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GENERAL SESSION
Monday, September 28, 1992

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UNDERSTANDING TRANSPORTATION IN THE COMMONWEALTH—HOW DECISIONS OF THE PAST AFFECT US TODAY

Industry Overview

It is great to be with you for this conference. I've spoken at two previous conferences and appreciate the invitation to return once again to talk about transportation services and how they impact Kentucky's economy.

Actually, I would like to title my remarks “Kentucky’s Economy: Always Changing, but Always Reliant on Good Transportation Services.”

In the early days, of course, farming and coal were the major sectors of Kentucky’s economy. Those two areas are still very important to the Commonwealth, but manufacturing became king in the 1960s and 1970s. And, in fact, manufacturing is still king today. During the period of 1985-1990, manufacturing employment in Kentucky grew by 12.9 percent, compared to a decline of 1.1 percent nationally. There are lots of examples of Kentucky’s manufacturing growth, such as Toyota, all the supplier plants, Ford’s expansion in Louisville, and so forth. The list goes on and on. In fact, it is so dramatic, that a recent U.S. News and World Report issue ranked Kentucky’s economy as second best in the nation in terms of...
recovering from the recession. That's a lofty spot for a state used to rankings in the bottom 5-10.

Is transportation important to manufacturing? You bet it is. Look at these signals:

- The largest job growth in Kentucky recently has been in the Bowling Green area and Lake Cumberland area which both happen to be served by major interstates. That is not coincidental.
- One-half of the 32 Kentucky counties that had positive population migration in the 1980s are located along I-75.
- Also, 15 percent of recent manufacturing capital investment in the United States is along I-75, the so-called “Auto Alley.”
- Of Kentucky's 13 counties with no U.S.-numbered routes or parkways, the per capita income of those counties is $8,749 versus a per capita income average of the state of $12,829.
- As for those Kentucky counties, which included an interstate, their per capita income is $14,358.
- It is estimated now that 20 percent of a product cost is in the area of transportation services.

Meanwhile, various national studies show a positive correlation between infrastructure spending and business productivity. During the 1960s, infrastructure spending showed a robust 4.5 percent growth and productivity increased during the same period by 1.8 percent. However during the 1980s, infrastructure spending was only 0.8 percent, no doubt contributing to an equally poor productivity increase of 0.6 percent.

Maybe an example would help explain this. Let's assume we have a load-posted bridge which carries 2,000 cars per day, and it's avoided by 200 trucks a day. Assuming operating costs for the trucks of 50 cents per mile and a detour of five miles, that adds up to $180,000 in extra cost for those trucks. And, remember you have to multiply that situation many times to come up with the true impact on the nation's productivity. The costs add up exponentially.

Also, remember that Kentucky's location is indeed about the best in the nation, but economic development goes to communities, not states. And, unfortunately, most Kentucky communities simply do not have adequate infrastructure to handle increased growth. There is no telling how many economic development prospects we are losing each year because, as a recent statewide task force maintained, only 35 Kentucky
communities are really ready for economic development in terms of infrastructure.

There are numerous other examples of the relationship between good transportation services and Kentucky’s economic growth. Note tourism, which now produces some 120,000 jobs in Kentucky and $4.5 billion in annual output. It’s been growing by leaps and bounds in Kentucky, but we can’t be assured that growth will continue unless we continue to provide good roads for the tourist. And, the time is right for Kentucky to really capitalize on tourism potential given the fact that many American families are choosing vacations of shorter duration—like an extended weekend—rather than two-week trips to exotic places. With that trend toward shorter vacations, it means driving rather than plane travel. So, we need to be ready.

I’ve mentioned a lot of positive aspects of the Kentucky economy, such as our manufacturing growth, tourism potential, and so forth. Rest assured, however, it’s not all rosy. For example, the Corporation for Economic Development gave Kentucky only a “D” average in 1991 and, in their rankings, we beat only West Virginia, Louisiana, and Montana. But it is not my purpose today to talk about those threats to our economic growth. Rather, my purpose is to explain the close tie between good transportation services and our economic potential. I realize that, in many respects, I am preaching to the choir here, but I hope you can use some of these statistics and trends to help state your case. We all need to be making good transportation services a priority.

I would now like to shift to a closer examination of my company’s reliance on good transportation services. In so doing, I hope it will serve as an example of how it is important to other Kentucky companies. First, we have some 500 suppliers in Kentucky out of a total of 1,000 nationwide. That total includes everything, of course, such as services and so forth. But even if you look at just the key parts and materials suppliers, nearly 40 of them (25 percent of Toyota’s parts and materials suppliers nationwide) are in Kentucky. So, obviously, Kentucky’s support for transportation services is crucial to us.

By the way, our suppliers even include some you would not necessarily think about. For example, we are the largest customer for Kentucky Utilities. And, since Kentucky Utilities buys mostly Kentucky coal, there’s a fairly direct relationship between us and hundreds of Kentucky coal producers. It’s a foregone conclusion that good transportation services are important to coal and as you can see that even applies to us.

But back to our suppliers. We have lots of suppliers outside the state, of course, which breaks the usual pattern of Kentucky sending our products away to have value added. In this case, suppliers are sending their products here for us to put in our finished vehicles and adding value to them. In doing so, it means more jobs and more value added in Kentucky.
to them in Kentucky. All told, our suppliers log 12 million miles per year in serving us.

Getting supplies is critical for Toyota. Remember we rely on just-in-time delivery. Many people assume that JIT is used to hold down costs. Certainly that is a factor, but the most important factor is to assure quality. When it arrives just-in-time, it means we don’t have a two-week backlog of inventory which may turn out to be all bad parts.

That just-in-time delivery depends on good transportation services. For example, our seats are made by Johnson Controls, a long-time Georgetown supplier located six miles from our plant. They literally make trips all day long delivering seats to us—12 or 13 trips per day—loaded on the truck in the exact sequence they’ll go in our Camrys. So, we don’t carry much inventory. The same is increasingly true for other Kentucky manufacturers. For example, Kentucky manufacturers as a group carry only one-half of the inventory today that they did in 1980. One Kentucky manufacturer, for example, depends on 30 rail-car shipments each day. If that process is interrupted for whatever reason, it impacts the jobs of his 500 employees.

But, it’s not just getting supplies to us; we also rely on good transportation services to get our products to market. Toyota has 1,200 dealers from coast to coast and we ship out 1,000 finished Camrys each day—70 percent by rail and 30 percent by truck. Kentucky is perfectly located for us, by the way. We can assure second-morning delivery all up and down the east coast and as far west as the Rocky Mountains. I don’t think any other state is located better for getting products to market. No doubt our location had much to do with Toyota’s initial decision to locate in Kentucky.

And there’s even more to it than getting our supplies in and getting products out. Keep in mind that we employ 4,300 people and many of them travel long distances on Kentucky’s highways to get to work. For example, we have about 500 who drive back and forth each day from Louisville. We even have two who drive everyday from Ashland (I believe that is the longest trip anybody is making to Georgetown). By the way, they say they make it from Ashland in an hour and forty-five minutes—maybe they’re going just a tad above the speed limit.

Here’s yet another factor. With Toyota being a global corporation, you might understand when I say that our business travel expenses can add up. Again, Kentucky’s location is prime. We are only a one-hour drive from the Cincinnati Airport and the Louisville Airport, and only one-half hour from Lexington. Sometimes I chuckle when I hear visitors from Japan talk about the “long distance” from the Cincinnati Airport to our plant. But, of course, they are looking at it in miles (or kilometers!), and not in time. I always respond that it takes us less time to travel those 60
miles than it takes them to cover the 10 miles from Narita Airport to Tokyo.

Finally, the new global economy is a buzz word these days, but it actually means so much in terms of transportation. The proposed NAFTA agreement will soon open up the market between Canada, the United States, and Mexico and will create the largest market in the world. It’s the best example yet of how this economy is becoming more and more global.

Toyota now has plants in 20 countries and we are heading toward our goal of a plant building so called “world cars.” Our Camry, for example, is now exported to Canada, Taiwan, Europe, the Middle East, and Japan. In fact, we are sending 20,000 Camrys to Japan this year, all with right-hand drive steering. It’s a funny world isn’t it, when Japan is shipping all those cars to the United States and we’re sending them back from Kentucky. Maybe the best way to explain how this is a new global market is that we understand Toyota is now Kentucky’s largest exporter, exporting $800 million worth of cars, engines, and parts annually. Ten years ago, who would have believed that a company named Toyota would be Kentucky’s leading exporter?!

By the way, the auto industry in general is certainly going global just like we are. For example, who could guess that the largest single importer of cars into the United States is not a Japanese automaker but none other than good old General Motors.

Another example of this new global marketplace and its increasing reliance on good transportation services is that 15 percent of Kentucky’s manufacturing employment is now for firms with at least some foreign ownership. Is that bad? Well, there are certainly lots of opinions on that and, as you might suspect, I certainly don’t think it’s bad but, regardless, it’s a fact of life. This is simply a global marketplace these days. Yes, there is a United States-Japan deficit, and you hear about that all the time, but you do not hear much about America’s $20 billion surplus in trade with Europe. What counts now in this age of big global corporations is not so much where a company is based but where does it put its thinking jobs. All this emerging global business requires excellent transportation services, in terms of business travel, getting supplies in, getting products out, and so forth.

I hope my comments today have helped illuminate the growing impact that good transportation services have on Kentucky’s economy. Thank you very much.
GENERAL SESSION
Monday, September 28, 1992

Calvin G. Grayson
Director, Kentucky Transportation Center

UNDERSTANDING TRANSPORTATION IN THE COMMONWEALTH—HOW DECISIONS OF THE PAST AFFECT US TODAY

Kentucky Overview

When the Forum Planning Committee was arranging the program for this Forum, it was suggested that I be the one to talk about the transportation decisions of the past and how they affect us today. It was stated that I was the oldest person they knew who had been involved in transportation and was still “living.” Someone has said in introducing a speaker that if you can answer these three questions it would be complete: Why this person, at this time, on this subject? It was the planning group’s opinion that I was the appropriate person to discuss this subject. When it came time to prepare my comments I thought I could sit down and write something profound, but I found this not to be true.

My comments will cover the past five decades. I will try to combine these five decades into an interesting commentary that I hope will have some meaningful effect on our transportation decisions of the future.

I should say, up front, that my recollections and opinions of transportation decisions in the past will be my personal opinions and they do not reflect the opinions of the University of Kentucky or state government.

I will start at the beginning of my college career in 1941 when, as a 16-year-old college student, I enrolled in the University of Kentucky with hopes of graduating as a civil engineer. My introduction to the University, especially in the College of Engineering, was most rewarding to a young freshman student. I found Dean D. V. Terrell and some of the CE professors to be most interested in talking to a freshman even though they did not know if I would make it through the first two years. Without their help and guidance, my first year of college would have been very difficult. During my sophomore year, I got to know many of the professors in the Department of Civil Engineering and Dean Terrell.

In September 1942, I received one of those famous letters that stated, “Greetings, you have been drafted and are requested to report to Draft Board 40 for service to your country.” I was able to get an extension and did not have to go to service until 1943. I also was given credit for those
subjects that I had completed, which was 50 percent of the work required to graduate.

After more than three years in service in the South Pacific (including 16 months in the hospital), I returned to UK as a veteran under the G.I. Bill. In my opinion, the G.I. Bill was the most beneficial government program because it provided more benefits to the students and to the country than any other program that I have had the opportunity to work with in my career. Each veteran was allowed to select a university to attend. Because I was a wounded veteran, I was asked to take a test to be sure that my choice of profession for rehabilitation was one that was within my capability.

The existing student environment after the war was completely different from the one before the war. Those of us who had been in combat came back with a different philosophy—we no longer believed we were young students, but mature persons who had a need and a desire to prepare ourselves for a professional career. I should note at this time that the same cooperative partnership arrangement between the Highway Department and the College of Engineering existed and, in 1948, the Highway Department initiated the first scholarship program, which has continued until today with one interruption. The decision by the Highway Department to fund a scholarship program was one of the best investments made by the Department.

The 1940-1950 decade

As I look back, it seems that the paradigm for transportation investment focused on “opening up the country,” sometimes referred to as farm-to-market roads.

During the 1950-60 decade, the Interstate Defense System of Highways legislation was passed by Congress. President Eisenhower, the prime mover for this program, is credited for saying “Plans are worthless, planning is everything.”

In 1956, the Highway Trust Fund was established. I believe most of us would agree, it was one of the most significant decisions of the past five decades.

The decade of the 1960s was one of the most memorable decades because Kentucky took a strong lead in public policy. Design work was initiated on the Mountain Parkway, which was the first of many parkways to be constructed for developmental purposes. Kentucky took a pro-active role instead of a re-active role, and the benefits from the decisions in this decade are still being received.
During this period, the first functional classification study was initiated and completed by Kentucky before it became a requirement by the federal government. An advanced planning group was established and the planning function strengthened the central office. District planners were placed in all 12 district offices. It was during this time that the Kentucky Highway Department employed its first economist.

In 1965, the Appalachian Development Act was passed establishing the Appalachian Development Highway System. Kentucky placed more than 400 miles on this developmental highway system. The Mountain Parkway, which was designed and constructed in the early ’60s, was used as a model for the development highway system for Appalachia. During this decade, federal legislation was passed requiring the 3-C process that mandated metropolitan areas to initiate a comprehensive, continuing, and cooperative planning process or federal funds would be withheld. This was an excellent step for transportation planning; however, the requirement of making jurisdictions sign cooperative agreements did not lend itself to maximum cooperation. However, this requirement did cause people to begin to discuss transportation facilities and their developmental effects.

1970-80

During this period, state government was reorganized into a cabinet structure and the Department of Highways was placed in the Department of Transportation. I was involved during this transition period wherein all modes of transportation were placed under the Secretary of Transportation’s Office. During this period, more professional young people were added to the DOT cadre than in any other time in history. For the first time, the Division of Planning was asked to develop system maps for highways, airways, waterways, and railroads. In addition, statewide modeling was initiated so we would be able to integrate all modes of transportation into the transportation network for Kentucky. During this time, I had an opportunity to visit Transpo at Dullis Air Terminal in 1972 to look at people movers, MAGLEV trains, and many other new technical innovations. I have always been disappointed since that time because we have never seen the real fulfillment of this high moment in transportation technology.

During this time, Kentucky received the first Section-18 grant in the United States. This was, in part, due to the reorganization of the planning function so that all modes of transport might be considered in future transportation planning. During this time, a new position was established in the DOT for a state transportation planning engineer. It was during this period that I was asked to serve as Secretary of Transportation and I also had an opportunity to visit five countries in Europe to view the public transportation systems in their countries.
The first demonstration project using school buses for moving people from rural areas to Morehead was initiated. I believe it was one of the first in the United States. It should be noted that during this decade, because of an effective professional staff in our planning division, Kentucky was recognized as one of the leaders in rural public transportation. New ideas and new methods of providing public transportation services for the rural areas were initiated by the Kentucky DOT. For this reason, I was offered the deputy administrator’s job at the Urban Mass Transportation Administration (UMTA).

During my tenure as Secretary working with Gov. Julian Carroll, we were able to develop an Energy Resource Recovery Bond program that was financed by an increased coal severance tax. Funds from this increase were to be used to provide capital improvements for energy resource roads predetermined by the Department. The annual principal and interest payments were to have first call on the increased coal severance tax so that the road funds would not be used to pay off this bond indebtedness. However, as most of you know, this has been violated for the past 10 years and the principal and interest payment on this bond issue is presently being taken out of the road fund.

1980-92

This is the period when, I believe, our transportation organization in Kentucky made some decisions that had a negative effect on our transportation short- and long-range programs. The planning function was reduced, the research program was reduced, people, building, and equipment were sold to the University of Kentucky. The scholarship program was stopped (however, it was re-initiated under a different administration). The tolls were removed from some of the parkways because of political pressures and the professional cadre in the department was reduced.

The most positive step during this decade was taken by Congress in 1991 when they passed the Intermodal Surface Transportation Efficiency Act which provided new opportunities and responsibilities for state and local organizations.

Why all of this history and looking backwards? Why bore folks who have probably had more interesting lives than I have? Well, for a particular reason, I believe we must always study the people we are dealing with and know who they are. You have to make a real effort to understand people and where they are coming from.

The second point is that people clearly want mobility. They also want energy-efficient transportation, sound economy, and a clean environment. Another truth is that plans have to affect decisions. As Secretary of Transportation, this point was driven home to me almost daily. Today we are evolving towards a transportation investment paradigm which I
would name “strategic development enhancement” rather than just land access.

In summary and conclusion: A look at our transportation system will reveal very quickly that Kentucky is a hub of the nation’s transportation system. A look at our past indicates we have sometimes not fully managed or maximized our modes of transportation. Our 70,000 miles of highways, 1,100 miles of navigable rivers, 2,500 miles of railroads, 142 airports, and six urban and 18 non-urban transport systems provide the basic foundation for one of the best transportation systems you will find in any of the 50 states.

Why have we not fully managed and maximized our modes of transportation? I believe there are five basic reasons:

1. The administrative structure of the Kentucky Transportation Cabinet does not provide for continuity of professional leadership. The 26 changes we have had in the last five decades result in an average lifespan for the Secretary of no more than 1-1/2 years. This does not give a person in this position an opportunity to plan, organize, and manage an effective transportation program.

2. It is my perception that there is a lack of coordination between the Transportation Cabinet and the other departments of state government. This is so vitally needed if we are to proceed with the developmental transportation we all desire.

3. There is presently a lack of adequate funding for the maintenance and capital improvements on our highway system.

4. There is no intrastate air commuter service. For example, one can fly from Lexington to Nashville and come home the same day; however, this is not possible if we wish to go to Paducah, because of inadequate intrastate commuter air service.

5. There is an inadequate public transport service, primarily in our rural areas.

I would like to make some suggestions or recommendations that might help us to maximize and manage our transportation systems more effectively:

1. Establish professional criteria for the position of Secretary and provide a mechanism for continuity so that person can be held accountable.
2. Improve the peer review of transportation programs and projects to ensure high professional and ethical standards.

3. Place all modes of transportation, including regulatory agencies, under the jurisdiction of the Transportation Cabinet.

4. Provide an organizational structure to ensure that state and local level transportation services can be operated and administered in a coordinated and efficient manner.

And last, there are two words that I believe hold the solution to maximize our transportation system capabilities—leadership and partnership. It becomes obvious very quickly to look at the number of highway maintenance personnel presently existing in our Commonwealth: 120 in the Transportation Cabinet, one in each of the 120 counties, and over 250 in cities with populations over 2,500. This is approximately 500 separately operating highway units to maintain and manage 70,000 miles of highways. I believe each of us will readily admit that this is a fragmentation that needs to be changed by consolidation for more efficient use of our transportation funds.

Thank you for your attention.