



View from the Chair

Missouri Highways and Transportation Commission

Further Cuts to MoDOT, More Bonding Are Not The Answer

January 21, 2015



Dear «GreetingLine»

At our Commission meeting last week MoDOT's Chief Financial Officer, Roberta Broeker, opened the discussion by presenting the financial projections for coming years. Our state revenues will be so low by 2017 we will no longer be able to match federal funds. As a result, Missouri will be unable to collect \$167 million in federal funds. Those unclaimed funds could be redistributed to other states that have sufficient state revenue. By 2018 the federal dollars lost will grow to almost \$400 million. In the past, when MoDOT had sufficient state revenues it actually benefitted from this redistribution – to the tune of more than \$20 million per year. No more. In the future, Missouri could watch precious federal dollars go to other states. Particularly sad is the fact that each dollar in state funds spent on transportation improvements is matched by \$4 in federal funds.

Roberta also dispelled two popular myths. **First myth:** the funding problem can be solved by further cuts to MoDOT. March 1 will mark the five-year anniversary of MoDOT's downsizing, known as the "Bolder Five-Year Direction." Those cuts were deep and historic. Not only had it never occurred in the history of our state, MoDOT Director Dave Nichols confirmed that no other state DOT has made these kinds of cuts. Those cuts to employees, buildings and equipment funded more than \$600 million in contractor awards over the five-year time period – funds that built roads, employed contractors and stimulated economic development. Without those cuts, Missouri would have had more than \$100 million less in work on the transportation system in each of the last five years.

Additionally, the deterioration of our system and the date for loss of federal funds would have

been accelerated.

What about more cuts to the organization? "Cut to the bone" is how MoDOT's CFO described our current organization. There is nothing else to cut without jeopardizing MoDOT's ability to provide the most basic of services like patching pot holes, plowing snow, striping roads, inspecting bridges and administering the few contractor projects. Further, given the \$160 million annual shortfall to simply maintain what we have in its current condition, more cuts to MoDOT, even if they were made, would only nibble around the edges while seriously harming essential functions.

Second myth: the insufficient funding was caused by or could be solved by bonding. Bonding is just another name for debt. It does not represent new money and it must be paid with interest from future revenues. Debt has its place, but it must be used wisely and at the right time on the right projects. In the past decade, MoDOT made very effective use of bonding to address large, high-priority projects which required a large cash outlay in a short period of time. These projects could not have been funded effectively out of operating revenues. MoDOT's "Smooth Roads Initiative," "Safe & Sound Bridge Improvement Program" and major river bridges in St. Louis and Kansas City are all good examples of sound use of debt. The debt MoDOT took on to make those improvements has given Missouri the highway system it has today. But you don't use debt to fund basic operations any more than a family should mortgage its home to pay for basic necessities.

The Commission has adopted fiscal policies that dictate that annual debt service should not exceed 20 percent of annual revenue from state and federal sources. Right now, debt service stands at about 15 percent, but declining state revenues may cause that percentage to increase. It will be almost another decade before significant amounts of the debt are retired. In short, MoDOT has prudently used its bonding authority but more debt is not the solution.

The only solution is new funding and new funding is achieved in only one way: taxes. Whether one calls it tolls, license fees or various kinds of taxes, they all require us to pay for what we use. There is no free lunch.

If you would like to communicate with the Commission, you can always reach us at MHTC@modot.mo.gov.

Onward!

Stephen R. Miller
Chairman

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