

TRANSPORTATION BACKGROUND

PROBLEM:

The health of Minnesota's business climate is partially dependent on the ability of businesses to move freight and other goods efficiently and the ability of employees to get to work in a timely and safe manner. In Minnesota, growing congestion in the metropolitan area as well as safety issues on Greater Minnesota roads has created a significant problem for Minnesota businesses. An increasing number of companies believe that additional revenue is needed to improve Minnesota's transportation infrastructure and believe that the declining transportation system is affecting their business¹. By 2030 the metropolitan region is expected to add nearly 1 million people and 560,000 jobs. This will generate 4 million daily trips on our regions roadways. While growth is a good thing, it will further challenge our ability to maintain and expand our transportation infrastructure.

MINNESOTA'S TRANSPORTATION SYSTEM:

Minnesota has approximately 135,000 miles of roadways. The roads are owned and operated by the state, counties, cities and townships. Along with the Interstate System, the state's Trunk Highway System is under the management of the Minnesota Department of Transportation (MnDOT). Counties are responsible for county state aid roads and country roads. Cities are responsible for municipal state aid streets and municipal streets. Townships have jurisdiction over roadways.

MnDOT administers the public transit in Greater Minnesota counties and the Metropolitan Council is responsible for administering transit programs in the seven-county metropolitan area.

TRANSPORTATION FUNDING:

Highway Funding

The main sources of funding for highways are the state's gas tax, motor vehicle license taxes, the Motor Vehicle Sales Tax (MVST), and federal funding. Minnesota's State Constitution (Chapter 14) dedicates the revenue from the gas tax and the motor vehicle license tax (license tabs) to the Highway User Tax Distribution Fund (HUTDF). In 2006 Minnesota voters passed the Transportation Amendment to constitutionally dedicate the Motor Vehicle Sales Tax (MVST) to roads and transit. Prior to passage of the amendment, 46 percent of MVST revenues were going to the state's General Fund for purposes other than transportation. Under the new constitutional amendment, at least 40 percent of the MVST will be dedicated to transit and no more than 60 percent will be dedicated to highway purposes. Passage of the amendment results in approximately \$300 million per year that will be phased in over five years beginning in 2007.

The Constitution requires that all funds in the HUTDF be distributed:

- 61 percent to the trunk highway fund to the construction, maintenance and administration of the trunk highway system.
- 29 percent to the county state-aid highway fund to be divided among the state's 87 counties for construction and maintenance of county state-aid highways based on a statutory formula.
- 9 percent to the municipal state-aid street funds which is limited constitutionally to cities with a population of over 5,000.

The remaining 5 percent is allocated by law to the county state-aid fund to be distributed 30.5 percent for town roads, 16 percent to replace and repair town bridges, and 53.5 percent to a flexible highway account.

¹ 2007 Minnesota Business Barometer Survey and 2007 Minnesota Chamber Member Poll

The fuel tax generated \$646 million in FY 2006. Minnesota's fuel tax was last increased in 1988. It was raised from 17 cents per gallon to 20 cents per gallon. Our state fuel tax is in the middle range in terms of state fuel taxes.

In FY 2006, motor vehicle license taxes yielded \$491 million in revenues. Legislation passed in 2000 placed a cap on the amount of the tax which was calculated as \$10 plus 1.25 percent of the vehicle's base value multiplied by a depreciation factor of the vehicle's age. The cap resulted in a reduction in the motor vehicle registration tax of approximately \$170 million.

Transit Funding:

Transit funding is administered by the Metropolitan (Met) Council and MnDOT. The Met Council is responsible for providing transit in the seven-county metropolitan area. In 2006 the Met Council provided almost 74 million rides on bus routes and the Hiawatha Light Rail line. This represents the highest annual ridership in 22 years. The Hiawatha light rail line, which opened in 2004, generated 9.4 million rides in 2006. The light rail line has out performed ridership estimates in every year since it was established. Additional dedicated busways and light rail lines are in various stages of planning and development. The Central Corridor light rail line is expected to be operating in 2014 pending securing funding. There continues to be vigorous debate over how to establish long term, stable funding to continue to build new dedicated busways and light rail lines. Currently, the Transportation Division of the Metropolitan Council is funded by state general fund dollars, the motor vehicle sales tax, federal revenue and fares.

MnDOT has jurisdiction over public transit in Greater Minnesota and for the planning, design, construction and operation of commuter rail and for design and construction of light rail transit. MnDOT provides countywide public transit services in 66 of 80 Greater Minnesota counties. The Greater Minnesota Transit Fund is set up to fund public transit in greater Minnesota. It is supported by the general fund and revenues from the MVST. Greater Minnesota transit services also receive local and federal funding. In December 2007 the Northstar Commuter rail line, which will operate between Minneapolis and Big Lake, MN, secured the final federal funding needed. It is expected that the line will be operational in 2009.

The federal government plays a large role in funding both commuter rail and light rail lines. If a rail project wins final federal approval and moves into construction, the Federal Transit Administration will fund 50 percent of the capital costs. The other 50 percent must be paid with state (33%) and county funds (17%). For example, the FTA is expected to fund \$420 million of the \$840 million cost of the Central Corridor light rail line.

Passage of the 2006 Transportation Amendment will provide the first dedicated funding for transit in Minnesota. Prior to passage of the amendment, about 23 percent of MVST revenues were statutorily dedicated to transit. The amendment requires that no less than 40 percent of previously undedicated MVST revenue be dedicated to transit.

Other State Funding Sources:

Bonding

The State's Constitution provides for the issuance of Trunk Highway Bonds with the debt service on these bonds paid for out of the state's Trunk Highway Fund. Historically, the state has not relied heavily on Trunk Highway Bonds to fund highway construction. The preference has been to follow a "pay as you go" philosophy that relies on the current revenue in the Highway Trust Fund rather than using Trunk Highway Funds to pay for debt service.

In 2003, the Legislature authorized the state to issue \$400 million in highway bonds. Debt service on the bonds is paid for through administrative savings at MnDOT. The \$400 million in bonds will allow the state to accelerate 12 large-scale, long-term projects by accessing \$425 million in advanced federal

construction funds for a total of \$825 million for 2004-2007. This package will advance projects by more than a total of 65 years and save approximately \$140 million in project inflation costs.

Although the State Constitution prohibits the use of general obligation bonds for trunk highway projects, GO bonds can be used to fund the maintenance of local bridges, acquisition of right of way and to pay for transit. Transit projects are an increasing share of the GO bonding bill. In 2006, transportation was 14 percent of the over \$1 billion bonding bill. This is an increase from the historic 8-percent level. GO bonding is an increasingly important revenue source for transit projects.

Advanced Federal Construction

Advance construction is an innovative financing method authorized and promoted by the Federal Highway Administration. It allows a state or local government to encumber the necessary funds to begin construction of federal-aid projects in advance of the scheduled federal funds being available for those projects. Advance construction requires a state or local government to use state or local funds to front-end project construction costs. These funds are later reimbursed with federal funds as bills for the project come in.

EFFICIENCY:

Minnesota businesses depend on a well-maintained transportation infrastructure in many ways and recognize the shortfalls of our existing system. Yet, they have been reluctant to support new sources of funding without first improving the existing spending. Today, there is more urgency in maximizing our return on transportation funding than in the past because projects that don't get done become more expensive.

Design Build: For many years highway construction and design has been conducted by two separate entities, design and build. Design build is a process which combines these two entities under one roof in an effort to accelerate project delivery and improve innovation and quality. In 2001, the Minnesota Legislature enacted legislation to allow MnDOT to use design build contracting in certain cases on larger construction projects. The ROC 52 project in Rochester is the first MnDOT project to use design build.

Changes in municipal consent laws: Municipal consent laws allow local units of government and affected residents to negotiate with MnDOT regarding the construction of roadways in their areas. In 2001, the Legislature enacted legislation that provides a new method for resolving disputes between MnDOT and cities over trunk highway projects located in the cities. The new law requires an earlier MnDOT disclosure of project details in exchange for an earlier municipal final approval of the project. It also establishes a new, expedited appeals process that is binding for both cities and MnDOT for trunk highway projects that alter access, add or reduce highway capacity or require new right of way.

On Interstate highways, the appeal board's recommendation for approval with modification or disapproval of the project's final layout is advisory. Some proposals have been put forth that would extend the interstate highway appeals standard to the National Highway System. The National Highway System is the network of nationally significant highways approved by Congress. It includes the interstate system and more than 100,000 miles of arterial and other roads. In Minnesota, an additional 3,054 miles of roadway outside of the Interstate System are included in the National Highway System.

Granting local governments greater authority to advance local projects: Many times local governments can complete a roadway project in less time than it would take MnDOT to complete the same project. In 2002, the Legislature expanded the amount that local governments can borrow from MnDOT to complete local projects.

Environmental streamlining: The current environmental review for transportation projects is often long and cumbersome, resulting in delays that can add years to a project. The 2002 Legislature passed legislation

that created a task force to evaluate alternatives and make recommendations on streamlining the environmental review for transportation-related projects.

Transit operations: Seek ways to streamline community-based transportation services and other public transit services, including efforts to allow greater use of public transit to transport older-aged school children. Currently a public bus operator's duty to a passenger applies only when the passenger is riding upon, boarding or disembarking from the public transit vehicle. However, if they are transporting a child to or from school, they are liable for the child from the time they leave their home and/or from the time they get back to their home. This is a significant barrier to greater use of public transit services.