OFFICE OF GOVERNOR RONNIE MUSGROVE
INTEROFFICE MEMORANDUM

TO: GOVERNOR

FROM: RILEY & BOYD

SUBJECT: MDOT FUNDING

DATE: 7/20/2000

CC: SIMMONS
FILE

MDOT appears to be underestimating their cash flow situation and to be providing inconsistent projected revenue numbers. In documents presented in response to our information request, MDOT estimated 1987 Four Lane Program FYs 2001-2009 annual revenues of $190 million. However, the same documents reflect $213 million in FY 2000 revenue. MDOT's most recent annual report (July 1999) on the 1987 Four Lane Program projected FY 2000 revenues of $214.6 million and $213.6 million in FY 2001. In addition, although MDOT reported this flat annual revenue of $190 million, MDOT staff told Riley that the department is using $175 million as an internal estimate. [It appears as if the Transportation Commission has directed the department to decrease the amount of federal funds directed to the 1987 Program so that these funds will be available for the Commission's discretionary projects (referred to by MDOT as the "Off-87 Program").]

Below are the eight questions that we presented to MDOT with notations as to whether they have provided an answer.

1. What is the annual recurring cost of the Non-1987 program? How much of this is mandated? What amount is needed to maintain the program at the current level? (NOT ANSWERED)
2. How much 1987 Four-Lane Program dedicated revenue does MDOT receive annually? How much of this dedicated revenue is used for debt service? (Answered)
3. How much debt service remains on the 1987 Four-Lane Program? (Answered)
4. How much 1987 Four Lane Program revenue is needed to let the contracts necessary to complete Phase 3? (Answered)
5. What cash flow is needed to support the ongoing 1987 Four Lane Program? (ANSWERED, BUT NOT WITH SPECIFIC FISCAL ESTIMATE)
6. How much of the 1987 Four Program revenue is encumbered through 2008, by year? (Answered)
7. Please provide the payout schedule, by year with the anticipated payout amount for each year, for let 1987 Four Lane projects. ? (NOT PROVIDED)
8. Please provide the payout schedule, by year with the anticipated payout amount for each year, for let Gaming projects. ? (NOT PROVIDED)

How much 1987 Four-Lane Program dedicated revenue does MDOT receive annually? How much of this dedicated revenue is used for debt service?

MDOT's FY 2000 1987 Four-Lane Program receipts totaled $213.4 million:

Fuel tax	$78.0
Lubricating oil tax	1.2
Contractor's tax	4.8
Tag fees	12.3
Debt service funds	42.0
Federal funds	61.3
State matching funds	6.8
Interest income	5.7
Other miscellaneous	1.3
TOTAL	**$213.4**

MDOT's FY 2000 debt service on the Four-Lane program totaled $26.8 million.

How much debt service remains on the 1987 Four-Lane Program?

$233.6 million debt service remains on the Four-Lane Program. Annual debt service payments are as follows:

FY 2001	$26.7
FY 2002	22.5
FY 2003	27.0
FY 2004	26.8
FY 2005	26.6
FY 2006	26.3
FY 2007	26.1
FY 2008	25.9
FY 2009	25.7
TOTAL	**$233.6**

How much 1987 Four Lane Program revenue is needed to let the contracts necessary to complete Phase 3?

According to MDOT, current projections reflect that $891.3 million is needed to complete Phases 2 and 3, scheduled to be completed in 2008. MDOT said that these projections are subject to change if unforeseen factors develop. Traffic conditions may warrant design changes that are not anticipated at present. Changes such as addition of interchanges and bypasses can significantly affect the cost. MDOT included an annual 1% inflation factor in this estimate.

According to Bobby Moseley, MDOT Director of the Office of Administrative Services, as of June 30, 2000, 613.17 miles of the Phases 1-3's total 1,077 miles were open to traffic.

333.13 miles were let to contract, with 130.7 remaining to be let. MDOT's estimated completion cost of $891.3 million for these 463.83 miles results in an estimated cost of $1,921,609/mile.

Riley inquired of Moseley as to the remaining miles of Phase 2 under contract or to be let and he said that the miles cannot really be broken out between Phase 2 and Phase 3. However, he then turned around and said that for the remaining 130.7 miles to be let, Phase 2 miles will be let first and then Phase 3 miles.

MDOT noted that preliminary Phase 4 engineering and right-of-way activities will occur between now and 2008 that will result in additional costs. MDOT reported that these activities are necessary to insure that Phase 4 construction can begin promptly when Phase 2 and 3 are complete. Statutory requirements for Phase 4 should be amended in a special session or the 2001 session to freeze such engineering and right-of-way activities until the future of Phase 4 is determined. After reviewing MDOT's July 1999 annual report on the Four-Lane Program, it appears as if the department had not initiated any R.O.W. activities on Phase 4 at that time.

What cash flow is needed to support the ongoing 1987 Four Lane Program?

<u>MDOT did not provide a fiscal answer to this question</u>. They stated that the Legislature has established a permanent cash flow source to fund the program. "Thus, the dedicated revenue stream is sufficient to fund the program in its entirety. However, timing of completion of the program becomes the issue. Current projections have Phase 4 being completed in 2018. Financial management experts acknowledge that such a target date is likely to change over time due to the extremely large size of this capital project."

The Legislature enacted several revenue-producing measures in House Bill 106, 1987 Regular Session, that were designed to provide the necessary funding for the program. The most significant funding source was an increase in certain state petroleum taxes. The Legislature increased taxes on fuels dedicated to highway use (gasoline by 3.6 cents per gallon, diesel fuel by 3.25 cents per gallon, and compressed gas by 3.6 cents per gallon). The Legislature also provided the following funding sources for the program:

- Redirected tax revenues on lubricating oils (8 cents per gallon) to the program;
- Dedicated the amount of <u>contractor's tax</u> (three and one-half percent) collected on program construction;
- Applied an annual assessment of five dollars on each motor vehicle tag;
- Dedicated 50% of selected apportionments to MDOT from the Federal Highway Administration; and,
- Dedicated the annual difference between $42 million (MDOT's old debt service requirement) and the then current debt service on MDOT's 1985 refunding bonds ("the wedge").

How much of the 1987 Four Program revenue is encumbered through 2008, by year?

According to MDOT, all revenue sources of the 1987 program are encumbered through 2008 with programmed projects and debt service requirements. The department noted that a working a cash balance must be maintained in order to ensure that all current obligations can be paid each year.

	Revenue	Expenditures	Debt Service	Difference
FY 2001	190.0	197.0	26.7	-33.7
FY 2002	190.0	164.7	22.5	2.8
FY 2003	190.0	150.1	27.0	12.9
FY 2004	190.0	154.3	26.8	8.9
FY 2005	190.0	160.1	26.6	3.3
FY 2006	190.0	161.7	26.3	2.0
FY 2007	190.0	165.0	26.1	-1.1
FY 2008	190.0	171.2	25.9	-7.1
TOTAL	**1,520.0**	**1,324.1**	**207.9**	**-12.0**

MDOT reported annual revenues of $190 million in response to this question, although their FY 2000 revenues totaled $213 million. MDOT also reported anticipated FY 2001 revenues of $213 million and expenditures of $248 million in its 1987 Four Lane Program July 1999 Annual Report. Riley inquired of Bobby Moseley as to these discrepancies and he attributed them to federal funds.

According to Moseley, MDOT has been using federal funds from the Off-1987 program (i.e., discretionary projects of the Commission) to shore up the 1987 Four-Lane program in order to ensure that MDOT met the statutory time requirements for the percentage of contracts let by certain dates in each phase of the program. The Commission has said that MDOT is going to start living within its means (i.e., MDOT is not going to use the federal funds for the 1987 program so that these funds will be available for their discretionary projects). Moseley said that half of MDOT's revenue has been going to the 1987 program and that the rest of the programs are suffering.

Riley specifically asked why Table 6 of MDOT's response provided $190 million in annual revenues for FYs 2001-2008 when the July 1999 Four Lane Program Annual Report estimated FY 2001 revenues of $213. Moseley responded that although Danny Miller provided $190 million in estimated revenue, MDOT is using $175 million as a conservative internal estimate, but that this could increase if sales tax revenues increased. <u>MDOT is not using consistent revenue estimates.</u>

Phase 4

HB 1302 (1994) added Phase 4 to the 1987 Four Lane Program and also extended the funding of the program until the completion of Phase 4,which is estimated to be 2018. Initial Phase 4 plans called for 619 miles of construction, but the Legislature added 75 miles to Phase 4 during the 1999 session for a total of 694 miles. MDOT estimates that these additional 75 miles will add approximately $225 million in costs to the total cost of the Four Lane Program. Phase 4's initial project cost of $1.2 billion now totals $1.9 billion. MDOT has not let any construction contracts on Phase 4.

When enacting the 1987 Four Lane Program, the Legislature prioritized construction of highway segments based upon the volume-to-capacity ratio of each highway segment, with a few exceptions. Volume-to-capacity (V/C) ratio analysis is a nationally recognized method of measuring highway needs by considering average daily traffic, lane/shoulder widths, types of terrain, and commercial trucking traffic. A higher ratio reflects a higher level of traffic relative to the capacity of the highway. The Legislature placed all highway segments with V/C ratios in excess of .40 in Phase 1, with the exception of 7.2 miles of Highway 49 from Inverness to Indianola that had a V/C ratio of .25. Phase 2 segments had ratios between .25 and .39, with the exception of 46 miles of Highway 49 West between Yazoo City and Inverness that had V/C ratios ranging from .13 to .21. Phase 3 segments had V/C ratios less than .25.

According to Hugh Long, MDOT Executive Director, initial Phase 4 plans were based upon V/C ratios. However, the Legislature's adding of the segment from Highway 98 north to the Mississippi/Tennessee state line was not based upon V/C ratios. Mr. Long reported that MDOT may either four-lane or two-lane Phase 4 segments. MISS. CODE ANN. Section 65-3-97 (3) (d) (ii) does provide for the construction and/or reconstruction of highway segments designated in Phase 4 in accordance with the volume capacity of the segment and allows for other improvements or modifications to the segment rather than four-laning. Mr. Long has requested Bobby Mosely to provide Riley with MDOT's analysis as to which segments should be four-laned and which should be two-laned.

Donor State

Mississippians pay more in federal gasoline taxes than they receive back from the federal government, making Mississippi a donor state. According to information provided by Tom Rhubel at NGA, Mississippi has a minimum guarantee return rate of 90.5 cents.

DFA Info on Gaming Program

According to Donna Sanford, $3 million per month is deposited into the Gaming Program debt service reserve fund, for a total of $36 million per year. $24 million of the $36 million not needed for debt service was forwarded to MDOT in FY 2000, with MDOT then transferring the funds into its operating fund (#3941). MDOT had $132,131,826.39 net cash in its operating fund at the close of business on July 17:

Cash	$144,095,349.22
Warrants Payable	11,963,522.83
TOTAL	**$132,131,826.39**

MDOT received $15,076,476.45 in gaming revenue in FY 2000. This $15,076,476.45 coupled with the $24 million transfer from the debt service reserve fund provided $39,076,476.45 in FY 2000 Gaming Revenue. Sanford reported that in addition to their annual revenue, DOT received $125 million in bond proceeds in FY 1999 (July 1998).