



2009 Legislative Session
The Transportation Wrap-Up
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Transportation Funding

As we headed into the 2009 Legislative Session, which began back in January, the funding situation was a top priority given the tough economy and high unemployment rate in the construction industry.

The Minnesota Transportation Alliance developed a legislative agenda that focused on transportation funding from the perspective of investing in projects that would put people to work while improving the transportation infrastructure that forms the backbone of our economy.

Alliance staff and members met with legislators and worked to communicate the needs and benefits of investing in transportation projects and keeping an eye on the construction budget. Our attention was focused on three main areas:

- ❖ Federal dollars provided under the **American Recovery and Reinvestment Act of 2009** (ARRA) for state highways, local roadways, transit capital, and other modes;
- ❖ **State Transportation Funding bill**, the two-year budget bill that keeps highway construction, Mn/DOT, State Patrol and transit systems funded;
- ❖ **Capital Bonding bill** for public works projects. Despite debate over whether or not the state could afford to sell additional bonds, the message about the need to get people back to work building public infrastructure prevailed.

With a recession hitting the state, the legislature had to grapple with an historic budget deficit that was estimated at over \$6 billion, but was mitigated thanks to one-time federal ARRA funds. That still left a \$4.6 billion hole and many areas of state government are being hit with various degrees of funding cuts. Transportation funding was also hit by the recession

through the loss of revenue from car sales and a decline in the number of vehicle miles driven. While the loss of anticipated revenue has real impacts, the reduction was in the expected increase in funding from last year's transportation funding bill – Chapter 152. Without the enactment of Chapter 152, transportation budgets would have been hit hard with revenue losses.

Transportation benefited from a number of factors: constitutionally dedicated funds that don't impact the general fund budget deficit and have to be used for transportation purposes; promotion of infrastructure improvements as a way to stimulate the economy at the federal level with additional dollars provided through the American Recovery and Reinvestment Act of 2009; a flood in northwestern Minnesota that highlighted the need for a capital bonding bill and a general emphasis on supporting job creation, especially in the construction sector.

In the end, funding for state highway construction was increased over the level of funding provided last biennium, dollars into the county state-aid and municipal state-aid funds were increased and transit systems received increased funding and should be able to maintain existing service in the face of increasing operating costs. The governor's decision to use unallotment to balance the budget will not impact highway funding and hopefully will not hurt transit funding either.

The need to increase investments in our aging infrastructure remains, of course, but given the economic downturn and the need for the state to cut billions of dollars from the state budget, transportation did well this session. All transportation advocates did a great job reinforcing the need to maintain a strong transportation system in our state, both now and in the future.

American Recovery and Reinvestment Act of 2009

The 2009 construction season will also benefit from federal funding for highways and bridges.

ARRA federal stimulus funds - \$502M for Minnesota roadways

70/30 split - \$350M for Mn/DOT, \$150M local discretion

ARRA funds for transit - \$94M for capital needs for both Metropolitan Area Transit and Greater Minnesota Transit

A list of the projects that will be funded with these federal dollars is available on Mn/DOT's web site at:

<http://www.dot.state.mn.us/federalrecovery/>

Omnibus Transportation Funding bill – Chapter 36

The major issue this session has been the lack of funding to keep transportation funding at levels projected when Chapter 152 was passed into law last year. With car and truck sales down dramatically, motor vehicle sales tax revenue is down significantly as well as license tab fee revenue. Gas tax revenue estimates are down from last year, but were not reduced in the February 2009 forecast from the November 2008 forecast.

The combination of revenue from MVST and license tab fees coming in \$75 million below projections (the revenue estimate for the gas tax in February, 2009 was not reduced from the November, 2008 estimate) and the need to address a negative fund balance in the trunk highway fund led the Department and the Governor to recommend a cut of \$155 million from the trunk highway fund over the coming biennium. Of the \$155 million needed to be cut, the recommendation was to take \$150 million out of the State Road Construction Program. The Senate and House took difference approaches to dealing with this issue. The Senate bill followed the Governor's recommendation and cut the State Road Construction Program by \$150 million. The House bill cut the program by \$100 million and shifted the rest of the cut to other areas of MnDOT's budget and as well as the budget for the Department of Public Safety that is funded out of the Trunk Highway Fund.

The conference committee initially agreed upon a cut of \$104.5 million from the State Road Construction Program but changed that number after concerns were raised by the Governor's office. There were also concerns about the proposed \$6 million cut to the State Patrol. The final bill distributes the \$155 million cut to the Trunk Highway expenditures as follows:

\$155 million cut to Trunk Highway Fund Revenues *in thousands*

| | |
|---|-------------|
| Infrastructure Operations and Maintenance | \$(17,255) |
| Infrastructure Investment Support | \$(13,580) |
| State Road Construction Program | \$(120,000) |
| MnDOT Buildings | \$(2,975) |
| State Patrol | \$0 |

Highway and bridge funding was increased over the previous biennium thanks to passage of transportation funding package last year that increased revenue from the gas tax, license tab fees and sales tax in the Twin Cities Metropolitan Area. That bill also provided a significant amount of funding from trunk highway bonds. While the increase in funding for the coming FY2010-11 biennium is not as high as anticipated earlier due to the steep decline in car sales, road and bridge funding will see an increase over the last biennium.

State Roads

Direct appropriations (in thousands)

| | | | | |
|---------------------|-------------|-------------|-------------|-------------|
| Trunk Highway Fund | FY08 | FY09 | FY10 | FY11 |
| | \$1,252,441 | \$1,168,867 | \$1,168,867 | \$1,168,867 |
| | | -\$ 44,000 | -\$ 77,000 | -\$ 77,000 |
| | \$1,252,441 | \$1,124,867 | \$1,091,867 | \$1,091,867 |
| Trunk Highway bonds | | \$ 540,000 | \$ 500,000 | \$ 100,000 |

This year's omnibus transportation funding bill provides an additional \$40 million in trunk highway bonding authority over an above the bonding authorized under Chapter 152, effective the day following final enactment. The bonds are to be used for (1) construction of interchanges involving a trunk highway where the interchange will promote economic development, increase employment, relieve growing traffic congestion and promote traffic safety and (2) local match for any federal grants made available to the state. The amount must be allocated 50 percent to the metropolitan district and 50 percent to districts in Greater Minnesota. At least \$20M must be used for interchanges.

Local Roads

| | | |
|----------------------------|---------------------|-----------------------|
| County State Aid (CSAH) | FY08-09 - \$926,000 | FY10-11 - \$1,021,264 |
| Municipal State Aid (MSAS) | FY08-09 - \$253,000 | FY10-11- \$ 275,403 |

Transit

The House bill had allocated all of the revenue from the sales tax on leased motor vehicles to transportation including revenue freed up by repealing the low-income gas tax credit that was to be paid with one-half of the leased vehicle sales tax. The repeal of that refund program was contained in the House and Senate tax bills. The Governor did not support repealing the low-income gas tax refund and opposed the use of that revenue for transportation. The House bill would have provided funding for Metropolitan Area Routes of Regional Significance, Metropolitan Area Transit and Greater Minnesota Transit. On the final day of negotiations, the additional MVST on leased vehicles was taken out of the transportation budget.

The percentage of motor vehicle sales tax revenue allocated to Greater Minnesota Transit and Metropolitan Area Transit was increased for two years under the conference committee report. As the MVST is phased-in per the constitutional amendment passed in 2006, the percentage of revenue going to highways and transit increases until it hits 100% in FY2012 with 60% for highways and 40% for transit. In FY2010 and FY2011, the percentage of revenue going to transit versus highways was increased to address operating shortfalls. The change causes a shift of about \$18.6 million from the Highway User Tax Distribution Fund over the course of 2 years. Language in the bill makes clear that in FY2012, the split between highways and transit will be 60% for highways and 40% for transit.

Metropolitan Area Transit faced an operating deficit of \$63 million which was increased to \$76 million due to the fact that the committee had to reduce general fund dollars to metropolitan transit by \$13 million. The deficit of \$76 million was addressed through a combination of legislative appropriations and internal shifts by the Metropolitan Council. Here is the breakdown:

\$76 million deficit for Metropolitan Area Transit fixed by:

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|---|-------|--------------|
| Shifts from Livable Communities and Right-of-Way Acquisition loan funds | | \$27M |
| ARRA one-time shifts of capital to operating | | \$18M |
| Met Council Administrative efficiencies | | \$ 5M |
| Met Council one-time reserves | | \$ 3M |
| Reduce MVST to regional (suburban) providers | | \$ 7M |
| MVST percentage change | | <u>\$13M</u> |
| Projected deficit remaining | -\$3M | \$73M |

Greater Minnesota Transit's deficit was estimated at \$8 million for the biennium. The change in the MVST distribution provides an additional \$6 million for Greater Minnesota transit leaving an overall projected deficit for the biennium of \$2 million.

Passenger Rail

Passenger rail received a great deal of attention during the 2009 Session with many discussions in committee regarding the potential route for the Midwest Regional Rail Initiative connecting the Twin Cities area with Chicago and the need to apply for available federal funds for passenger rail investments. Language in the Omnibus Transportation Funding bill establishes the Commissioner of the Department of Transportation as the responsible entity for all planning and construction of passenger rail in the state and requires a passenger rail report by February 1, 2010.

Discussion in the Capital Bonding Committee also centered around the need for Minnesota to play catch-up in order to compete with other states like Wisconsin and Illinois for federal funds. The final bonding bill included \$26 million in general obligation bonds for passenger rail purposes.

Transportation funding in the capital bonding bill

This year transportation received a significant amount of funding in the capital bonding, particularly for transitways and passenger rail:

| | |
|-----------------------------|--|
| Flood Relief | \$2.9M (\$2.7M trunk highway bonds, \$200,000 trunk highway funds) |
| Local Bridge Program | \$10M |
| Alexandria Airport | \$2M |
| Bigfork Airport | \$1.7M |
| Duluth Airport | \$4.9M |
| Commuter/passenger rail | \$26M |
| Port development | \$3M |
| MN Valley track rehab | \$4M |
| Transit Capital Improvement | \$12.5M |
| Central Corridor LRT | \$8.5M |
| Veterans Memorial Pkwy | <u>\$1M</u> |
| TOTAL | \$73.6M GO bonds |

Policy

The Omnibus Transportation Funding bill also includes language authorizing a pilot project to allow local governments to use the design-build procurement method on a maximum of 9 projects over the next 3 years with projects selected and approved by a project selection council made up of representatives from contractors, designers, counties, cities and MnDOT's State Aid Division.

The issue of funding for the State Airports Fund as also addressed. Language in the bill requires the state to restore the \$15 million transferred out of the State Airport Fund last year as soon as the state general fund has a surplus.

A number of policy items were included in an omnibus transportation policy bill that was ultimately vetoed by the governor. The governor's office cited concerns with language related to the high-speed rail line to Chicago, railroad labor provisions and the creation of a transit access council as reasons for vetoing the bill. Here are some of the provisions in the bill – some of which may be back in play next session:

Vetoed policy bill

- Adding rail transit projects to the transportation projects for which mitigation of transportation construction impacts on businesses are required but exempting the Central Corridor light rail line;
- Requiring Mn/DOT to include bicycle and pedestrian accommodations on state bridge projects if the bridge is located in a city or links a pedestrian way or trail;
- Allowing use of highway shoulders by buses operated as part of regular route transit service outside of the Twin Cities metropolitan area;
- Exempting cargo tank vehicles with two or three permanent axles from weight restrictions when delivering propane for heating on seasonally weight-restricted roads if the vehicle is loaded at no more than 50 percent capacity of the cargo tank;
- Creating the Minnesota Council on Transportation Access to study and make recommendations to improve the coordination, availability, accessibility and cost-effectiveness of public transit services;
- Requiring Mn/DOT to apply to the federal railroad administration for railroad safety technology grants. Participating railroads need to provide the 20 percent nonfederal match.
- Requiring Mn/DOT to submit the final environmental impact statement to FHWA for Trunk Highway 14 from New Ulm to CSAH 6 in Nicollet County and the segment from Highway 218 in Owatonna to Highway 56 in Dodge Center and if the requirement is not met to provide monthly reports to the chairs of the House and Senate transportation committees;
- Requiring the commissioner to work with Wisconsin to apply for high-speed rail funding for the line connecting Chicago, La Crosse and the Twin Cities including the Union Depot Concourse Multimodal Transit Hub.