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Warning Sign: Minnesota Bridge Collapse Alerts Other States to Road Maintenance Needs

Missouri Transportation Funding Under Strain

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The Missouri Department of Highways and Transportation (MODOT) recently began a campaign to educate Missouri voters and policy makers that monies available for new highway construction projects will become very limited after fiscal year (FY) 2010 when the bond proceeds from Amendment 3 run out (*this Constitutional Amendment was approved by Missouri voters in 2004*).

MODOT officials expect monies for construction projects will decline from \$1.53 billion in FY 2008 to \$768 million in FY 2011. Furthermore, MODOT expects a construction funding shortfall on the order of \$18 billion from 2010 to 2030 under current revenue and spending projections.

Increased Attention, Action on Missouri Road Conditions

On July 31, the *Joint Committee on Transportation Oversight* sponsored a hearing in Jefferson City to describe and call further attention to funding issues. Tragically, the following day, a major bridge over the Mississippi river collapsed in Minneapolis, Minnesota. While the cause(s) of the Minnesota bridge collapse are not yet known, this tragedy dramatically demonstrates the importance of Missouri (and all states) having adequate funds to build and maintain roads, bridges and other infrastructure.

During the special session of the Missouri General Assembly beginning August 20, Governor Matt Blunt has asked lawmakers to consider a bill expediting bridge repairs. The proposed change in state law will make it easier for MODOT to award a contract to begin work on many of the states' deficient bridges.

In September 2006, MODOT announced the Safe & Sound Bridge Improvement Plan, a \$400 million to \$600 million initiative to repair or replace more than 800 Missouri bridges by 2012.

Missouri Transportation Funding - A Thumbnail Sketch

The increased attention to transportation infrastructure needs could lead to even further action on road maintenance and repairs. Policymakers must address the reasons for the anticipated funding shortfall in Missouri, beginning with an examination of the MODOT funding mechanisms. They include:

Motor Fuel Tax - The Missouri motor fuel tax is 17 cents per gallon is one of the lowest in the nation, ranking 41st of all states. This tax raises about \$526 million annually and accounts for about 45% of MODOT revenues. The tax is based on the number of gallons of fuel sold and has not been increased since 1996. As gasoline prices rise and the public switches to more fuel-efficient vehicles, revenues from this source are not likely to grow by more than 1% annually.

Motor Vehicle Registration and Drivers License Fees – These fees provide about 25% of state transportation revenues, yielding about \$281 million annually. These fees have not been increased since 1984. MODOT expects these revenues to increase only about 2.5% per year.

Motor Vehicle Sales and Use Taxes – These taxes are also expected to provide about \$228 million in FY 2008 or another 20% of MODOT revenues. Revenues from this source will increase in FY 2009 as the re-allocation of Motor Vehicle sales tax from the general fund to MODOT is completed. By FY 2012, these taxes will account for about 25% of MODOT revenues. Growth in these revenues tends to be somewhat erratic as they depend largely on automobile sales that fluctuate greatly with economic cycles.

The remaining MODOT state revenue comes primarily from bus/truck fees and interest earnings. It is notable that the principal sources of MODOT revenue do not tend to grow with inflation and the economy. This is a substantial reason for the anticipated shortfall in MODOT resources.

Bond Proceeds to Run Out

The next major problem facing MODOT is the current surge of construction spending is financed largely by bond proceeds that will run out after FY 2010. In addition to re-allocating the Motor Vehicle sales tax from General Revenue to MODOT beginning in FY 2006 (in a four-year phase-in), Amendment 3 authorized about \$2 billion in borrowing to finance the current construction program. After FY 2010, however, these proceeds will vanish.

In FY 2008, the state is expected to have about \$1.53 billion available for the construction program. BY FY 2011, this funding will drop to \$768 million, about half of this year's total. The revenues from Amendment 3 are expected to be sufficient to pay the

debt service on the \$2 billion dollars borrowed, but not to finance additional projects. In addition, the MODOT construction budget is expected to be impaired by:

- A substantial increase in highway construction/maintenance costs
- A substantial decline in Federal Highway construction support. Federal highway revenues are also derived from motor fuel taxes and are not expected to grow much over the next five years.

There is widespread agreement that the MODOT funding will be under severe strain after FY 2010. Unfortunately, there seems to be little consensus on potential solutions. It should be made clear that the current and expected improvement in Missouri highways (while welcome and badly needed) has been made possible by:

- **Borrowing** about \$2 billion
- **Servicing this debt** by re-allocating General Fund revenues

Amendment 3 has done nothing to improve the fundamentally flawed structure of the MODOT funding system. However, policymakers and the public have been reluctant to support tax increases for transportation funding. In 2002, Proposition B, a major transportation tax increase was defeated by a 3 to 1 margin. Proposition B would have raised the motor fuel tax by 4 cents per gallon and increased the general sales tax by one-half cent.

Existing Sources: Will They Meet Missouri's Needs?

There are no easy solutions to the impending highway funding shortfall. Transportation, like other critical state services, is funded primarily through tax dollars. Missouri policymakers and voters could consider increasing revenues by making changes to the traditional funding mechanisms as follows:

1. Increase the Motor Fuel Tax – As noted above, the Missouri Motor Fuel Tax is 17 cents per gallon and was last increased in 1996. In round numbers, each one cent increase in this tax would yield about \$40 million in new revenue. Under the Missouri Constitution, the state must allocate 30% of any fuel tax increase to cities and counties for their highway budgets. Historically, the Motor Fuel Tax has been a mainstay of highway funding. There is a clear linkage between those who pay this tax and those who directly benefit from using the highway system.

However, the Motor Fuel tax is regressive and almost any increase would be of concern on these grounds. There is also a consensus that the Federal and State governments may need to lessen reliance on this tax as higher fuel prices are likely to encourage the public to buy more fuel-efficient cars. This, in turn, may lead to little growth or even a decline in revenues from this tax in the coming years.

2. The General Sales Tax – An increase in the general sales tax could bring substantial revenues to MODOT. In FY 2009, a one-half cent increase would yield about \$340 million. Unlike the Motor Fuel Tax, the general sales tax can be expected to grow 3% per year or so. However, increasing this tax would likely raise concerns as it is regressive.

3. Increase Motor Vehicle Registration & Driver's License Fees – Missouri Vehicle registration fees were last increased in 1984; an increase in these fees may be warranted. The primary drawback is that this is relatively small tax base. Even a 50% increase in these fees would yield only about \$150 million in FY 2009.

4. Toll Roads – Enhanced use of toll roads has been discussed. The advantage is the clear linkage between those who pay the tolls and those who use the roads. The primary obstacle to toll roads is that federal law prohibits state from tolling existing Interstate highways and currently MODOT has no legal authority to toll any Missouri highways. The other concerns about toll roads are that there are costs associated with collecting and enforcing the tolls; also drivers could object to the inconvenience associated with paying tolls.

Funding Missouri's Priorities: It's a Matter of Will

Missouri's General Revenue fund is an important source of monies for services including healthcare, education, public safety and transportation. Yet budgets for these services were cut significantly during the economic downturn of the early 2000's and have yet to return to 2001 levels despite the recent economic recovery. In addition, Missouri is facing a growing need for services as the surge of "baby boomers" enters their senior years and as aging infrastructure begins to crumble and requires expensive repair and maintenance.

Policy makers and voters can make fundamental changes to the state's tax policies that would generate additional revenue to meet important needs of Missouri residents. It is a matter of defining priorities—such as safe roads and bridges—and having the will to make policy decisions that adequately fund those priorities.

The Missouri Budget Project is a statewide, nonprofit, nonpartisan fiscal analysis organization that informs the public on Missouri's budgetary and tax policy options...and their impact on low and middle income citizens. More information is available at www.mobudget.org

