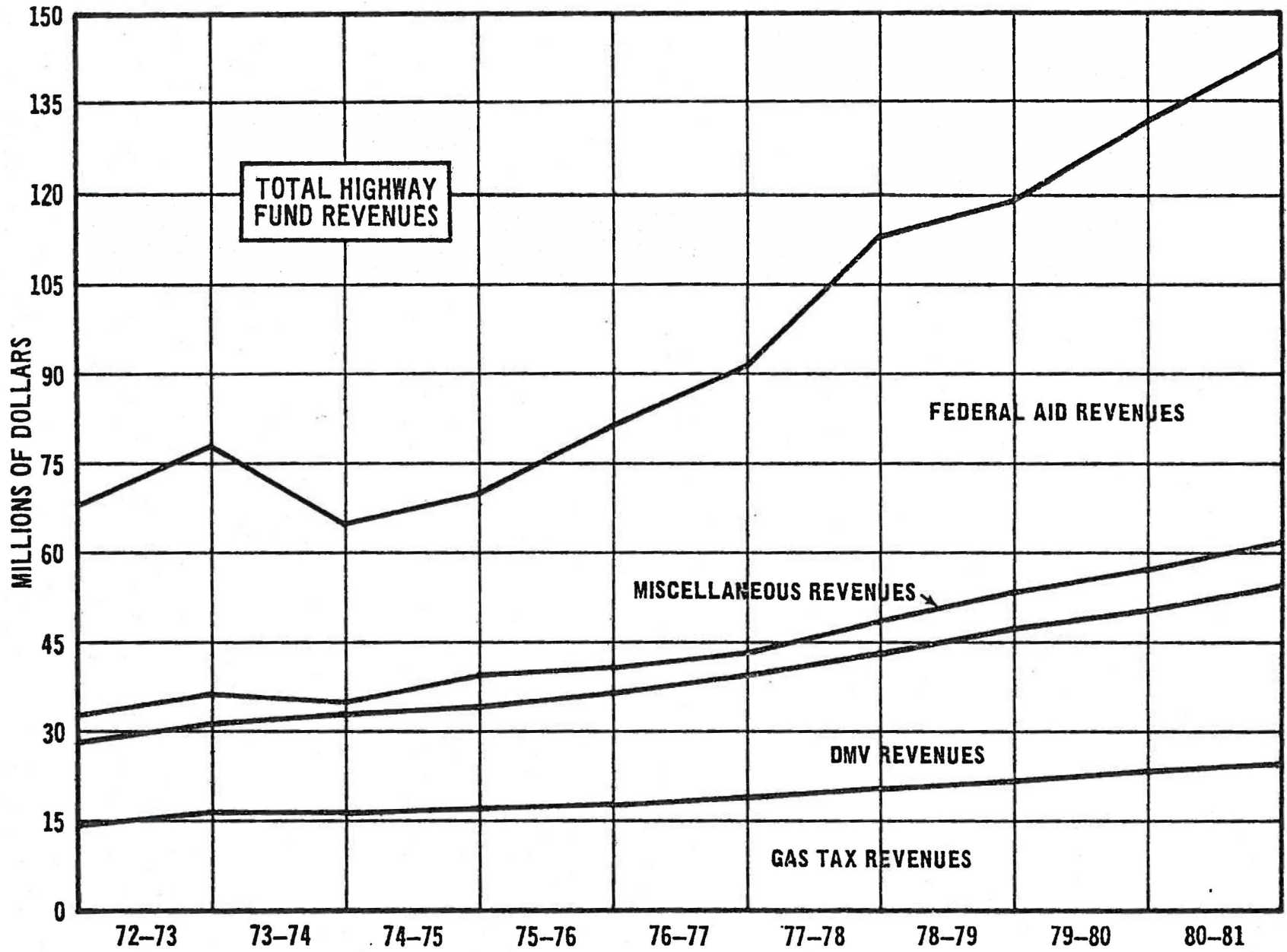
HIGHWAY
DEPARTMENT
\$248.14

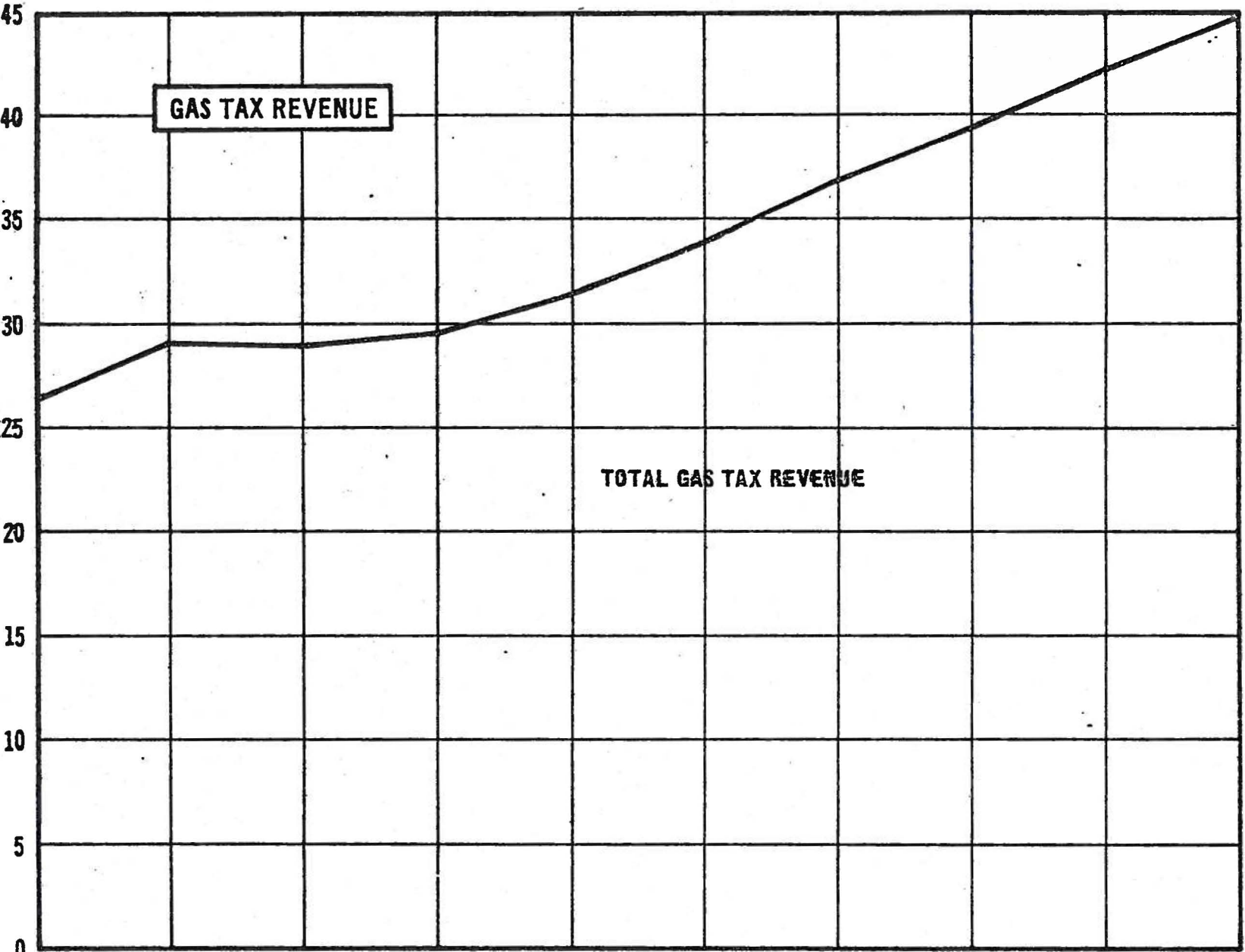
APPROPRIATIONS
DMV & OTHER
STATE AGENCIES
\$27.12

DIVERTED FEDERAL AID SUPPORT
FOR OFF SYSTEMS
FOR FLOW THROUGH TO CITIES
& COUNTIES
\$12.68

**SOURCE OF REVENUES
(MILLIONS OF DOLLARS)**

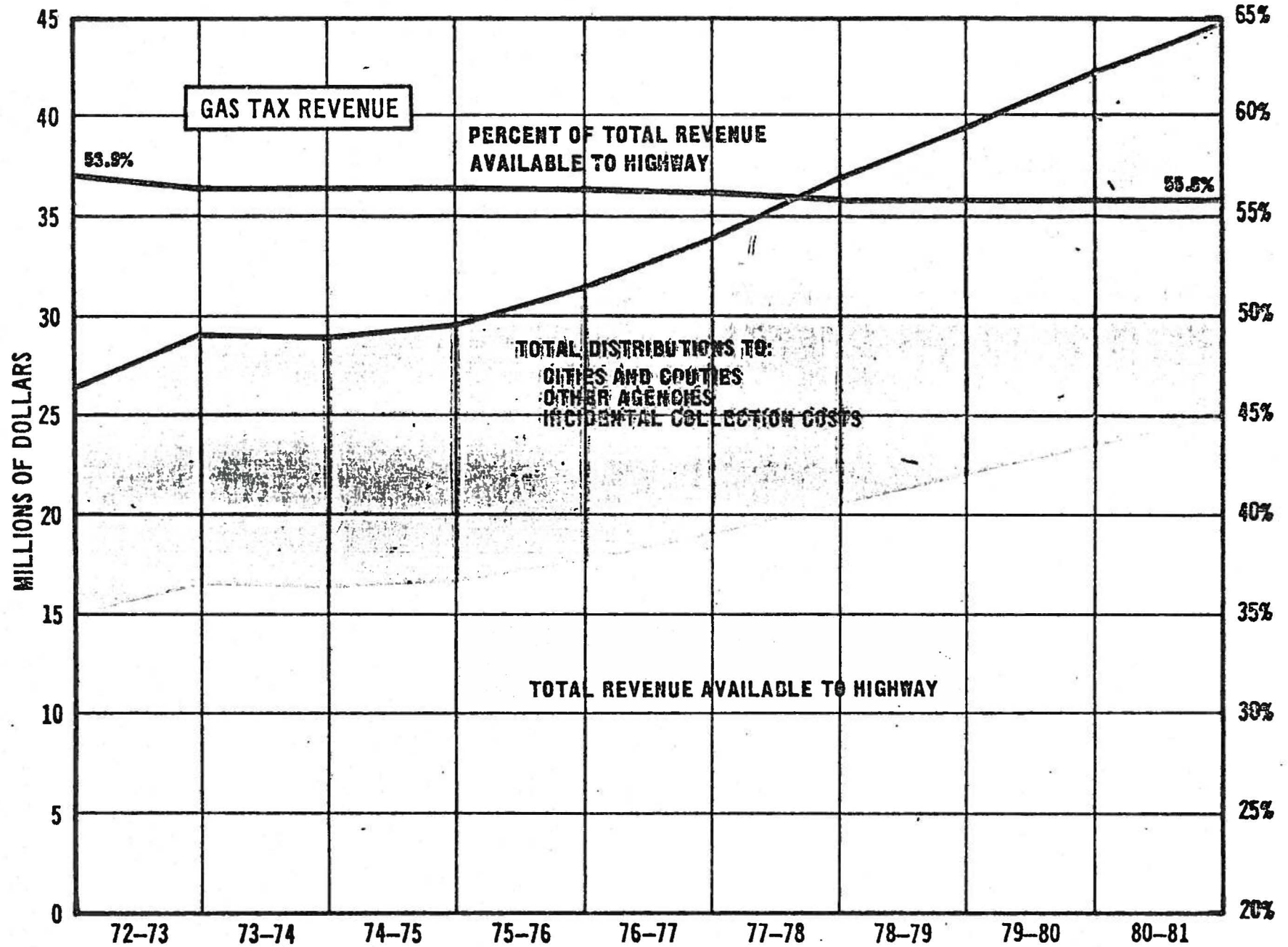
	77-78	78-79	79-80	80-81
GROSS HIGHWAY USER REVENUE	\$78.30	\$85.02	\$93.64	\$101.82
LESS: SHARED REVENUE TO CITIES & COUNTIES	31.08	33.73	38.76	42.61
SHARED REVENUES TO OTHER AGENCIES	2.79	3.05	3.26	3.54
MISC COLLECTION COSTS	.97	1.05	1.13	1.19
TOTAL SHARED REV & COLL COSTS	34.84	37.83	43.15	47.34
LESS: APPROPRIATIONS TO DMV	9.81	10.14	11.82	11.98
APPROPRIATIONS TO OTHER STATE AGENCIES	1.34	1.54	1.52	1.80
TOTAL APPROPRIATIONS	11.15	11.68	13.34	13.78
REMAINING HIGHWAY USER REVENUE (AVAILABLE TO HIGHWAY DEPT)	\$32.31	\$35.51	\$37.15	\$40.70
HIGHWAY USER REVENUE AVAILABLE TO HIGHWAY DEPT	\$32.31	\$35.51	\$37.15	\$40.70
GENERAL FUND APPROPRIATION	0.00	0.00	0.00	0.00
FEDERAL AID REVENUE	66.96	65.99	74.81	81.63
MISCELLANEOUS REVENUE	5.30	6.07	6.62	7.23
TOTAL REVENUE AVAILABLE TO HIGHWAY DEPT	\$104.57	\$107.57	\$118.58	\$129.56



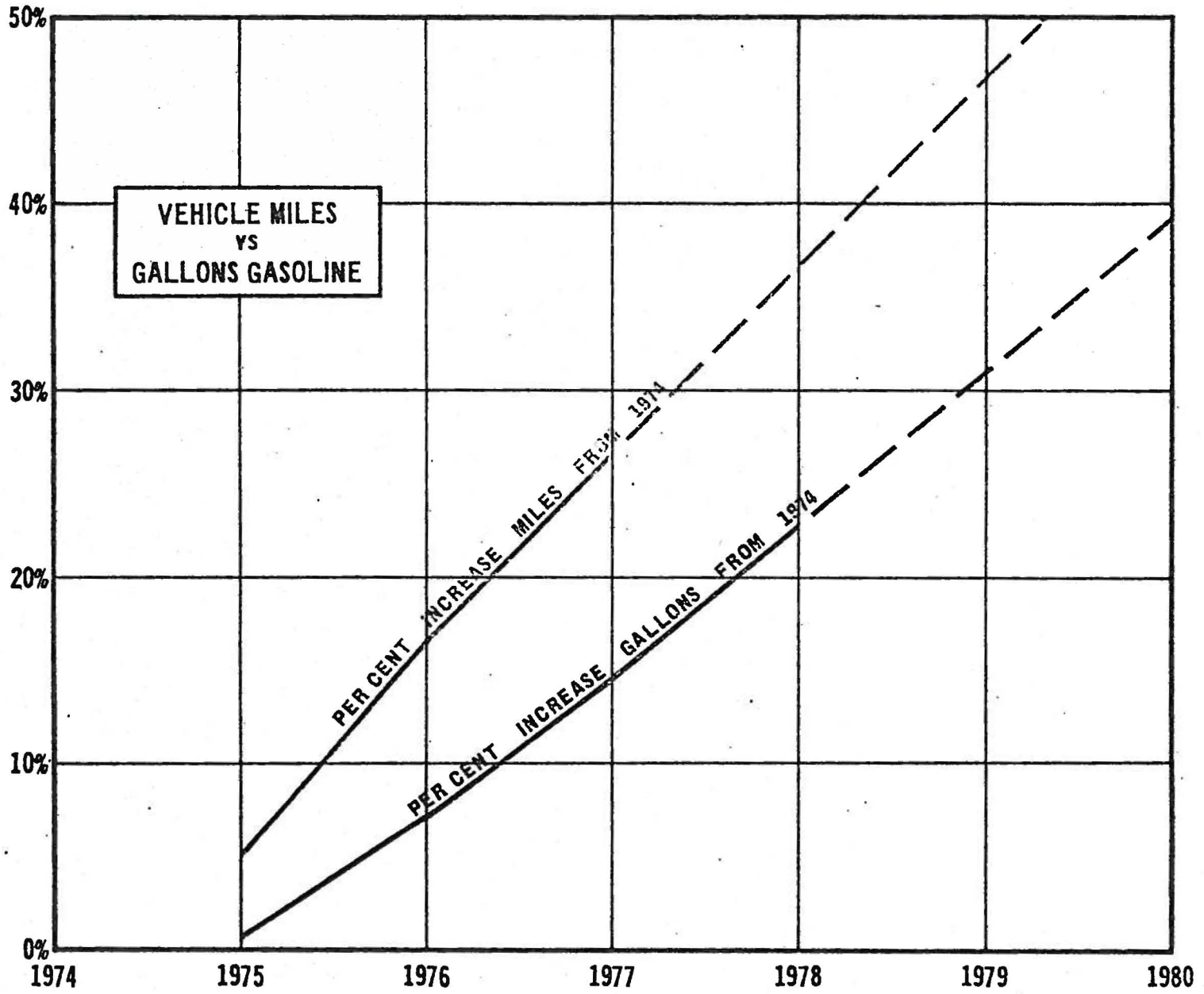


GAS TAX REVENUE

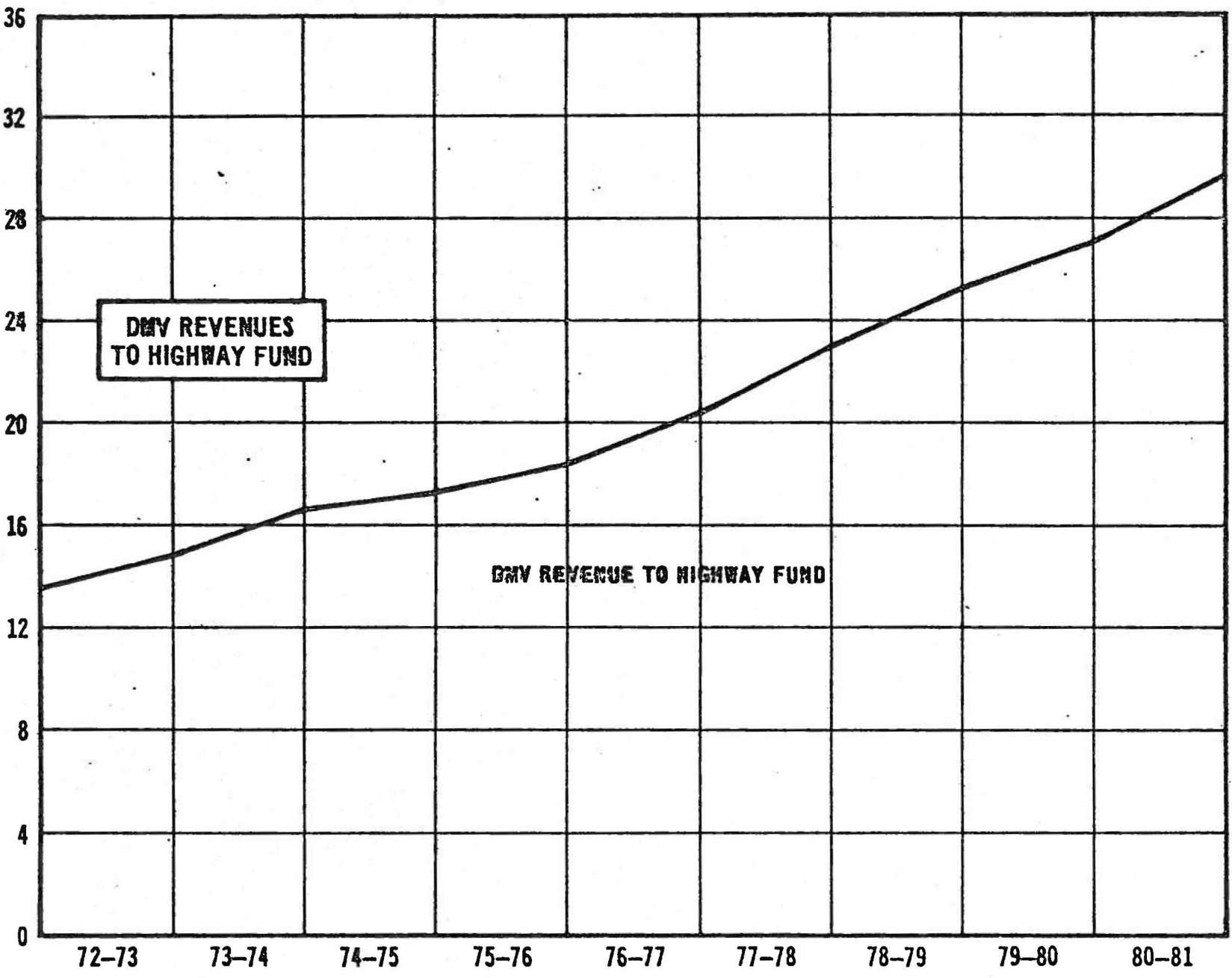
TOTAL GAS TAX REVENUE

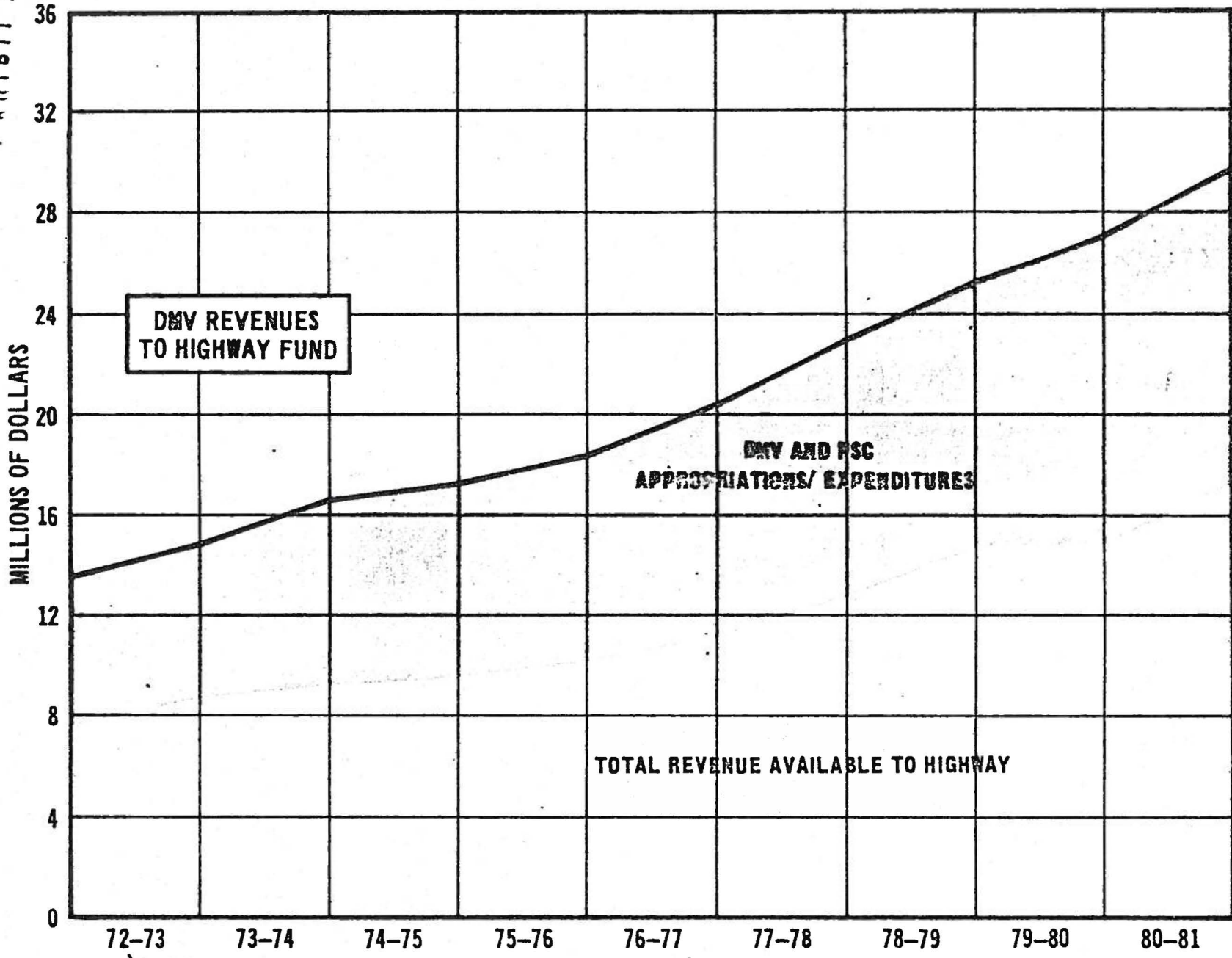


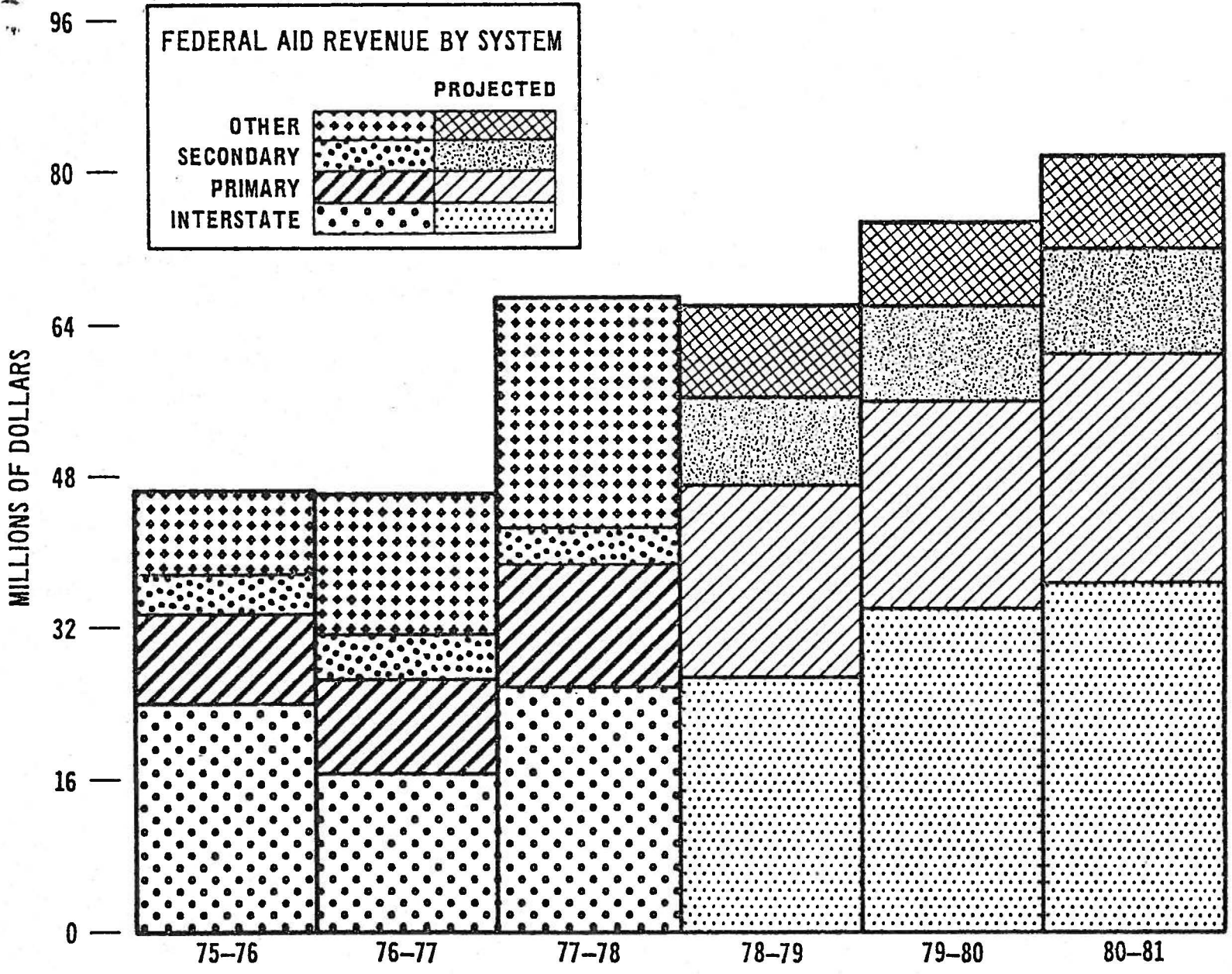
E X H I B I T A

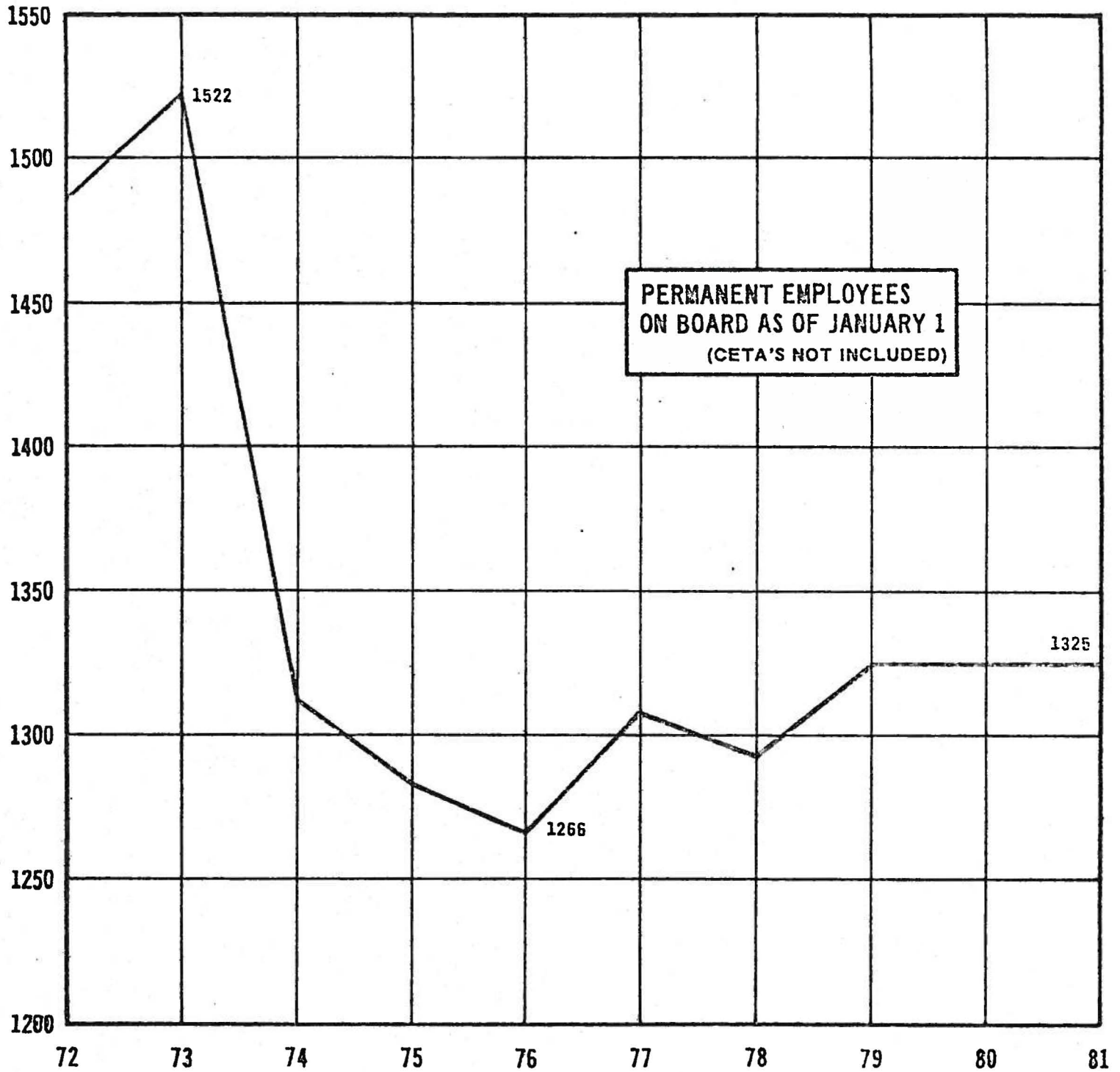


MILLIONS OF DOLLARS

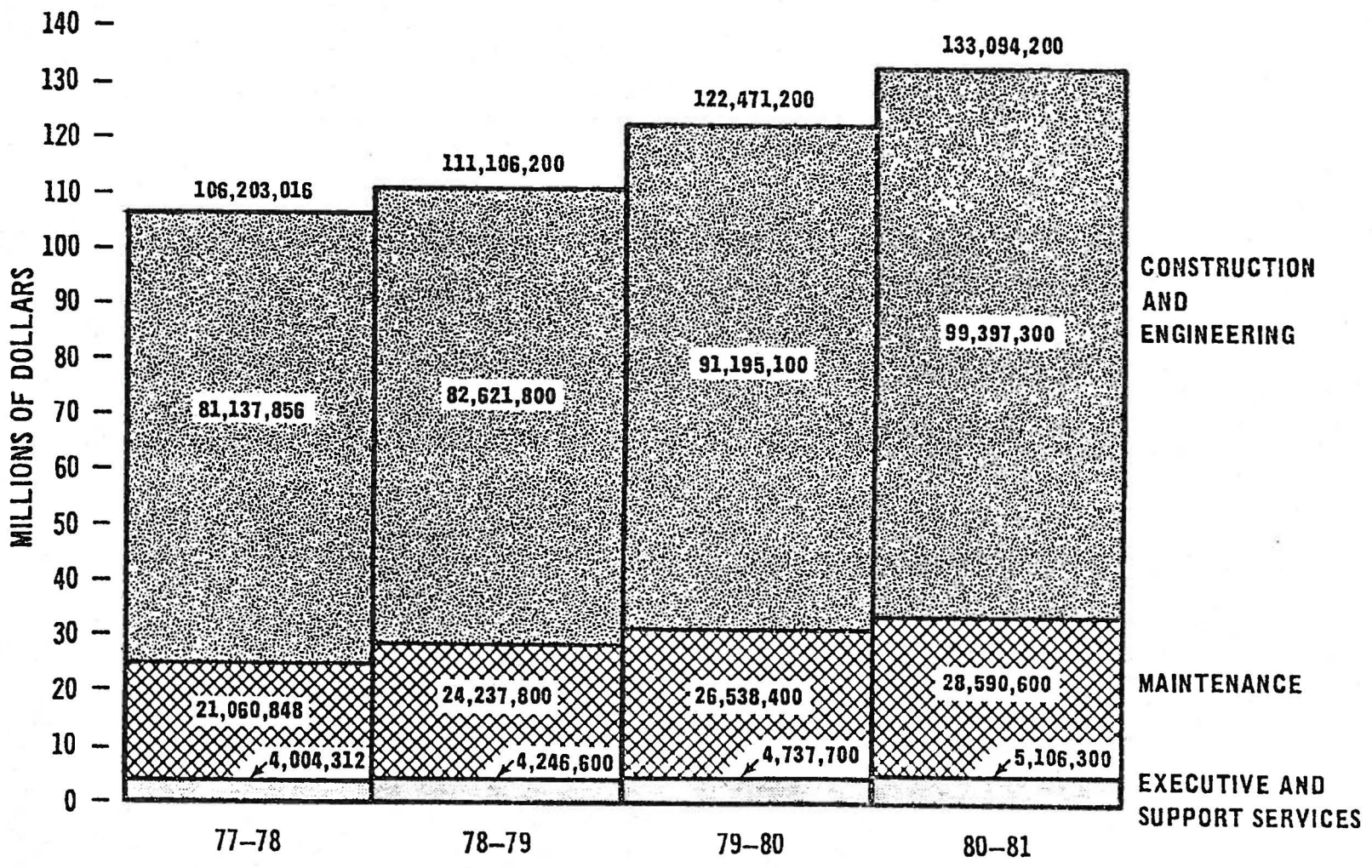








EXPENDITURES BY PROGRAM

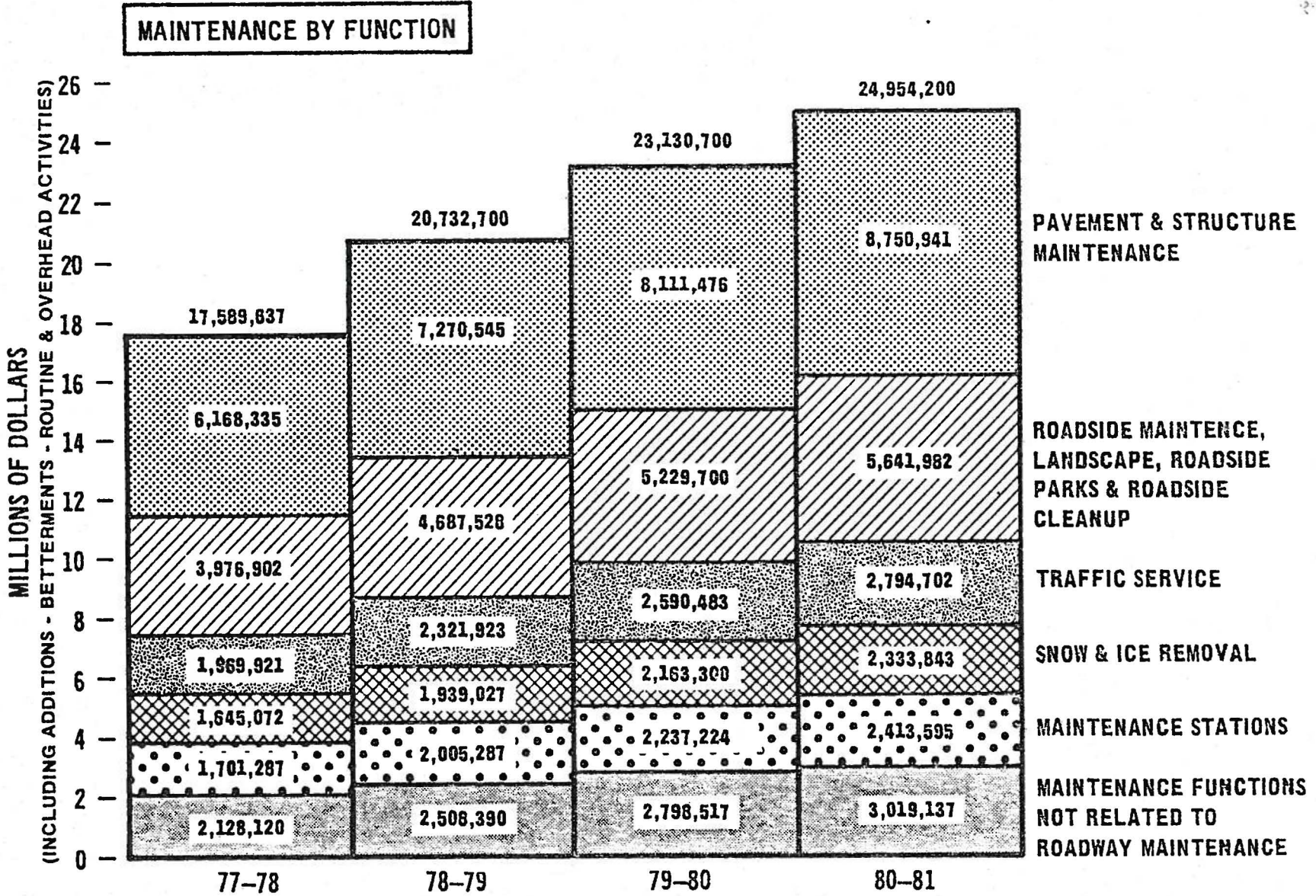


INVENTORY OF MAJOR MAINTENANCE UNITS

	CURRENT INVENTORY 1978	ADDITIONS DURING BIENNIUM
LANE MILES	14,621	194
ROADSIDE MOWING (SHOULDER MILES)	3672	53
ROADSIDE REST AREAS	80	2
INTERCHANGES	120	10
STRUCTURES	587	28
LANDSCAPE AREAS (ACRES)	140	10
RIGHT OF WAY FENCE (MILES)	2713	287
LANE STRIPING (MILES)	16,231	215
TRAFFIC PAVEMENT MARKING (SQ FT)	156,150	2575
GUARD RAIL (LIN FT)	1,726,550	22,940
MAINTENANCE STATIONS	58	0
TUNNELS	4	0
DITCHES (MILES)	7853	104
SIGNS	22,324	326
CULVERTS	24,788	337

INCREASE OF MAINTAINED FACILITIES

	JULY 1, 1973	JUNE 30, 1981	PER CENT INCREASE
LANE MILES	11,825	14,815 est	25.3
STRUCTURES	575	615 est	7.0
INTERCHANGES	110	130 est	18.2
REST AREAS	78	82 est	5.1
LANDSCAPE ACREAGE	45	150 est	233.3



EXECUTIVE & SUPPORT SERVICES

EXECUTIVE

STATE HIGHWAY BOARD

HIGHWAY DEPARTMENT ADMINISTRATION

FINANCIAL SERVICE & D.P.

INTERNAL AUDIT

ACCOUNTING & FINANCE

DATA PROCESSING

PUBLIC INFORMATION

INDUSTRIAL RELATIONS

PERSONNEL

TRAINING

INDUSTRIAL SAFETY

INDIRECT SUPPORT SERVICES

CIVIL RIGHTS

LEGAL SERVICES

FLIGHT OPERATIONS

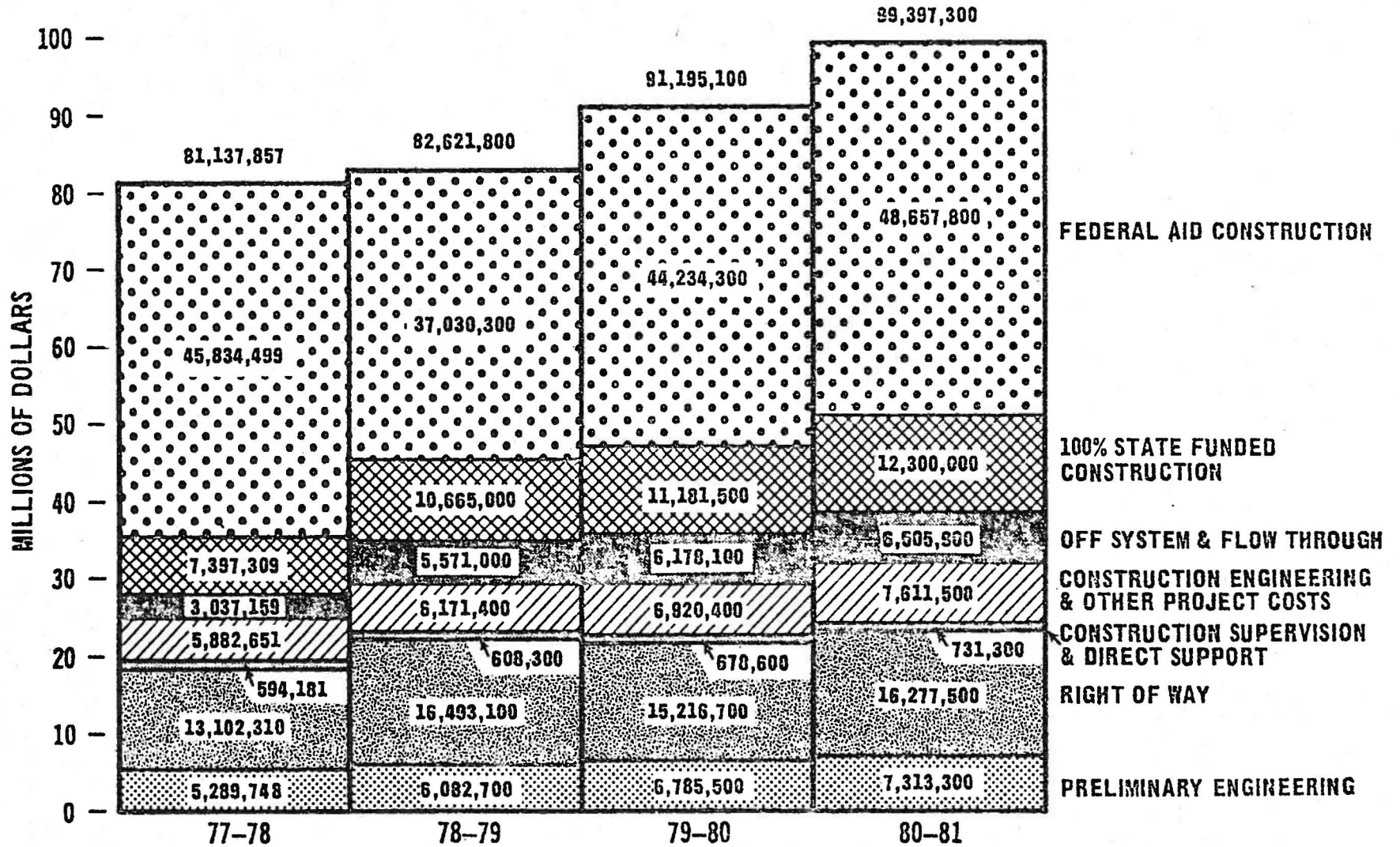
REPRODUCTION

OFFICE SERVICES

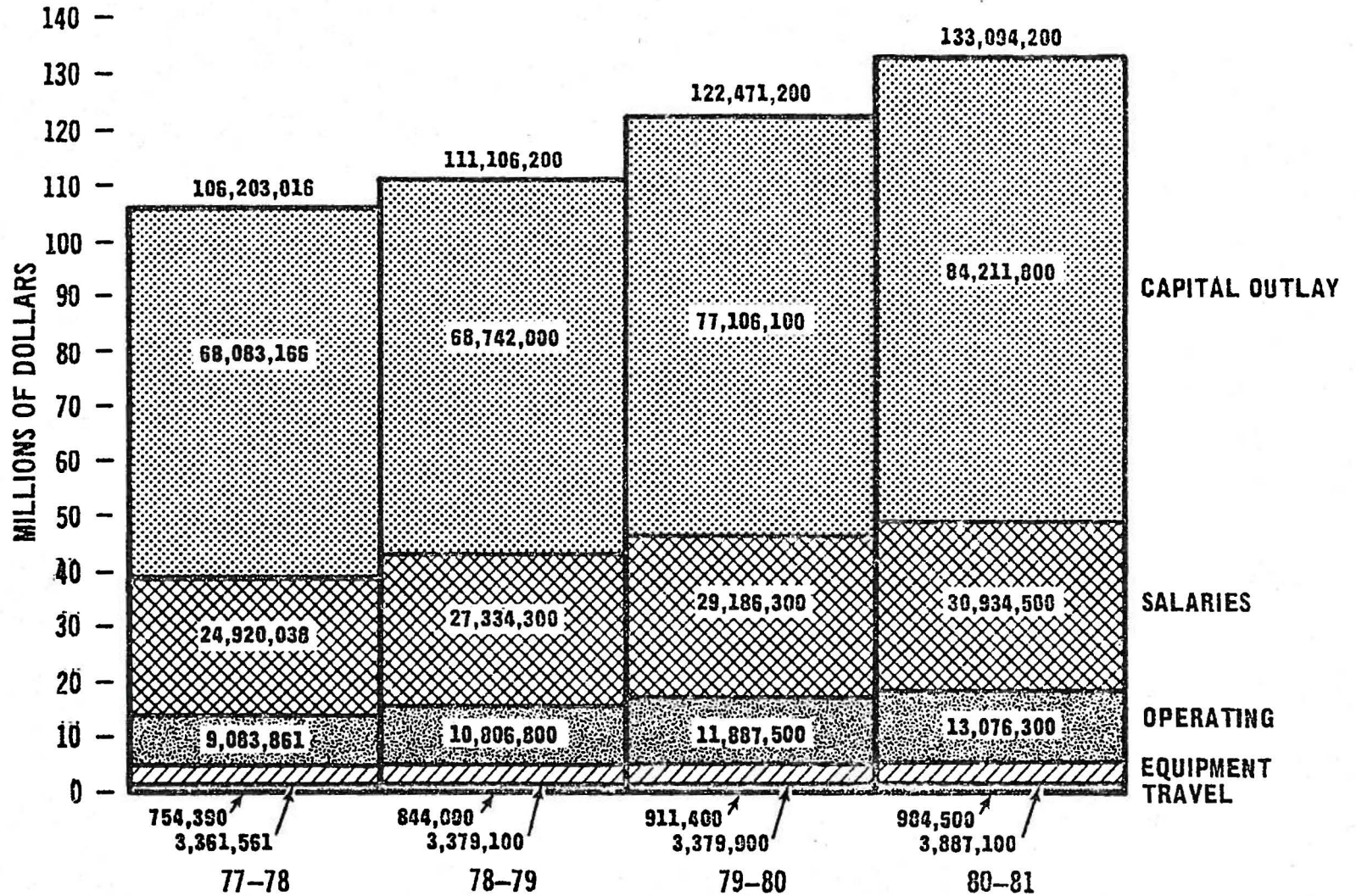
BUILDINGS & GROUNDS

PURCHASING & STORES

**CONSTRUCTION AND ENGINEERING
TOTALS BY YEAR**



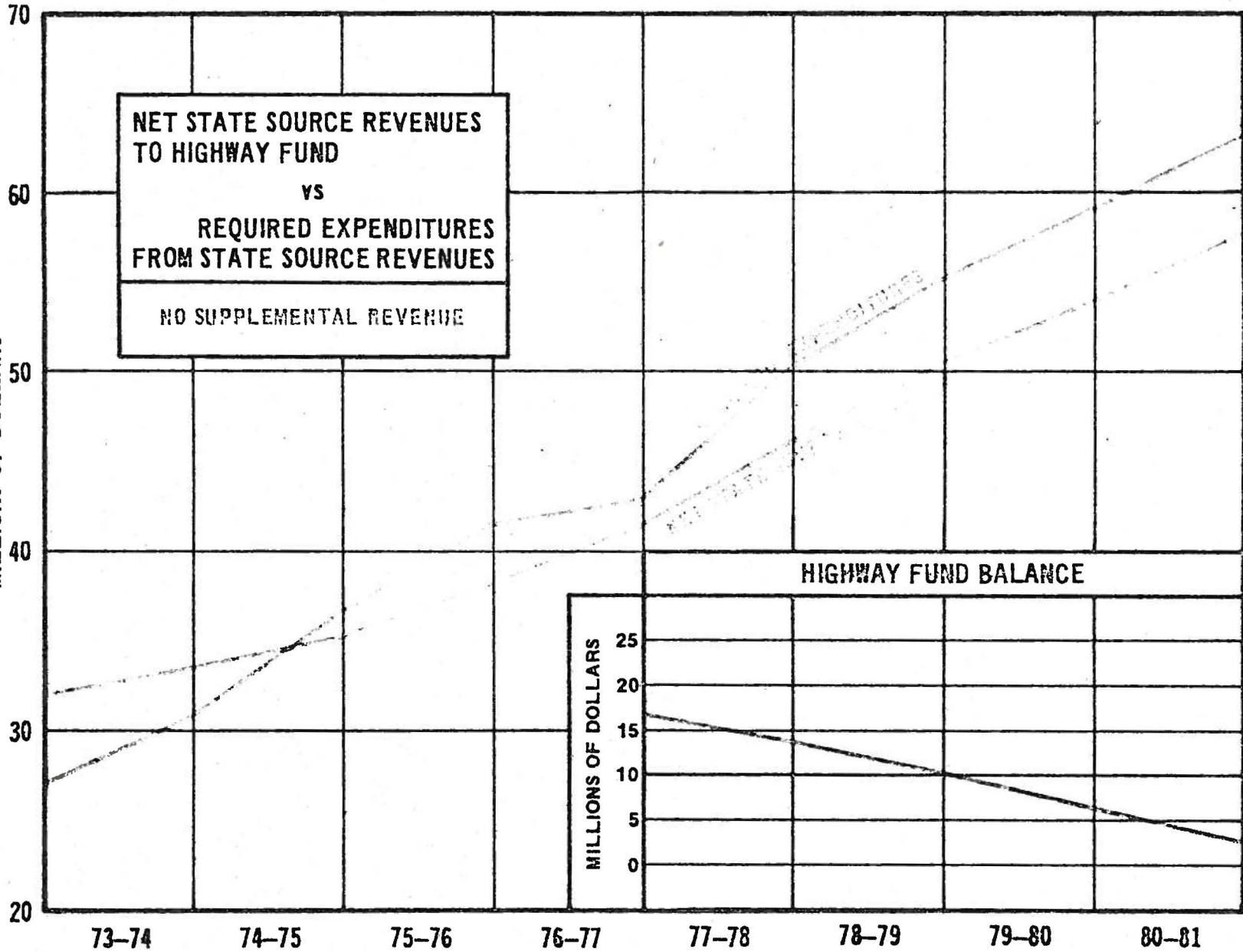
EXPENDITURE BY OBJECT

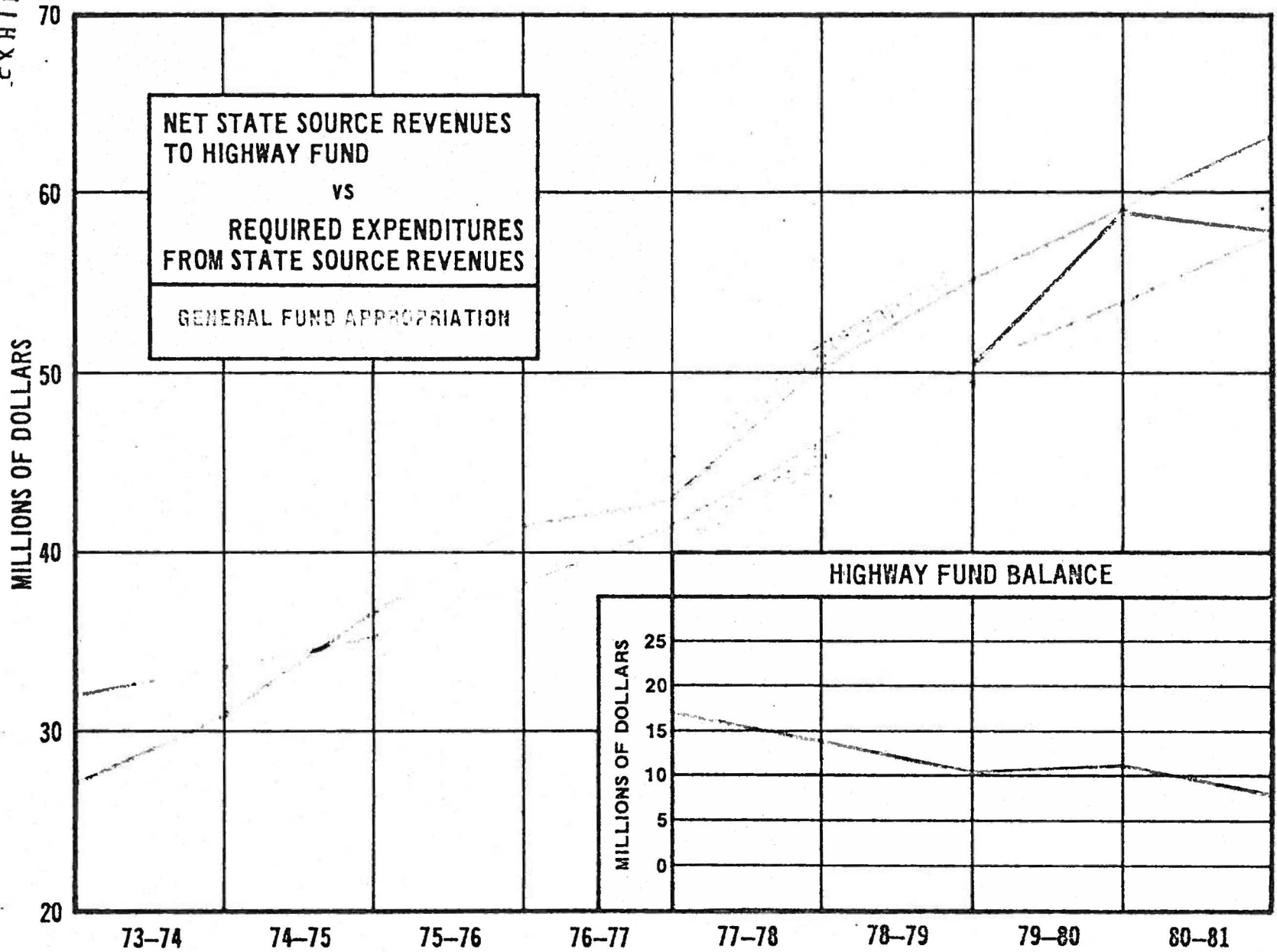


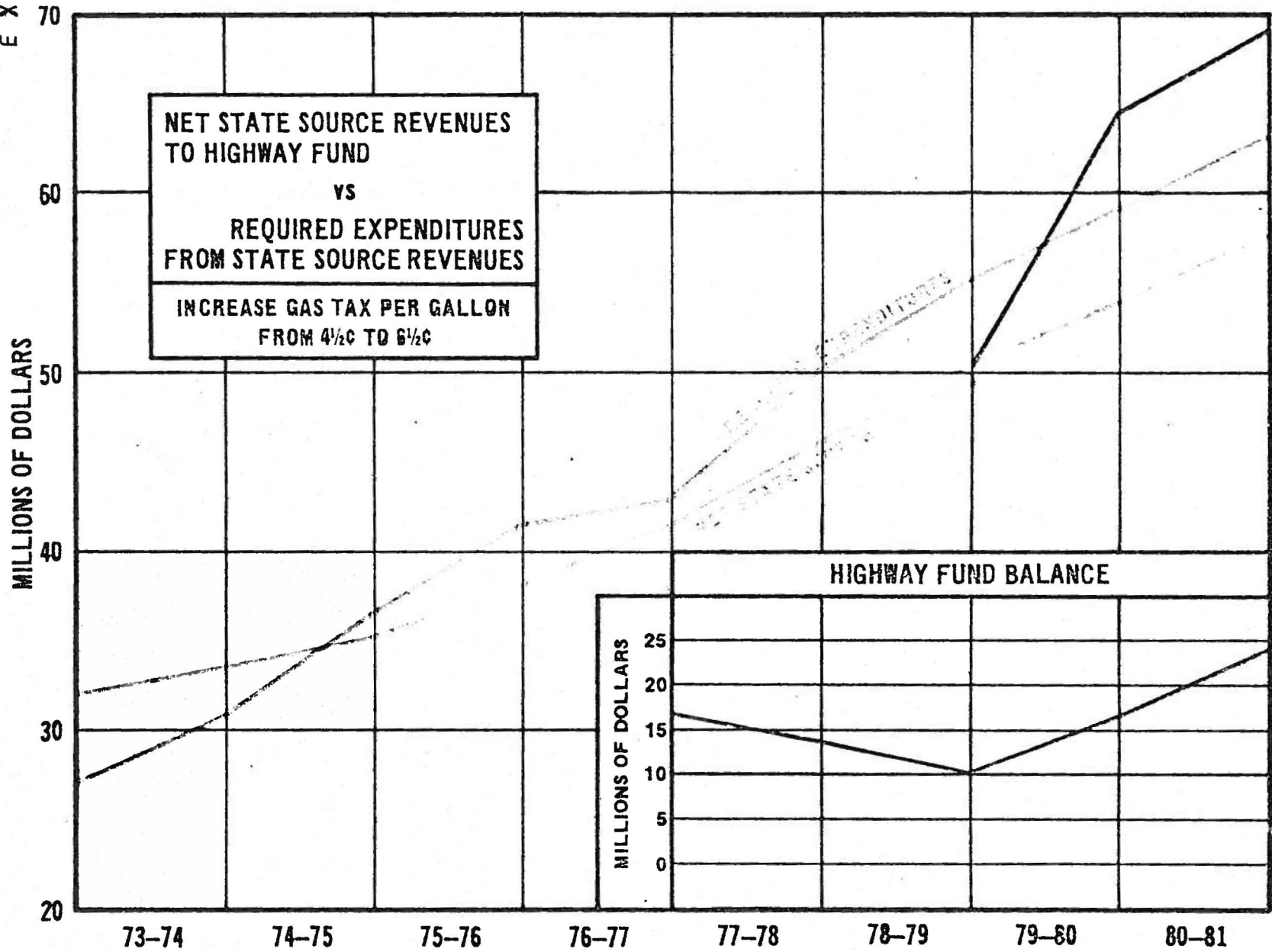
**PROJECTION OF
HIGHWAY FUND BALANCE**

HIGHWAY FUND BALANCE 7/1/78		ESTIMATED REVENUES		ESTIMATED EXPENDITURES & APPROPRIATIONS		ESTIMATED HIGHWAY FUND BALANCE 6/30/81
		119,253,924 (FY 79)		122,785,123 (FY 79)		
		131,933,000 (FY 80)		135,799,503 (FY 80)		
		143,334,800 (FY 81)		146,862,220 (FY 81)		
\$13,595,154	+	394,521,724		405,446,846	=	\$2,670,032

MILLIONS OF DOLLARS







HIBIT A

