Estimated Financial Summary for the 2014-2018 Highway and Bridge Construction Schedule

In This Section . . . .

Section 5 of the Statewide Transportation Improvement Program explains the sources and projected levels of Missouri's transportation revenues, while also sharing the planned expenditures for the next five years.

The department is proud to be able to cost-effectively maintain a safe transportation system. Careful planning has even allowed for improvements in recent years, but nothing lasts forever. Just like a car requires new belts, hoses, and tires, roads and bridges require new surfacing, stripes, and signing.

No matter how carefully finances are managed, there is a problem with how transportation is funded in this state and country. The fuel tax model used for many, many years no longer works. Cars are getting more fuel efficient and people are driving fewer miles. In fact, fuel tax collection over the next five years is projected to decrease by 1 percent – a decline that has been the trend since 2010. It's very unlikely that fuel tax will ever be a growing revenue stream again.

About 70 percent of every dollar MoDOT receives comes from fuel taxes. But the fuel tax rate at the state level hasn't been changed since 1992, and at the federal level it hasn't changed since 1993. With the cost of concrete tripled, steel prices doubled, and asphalt costing more than twice what it did two decades ago, this means Missouri is trying to fund its current transportation needs with a budget that is almost two decades out of date.

Other sources of state revenue for transportation include sales and use tax, vehicle and driver licensing fees, interest earned on invested funds and other miscellaneous collections, and a small portion of the general revenue fund. Revenue collected through these avenues has remained flat in recent years, and the general trend for the future indicates these sources will remain stagnant.

In the summer of 2012, Congress passed a new federal transportation act titled "Moving Ahead for Progress in the 21st Century Act," or MAP-21. The act reauthorizes federal highway, transit and other surface transportation programs through September 30, 2014. The funding levels require transfers of $2.4 billion from the Leaking Underground Storage Tank Trust Fund and $18.8 from the General Fund to the Highway Trust Fund.

MAP-21 reduced the amount of funding for all state transportation departments, and Missouri will actually receive $71 million less per year. Because the future of this federal funding is uncertain, MoDOT purposely scaled back the number of proposed projects to fund in later years of the 2014-2018 STIP.

MoDOT continues to be one of the most efficient state agencies in difficult economic times. The department's operating expenses remain flat, outside of minimal increases related to employee benefits. In the past ten years, MoDOT has completed 4,220 projects worth $11.6 billon, at 4 percent under budget. The Bolder Five Year Direction, a cost savings initiative within MoDOT, reshaped and resized the department to redirect a projected $512 million in savings from staff, facility and equipment reductions to critical roadway improvements.

Missouri's 2014-2018 STIP is primarily maintenance-focused with little room for anything else, but that hasn't always been the case. In 2004, Missouri voters approved Amendment 3, which redirected motor vehicle sales taxes to the newly created State Road Bond Fund and directed MoDOT to sell bonds and use the proceeds to improve roads and bridges. With that, Missouri's major roads went from 47 percent in good condition to 88 percent today. Minor, less traveled roads have been maintained at 70 percent in good condition. The condition of Missouri's bridges has steadily improved over the last five years, due to the Safe & Sound Bridge Improvement Program and dedicated funding through the STIP. Access to bond proceeds has put Missouri's roads and bridges in a good place, and allowed for additional four lane highways, new interchanges to bring businesses to Missouri, and major bridges like the new Mississippi River Bridge in St. Louis and I-29/35 Bond Bridge in Kansas City. In 2009, the one-time injection of federal stimulus funds through the American Recovery and Reinvestment Act brought millions of dollars for road and bridge projects. But these opportunities are over. Federal stimulus funds are gone and the bond proceeds have been used to make the improvements Missourians wanted. Now the redirected vehicle sales taxes that made it possible are being used to pay off that debt, just like paying the mortgage on your home.

In previous years, the annual contractor awards in the STIP averaged $1.2 billion, with about 50 percent used for taking care of the system. In this STIP, the contractor awards average $694 million, and nearly 80 percent is aimed at taking care of the existing system. The opportunities to expand the system – widening a busy two-lane road to four lanes to reduce congestion and improve safety, or building a new roadway or interchange to help promote business development and bring jobs to the state – are disappearing.

Looking forward, the percentage of funds needed to simply maintain the existing system will continue to grow, with virtually nothing available to enhance or improve it. Projected funding levels will not keep pace with the money necessary to maintain our roads and bridges. In fact, MoDOT estimates the cost of maintaining roads and bridges to nearly double over the next 20 years. If no change occurs to funding levels, the transportation system will deteriorate.

These facts mean Missourians have some tough choices ahead of them. They rely on a modern and safe transportation system to get to work, school, and everywhere in between. A healthy transportation infrastructure ensures businesses can operate and grow. It ensures the state can prosper and jobs can be created. Essentially, transportation is what keeps Missouri moving. Missourians must work together to recognize that investments in transportation are part of the solution for the state's growth and prosperity.

Overview

The current fuel tax model used to fund transportation in this country for many years is no longer effective. With people driving more fuel efficient vehicles and driving fewer miles, fuel tax-driven revenue streams are declining. Additionally, federal funding is uncertain.

On June 29, 2012, Congress passed a new two-year, $105 billion, federal transportation reauthorization act entitled Moving Ahead for Progress in the 21st Century Act (MAP-21). MAP-21 replaces the 2005 reauthorization bill Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) which expired in September 30, 2009. However, SAFETEA-LU remained in effect through a series of extensions passed by Congress until MAP-21 was signed into law by President Obama on July 6, 2012.

MAP-21 reauthorizes federal highway, transit and other surface transportation programs through September 30, 2014. To ensure solvency of the Highway Trust Fund, the measure transfers into the account $21.2 billion; $18.8 billion from the general fund and $2.4 billion from the Leaking Underground Storage Tank Trust Fund. MAP-21 extends the federal motor fuel taxes through September 30, 2016 and the truck excise taxes through September 30, 2017.

MAP-21 contains program reforms including:

- The consolidation and reduction of 60 of the 110 different federal transportation programs, which will now allow state departments of transportation discretion on where to spend scarce federal transportation dollars;
- The implementation of national performance measures to transform the federal-aid highway program and provide a means to the most efficient investment of federal funds; and
- The acceleration of program delivery with greater state control.

Unfortunately, MAP-21 did not address the need for increasing revenues for transportation purposes. Instead, the bill provides additional financing options such as allowing tolls for new capacity on interstates and increasing the program funding levels for Transportation Infrastructure Finance and Innovation Act (TIFIA) loans.

MAP-21 reduced the amount of funding for all state DOTs in an attempt to push the solvency of the federal highway trust fund into the near future. In fact, Missouri will be receiving $71 million less per year over the next two years in federal funds.

Faced with uncertain transportation funding, MoDOT has implemented a number of cost-saving measures in order to put every possible dollar back into the system. These efforts have included “practical design,” “practical operations,” what has been called “radical cost control” and most recently the Bolder Five-Year Direction, adopted by the Missouri Highways and Transportation Commission on June 8, 2011. The plan called for reducing the size of MoDOT’s workforce by 1,200, closing 131 facilities and disposing of more than 752 pieces of equipment. As of Feb. 28, 2013, MoDOT has reduced staff, vacated 123 facilities and disposed of 586 pieces of equipment, realizing $356 million in savings. More than $64 million in savings has been invested in minor road improvements or other road maintenance and the remaining funds have been allocated to the STIP. Redirecting the internal operating budget savings from the Bolder Five-Year Direction to the 2014-2018 STIP will allow MoDOT to use all available federal funds through 2018.

But this redirection does not solve Missouri’s long-term transportation funding problems. In fact, MoDOT would be unable to match federal funds today were it not for “advance construction” that has allowed MoDOT to be credited for the state funds it expended as a result of Amendment 3, adopted in 2004. The bottom line is MoDOT will be unable to cut its way to an improved transportation system.

In this document, level federal funding is assumed based on fiscal year 2013 obligation authority; however, due to the increased uncertainty of available funding, MoDOT purposely did not fully program projects to projected available funding levels in the later years of the STIP, as shown on Table 3, Section 5-16 and Table 4, Section 5-17.

Funding for MoDOT consists of both federal and state revenue as well as existing cash balances. Expenditures consist of other state agencies; debt service; administration; system management; fleet, facilities and information systems; multimodal; and the construction program. The following sections provide a breakdown of each revenue and expenditure category along with projections of future revenues and expenditures.

Revenue

Federal

The largest source of transportation revenue is from the **federal government** including the 18.4-cents per gallon tax on gasoline and 24.4-cents per gallon tax on diesel fuel. The last time either tax was increased was in 1993. Other sources include various taxes on tires, truck and trailer sales, and heavy vehicle use. These highway user fees are deposited in the federal Highway Trust Fund and distributed to the states based on formulas prescribed by federal law through transportation funding acts. This revenue source also includes multimodal and highway safety grants (see Section 7 for a summary of all multimodal operations). Approximately 39 percent of Missouri’s transportation revenue comes from the federal government.

State

The next largest source of transportation revenue is from the **state fuel tax**. Fuel taxes represent the state share (approximately 27 percent is distributed to cities and counties) of revenue received from the state's 17-cent per gallon tax on gasoline and diesel fuels which must be spent on highways and bridges. The last time the gasoline and diesel tax was increased was in 1992. This revenue source also includes a 9-cent per gallon tax on aviation fuel which must be spent on airport projects (see Section 7). These tax revenues provide approximately 28 percent of transportation revenues. The state motor fuel tax is not indexed to keep pace with inflation, and no rate increase has occurred since 1996.

MoDOT receives a portion of the **state sales and use taxes** paid upon the purchase or lease of motor vehicles. This revenue source also includes the sales tax paid on aviation fuel which is dedicated to airport projects (see Section 7). These tax revenues provide approximately 14 percent of transportation revenues. In November 2004, voters passed constitutional Amendment 3, which set in motion a four-year phase in, redirecting motor vehicle sales taxes previously deposited in the state's general revenue fund to a newly created State Road Bond Fund. In state fiscal year 2009, the process of redirecting motor vehicle sales taxes to transportation was fully phased in, and the rate of growth in this revenue source slowed dramatically. Future projected growth in this category is less than the rate of increase in construction and maintenance costs; therefore, not keeping pace with inflation.

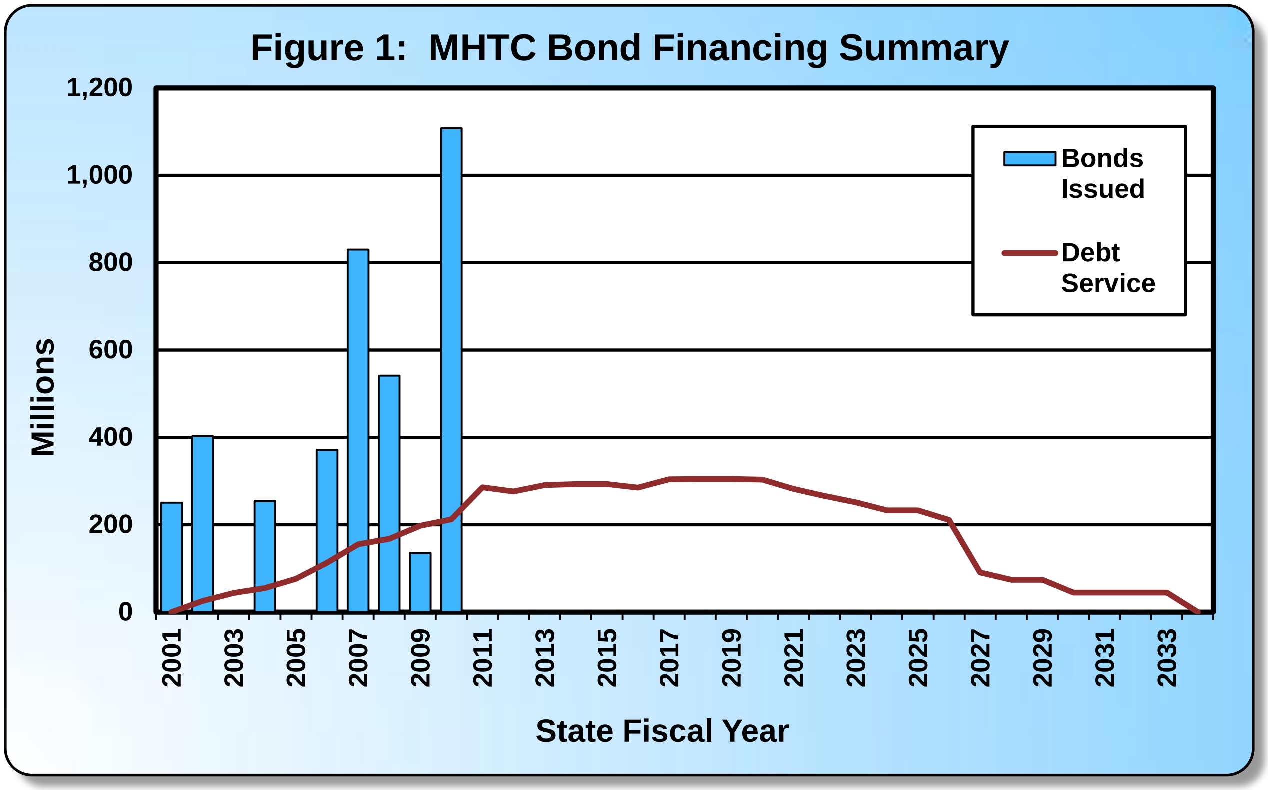
Vehicle and driver licensing fees include the state share of revenue received from licensing motor vehicles and drivers. This revenue source also includes fees for railroad regulation which are dedicated to multimodal programs (see Section 7). These fees provide approximately 13 percent of transportation revenues. Similar to motor fuel tax, the motor vehicle and driver licensing fees are not indexed to keep pace with inflation, and no annual registration fee increases have occurred since 1984.

The **interest earned on invested funds and other miscellaneous collections** provides approximately 5 percent of transportation revenues. Cash balances in state transportation funds have been higher than historic levels due to MoDOT's bonding program. As referenced in Table 1 in Section 5-14, the cash balance in state transportation funds is expected to decline from $1.1 billion at the beginning of fiscal year 2014 to approximately $307 million by the end of fiscal year 2018. Bond proceeds are received in large increments and are paid out over time as project costs are incurred. As cash balances from bond proceeds are spent, interest income is expected to decline. Other miscellaneous collections include construction cost reimbursements from local governments and other states, proceeds from the sale of surplus property and fees associated with the Missouri logo-signing program.

The state **General Revenue Fund** provides approximately 1 percent of transportation revenue. The Missouri General Assembly appropriates it for multimodal programs (see Section 7).

Other

While not a true revenue, **bonding** is a method of financing used by the Missouri Highways and Transportation Commission (MHTC) to receive the best value for every dollar spent. Statutory authority was established in May 2000 for the MHTC to begin selling bonds, now called senior lien bonds. The **senior lien** bonds were limited to a total issuance of not more than $2.25 billion. The lien was closed after $907 million was issued from 2000 to 2003. The MHTC will issue no additional bonds under this lien.



In November 2004, Constitutional **Amendment 3** was approved by the voters of Missouri. Amendment 3 redirects motor vehicle sales taxes to transportation. In accordance with this constitutional change, MoDOT began selling bonds and dedicated the funds to the *Smoother, Safer, Sooner* program. The Amendment 3 revenues are used for principal and interest payments on Amendment 3 debt. MoDOT sold $2 billion of Amendment 3 bonds and has completed all Amendment 3 bond sales.

In fiscal year 2009, MoDOT sold $142 million of bonds for a portion of the new Interstate 64, a design-build project in the St. Louis region. For the first time, MoDOT secured bonds primarily with federal funds, rather than state funds. These bonds are called **Grant Anticipation Revenue Vehicle (GARVEE)** bonds. In fiscal year 2010, MoDOT sold $100 million additional GARVEE bonds for the new Mississippi River Bridge project and $685 million for the Safe and Sound Bridge Improvement Program. The GARVEE principal and interest is scheduled to be repaid through state fiscal year 2033. MoDOT sold $927 million of GARVEE bonds and has completed all planned GARVEE bond sales. See Figure 1 for a summary of the MHTC bond financing program.

Along with federal and state revenue, **existing cash balances** are used each year to remain fiscally constrained. The existing cash balances are made up of federal revenue and state revenue that have been deposited into MoDOT funds such as the State Road Fund, State Highways and Transportation Department Fund, and the State Road Bond Fund. Cash balances in state transportation funds have been higher than historic levels due to MoDOT's bonding program. These funds are considered available for funding highway and bridge construction projects.

Expenditures

Missouri's Constitution dictates a portion of state transportation revenues can be appropriated by the General Assembly to **other state agencies**. Appropriations are limited to (1) the Missouri State Highway Patrol (MSHP) to administer and enforce motor vehicle laws and (2) the Missouri Department of Revenue (DOR) to cover the cost of collection. DOR is entitled to the actual cost of collection not to exceed 3 percent of revenues collected. Approximately 91 percent of these expenditures are appropriated to the MSHP, and the remaining 9 percent is appropriated to the DOR. These costs are approximately 11 percent of transportation expenditures.

The state constitution also dictates that **debt service**, which is principal and interest payments on any outstanding state road bonds, must be paid prior to funding MoDOT operations and STIP costs. MoDOT issued $3.8 billion of bonds from state fiscal years 2001 to 2010. The final payment for this debt is scheduled in state fiscal year 2033. These costs are approximately 13 percent of transportation expenditures. See Figure 1, Section 5-6 for a summary of the MHTC bond financing program.

Administration includes activities such as financial planning, accounting, human resources, community and governmental relations, and legal services. The dollars associated with administering self-insurance plans and contributions to retiree medical plans are included in this disbursement category. These costs are approximately 2 percent of transportation expenditures.

System Management includes maintenance, traffic, highway safety and motor carrier services. Maintenance and traffic costs, approximately 97 percent of system management costs, include funding for activities such as snow removal, signing, striping, litter control, mowing, maintaining roadsides and rest areas, completing routine road and bridge repairs, repairing guardrail and median guard cable, traffic signal operations and system management. The Highway Safety Division, approximately 1 percent of system management costs, implements programs addressing behavioral traffic safety issues. Emphasis areas include high-risk drivers, serious crash types and vulnerable roadway users. Safety strategies include enforcement (manpower, training and equipment), education (promotional materials, campaigns and educational/awareness programs) and engineering (data collection/evaluation and high accident location assessments). Division staff work with safety advocates statewide to implement the Highway Safety Plan, Motor

Carrier Safety Assistance Plan, and the Missouri Blueprint for Safer Roadways to reduce traffic crashes, prevent serious injuries and save lives. This category includes the Highway Safety Program, Motor Carrier Safety Assistance Program, and Motorcycle Safety Trust Fund. The Motor Carrier Services Division, approximately 2 percent of system management costs, is the one-stop shop for commercial vehicle licensing and permits, and works with commercial vehicle safety and compliance. Commercial vehicles include trucks, tractor-trailers, buses, limousines and other vehicles that transport property, passengers or hazardous materials. System management costs are approximately 21 percent of transportation expenditures.

MoDOT's continued investment in the **fleet, facilities and information systems** infrastructure is necessary to support the system management and construction programs. Annual costs to maintain MoDOT's fleet, facilities and information systems are included in this disbursement category. These costs are approximately 4 percent of transportation expenditures.

The **Multimodal** Division works with cities, counties and regional authorities to plan improvements for public transit, railroad, aviation, waterway facilities and freight development in Missouri. These costs are approximately 3 percent of transportation expenditures. See Section 7 for further information on Multimodal Operations.

The **construction program operating costs** are costs associated with implementing MoDOT's construction program which primarily includes in-house preliminary engineering, construction engineering and right of way incidentals as identified in Sections 3 and 4. These costs are approximately 6 percent of the transportation expenditures. After deducting expenditures for other state agencies, debt service and operating costs from MoDOT's funding sources, all remaining revenues are made available for the **highway and bridge construction program.** This category encompasses payments to contractors for construction projects, right of way purchases, consultant engineering, utility relocations and federal funding for local governments that passes through MoDOT's budget. Contractor payments encompass the majority of construction program expenditures. Contractor payments, right of way purchases, consultant engineering, utility relocations and federal pass through payments are approximately 41 percent of the transportation expenditures. The construction program operating costs and highway and bridge construction program disbursements total approximately 46 percent of the transportation expenditures.

Sections 5-1 through 5-8 describe the overview of all revenue and expenditures for the Missouri Department of Transportation, which includes the Highway and Bridge Construction Program, Multimodal and Highway Safety. The remaining Sections contain only projections of future revenue and expenditures for the Highway and Bridge Construction Program. Highway Safety programs not intended for road improvements are included in Section 6. Multimodal programs are included in Section 7.

Projections of future revenues and expenditures for the Highway and Bridge Construction Program as determined by cash flow analysis

Historical highway and bridge data for the previously-described revenue and expenditure categories are combined with detailed statistical models to forecast future revenue and expenditure data. The following provides a description of each revenue and expenditure category and how they are projected.

Revenue

- Federal reimbursements
  - Obligation authority projections for 2014 through 2018 are flat – based on fiscal year 2012 actual federal highway obligations.
  - Local public agencies spending down available balances ($95 million from 2014-2018).
  - MoDOT estimates $925 million of federal reimbursements in fiscal year 2014 will decrease to $811 million in fiscal year 2018 due to the end of SAFTEA-LU earmarks as well as fewer projects being converted from advance construction.
  - Additional detail regarding federal funding starts on Section 5-19.
- Motor fuel taxes
  - Projections are based on gasoline and diesel consumption projections from the US Department of Energy's Annual Energy Outlook 2012 (AEO 2012) for the region (region includes: ND, SD, NE, KS, MO, IA, MN).
  - In fiscal year 2014, MoDOT estimates $489 million of motor fuel tax receipts will decrease to $472 million in fiscal year 2018, as we suspect more Missourians will turn to more fuel-efficient vehicles due to Corporate Average Fuel Economy (CAFÉ) standards that reduce energy consumption by increasing the fuel economy of a vehicle or they may seek out other transportation options they had previously avoided. While good for the environment, these actions erode motor fuel tax revenues.
- Motor vehicle & driver licensing fees
  - Projections are based on population over the age of sixteen projections from the AEO 2012 and drivers licensing renewal data from the Department of Revenue.

- In fiscal year 2014, MoDOT estimates $272 million of motor vehicle and driver licensing fee receipts will grow to $283 million in fiscal year 2018, an average annual growth rate of 1 percent. As with motor vehicle sales and use tax, if consumers turn to smaller vehicles that cost less, licensing fees are lower, resulting in lower transportation revenues.

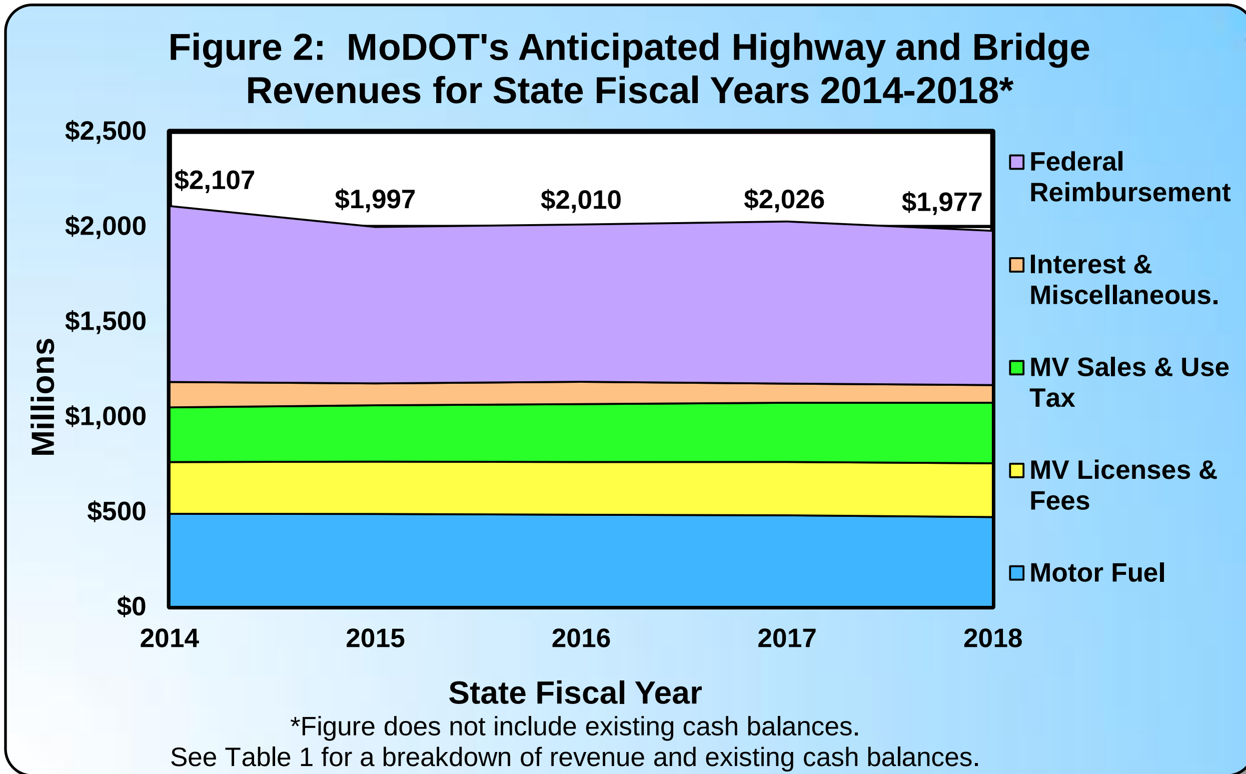
- Motor vehicle sales & use taxes
  - Projections are based on real disposable income projections from the AEO 2012.
  - In fiscal year 2014, MoDOT estimates $287 million of motor vehicle sales and use tax receipts will grow to $318 million in fiscal year 2018, an average annual growth rate of 3 percent. The growth rate for motor vehicle sales and use tax receipts is slowing. The average annual growth rate from fiscal years 2010-2013 was five percent. A complicating factor is as consumers look for ways to decrease their personal transportation costs, one option is turning to smaller, more fuel-efficient vehicles. Since these vehicles cost less, sales taxes are lower, resulting in lower transportation revenues. Economic conditions also play a factor in this category. As unemployment remains high, consumer credit problems still exist, and financial institutions continue to have tighter lending standards creating unfavorable conditions for this category.

- Interest and Miscellaneous Revenue
  - Projections are based on a 2 percent to 3 percent earnings rate for interest revenue and historic receipts for miscellaneous revenue.
  - MoDOT estimates $134 million of interest earned on invested funds and other miscellaneous receipts in fiscal year 2014 will decrease to $93 million in fiscal year 2018. This category includes construction project cost reimbursements from local governments and other states.

- Bond proceeds
  - No issuances are planned in fiscal years 2014-2018.

Total revenue

The stability and predictability of future transportation revenues are subject to many variables; however, using the Department of Energy's projections, Figure 2, Section 5-11 provides an estimate of Missouri's transportation revenues for state fiscal years 2014 through 2018. As shown in Figure 2, estimated revenue decreases from $2.1 billion in state fiscal year 2014 to $2.0 billion in state fiscal year 2018, primarily due to a pay-as-you-go type of program. See Table 1, Section 5-14 for a breakdown of revenue.



Expenditures

- Other State Agencies
  - Projections are based on fiscal year 2013 appropriation amounts and the 2014 appropriations request; the personal service growth rate assumption is 0 percent in fiscal years 2014, 2016 and 2018; 3 percent in fiscal years 2015 and 2017; fringe benefit growth rates average 4 percent for fiscal years 2014-2018; and expense and equipment growth rates are 0 percent for fiscal years 2014-2018.
  - In fiscal year 2014, MoDOT estimates $234 million of other state agency expenditures grow to $249 million in fiscal year 2018.

- Debt Service
  - Projections are based on the repayment of outstanding state road bonds.
  - Amounts do not include capital or operating lease payments.
  - In fiscal year 2014, MoDOT estimates $293 million of debt service expenditures grow to $305 million in fiscal year 2018.

- Operating Costs (includes Administration; System Management; Fleet, Facilities and Information Systems; and Construction Program Operating costs)
  - Projections are based on the fiscal year 2013 budget and fiscal year 2014 appropriations request; the personal service growth rate assumption is 0 percent in fiscal years 2014, 2016 and 2018, 3 percent in fiscal years 2015 and 2017; fringe benefit growth rates average 4 percent; and expense and equipment growth rates average 0 percent for fiscal years 2014-2018.
  - In fiscal year 2014, MoDOT estimates $677 million of operating expenditures grow to $740 million in fiscal year 2018, an average annual growth rate of 2 percent.

- Construction Program expenditures
  - Projections are based on a cash flow spreadsheet model that calculates payment schedules of MoDOT's active and future construction projects as provided in Section 4 of the STIP.
  - Contractor payments, right of way purchases, consultant engineering, accelerated program payments, suballocated federal funding for local governments and utility relocation costs are included.
  - In fiscal year 2014, MoDOT estimates $935 million of construction program disbursements that falls to $923 million in fiscal year 2018. See Table 1, Section 5-14 for further details on the Construction program expenditures.

Total expenditures

Consistent with future transportation revenues, future transportation expenditures are also subject to many variables; however, using historical trends and various economic indicators, Figure 3, Section 5-13 provides an estimate of Missouri's transportation expenditures for state fiscal years 2014 through 2018. As shown in Figure 3, estimated transportation expenditures (including costs associated with state advance construction projects, see Section 5-21 through 5-23 for further discussion on state advance construction projects), will remain approximately $2.0 billion in state fiscal year 2014 to 2018. From fiscal years 2014-2018, total expenditures exceed total revenue by $745 million, which is offset by projected cash balances totaling approximately $1.1 billion available at the beginning of fiscal year 2014. The construction expenditures are derived from the cash flow analysis on the 2014-2018 Highway and Bridge Construction Schedule (Section 4). These amounts decline primarily due to the end of many larger projects awarded in previous fiscal years. Assumptions for the construction program expenditures are in the next subsection. The remaining expenditures are expected to have inflationary growth as outlined above. See Table 1 in Section 5-14 below for a breakdown of expenditures by each budget category.

Missouri's Statewide Transportation Improvement Program (STIP) includes a five-year plan of highway and bridge construction projects, which is financially constrained for each fiscal year. Table 1 provides the cash flow analysis summary for the fiscal year 2014-2018 STIP. An adequate cash flow balance is maintained as determined by projected monthly cash balances in any given year. MoDOT is required to maintain approximately a $72 million cash balance based on debt covenants and MoDOT maintains a cash reserve to manage monthly revenue and expenditure fluctuations. The amounts only include revenues and disbursements dedicated to highways and bridges since Multimodal and a portion of Highway Safety funding cannot be included in the minimum cash balance.

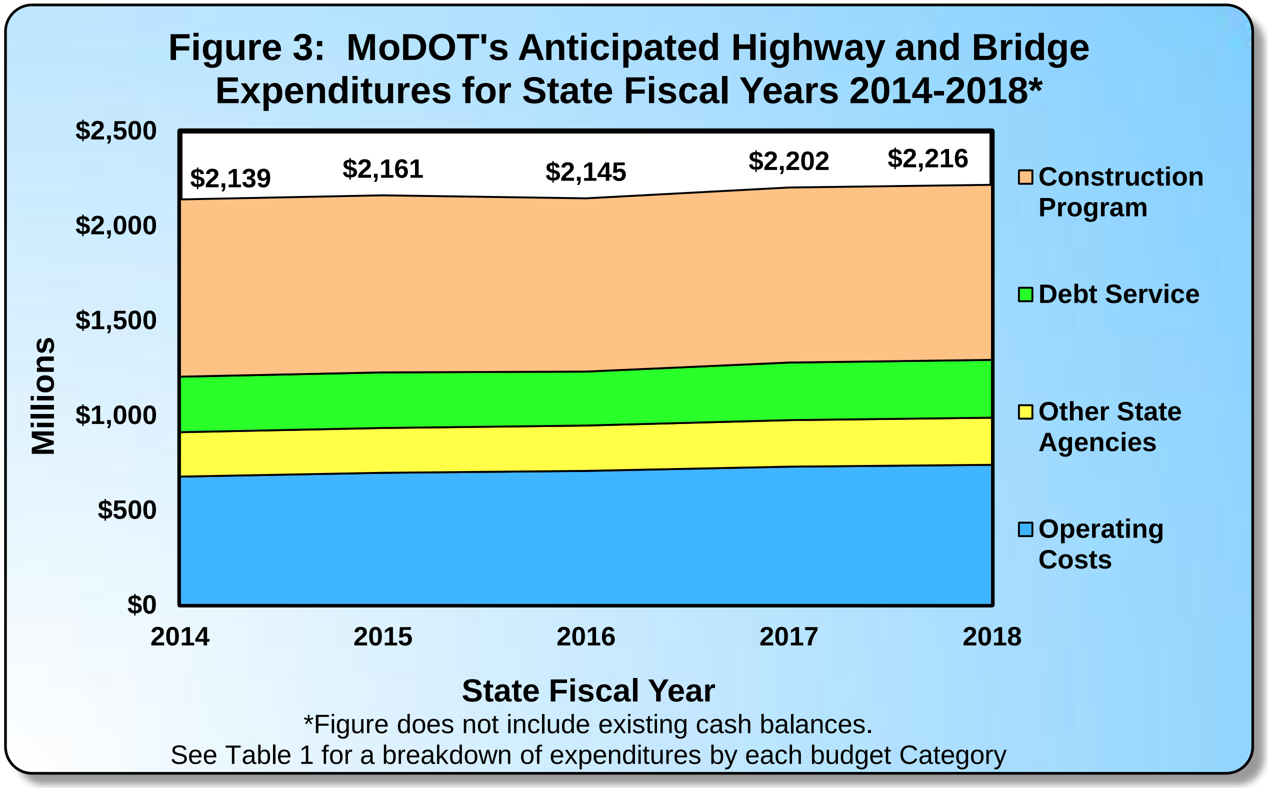


Table 1: MoDOT Construction Cash Flow Projections for Roads and Bridges for Fiscal Years 2014-2018

Dollars in Millions

Additions to Cash Balance **Subtractions from Cash Balance**

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Fiscal Year	**Beginning Cash Balance**	Federal Reimburse-ment*	Motor Fuel Tax Revenue	Motor Vehicle & Drivers Licensing Revenue	Motor Vehicle Sales and Use Tax Revenue	Interest and Misc. Revenue	Other State Agencies	Debt Service	Administ-ration	System Manage-ment	Fleet, Facilities and Inform-ation Systems	Total Construction Disburse**	**Ending Cash Balance**
2014	**$1,052.2**	$925.0	$489.1	$272.1	$287.4	$133.6	$234.2	$292.8	$47.4	$430.8	$78.1	$1,055.7	**$1,020.3**
2015	**$1,020.3**	$822.4	$488.2	$275.2	$296.1	$115.3	$236.4	$293.1	$49.3	$442.1	$79.0	$1,060.8	**$856.8**
2016	**$856.8**	$827.0	$484.2	$277.2	$304.4	$117.3	$239.2	$284.4	$51.7	$447.3	$79.5	$1,042.7	**$722.2**
2017	**$722.2**	$852.4	$481.1	$280.6	$311.3	$100.6	$245.5	$303.5	$54.5	$459.7	$80.5	$1,058.1	**$546.3**
2018	**$546.3**	$810.9	$471.9	$282.7	$318.3	$93.0	$248.6	$304.7	$57.0	$464.7	$80.9	$1,060.3	**$306.9**

*Includes ARRA, regular federal funds, federal advance construction conversions and sub-allocated pass-through funds to local governments.

** Includes engineering, payments (see Section 4) and sub-allocated funds to local governments. See Table 2, Section 5-15 (blue line) for further analysis.

Construction Program

The actual dollar amounts for right of way and construction projects awarded in prior fiscal years, the estimated award amount for right of way and construction projects programmed in the STIP along with estimates for the construction budget based on the cash flow analysis of existing construction contracts and future construction contracts, as provided in Section 4, are summarized in the following discussion. For example, a construction contract awarded today can result in contractor payments over multiple years as the project is completed. The future award amount assumptions and the contractor payments assumptions resulting from the cash flow analysis are summarized in Table 2. Other expenditures are included in the Highway and Bridge Construction Program in addition to awards. These other expenditures include utility relocation payments, right of way payments, MoDOT and Consultant engineering, and accelerated program payments, as well as suballocated federal dollars that pass through MoDOT to local governments. The Total Construction Disbursements in Table 2 below (blue line) match the Construction Disbursements from Table 1 in Section 5-14 (blue column).

Table 2: STIP construction awards versus contractor payments

How we budget for STIP projects (dollars in millions)							
	Award	FY14	FY15	FY16	FY17	FY18	Future FY
Prior FY Remaining Balance	$627.2	$490.2	$137.0	-	-	-	-
FY14	$685.0	$205.5	$342.5	$137.0	-	-	-
FY15	$685.0	-	$205.5	$342.5	$137.0	-	-
FY16	$700.0	-	-	$210.0	$350.0	$140.0	-
FY17	$700.0	-	-	-	$210.0	$350.0	$140.0
FY18	$700.0	-	-	-	-	$210.0	$490.0
Contractor Payments:		$695.7	$685.0	$689.5	$697.0	$700.0	
Utility Relocation Payments		$5.0	$5.0	$5.0	$5.0	$5.0	
Right of Way Payments		$20.0	$20.0	$20.0	$20.0	$20.0	
MoDOT and Consultant Engineering		$141.0	$142.0	$144.0	$150.0	$152.0	
Federal Pass Through		$157.9	$162.9	$167.9	$172.9	$172.9	
Payments* (see Section 4)		$36.1	$45.9	$16.3	$13.2	$10.4	
Total Construction Disbursements		$1,055.7	$1,060.8	$1,042.7	$1,058.1	$1,060.3	

* Payments include dollars to be paid back for accelerating a project or payments to others. Payments do not include GARVEE debt service payments.

Table 3 summarizes the total available funding for the highway and bridge construction program for state fiscal years 2014-2018 based on cash flow projections. These amounts do not include sub-allocated federal funds since they are administered by local governments.

Table 3: Highway and Bridge Construction Funding Summary

Dollars in Millions

State Fiscal Year	2014	2015	2016	2017	2018	Total
Available for Awards	$685.0	$685.0	$700.0	$700.0	$700.0	$3,470.0
Available for Right of Way, Utilities, etc.	$25.0	$25.0	$25.0	$25.0	$25.0	$125.0
Available for Payments (see Section 4)	$100.5	$110.5	$80.5	$77.5	$74.5	$443.5
Available for Engineering	$141.0	$142.0	$144.0	$150.0	$152.0	$729.0
Total Available	$951.5	$962.5	$949.5	$952.5	$951.5	$4,767.5

Table 4, Section 5-17 summarizes the programmed levels for state fiscal years 2014-2018. Since State Fiscal Year 2007, projects on a statewide basis have been awarded for an average of 9.5 percent less than the programmed amount. Every year, project estimates are reviewed and updated based on the latest available cost and project data, but awards continue to be less than programmed amounts. Additionally, projects are being completed for less than programmed amounts, which means that the savings at award are being maintained during the construction phase of projects. In order to allow for more effective planning, shorten the time it takes to deliver projects and minimize changes to the STIP during the year, an additional 10 percent worth of projects have been programmed in anticipation of award savings in State Fiscal Year 2014 ($68.5 million), and an additional eight percent worth of projects in State Fiscal Year 2015 ($54.8 million.) If the bidding climate changes substantially and these funds fail to materialize, MoDOT will take action in order to maintain fiscal constraint. State Fiscal Years 2017 and 2018 are purposefully under programmed in order to accommodate unforeseen changes.

Table 4: Highway and Bridge Construction Program Summary

Dollars in Millions

State Fiscal Year	2014	2015	2016	2017	2018	Total
Total Programmed	**$946.3**	**$930.3**	**$743.5**	**$295.2**	**256.0**	**$3,171.3**
Less Programmed for Engineering	$91.1	$73.9	$53.0	$22.8	$15.3	$256.1
Less Programmed for Right of Way, Utilities, etc.	$33.6	$12.9	$12.3	$6.3	$45.2	$110.2
Less Programmed for Payments	$108.9	$104.7	$90.0	$78.0	$77.1	$458.7
Programmed for Awards	**$712.6**	**738.8**	**588.2**	**188.1**	**118.4**	**$2,346.2**
Less Reasonably Available Due to Award Savings	$68.5	$54.8	$0.0	$0.0	$0.0	$123.3
Less Additional Funding From Others	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Awards Anticipated with Funding Projected	**$644.1**	**$684.0**	**$588.2**	**$188.1**	**$118.4**	**$2,222.9**

Funding Distribution

The Missouri Highways and Transportation Commission approved a funding distribution method in January of 2003 that was modified in June of 2004 and again in February of 2006. A modification in February of 2011 increased the amount set aside for the Cost Share and Economic Development program from $30 million per year to a variable amount which ranges from $35.39 million to $36.15 million in this STIP. A modification in March 2012 increased the base amount set aside for the Cost Share and Economic Development program by $10 million per year plus a variable amount based on project savings. This funding distribution and its subsequent modifications were developed with extensive public involvement and are consistent with MoDOT's Mission, Values and Tangible Results. The following steps outline the distribution of funds for the Highway and Bridge Construction Program.

Of the total funds available, including federally earmarked funds:

Step 1: Deduct federally sub-allocated funds designated for specific purposes (Varies).

Step 2: Deduct funding for other transportation modes (aviation, railways, transit and waterways) appropriated by the state legislature for the designated purposes (Varies). This funding cannot be used for roads and bridges.

Step 3: Deduct the financing cost for projects accelerated through bond financing (Varies).

Step 4: Deduct funding for specific funding sources (Varies). This includes categories such as Statewide Transportation Enhancement/Alternatives funds, special safety funds (Open Container, High Risk Rural Roads, and Repeat Offender), semi-annual reimbursements, Amendment 3 Funds for use on Element 3 of MoDOT's Smoother, Safer, Sooner Program and federal discretionary (above-formula) earmarks for distribution to the related earmarked projects.

Step 5: Deduct funding for the Economic Development and Cost Sharing Program (Varies).

Step 6: Deduct funding contributed by Partnering Agencies (Varies). These are funds dedicated to specific projects such as a city's portion of a cost share project.

Step 7: Deduct funding for project savings (Varies). Savings or debits are credited or debited to specific districts or programs.

Of the remaining funds available for road and bridge improvements:

Step 1: Allocate $460 million per year to Taking Care of the System, divided as follows:

- $125 million for Interstates/Major Bridges
- $ 25 million for Safety Projects
    - Distribution based on a three-year average accident rate.
- $310 million for remaining Taking Care of System
    - Distribution based on a formula that averages:
        - Percent of total Vehicles Miles Traveled (VMT) on the National Highway System and remaining arterials.
        - Percent of square feet of state bridge deck on the total state system.
        - Percent of total lane miles of National Highway System and remaining arterials.

Step 2: Allocate up to $131 million per year to Flexible Funds that can be used for either Taking Care of the System or Major Projects and Emerging Needs. This amount may be reduced if funding is not available.

- Distribution based on the average of:
    - Percent of total population.
    - Percent of total employment.
    - Percent of total VMT on the National Highway System and remaining arterials.

Step 3: Allocate remaining funds, if any, to Major Projects and Emerging Needs. These funds are distributed to the three Transportation Management Areas and the rural area based on a formula that averages:

- Percent of total population.
- Percent of total employment.
- Percent of total VMT on the National Highway System and remaining arterials.

Half of the rural area funding is distributed to the districts based on the above factors. The other half of the rural funding will be used for statewide rural projects.

Federal Funding

The current transportation bill, "Moving Ahead for Progress in the 21st Century" (MAP-21), was signed into law by President Obama on July 6, 2012. MAP-21 creates a streamlined, performance-based, and multimodal program to address the many challenges facing the U.S. transportation system. These challenges include improving safety, maintaining infrastructure condition, reducing traffic congestion, improving efficiency of the system and freight movement, protecting the environment, and reducing delays in project delivery.

MAP-21 funds surface transportation programs for fiscal years 2013 and 2014. The funding is slightly less than provided in the previous transportation bill, "Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users" (SAFETEA-LU). MAP-21 requires General Revenue transfers of $16.6 billion into the Highway Account of the Highway Trust Fund to remain solvent.

MAP-21 restructures core highway formula programs. Activities carried out under some existing formula programs – the National Highway System Program, the Interstate Maintenance Program, the Highway Bridge Program, and the Appalachian Development Highway System Program – are incorporated into the following new core formula program structure:

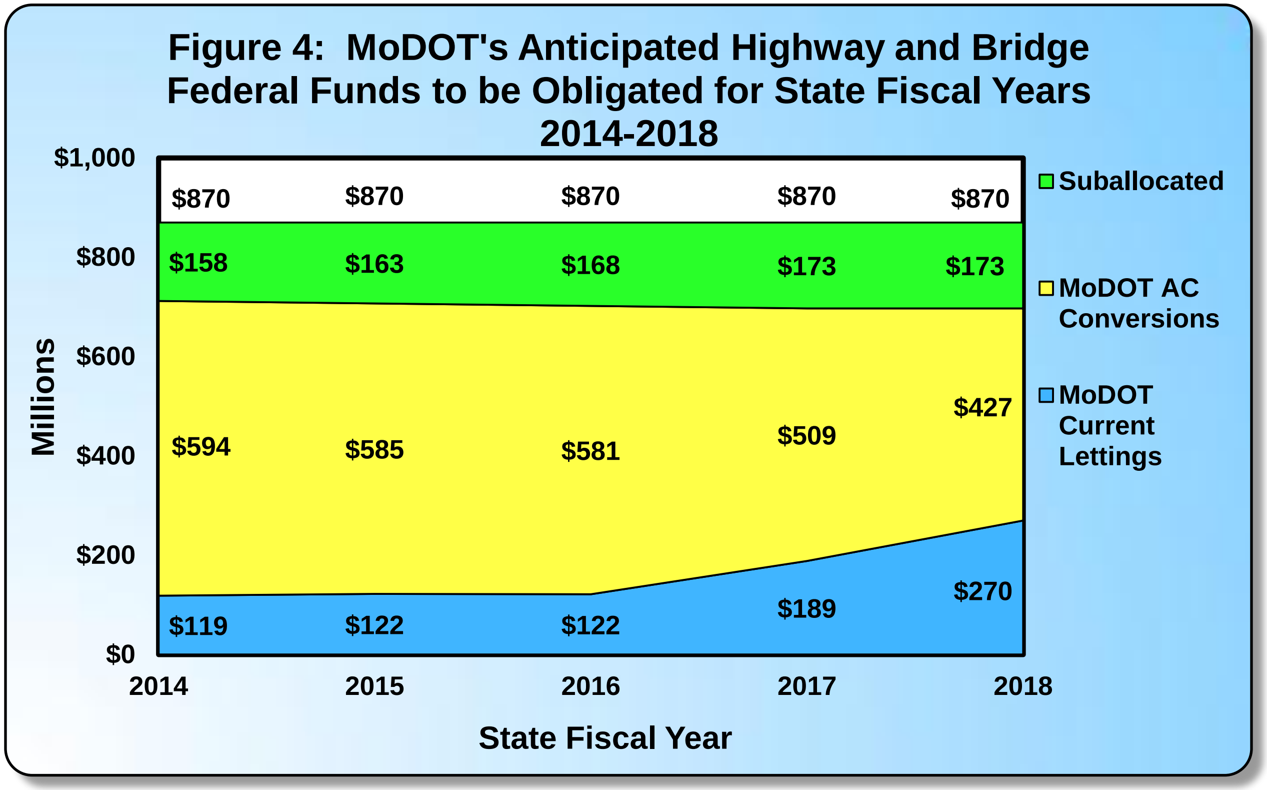
- National Highway Performance Program (NHPP)
- Surface Transportation Program (STP)

- Congestion Mitigation and Air Quality Improvement Program (CMAQ)
- Highway Safety Improvement Program (HSIP)
- Railway-Highway Crossings (set-aside from HSIP)
- Metropolitan Planning

It creates two new formula programs:

- Construction of Ferry Boats and Ferry Terminal Facilities – replaces a similarly purposed discretionary program.
- Transportation Alternatives (TA) – a new program, with funding derived from the NHPP, STP, HSIP, CMAQ and Metropolitan Planning programs, encompassing most activities funded under the Transportation Enhancements, Recreational Trails, and Safe Routes to School programs under SAFETEA-LU.

Our forecasted federal revenue is based on our anticipated annual obligation limitation, which is the amount of authorized funding Congress allows states to obligate in any given year. Federal funding for the 2014-2018 STIP will be obligated for the following (1) suballocated funding that flows through MoDOT to local governments, (2) converting advance construction projects and (3) current lettings. First, suballocated federal funds will pass through MoDOT to local governments. Second, MoDOT will convert advance construction projects to regular federal funds (see Sections 5-21 through 5-23 for further information on

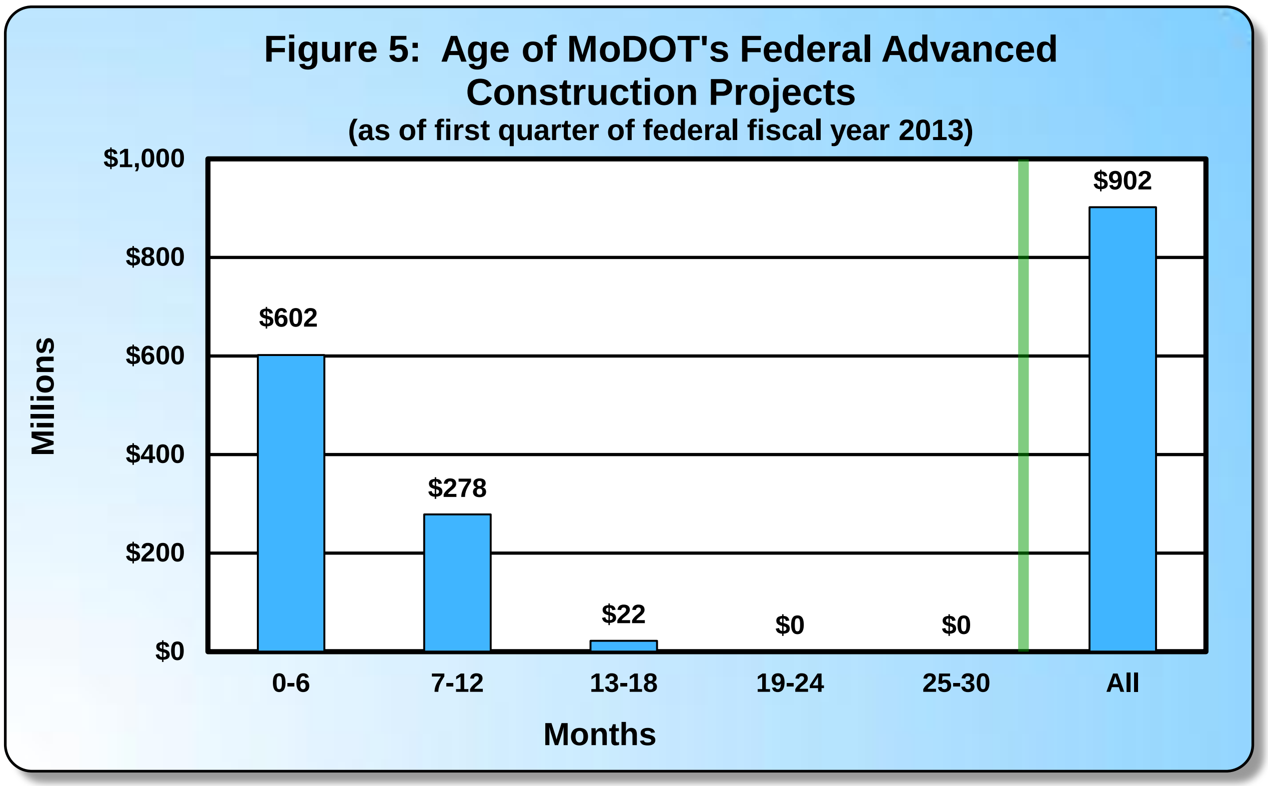


advance construction). Lastly, any remaining federal funding will be available for current lettings. See Figure 4, Section 5-20 for federal obligation authority assumptions used for the 2014-2018 STIP.

MoDOT anticipates using the advance construction balance to ensure all federal funds are matched. MoDOT's estimate shows advance construction balances dramatically decrease, which will eventually create a significant challenge for MoDOT to match the anticipated amount of available federal funds.

Advance Construction (AC)

MoDOT uses a federal funding tool called advance construction to maximize the receipt of federal funds and provide greater flexibility/efficiency in matching federal-aid categories to individual projects. Advance Construction (AC) is an innovative finance funding technique, which allows states to initiate a project using non-federal funds, while preserving eligibility for future federal-aid. Eligibility means the Federal Highway Administration (FHWA) has determined the project qualifies for federal-aid; however, no present or future federal-aid is committed to the project. States may convert the project to regular federal-aid provided federal aid is available for the project. AC does not provide additional federal funding, but simply changes the timing of receipts by allowing states to construct projects with state or local money and seek federal-aid reimbursement in the future.



MoDOT began using AC in 1992 and will continue to use it in future years. MoDOT utilizes

AC for National Highway Performance Program (NHPP) and Surface Transportation System (STP) projects or when sufficient obligation limitation is not available. The average number of days as obtained from FHWA’s Fiscal Management Information System (FMIS) last transaction date is 224 days as of the first quarter of federal fiscal year 2013. Figure 5, Section 5-21, shows the projects grouped by age in six-month increments and the dollar amount and the number of projects in each group.

MoDOT anticipates sufficient revenue exists to cover new AC projects over the STIP horizon, as shown in Table 1, Section 5-14. Funding sources include existing cash balances, state motor fuel, motor vehicle sales and use tax and motor vehicle licensing and fees revenue, federal reimbursement (includes conversion of AC), interest and miscellaneous revenue as shown in Figure 2, Section 5-11.

Table 5, Section 5-23, provides MoDOT’s AC forecast, which shows the projected balance at the end of each fiscal year. State funds pay for new AC project expenditures until federal-aid is available. Once federal-aid is available, the projects are converted to federal funds and previous state expenditures are reimbursed. The oldest projects are converted first, if possible, to maximize federal-aid reimbursement. Which projects are converted also depends on what federal funds are made available. As displayed in Table 5, MoDOT anticipates the AC balance to decline from state fiscal years 2014 to 2018. The AC balance is driven by the relationship between available federal funds and the construction program. For example, if available federal funds are significantly lower than the size of the construction program, the AC balance will increase. The amounts in Table 5 are based on MoDOT’s AC forecast. Also included in Table 5 are AC conversions of projects from prior STIPs. The amounts are subject to change based on future federal apportionment amounts and categories.

Table 5: MoDOT's Advance Construction Forecast Estimates

Dollars in Millions

State Fiscal Year	2014	2015	2016	2017	2018
Beginning AC Balance*	$607	$494	$387	$232	$162
Plus: New AC Projects	$481	$478	$365	$164	$112
Plus: New AC Projects (Unprogrammed)**	$0	$0	$61	$275	$288
AC Subtotal	$1088	$972	$813	$671	$562
Less: AC Conversions (prior STIP projects)	$594	$13	$0	$0	$0
Less: AC Conversions	$0	$572	$581	$335	$112
Less: AC Conversions (Unprogrammed)**	$0	$0	$0	$174	$315
Ending AC Balance	$494	$387	$232	$162	$135

*Estimated Beginning AC Balance

**Additional projects will be programmed in outer years of the STIP