Appendix L.
Funding Options Evaluation

The region has developed a plan that respects the federal guidance for balance of resources with expenditures but the investments are not adequate to meet the mobility needs of the region. The region continues to seek additional revenue sources to meet these needs.

The focus of these activities is on the passage of bills that will increase the traditional sources of state revenue available to transit operations and transit and highway capital projects. The Council continues to work with MnDOT on the study and implementation of additional traditional and alternative funding sources. This Appendix contains a list of funding principles, criteria for evaluating revenue sources, description of various transportation revenue sources used here and other regions of the country, and an evaluation based on the criteria.

Transportation Funding Principles

The Council has developed transportation funding principles to guide the allocation of transportation funds in a manner consistent with regional development and transportation policies. These principles are important when evaluating funding sources.

1. Federal funds should be used to the maximum extent feasible to advance regional policy and priorities. Federal categorical grants, high-priority funds and discretionary grants should be used to advance regional priorities as opposed to projects that address only local priorities. Certain projects, while beneficial to individual communities, may not be as critical to the region as a whole. (The Council has adopted procedures to manage HPP funds in Chapter 5 of this plan)

2. A local unit of government may make contributions to advance the implementation of a project that is consistent with this policy plan. Recently, projects on the metropolitan highway system have been locally funded with a commitment from MnDOT for payback on a fixed schedule. These agreements are inconsistent with the priority process used by the region and should be discontinued. Payback by the state or the region creates two significant problems. First, it clearly benefits the richer communities that have the ability to take on increased debt. Second, it frustrates the state's and region's attempt to objectively set priorities. Should a local jurisdiction advance fund, a regional priority payback will be made in the approximate timeframe, that project would have been implemented but delays may occur similar to other projects in the plan.

3. The private sector should participate in funding transportation services or facilities that are required to serve one development or a select group of developments. All private sector cost-sharing should be arranged through a local unit of government or other governmental body, including cities, counties, the University of Minnesota or state agencies.
   This requirement is intended to ensure that agreements do not circumvent public decision-makers and undermine agreed-upon public policy. Cost-sharing may be required in a project that (a) directly benefits one or a small group of property owners, (b) is needed to develop specific parcel of land or small geographic area, (c) is needed prior to its anticipated

scheduling, or (d) must be modified in some way to meet the needs of one or a small number of individuals.
The following condition should be met in cost-sharing arrangement for transportation facilities:

- MnDOT or the Metropolitan Council should agree only to those cost-sharing arrangements or contributions consistent with the policies and intent of this policy plan.
- Contributions should not significantly delay other programmed projects.
- If a desired modification benefits only a local unit or individual, then the total additional cost should be borne by those who benefit.
- A private party, through a local unit of government, may contribute right-of-way for a planned project, but such a contribution should not dictate when that facility is built.
- MnDOT and the Metropolitan Council should develop criteria to define when the private sector or local units of government will be expected to pay for services and facilities.

4. Should the region determine that additional transportation funding is required in this area and generate such funding through regional revenue sources, MnDOT must ensure the appropriate amount of existing and future statewide revenues continue to be available to the region. This principal supports the concept that the metropolitan area should not be penalized by losing state transportation funding if it chooses to raise its own regional funding for transportation. The specific level of state transportation funding the region will receive in this case requires study and discussion.

5. Transportation funding for the regional highway and transit systems, whether from federal, state or regional sources, should be allocated to priority projects that meet regional transportation needs rather than on a formula basis. The priority-setting and funding allocation processes should be reexamined on a regular basis and should be flexible and responsive to changing needs. The council supports a process where it makes periodic recommendations on the allocation of regional revenues to functional areas, including transportation, based on needs identified in adopted policy plans. Allocation of funding within functional areas should be abased on regional plans and priorities. For loan and grant programs, funds should be allocated to projects on a competitive basis (not by formula), with projects ranked in part using criteria reflecting regional plans and priorities. Projects should be reviewed within the transportation planning process of the Transportation Advisory Board and the Council.

6. The region, state and various associations are pursuing additional revenue sources for transportation to implement those needs that cannot be funded with the available revenue sources. Some non-traditional sources such as tolls may be tied to specific corridors and facilities. The region supports these efforts but they must follow adopted policies as would other transportation investments. The Council will assist these efforts and will allocate regional funds to advance the use of these new funding techniques as long as the projects are recognized in this plan or are consistent with the adopted policies and procedures of the region.

Criteria for Evaluating Revenue Sources

The Council has developed a number of criteria to help evaluate acceptable transportation funding sources. Any funding sources that are generally consistent with these criteria would be helpful in implementing the regional transportation system.

1. Revenue sources should not be tied to one mode. In choosing a transportation solution for any corridor in the metropolitan area, the region should choose the best solution, regardless of funding availability. TEA-21 provides flexibility in shifting federal highway and transit funds between modes. However, there is much less flexibility in applying state transportation funding sources to different modes. User taxes such as fuel taxes and vehicle registration fees are constitutionally restricted to funding highway programs. State General Fund transit assistance and regional transit property taxes are dedicated solely to transit. The Council would like to see more flexibility in transportation funding sources to allow the funding to be applied to highway, transit or other modal improvements, depending on which is the best alternative for a particular corridor. The Council supports any flexibility that the state might build into state transportation funding programs, including a constitutional amendment that would allow the Highway Trust fund to be used for transit. This assumes the Trust Fund revenues would be increased so there would be no reduction in funds directed toward highways.

2. Whenever possible, transportation funds should be generated both by users and those who benefit directly from the service or facility. However, the general public should pay for transportation services meeting the needs of those unable to pay for transportation services or where the general public receives a benefit from the service. In the case of public transit, the general public has shared the cost with the user because benefits do occur to nonusers and to segments of the population that could not pay the cost of this service.

3. New revenue sources should be analyzed using the economic criterion of "efficiency." This criterion examines whether a revenue-raising method affects the behavior of individuals, groups or firms in a manner that supports regional transportation policies. The incentives or disincentives created by the revenue source should be consistent with regional goals and policies. For example, no funding source should encourage automobile use in the peak-travel time of the day.

4. The revenue source should support broad regional goals and policies. While the source of revenue should help to address transportation issues, there are other, broader regional policies that must also be considered. For this evaluation, this criteria should focus on the growth strategy of the *Regional Development Framework.* This encourages urban-level development to be contained in the Metropolitan Urban Service Area, to restrict rural area development to few housing units per acre or agricultural uses, and to encourage high-growth areas along the regions major transportation corridors.

5. The revenue source should be predictable and not fluctuate significantly from year to year. Property taxes are predictable while a sales tax is more subject to change.

6. The revenue source should be adequate to address regional transportation needs. This criterion should compare the revenue produced to the cost of operation, maintenance and construction of the transportation system. Unless the revenue source, taken with existing sources significantly addresses transportation needs, there may be little reason to attempt to get approval for its use.

7. The cost and ease of administration is another consideration. The more it costs to collect a tax, the less revenue is available. Increasing an existing tax will typically be less costly to collect than putting a new source in place.

8. How much will the region get back of the increase revenue? One of the problems with the State Highway Trust Fund is that the region gets back only about 75 cents on a dollar. A regional tax, by definition, would be collected in the region and spent in the region.

Revenue Options

Revenue options that are either in use today or are used in other areas of the country as suitable sources to meet future transportation needs are briefly described below. The evaluation of each funding source is found in Table L-1. This table illustrates that various sources may be consistent with some criteria, but not others.

One revenue source that has often been suggested for various purposes is the Fiscal Disparities program - a tax-base sharing program that redistributes a portion of the region's commercial-industrial tax base. Cities and other taxing jurisdictions levy taxes on this base to provide general government revenues. The fiscal disparities program was never meant to be earmarked for specific uses. The Council does not support this type of use.

State Highway Trust Fund
Two sources of revenue make up the State Highway Trust Fund. These are discussed below. All distributions are established in the state constitution. These funds are distributed in the following manner:

- 62% to the state
- 29% to counties
- 9% to municipalities over 5,000 population

This distribution occurs after approximately 5% is taken for specific uses, such as for the State Patrol, township roads, bridge bonding, etc.

The eight-county area contributes approximately 52% to the Highway Trust Fund and receives 43.4% of the total (also includes Federal Title 1 funds.

State Motor Fuel Tax (Gas Tax)
Currently the tax is 20 cents per gallon; a one-cent increase would raise about $32 million statewide and increase Minnesota Department of Transportation funding for trunk highways in the metropolitan area by about $8 million. A one-cent increase at the regional level could raise about $16 million annually for the regional highway system.

Motor Vehicle Registration Fees
This is an annual fee based partly on a flat charge and partly on the value of the vehicle. In 2001 the up limits were capped and overall revenues were reduced by approximately 20%. In 2003 it raised $487 million.

Drivers License Fees
A $5 per driver increase, either statewide or as a surcharge in the metro area could raise $2 million to $2.5 million for regional highway projects in the metropolitan area.

State Motor Vehicle Sales Tax (MVST)
MVST is a sales (excise) tax on vehicles. For 2006-2007, 30% of revenues are projected to be allocated to the Highway User Tax Distribution Fund, 0.65% to the County State Aid Highway Fund, 0.17% to the Municipal State Aid Street Fund, 21.5% to the Metropolitan Area Transit Fund and 1.43% to the Greater Minnesota Transit Fund. Any increase in funding would result in a loss to the General Fund or require an increase in another revenue source. In 2003 it raised $630 million.

Sales Tax on Motor Fuels at the Wholesale or Retail Level
The 6.5% sales tax on gasoline would yield the equivalent of 12 cents of gasoline tax (10 cents assuming $1.85/gal. price). Revenues may be constitutionally dedicated to highways.

Regional Sales Tax
This would be a new tax, enacted as a general sales tax in the seven-county metropolitan area. A tax at a rate of one-half of one percent would generate approximately $200 million in the 11 county area.

Transit Fares
Increases in transit fares is an alternative for transit. The Council has established farebox recovery standards for various types of transit service in the metropolitan area and has a policy of regular fare increases to meet these standards.

State GO Bonds
The state has previously used a portion of its general obligation bond program for transportation projects. Notably, the state has used GO Bonds for transitways. The state could provide a higher level of GO Bond for transportation for future biennia.

Local Property Taxes
Transit operating costs were funded with property taxes prior to 2001 and could be reinstated. A portion of transit capital costs are still funded with property taxes and this funding could be increased. Regional Railroad Authorities currently have authority to levy property taxes for transit purposes within their counties.

Local Option Wheelage Tax

Similar to the tab fees, this would be an annual fee per vehicle but levied by a county instead of the state. Funds could be retained by the local government for transportation purposes if there was a change in legislation.

Regional Employee Parking Space Surcharge
This would be a new tax that would be applied in the seven-county metro area. Since it is new, it could be structured in a variety of ways. The specifics recorded below are intended to accomplish four objectives:

1. Raise revenue.
2. Make the transportation system more efficient by providing incentives to change present travel behavior.
3. Treat the entire region equitably.
4. Protect workers with the low-incomes from financial hardships.

Tolls
These fees are charges to users of a specific facility. Historically, they were used to retire bonds sold to finance construction of a highway or a bridge, or to maintain and improve such facilities. This is the definition used here. Tolls are separated from congestion pricing or variable rate user fees, which are discussed below.

Tolls would be used to fund the construction or reconstruction of a highway or a bridge in the region. Depending on a number of variables, the toll may or may not cover the full cost of construction, right-of-way and financing. They would only be used to build or rebuild highways identified in the *Transportation Policy Plan* or projects consistent with the policies of the policy plan. Today, these highways or bridges might include some type of exclusive high-occupancy vehicle lane or bus lane, bicycle path or sidewalk, park-and-ride lots and passenger waiting areas. In addition, various traffic management tolls could be built into the project.

Today's technology will allow electronic fee collection, which would reduce the inconvenience of frequent stops to pay tolls. This is a major complaint about present toll roads. No estimate of toll charges or revenues are given because they would vary with the corridor and facility.

Congestion Pricing or Variable Rate User Fees
This new user fee is intended to improve travel times by providing incentives to those willing to change modes or travel times. The intent is to raise revenues, reduce congestion, and therefore reduce travel time in peak periods. This fee has been called a peak-period user fee, a congestion-avoidance fee or a congestion-pricing fee. The intent of the variable fee is to reduce peak-period congestion and increase speeds on the busiest highways and bridges.

Since this would be a new fee, the structure is completely open for the region to design. MnDOT will soon open the I-394 HOT Lane (MnPASS Project) at the direction of the legislature. Various factors will be tested. Many of the objectives listed below apply.

Primary Objectives of Variable Rate User Fees:

- Generate stable revenue source for transportation infrastructure finance and transit operations;
- Increase economic efficiency of transportation system;
- Manage travel demand and influence travel behavior during peak travel periods;
- Reduce congestion on roadways;
- Support regional growth management policies; and
- Improve air quality.

Impact Fees

Impact fees have been used in various metropolitan areas under a variety of names associated with a variety of functional topics. The region has heard and discussed the idea of impact fees to ensure that new development and redevelopment pays the cost it imposes on public utilities and services. The discussion here looks at a narrower application, specifically to transportation facilities and services.

The key question is this: Can impact fees be charged to development or redevelopment to fund regional highway or transit facilities or various transportation services? If not, can legislation be passed to allow this application?

The most common use of an impact fee in the region today is the park/open space/recreation dedication fees that are assessed in many regional communities. The impact fees are assessed by local government and used for local recreation or park facilities. The regional system does not have access to these fees.

Two points seem common to legal challenges of impact fees:

1. Fees must be fair. In order to be fair, the expansion of the capital facilities must be required to accommodate the new users, and the fee cannot exceed the proportionate share of the expansion prorated to the new users.
2. The funds must be earmarked. To satisfy this requirement, a reasonable connection must be shown between the expenditures of the funds collected and the benefit accruing to new users.

No estimate of revenues has been developed. The assumption is the impact fees would be set relative to the cost imposed on the system minus the revenues available for the improvement.

Evaluation of Revenue Option

The criteria recorded above are used to evaluate some of the revenue sources described here. This assessment is very general and should be used more as an example than to select one source over the other.

	Federal Gas Tax	Motor Vehicles Sales Tax (MVST)	Tab Fees	State GO Bonds	State Trunk Highway Bonds
Multimodal	Yes	Yes	No	Yes	Yes
User Pays	Partially	No	Yes	No	Partially
Broad-based	No	No	No	Yes	No
Furthers other transportation goals	Yes	No	No	No	No
Support broad regional goals	Yes	Yes	Yes	Yes	Yes
Predictable/stable	No	No	Yes	No	No
Ease of administration	Yes	Yes	Yes	Yes	Yes
Both capital and operating utilization	Yes	Yes	Yes	No	No
Grows with the local economy/population	No	Yes	Yes	No	No

	Regional Sales Tax	Local property Taxes	Wheelage Tax	Toll Revenues	Congestion Pricing
Multimodal	Yes	Yes	No	Yes	Yes
User Pays	No	No	Yes	Yes	Yes
Broad-based	Yes	Yes	No	No	No
Furthers other transportation goals	Yes	Could	No	Yes	Yes
Support broad regional goals	Yes	Could	Could	Yes	Yes
Predictable/stable	No	Yes	Yes	No	No
Ease of administration	Yes	Yes	Yes	No	No
Both capital and operating utilization	Yes	Yes	Yes	Yes	Yes
Grows with the economy/population	Yes	Yes	Yes	No	No