THE CITIES’ DILEMMA IN FINANCING MAJOR HIGHWAY IMPROVEMENTS

by

Fred E. Fugazzi
Mayor of Lexington, Kentucky

In the exercise of my duties and responsibilities as Mayor, I of course have frequent contact with engineers representing practically all of the branches of the profession. They are normally in the enviable position of telling me what needs to be done, but today since I have the honor and privilege of the floor I am going to tell you what needs, and must be done, in the eyes of a city administrator. I am particularly pleased to be able to address this group because it is one of the few occasions where highway engineers and city representatives from all over the Commonwealth have the opportunity to meet together and discuss mutual problems. The most pressing mutual problem facing cities today is in the field of street and highway financing and it is this problem that will be the subject of my brief discussion.

As I was born and raised in Lexington and am now serving my second term as Mayor it is only natural that I use Lexington as an example in illustrating and presenting the financial dilemma of Kentucky cities in financing major highway improvement.

In 1952, when I entered my first term as Mayor, the total operating budget of the City was approximately two million dollars raised from an advalorem tax rate of $1.66. For the current fiscal year the total operating budget is approximately 8.5 million dollars supported by an advalorem tax rate of $1.51. The occupational license fee was instituted in 1953 and is included in the 8.5 million, however, the benefit of the increased revenues have been largely negated by the responsibilities in providing services for a greatly increased area.

Since 1952 we have experienced a phenomenal growth. We increased in corporate area from 5.78 square miles in 1952 to approximately 20 square miles as of January 1st of this year. Although our area increased by approximately 246 per cent and our revenues increased by 325 per cent, this comparison does not begin to present the true financial picture. The true picture must recognize the type of expansion, the increase in service and the steady decrease in the value of the dollar.

Prior to industrialization and corporate expansion Lexington was a small compact city almost virtually encompassed within a radius of approximately one mile. It was reasonably economical to serve this area with the traditional services of sanitary service, Police and Fire protection, etc. As the community grew to its present size, the services became more expensive due to distance from the central core and the relatively non-compactness of the corporate area. The annexed areas were virtually without city services and rather
than have the situation whereas the services were merely beefed up or increased, we had a situation where they had to be provided completely from scratch. Sanitary sewers, storm sewers, Police and Fire protection, street lighting, garbage and trash collection, recreational facilities and all the other services that the average citizen often takes for granted had to be provided in physical plant or equipment along with increased personnel to provide its operation. The sum and substance of this without going into minute detail is that Lexington, and I assume most other comparable cities in the Commonwealth, have very little monies to expend for major highway or street improvements. We need financial assistance and the recognizing that the major arterial and collector streets in cities are as important to the overall transportation plan as the Interstate, Primary and Secondary Systems.

If we subscribe to the wise policy that those who primarily use a facility should pay for the facility then cities are limited from a practical standpoint in what improvements should be undertaken with local revenues. In the case of a purely local street serving primarily the people who live upon it, they are normally constructed or reconstructed by assessment in the older areas and by the subdivider in the newly developed areas. In either event it results in the user paying for the improvements with the maintenance from then on being the obligation of the city. We have no difference of opinion on obligations and responsibilities towards a purely local street system.

It is where we have the major collectors and arterials that we face the problem. These streets are not only used by the local motorist but they are also used by the so called farm to market traveler, the through traveler and the intercity traveler. Are we to be expected to adopt a policy whereas the local user and taxpayer foots the entire bill for wider payments, wider rights-of-way, etc., when a great percentage of the travel on this type of street is non-local in financial contribution? --- I say no. I say that in the case of major arterial and collector streets it is unrealistic to expect Kentucky cities to finance these type of improvements without additional help and assistance from the State and Federal level.

Studies have indicated that in cities over 50,000 in population, approximately 80 per cent of all the traffic moving towards the city is city bound and as the size of the city increases, the percentage increases. It is also generally conceded that nearly 50 per cent of the nation's motor travel now occurs on city routes and that these routes account for only approximately 10 per cent of the total highway mileage.

The Federal-Aid Highway Act of 1962 provided in part that no program for highway improvement in any urban area of more than 50,000 population shall be approved unless they are based on a continuing comprehensive transportation plan. The Housing Act of 1964 also made planning funds available through the Urban Renewal Administration of the Department of Housing and Urban Development.
Lexington and other urban areas in Kentucky will soon, if not already so, have reams of plans documented by more reams of statistical research, and expert analysis, detailing their street and highway needs. Unfortunately, but true, these plans will gather dust if some means is not found to implement them with a sound and equitable finance plan. Although we have abundant planning funds it would appear in some respects that the "Great Society" has bypassed the cities in regards to adequate financial aid for highway improvements. We have Rural Highway appropriations, Interstate Highway appropriations, Appalachian Highway appropriations, Forest Highway appropriations, but an almost insignificant Federal appropriation for Urban Highway improvements when compared with the needs.

To appreciate the dilemma of Kentucky cities in assuming unaidered financial responsibility for the construction of millions of dollars worth of street improvements, it is important to understand the revenue producing restraints that past history, custom, and legislative action has put upon them.

Throughout the history of the Commonwealth, the trend has justifiably been to require the road user to pay for road improvements. This reasoning was first basically set forth in 1797 when the General Assembly authorized the installation of a toll gate on the wagon road between Crab Orchard and Cumberland Gap and pledged priority on the revenues therefrom towards maintaining and keeping the road in good repair. Although the State Government occasionally strayed from this concept of the road user footing the bill, it was slowly strengthened and more firmly established as the road needs and system expanded.

In 1914 the General Assembly created the first true system of public roads consisting of roads connecting the County Seat of each county. The revenue plan that implemented this system pledged in addition to other support from the General Fund, the proceeds of the automobile license tax. By 1920, a gasoline tax had been implemented and we now have a seven cent per gallon state gasoline tax in addition to many other road user taxes with all of them with the possible exception of a city vehicle use tax funneling into the "State Road Fund". Therefore the first restraint is the concept of long standing that the road user pay for the road improvements. It should be emphasized that this concept is not disagreed with but is in fact wholeheartedly supported. The reason for dwelling on this point is to illustrate the fact, that with the possible exception noted above, the State has preempted the sources of revenue from the road user and there is no present adequate method of similar street improvement financing available to the cities.

The recognition of local governments' problems in the field of road improvement financing is not without precedence on the part of the General Assembly. Between 1914 and 1920 specific allotments were made from the State Road Fund to the various counties and they were permitted to anticipate their annual apportionment and vote bond issues supported by this allotment. Although this practice was discontinued in 1920 the county levels of government have had their financial problems on road improvement largely alleviated by specific legislation allocating two cents of the gasoline tax exclusively to the Rural Secondary Fund and ten million dollars annually to the Rural Highway Fund.
No such recognition of a similar nature has ever been extended on a state level to the various cities or urban areas. The Federal Government did take a step in this direction when by the Highway Act of 1944 they made provision for the extension of Federal Aid Primary and Secondary Roads into Urban Areas over 5,000 population and made a specific and continued appropriation for this purpose. The point of direct county aid between 1914 and 1920; the legislative provision for the Rural Secondary and Rural Highway Fund; and the 1944 Federal Highway Act, are all mentioned to illustrate that there are precedents towards extending aid to local government structures.

Many states have already recognized the unique problems of cities by granting relief. A study of twelve selected states in 1950 indicated that five states either rebated a portion of the gasoline tax to cities or else made a specific grant-in-aid.

In California (1947), cities were rebated five-eights cents of the then four and one-half cent per gallon gasoline tax based on the proportion the population of the city bore to the total population of all the cities in the state. The monies derived therefrom are obligated towards the construction, reconstruction and maintenance of city streets not a part of the State Highway System. Illinois allots one cent per gallon of the gasoline tax to the cities based on population relationships but limits the expenditures on the City System to fifteen per cent of the total revenue. New Jersey and Virginia both make grant-in-aids based on population, road mileage or a combination thereof. Oregon allots ten per cent of all state highway fund receipts to cities to be expended on streets other than the State Highway System. Arizona in 1963 enacted legislation that increased the gasoline tax by one cent and allotted eighty per cent of this increase to cities. Time has not permitted the gathering of more specific and up-to-date data and the cases listed briefly above are solely to indicate that the theory of sharing road user taxes with cities is nothing new.

The State must recognize that the Urban Need Studies made mandatory by the 1962 Federal Highway Act, and the multitude of planning studies emerging through the encouragement and cooperation of the Department of Housing and Urban Development, are virtually useless unless cognizance is given to the cities' financial plight. Kentucky urban areas have now reached a point of crisis and must avail themselves of new equitable avenues of financing or receive a fair share of the State collected highway user revenues. It is not maintained that expenditures should be made in direct ratio to the amount of highway revenue generated in the cities, but from the finance standpoint alone, the cities cannot solve the urban traffic problem without increased assistance from the State.

In conclusion, I must say that the major street and highway traffic problems that affect the most people now lie in the cities. By 1972 the interstate problem will supposedly be finished and it is rumored among those who are in the transportation profession that more aid, with perhaps a different apportionment of Federal Aid, will be forthcoming at that time. Kentucky cities cannot wait. We need aid now. It is hoped that the next General Assembly will give cognizance to this problem and provide to Kentucky cities a larger and specifically designated
share of the highway user tax receipts. This can be done either by,
(1) The allotment of specific funds to urban areas.
(2) The State assuming the responsibility for a greater mileage of city
streets by establishing an arterial street system which will meet
all important intercity and intracity traffic needs.