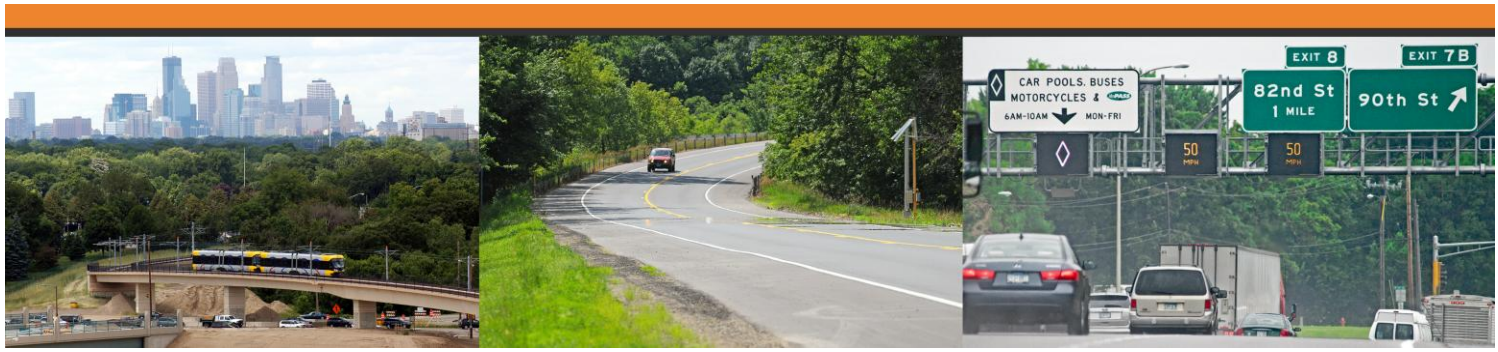
Transportation Finance Advisory Committee

Minnesota Moving Ahead:

Transportation Funding and Financing For the Next 20 Years

December 2012



Minnesota's Transportation Finance Advisory Committee

(Tom Sorel and) Bernie Arseneau, MnDOT Acting Commissioner and TFAC Chair

Senator Joe Gimse

Senator Scott Dibble

Representative Mike Beard

Representative Terry Morrow

(Mark Phillips and) Katie Clark, Acting Commissioner, Department of Employment and Economic Development

Susan Haigh, Chair, Metropolitan Council

Cal Brink, Executive Director, Marshall, MN Chamber of Commerce

Charlie Zelle, President and CEO, Jefferson Lines

Dan Riley, Vice President, Property Development Operations, Target)

Art Rolnick, Senior Fellow, University of Minnesota (formerly with Federal Reserve)

Cory Hoeppner, Director, RBC Capital Markets

Shawn Mason, Mayor, International Falls, MN

Adolph Ojard, Executive Director, Duluth Seaway Authority

Shar Knutson, President, AFL-CIO

Peter McLaughlin, Commissioner, Hennepin County

Toni Carter, Commissioner, Ramsey County

Harlen Madsen, Commissioner, Kandiyohi County

Jan Rintamaki, Director, Government Relations, Polaris Industries Inc.

Minnesota Moving Ahead

Transportation Funding and Financing

For the Next 20 Years

A Report Addressing Transportation Needs

for the Citizens of Minnesota

December, 2012

By the

Minnesota

Transportation Finance Advisory Committee

www.mndot.gov/tfac/

To request this document in an alternative format, please call 651-366-4718 or email adarequest.dot@state.mn.us.

Table of Contents

LIST OF FIGURES

LIST OF TABLES

EXECUTIVE SUMMARY

Introduction

Governor Mark Dayton established Minnesota's Transportation Finance Advisory Committee in January 2012 to develop recommendations for the next 20 years to fund and finance the state's highways, roads, bridges and public transport systems, as well as its air, rail and port facilities. The ability of Minnesota's transportation systems to meet the needs of a growing population is one of the key measures of the state's business climate. Investments in transportation will support an environment in which Minnesota businesses can continue to grow, ensure that the state continues to be an attractive location for companies looking to expand and position Minnesota for the future.

The committee considered the implications of three future transportation scenarios for Minnesota:

- **Status Quo** — This scenario assumes no new funding or inflationary adjustments to the current transportation funding streams.
- **Maintaining Current Performance** — This scenario assumes sufficient funding to maintain and operate the transportation system in a condition equal to today, including existing service levels and condition ratings.
- **Economically Competitive / World Class** — This scenario envisions a transportation system that will help the state become more economically competitive through technology and operational innovations and through high return-on-investment (HROI) projects to reduce congestion and delays. Under this scenario significant transit and modal enhancements are advanced, road surface and bridge conditions improve significantly and additional investments are made for safety and regional highway expansions.

Background

Minnesota is a great place to live, work, play, visit, start a business and raise a family, and the state's transportation system contributes to the overall quality of life and economic competitiveness. To maintain what we have and position Minnesota for the future, we need to invest in and modernize our aging transportation infrastructure. The state's transportation system connects businesses to suppliers and customers around the nation and world. Minnesotans rely on the transportation system to get to their jobs and school, visit the doctor, enjoy the natural environment, shop, and take advantage of the amazing cultural, entertainment and recreational opportunities available in the Land of 10,000 Lakes.

Problem Statement

Funding of the state's transportation systems is done through a myriad of federal and state programs and a significant portion of the system is locally funded through the property tax. Minnesota, however, cannot preserve the existing quality and performance of the state's transportation systems under

current investment levels and current infrastructure replacement lifecycles. The consequences of underinvesting in the state's transportation system will include deterioration in service, increasing congestion and delays, failing infrastructure and a diminished ability to remain economically competitive in the global economy.

The problem of maintaining and enhancing a high quality transportation system in future years will be compounded by rapidly changing demographics. Over the next 30 years, the state's population is expected to increase by 893,000 people. While the majority of population growth is expected to occur in the Twin Cities metropolitan area, an expanding population will create greater transportation needs throughout the state. Although today Minnesota competes strongly in the global economy, and its citizens enjoy a high quality of life, significant mobility and accessibility improvements will be needed for businesses and residents to remain competitive. Without an improved transportation system, economic development and associated jobs are likely to go elsewhere.

Under the current funding scenario (status quo) estimated funding receipts for all modes and systems are expected to be in the range of $39.3 billion over the next 20 years. The system/modal needs and the projected funding gap to maintain current performance is estimated to be around $21.2 billion above the status quo (baseline) amount. To achieve a World Class / Economically Competitive System over the next 20 years will require an estimated $50.6 billion to$54.6 billion in additional revenue above the baseline revenue projections.

Process

To accomplish its charge of considering transportation funding and financing over the next 20 years and to develop recommendations to preserve and enhance the system to ensure economic vitality and a high quality of life, the committee developed a work plan that included:

- Building common knowledge among committee members on transportation issues, including identified transportation needs, local issues, funding and financing possibilities and national options and concerns;
- Developing core principles for generation of funds as well as allocation and expenditures;
- Identifying viable transportation funding and financing options for Minnesota; and
- Selecting the best possible options to develop into recommendations to the governor.

Conclusions

Upon consideration of the performance data and condition reports for all of Minnesota's transportation systems and modes, and through an analysis of anticipated funding expected in the coming decades, the committee members were asked to define the problem as they saw it. Through a series of conversations, the members developed the following conclusions:

- The transportation system in Minnesota creates a critically important, positive economic impact that provides a high quality of life for the citizens of our state. Funding for this system in the future faces declining revenues while the needs and costs keep increasing, creating a funding gap. If Minnesota wants to maintain its competitive advantage, significant additional revenue will be needed during the next 20 years to address this gap and provide an economically competitive, world-class transportation system here in Minnesota.
- To fully address this challenge, we will have to work smarter by doing more with the money we have. MnDOT, the Metropolitan Council and other government entities addressing transportation needs, must continue and enhance the delivery of high return-on-investment strategies for project development and operations.
- The transportation funding gap predicted during the next 20 years must be addressed with a comprehensive funding and investment framework that is sustainable and equitable. Minnesota needs a formula that blends a return-on-investment approach with a fair, predictable and sustainable method for supporting a variety of transportation options throughout the state.
- A partnership must be created between the private and public sectors to deliver a high-quality, competitive transportation system. This partnership may be needed to generate or help generate additional revenue that provides the infrastructure for economic success.
- "Economically Competitive / World Class" means a sustainable, globally competitive, technologically innovative system that provides the foundation for a sound economic environment and a high quality of life.
- In context of economic development and tax reform, and overall competitiveness of the state, investment in transportation should be a top priority for the state of Minnesota.

Recommendations

In order to remain competitive in the national and growing world economy and to continue to provide a high quality of life for Minnesotans in the coming decades, the Transportation Finance Advisory Committee recommends that the state of Minnesota pursue a goal to foster and develop an *Economically Competitive / World Class Transportation System*.

The TFAC recognizes that this is an ambitious goal that can only be achieved with a bold vision and commitment and with significant new financial resources which may be attained through a limited number of options.

System-Wide Revenue Options for Roads

- Increase the motor vehicle registration fees to raise revenue by 10 percent through an adjustment in the multiplier, which will generate $1.1 billion in new revenue during the next 20 years for the Highway Users Tax Distribution Fund.
- Increase per-gallon excise tax rate on motor-fuels to generate $15.2 billion in new revenue during the next 20 years for the Highway Users Tax Distribution Fund. This option can be achieved in many ways. The committee discussed two options.
    - Option 1: Increase rate by $0.10 per gallon in the first year, with a subsequent phasing in of the excise tax rate at $.0156 per year for 19 years; or,
    - Option 2: Increase rate by $0.035 per gallon per year for the first five years and phase in the excise tax rate at $0.015 per year for the remaining 15 years. This approach generates approximately $108 million of new revenue in the first year and total projected first-year revenue of $975 million.

Transit-Dedicated Sales Tax Options

- Add $0.005 to the existing $0.0025 cent sales tax for transit in the Twin Cities metropolitan area (five counties), which is estimated to generate $200 million annually.
- Capture the remaining leased vehicle sales tax from the state general fund (estimated at $32 million annually) for transportation.
- Increase by $32 million annually the allocation to Greater Minnesota Transit to address statutory required service (71 percent of revenue gap for Greater Minnesota Transit over 20 years is $640 million).

Local Government Revenue Options

- Expand the option of the wheelage tax for 80 counties in Greater Minnesota, including raising the cap limit for 87 counties.
- Enable the local option for the formation of Transportation Improvement Districts.
- Enable local option sales taxes for transportation in 80 counties without the need of a referendum.
- Expand regional transit capital levy (also known as transit taxing district) in entire seven-county Twin Cities metropolitan area and use funds for capital and operating needs. Governance issues need to be considered.

Project-Level Revenue Options

- Expand MnPASS System (which includes the concept of dynamic pricing) and dedicate revenue to multi-modal enhancements on managed lanes.
- Employ Value Capture concepts around transportation improvements.
- Explore the following areas in more depth:
    - Tolling options targeted for new capacity
    - Public-private partnerships opportunities for enhancement and financial leveraging of transportation projects
    - Monetizing assets to generate revenue
- Continue state role in bonding for local roads and bridges, transit, ports, passenger rail, freight rail, safe routes to school (General Obligation Bonding).

Summary

If the decline in Minnesota's transportation system is allowed to continue through inaction with regard to funding, irreparable damage may occur to the state's economy. The consequences of inaction are clear and predictable. The Transportation Finance Advisory Committee (TFAC) therefore recommends that the state of Minnesota pursue the *Economically Competitive / World Class Transportation System* option in order to repair and modernize our transportation infrastructure.

In addition to helping Minnesota compete economically for jobs and talent, an Economically Competitive/ World Class system will enhance our high quality of life by connecting people to everything that matters -- jobs, education, healthcare, entertainment, shopping and recreation and more.

The TFAC recommends that the state pursue a high-performing, efficient and reliable transportation system that is maintained at optimal levels, funded and financed through sustainable means to support a vibrant economic climate.

It will keep Minnesota moving ahead in a smart direction.

I. INTRODUCTION

Governor Mark Dayton created the Minnesota Transportation Finance Advisory Committee (TFAC or committee) in January 2012 seeking recommendations to reverse the decline of the state's highways, roads, bridges and public transport systems as well as air, rail and port facilities for the next 20 years. The committee was charged with considering the needs of all modes and for all jurisdictions. The 19-member committee was composed of legislators, agency heads, county and city representatives, capital markets, private business and academia, and is chaired by the Commissioner of the Minnesota Department of Transportation (MnDOT).

Mission

The TFAC's mission is to identify investment opportunities to support a thriving economy and high quality of life for Minnesotans over the next 20 years; to analyze the potential of various revenue sources and non-traditional approaches to transportation funding and financing; and to examine opportunities for public-private partnerships to invest in transportation improvements.

The ability of Minnesota's transportation systems to meet the needs of a growing population is one of the key measures of the state's business climate. Investments in transportation infrastructure will support an environment in which Minnesota businesses can continue to grow, and will ensure that the state continues to be an attractive location for companies to expand.

Gov. Dayton charged the committee with considering the implications of three future transportation scenarios for Minnesota. Those scenarios are described as:

- **Status Quo** — This scenario assumes no new funding or inflationary adjustments to the current transportation funding streams.
- **Maintaining Current Performance** — This scenario assumes sufficient funding to maintain and operate the transportation system in a condition equal to today, including existing service levels and condition ratings.
- **Economically Competitive / World Class** — This scenario envisions a transportation system that will help the state become more economically competitive through technology and operational innovations and through high return-on-investment (HROI) projects to reduce congestion and delays. Under this scenario significant transit and modal enhancements are advanced, road surface and bridge conditions improve significantly and additional investments are made for safety and regional highway expansions.

Methodology

The Transportation Finance Advisory Committee met 11 times from April through December 2012. This report summarizes the results of the committee deliberations. The meetings were open to the public and additional people attended to listen to the discussions. .A public comment time was made available at the meetings and public input was sought by MnDOT throughout the state. Based on the directive of the governor, the committee developed the following purpose and scope.

Scope

In conducting this work and in developing this report, the advisory committee has undertaken an assessment of options and recommendations to close a projected funding gap between revenue and funds expected to be available and the desired future for transportation in Minnesota.

In developing its assessment, the committee: 1) identified transportation investment opportunities to support a thriving economy and high quality of life for Minnesotans over the next 20 years; 2) identified and analyzed the potential of various revenue sources, including non-traditional approaches to transportation financing, to satisfy projected unmet needs; 3) defined opportunities for public-private partnerships to invest in transportation improvements; 4) developed a strategic marketing plan to obtain public support for the investment plan; and, 5) and considered additional steps that may be needed to obtain support for the funding and financing options proposed.

Process

To accomplish its charge of considering transportation funding and financing over the next 20 years and to develop recommendations to preserve and enhance the system to ensure economic vitality and a high quality of life, the committee developed a work plan that included:

- Building common knowledge among committee members on transportation issues including identified transportation needs, local issues, funding and financing possibilities, and national options and concerns;
- Developing core principles for generation of funds as well as allocation and expenditures;
- Identifying viable transportation funding and financing options for Minnesota; and
- Selecting the best possible options to develop into recommendations to the governor.

Initially, the committee reviewed information on Minnesota's transportation systems and gained an understanding of issues and trends facing transportation, particularly related to funding and financing.

The committee also reviewed Minnesota's national ranking in key size, performance and quality indicators including the various modes of transportation, size and performance descriptions. Information was provided on operation and maintenance of Minnesota's roadways and other transportation systems.

To identify the various options for recommendations, the members developed guiding principles that not only identified how the funds are generated but the committee felt strongly about also developing principles about how the generated funds would be allocated and spent. The committee then brainstormed various options (30 initially) to fund and finance the gap identified. From these options, the members crafted thirteen transportation funding and financing recommendations which were presented to the Governor on Dec. 1, 2012.

Stakeholder Input

Public and stakeholder input has been solicited through the Committee's website, MnDOT's on-line community surveys, public open houses and through testimony provided at the committee meetings. This information has been shared with the committee throughout the process and has guided their deliberations. A summary of those findings are presented in Appendix A.

Background

Minnesota is a great place to live, work, play, visit, start a business and raise a family, and the state's transportation system contributes to the overall quality of life and economic competitiveness.

To maintain what we have and position Minnesota for the future, we need to invest in and modernize our aging transportation infrastructure. We want a transportation system that will help Minnesota compete for jobs and talent. Doing so will provide opportunity for thousands of jobs – first in updating the infrastructure, then by attracting and keeping economic development in Minnesota.

The transportation system connects businesses to suppliers and customers around the nation and world. Minnesotans rely on the transportation system to get to their jobs and school, visit the doctor, enjoy the natural environment, shop, and take advantage of the amazing cultural, entertainment and recreational opportunities available in the Land of 10,000 Lakes. Both the state and the transportation system have great strengths as well as challenges.

Purpose of this Report

This report lays out a comprehensive view of transportation funding and financing for the next 20 years in Minnesota. It addresses nearly all modes at all jurisdictional levels in the state and addresses current and projected funding as well as performance. Some of the questions this report considered include:

- What are the problems (challenges) with Minnesota's transportation system that must be addressed?
- What are the consequences of not addressing these problems?
- What is the "Funding Gap" for maintaining current performance of the system as well as the funding gap to achieve an economically competitive / world class transportation system?
- How can Minnesotans be sure that transportation funds are spent wisely and efficiently?

Problem Statement

Minnesota cannot preserve the existing quality and performance of the state's transportation systems under current investment levels and current infrastructure lifecycle replacement practice. The consequences of underinvesting in the state's transportation system will include a deterioration in service, increasing congestion and delays, failing infrastructure, and a diminished ability to remain economically competitive in the global economy.

From an economic standpoint, transportation systems matter greatly. Transportation systems facilitate the efficient movement of people and goods and create the opportunity for economic development, enhanced productivity, job formation and sustainable growth. These systems connect employers to the workforce and allow workers to access employment. Transportation influences where people choose to live and shapes where businesses invest. Improved mobility and accessibility result in productivity gains.

Funding of the state's transportation systems is done through a myriad of federal and state programs. And a significant portion of the system is locally funded through property tax. The problem of maintaining and enhancing a high quality transportation system in future years will be compounded by rapidly changing demographics. Over the next 30 years, the state's population is expected to increase by 893,000 people. While the majority of population growth is expected to occur in the Twin Cities metropolitan area, an expanding population will

Under the Federal Urban Partnership Agreement Program, which included elements of transit, tolling, telecommuting and technology, MnDOT developed priced dynamic shoulder lanes as a component of the MnPASS Express Lane system on I-35W. This high return-on-investment project, which delivers the equivalent capacity of a full lane during peak travel periods, was developed for $17 million without expanding the highway footprint. It is estimated that a traditional full build solution would cost more than $400 million.

create greater transportation needs throughout the state. Although today Minnesota competes strongly in the global economy, and its citizens enjoy a high quality of life, significant mobility and accessibility improvements for businesses and residents will be needed. Without an improved transportation system, economic development is likely to go elsewhere.

Efficiencies

The need to make efficient investment and operational decisions for all modes and all jurisdictions was an imperative that the committee addressed throughout the process. In order to understand the problem and the need, the public must be convinced that current resources are used wisely. The TFAC examined the performance of the existing transportation systems, particularly as they relate to the highway and transit modes. MnDOT and the Metropolitan Council are placing a great deal of emphasis on improving operational efficiencies and focusing on transparent, accountable and cost-effective capital improvements with a high return-on-investment. This approach emphasizes performance and outcomes, pursues lower cost/high benefit projects and the use of advanced technology to achieve those operational efficiencies.

High Return on Investment (HROI) Approach

To stay competitive and maintain a high quality transportation experience, Minnesota's transportation leaders seek approaches to project design, development and operations that are sustainable, affordable, measurable and built to a maintainable scale. Given the significance of Minnesota's transportation system and the changes in technology, society and natural environment, MnDOT and the Metropolitan Council deploy high return on investment (HROI) and cost effective solutions to highway and transit planning and development. This approach has many inputs but is centered around:

- Enhanced Quality of Life
- Performance and Outcomes
- Lower Cost, High Benefit
- Safety
- Multi-modal solutions
- Risk Based Analysis

The Interstate 494 and Hwy 169 Interchange is a performance-based approach that was designed to reflect the traffic demand. It includes six ramps instead of eight (studies showed traffic from the west was minimal), reduces the number of stoplights and reduces congestion while meeting the need. This HROI project saved more than $35 million compared to the traditional (standards) approach; money that can be moved to other projects.

A key component to this strategy is technology, which has created new ways of addressing existing transportation problems, often at less cost. On state highways, MnDOT has deployed construction methods that ensure high quality, long-lasting and sustainable performance. In operations, measures such as ramp metering, managed lanes, bus-only shoulders and traffic signal priority greatly enhance the efficiency not only for

the Metro Transit, but for all users of the roadways. Increased use of higher capacity buses, where demand warrants, clean diesel buses (90 percent cleaner than old technology) and hybrid-electric buses all using advanced navigational technology are examples of enhanced transit efficiencies being deployed.

MnDOT and the Metropolitan Council strive for a sustainable, progressive system that provides the greatest benefits to Minnesotans' at the lowest cost. Moving forward, a focus on HROI projects is a significant component of the state's investment strategy. This efficient and cost-effective approach is not sufficient to develop the highway and transit systems, as well as the diverse and critically important modes needed to make Minnesota more competitive economically, drive job growth and enhance the state's quality of life in the 21st Century. Higher levels of transportation investments are needed to achieve those goals.

II. MINNESOTA'S TRANSPORTATION SYSTEMS: DESCRIPTION AND PERFORMANCE

Introduction

Minnesota's transportation systems are diverse, extensive and robust. They exist to serve the mobility needs of the state's residents and visitors, and are crucial to commerce and economic vitality. Changing demographics and economic conditions, however, require appropriate reactions and new thinking in an increasingly competitive world. As Minnesota's state economist points out, historically, education and transportation have been the key to the state's economic growth.[1]

Minnesota's reputation has been as a high quality producer. Yet, in a rapidly changing world economy, enhanced productivity will require making things better and making better things. The state's economy and production and delivery systems must be nimble enough to respond to the increasing demands for innovation and efficiency.

Serving the state's population is an imperative for transportation. And, while Minnesota's population is expected to grow at a rate of 40,000 to50,000 people per year, the number of Minnesotans turning age 65 is increasing sharply. More Minnesotans will be 65 and older by year 2020 than there will be school-age children. An important challenge facing transportation in the coming decades will be to serve the increasing demands of the state's changing population profile, as well as business and industry sectors.

In addition to the shifting demographic trends facing Minnesota and the nation, a number of significant trends must be monitored concerning technology, economic uncertainty, and transportation funding. Growing demands are being placed on all levels of. The report assumes that federal funding for transportation will remain stagnant. The overviews presented in the following section describe the system and modes in the state, and reference only the state and local funding portion of the transportation picture.

State Transportation Funding Overview

Highway Funding

Article XIV of the Minnesota Constitution dedicates 100 percent of the proceeds from the state Motor Fuels Tax and Vehicle Registration Tax, and not more than 60 percent of the proceeds from the Motor Vehicle Sales Tax (MVST) be deposited into the Highway User Tax Distribution Fund (HUTDF) and used only for highway purposes. The article specifies that the HUTDF revenues may be used only for highway purposes and sub-allocates the revenues 62 percent to the Trunk Highway Fund (THF), 29 percent to the County State-Aid Highway Fund (CSAH) and 9 percent to the Municipal State-Aid System Fund (MSAS). The article also allows 5 percent of the HUTDF revenues to be set-aside for statutory distribution by the

[1] Tom Stinson, Minnesota State Economist, remarks made at September 14th meeting of the Transportation Finance Advisory Committee.

legislature. For fiscal year 2012, the forecasted portion of total revenues to the HUTDF from each source is as follows: 48 percent Gas Tax, 33 percent Registration Tax, 19 percent MVST.

The following diagram shows the flow of revenue into and transfers out of the HUTD.

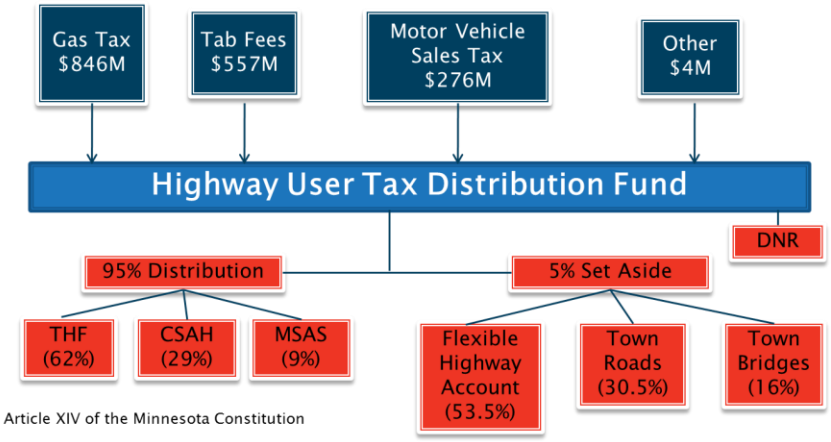


Figure 1. Highway User Tax Distributions Fund

Minnesota's current gas tax rate is 25 cents per gallon plus a 3.5 cent per gallon debt service surcharge. This debt service surcharge is intended to cover the debt obligations for capital projects on trunk highways authorized in the Minnesota Laws of 2008, Chapter 152. According to the American Petroleum Institute (API), Minnesota has the 8th highest gasoline excise tax in the nation. API also provides the following comparison of Minnesota against neighboring states.

Table 1. Motor Fuels Tax Comparison with Adjacent States

Cents per Gallon	Federal	MN	WI	SD	IA	ND
Gasoline	18.4	28.0	30.9	22.0	21.0	23.0
Diesel	24.4	28.0	30.9	22.0	22.5	23.0
Gasohol (10% blend)	18.4	28.0	30.9	20.0	19.0	23.0

Trunk Highway Fund Debt

Trunk Highway Fund bonding is an integral component of state highway financing and has become an essential tool in helping to expedite the delivery of the program of projects. However, there are practical

limits on Trunk Highway Fund debt as the policy requires that annual debt service payments not exceed 20 percent of annual state revenues to the Trunk Highway Fund. The following chart shows the total forecasted annual debt service as well as the annual debt service as a percentage of state revenues, as reported in the February 2012 forecast.

Table 2. MnDOT Debt Management

Minnesota Department of Transportation
Debt Management Policy

Year	Total Debt Service [1]	Estimated Current %	Variance from 20% Policy Limit [2]
2012	$86.6 M	7.9%	$131.8 M
2013	140.2	12.6%	82.9
2014	171.2	15.1%	55.4
2015	194.0	16.8%	37.2
2016	199.3	17.2%	31.9
2017	$199.6 M	17.3%	$31.6 M

[1] Includes bond debt transfers, transportation revolving loans, and local area advances.
[2] Represents amount of additional debt service to reach 20% limit

General obligation bonds may not be used on the Trunk Highway system. The Trunk Highway fund pays all of the debt service on Trunk Highway bonds, whereas the State's General Fund pays all of the debt service on the State's general purpose General Obligation bonds. GO bonding is discussed later in the report.

Greater Minnesota Transit

As previously mentioned Article XIV of the Minnesota Constitution dedicates 100% of the Motor Vehicle Sales Tax (MVST) revenues to transportation purposes with the further provision that not more 60 percent may be allocated for highway purposes and not less than 40% may be allocated for transit purposes. Minnesota statute 297B. 09 further specifies in law that after July 1, 2012, the MVST

revenues are distributed 60 percent to the HUTDF and 40 percent to the Transit Assistance Fund with 36 percent allocated to the metropolitan area transit account and 4% allocated to the Greater Minnesota transit account. The Greater Minnesota transit account also receives revenues generated by the sales tax on leased vehicles which are not constitutionally dedicated revenues. Under current law the first $32 million of the leased vehicles sales tax revenue is deposited in the state general fund and any remaining funds are allocated 50 percent to the Greater Minnesota transit account and 50 percent for metropolitan area county highways.

MVST revenues are a substantial portion of the funding provided to both Greater Minnesota transit and metropolitan area transit. Other sources of transit funding include fares, state general fund appropriations, federal funds and other funds such as local revenues or investment income. The charts below show the available operating revenues for both Greater Minnesota Transit and metropolitan area transit in FY11.

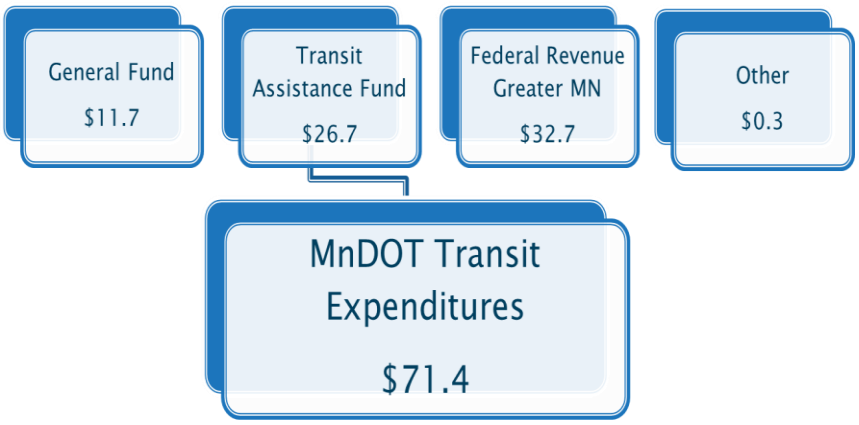


Figure 2. MnDOT Greater Minnesota Transit Funding for FY2011

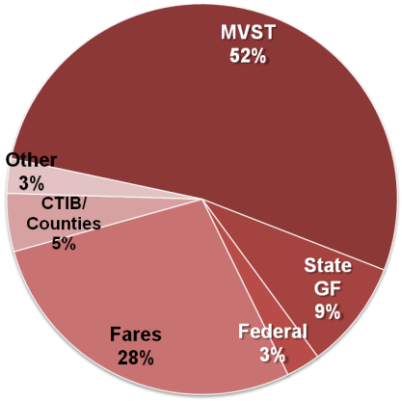


Figure 3. Metropolitan Area Transit Operations Funding FY2011

Figure 3 displays the sources of funding for metropolitan area transit operations. Total operations funding for all metropolitan area transit systems totaled $384 million in FY 2011.

Highways

Minnesota's highways are critical for ensuring continued access and mobility for travelers and for maintaining the state's economic vitality. With more than 141,000 miles of streets and highways and 20,265 bridges the state's roadway network ranks 5th in the nation in the total number of roadway miles despite being the nation's 12th largest state. Minnesota's roadway network includes state highways, county roads and highways, and city and township streets and roads. State highways account for eight percent of all roadway miles (about 12,000) but carry 58 percent of all traffic. The state's 3.9 million licensed drivers own approximately 4.8 million registered vehicles.

State Highway System

Minnesota ranks among the national leaders in safety and bridge conditions. In 2011, fatalities fell to 368 — the lowest number of fatalities in a generation and the 3rd lowest fatality rate among all states in 2010. State bridge conditions remained good, exceeding or close to state targets. Minnesota had the 4th lowest share of bridges rated structurally deficient or functionally obsolete in 2011—less than half the U.S. average.

At the same time there are also performance challenges. State pavement condition declined in 2011 and is predicted to continue to decline under the current investment program. There is also very little money available to consider system expansions or to respond to local priorities.

Minnesota funds the trunk highway system with both federal and state funds. Federal funds are generated by national taxes on motor vehicle fuel, tires, and truck and trailer taxes. State funds are generated by state taxes on motor vehicle fuels, vehicle registration fees, and motor vehicle sales

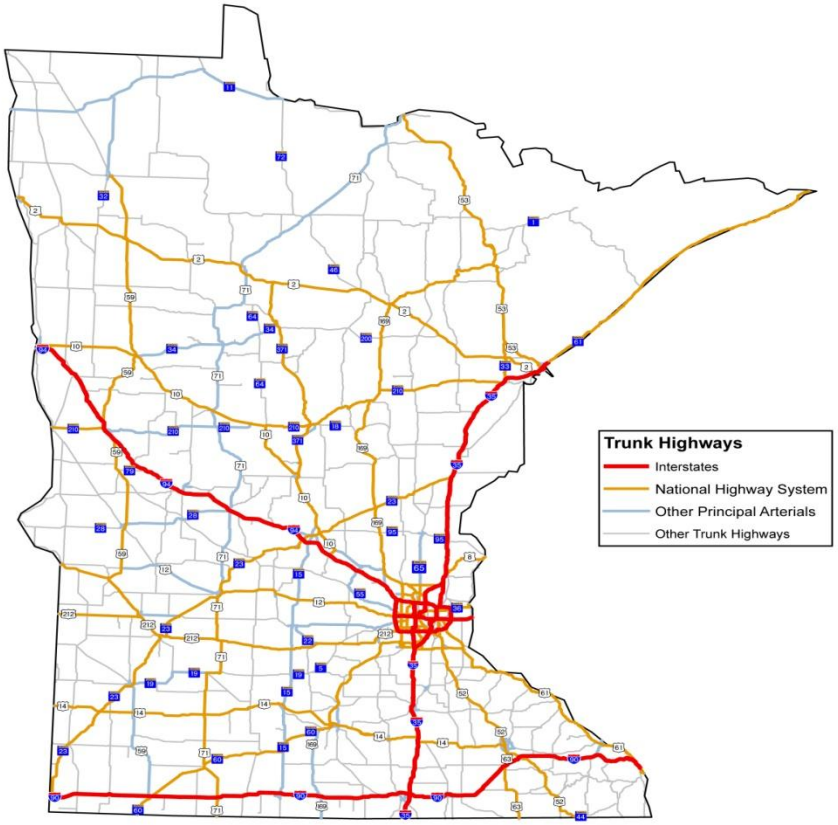


Figure 4. Minnesota Trunk Highway System

Figure 5 below illustrates the estimated revenue that will be generated by these funding sources, including trunk highway bond proceeds, for highway construction through 2032. The tops of the orange bars represent the actual dollars raised by current revenue sources. Funds available for construction will actually decline before modest growth rates in the revenue sources cause them to increase again.

The blue bars represent the purchasing power of that revenue when adjusted for inflation, which is estimated to be at five percent per year for the next 20 year planning period. Existing revenues are estimated to have less than half of their current purchasing power.

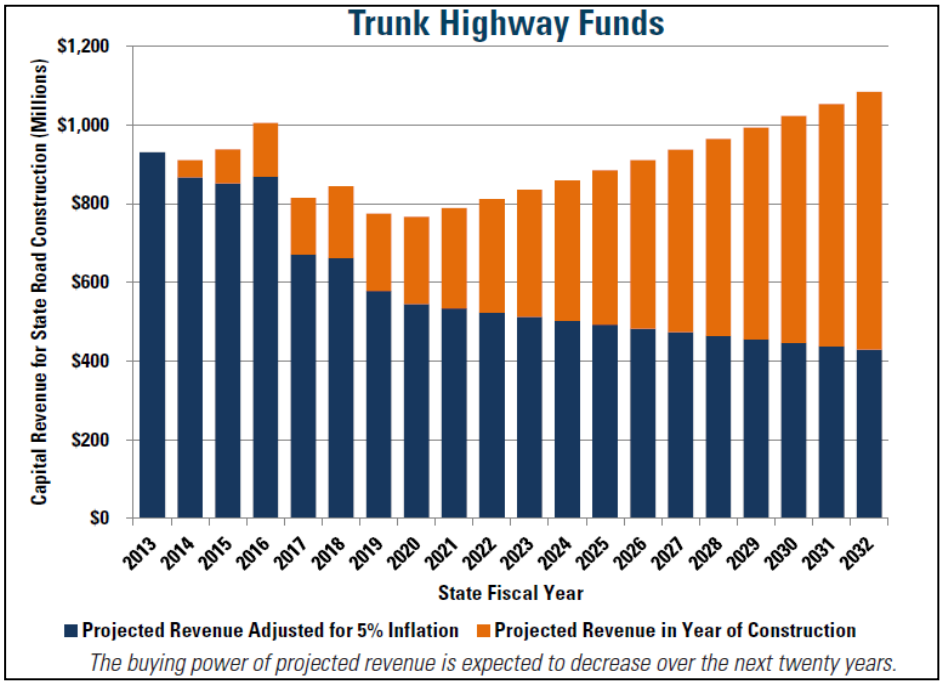


Figure 5. Expected Trunk Highway Funding and Inflationary Impact

State County Aid and Non-State-Aid System

Almost 90 percent of Minnesota roads are locally managed, with 34 percent under county jurisdiction. The County System is comprised of 45,000 miles and represents 41 percent of vehicle miles traveled in the state. It is divided into two systems: the County State Aid Highway System (CSAH) and the County Roads System.

CSAH roads make up 67 percent of total county mileage and are funded mainly with state dollars collected through the gas tax, vehicle sales tax, and license tab fees. Roads on this system are considered regionally important enough to merit state funding. Counties do have an obligation to contribute to this system at a rate that has been estimated at least 13 percent, although the contribution level is often higher due to a lack of state aid funds. This contribution comes in the form of local property taxes and special assessments.

County Roads make up the remaining 33 percent of the county system and are funded through property taxes and special assessments.

Municipal State Aid and Non-State-Aid System

Municipal streets make up approximately 14 percent of roadways in Minnesota. The city system is comprised of over 19,000 miles and represents 14 percent of vehicle miles traveled. It is divided into two systems, the Municipal State Aid System (MSA) and the City Street System.

MSA roads make up just 16 percent of total city mileage. Unlike counties, which are all eligible for state aid highway dollars, only the cities that reach a population of 5,000 or more are eligible for MSA. At the present time, 147 of Minnesota's 853 municipalities have met the population threshold and are receiving MSA. The MSA streets are funded with a combination of property taxes and state dollars collected through the gas tax, vehicle sales tax and license tab fees. Roads on this system are typically collector streets and must be built to standards issued by the Minnesota Department of Transportation's State Aid Division.

The city street system makes up the remaining 84 percent of city streets. They are funded through property taxes, local government aid and special assessments. According to the Office of the State Auditor, in 2012 cities collectively budgeted $476,505,524 (15.3% of total expenditures) for streets and highways (this category includes maintenance and repair costs) and $153,860,357 (3.7%) for streets and highways capital outlay (construction, rehab and improvement projects).

Township Roads

Township roads are a vital component of Minnesota's transportation infrastructure serving 931,000 of Minnesota's residents or 17.5 percent of state's population of 5.3 million, as well as providing an important link in the overall system needed to get product to market and provide access to lakes and other recreational areas used by residents from across the entire state. There are approximately 62,421 miles of township roads and 6,000 bridges under township authority in Minnesota. This comprises 44 percent of the 141,687 roadway miles in the state. Although local property tax assessments fund most of the township road maintenance activity, townships do share about 2.5 percent of the funds collected in the Highway Users Tax Distribution Fund for the purpose of maintaining township roads and bridges. The state also funds a variety of projects, including township roads and bridges, under the state bonding program. While townships work hard to provide safely maintained roads, their limited financial resources have resulted in a reported reduction in maintenance activities and a virtual elimination in the complete reconstruction of roads under their jurisdiction except following natural disasters or other significant events.

Transit Systems

Greater Minnesota Transit

By statute, MnDOT is responsible for public transit outside the Twin Cities metropolitan area. MnDOT distributes federal and state funds to 46 rural and small urban public transit providers in Greater Minnesota. Seven urban (population greater than 50,000) transit providers receive state funding through MnDOT, but also receive federal funds directly from the Federal Transit Administration. Of the 80 counties in Greater Minnesota, 70 have county-wide service, eight have service only in a municipal area and two have no service at all.

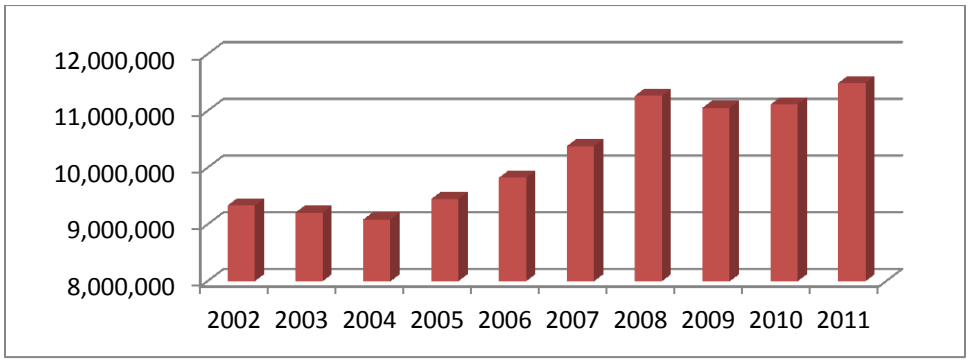


Figure 6. Greater Minnesota Transit Ridership

Public transit provides needed mobility to elderly, disabled and low-income people. In addition, it offers an efficient and environmentally sound choice to people traveling to jobs and school through congested streets. Minnesota benefits from transit in multiple ways. It helps people remain active members of society, shopping, going to medical appointments, school and work even if they cannot drive a car. It stretches investments in roadways by carrying more people per vehicle.

Ridership of Greater Minnesota transit is growing, reaching a record 11.5 million trips in 2011. However, it is estimated those trips account for only met 63 percent of the need. This implies that a significant percent of Greater Minnesota transit demand is unmet. Continuing with the status quo, with no changes to expected funding sources, will result in declining transit service levels starting in 2015. (Expected funding sources are defined as follows: federal funding remains at current levels, state General Funds remain at base levels set by the 2011 legislature of $16.3 million per year, and motor vehicle sales taxes accrue as forecast in the February 2012 Minnesota Management and Budget forecasts through State Fiscal Year 2015 and then increase with inflation at 2.5 percent.) This decline will mean fewer hours of bus service and higher maintenance and future capital costs because of buses will be used longer than their expected life. By the end of the 20-year period, 54 percent of annual need would be met.

Current projections indicate 64 percent of need can be met with funding available in 2013. It will cost an additional $180 million over expected funding sources to maintain that level of transit service in Greater Minnesota over the next 20 years.

Metropolitan Area Transit

Metro Area is a Driving Source for State's Economy

The Twin Cities metropolitan region is the economic engine of Minnesota. With over 2.8 million people, 1.6 million jobs and an annual Gross Domestic Product (GDP) of $200 billion, the metro area must continue to thrive for Minnesota to thrive. Fifty-four percent of Minnesotans, as well as 62 percent of jobs in the state, are located in the metro area. The region generates about two-thirds of the state's GDP and is home to 19 of the 20 Fortune 500 companies located in Minnesota.

During the past 40 years, the region invested heavily in expanding highway capacity while making modest improvements in transit capacity. Many Twin Cities residents lack attractive alternatives to driving alone, and metro area commuters experience growing traffic congestion with a current average delay for each peak-hour commuter of 45 hours per year. In addition, growing maintenance and preservation needs of a very large and aging system of roads and bridges are a major financial transportation challenge.

Looking forward, the metro area will continue to drive the state's economy. By 2040, the region will add almost 900,000 residents and 570,000 jobs. This additional growth will generate major transportation demand increases, up to 3.5 million additional person trips per day which will result in additional preservation needs and more challenging traffic conditions on the transportation system.

> *Current levels of transportation investments for all modes* cannot maintain *the existing quality and performance of the transportation system.*

Accommodating this growth will require promoting efficiency and innovation in regional service delivery and effective stewardship of resources, but efficiency and innovation alone will not be sufficient. It will also require a better funded 21st century multi-modal transportation system to make this region highly competitive in the global economy, attracting job growth by efficiently moving people to and from jobs. Without higher levels of investments in transportation systems, future economic growth will be jeopardized as businesses and residents grow frustrated with increasing traffic congestion and decreasing quality of state roads. Ultimately, Minnesota's future economic growth will be at risk if transportation funding does not meet these challenges.

Current Situation

To increase the region's economic competitiveness in the 21st century, the regional transportation system must be able to satisfy major increases in transportation demand, protect the region's high

quality of life, improve mobility and accessibility for businesses and residents, connect jobs to the workforce and accelerate productivity gains.

However, current levels of transportation investments, for all modes cannot maintain the existing quality and performance of the transportation system, let alone improve regional economic competitiveness. Under the "status quo" funding scenario, there will not be sufficient resources to expand the system and satisfy increasing mobility needs.

The constitutionally dedicated funding sources for roads- fuel taxes, motor vehicle registration fees and motor vehicle sales tax (MVST)- will not grow sufficiently in the future to address the transportation demands of a fast growing metro area. For transit, MVST volatility and uncertainty, declining state general fund and federal operating revenues will result in funding shortfalls just to maintain the existing system and will not allow for expansion, as many competing metro areas are doing.

Without higher levels of investments, future economic growth will be stymied by increased traffic congestion and delays and deteriorating pavement quality on state roads. An undersized transit system will not be an attractive alternative to the automobile and will not be able to increase its role in managing congestion.

The Metro Area Vision for a 21st Century Transportation System

The Metropolitan Council and MnDOT share a common vision for a 21st century metro area transportation system which emphasizes the efficient use of limited resources, the continued preservation of the existing system and a multi-modal approach. This vision focuses on achieving operating efficiencies with the use of advanced technologies and implementing cost-effective capital investments.

Roads, transit and other transportation modes must work together as one system and alternatives to driving alone must play a larger role in satisfying growing transportation demand. This approach is proving successful; examples of recent innovative and cost-effective investments include MNPASS lanes on I-394 and I-35W South, Hiawatha Light Rail Transit (LRT), Cedar Avenue Bus Rapid Transit (BRT) and Central Corridor LRT which is expected to open in 2014.

A 21st century transportation system requires a realistic, flexible, sustainable and problem-focused strategy based on the following elements:

- Preserving, managing and optimizing the existing highway system to continue to extract benefits from the large investments already made.
- Focusing on managing congestion with highway investments that move the largest number of people, not cars. This includes implementing a system of MnPASS lanes, high return on investments (HROI) projects that improve safety and mitigate congestion, and strategic capacity expansion projects where justified.

- Developing a more balanced transportation system with cost-effective investments in transit and other alternatives to driving alone.

Transit Investments are Required for a 21st Century Transportation System

Transit is a critical element of this 21st century regional transportation system. Transit strengthens the transportation system by providing a safe and efficient mobility option, mitigating congestion, improving sustainability and livability, serving transit-dependent populations, and encouraging efficient land development patterns.

In the metro area, the current transit system carries 94 million passengers per year on more than 200 local and express bus routes, the Hiawatha LRT, Northstar commuter rail and dial-a-ride services throughout the region. Eighty percent of current transit riders are going to work or school. Transit is not only for the transit-dependent – two thirds of transit rider households have an automobile available.

Transit in the region is more than just convenient; it is efficient. Metro area transit compares very favorably with 12 other peer metropolitan systems in terms of:

- Productivity—passengers per hour of service
- Cost-effectiveness—subsidy per passenger
- Efficiency—fare recovery percentage

Furthermore, transit benefits all transportation system users since transit can reduce traffic congestion. On several major freeway corridors, transit vehicles currently carry about 35 percent of the people on the highway during the peak hour while representing less than five percent of the vehicles. Similarly transit also carries a significant number of people—20-35 percent—on major arterials such as Snelling Avenue throughout the day.

Transit Investments Needed for Metro Area

While the existing transit system is efficient and cost-effective, it is undersized and needs to expand to make the region's projected economic growth a reality. Regions with robust transit systems work better and are choice destinations for employers and employees because business has wider access to labor and employees enjoy a higher quality of life. Uncertainty in transit development delays private investment.

Regions which compete with the Twin Cities metro area (Denver, Salt Lake City, Seattle, San Francisco, Atlanta, Boston, Cleveland, Dallas, St. Louis, Houston, San Jose, San Diego and Phoenix), understand that transit attracts economic development and are investing more heavily than the Twin Cities(See Figure 8). To remain competitive and attain regional economic goals, the Twin Cities must continue to strengthen its transit system**.**

The Metropolitan Council 2030 regional transit vision is to double transit ridership between 2003 and 2030. Current ridership levels are slightly ahead of that goal but continued growth will only be achieved with additional financial resources.

Key elements of the 2030 transit vision include:

- Maintaining and expanding the regional bus system
- Building a network of rail and bus transitways (LRT, Highway BRT and Arterial BRT) fully integrated with other transportation modes

Figure 6. Peer Metropolitan Regions Transit Investment Comparisons

Metro Region	Sales Tax Dedicated to Transit	
San Francisco		1.05% of 8.5% total
Atlanta		1% of 8% total
Boston		1% of 6.25% total
Cleveland		1% of 7.75% total
Dallas		1% of 8.25% total
Denver		1% of 7.62% total
Houston		1% of 8.25% total
Seattle		0.9% of 9.5% total
San Jose		0.875% of 8.375% total
Saint Louis		0.75% of 8.491% total
Salt Lake City		0.6875% of 6.85% total
Phoenix		0.566% of 9.3% total
San Diego		0.42% of 7.75% total
Mpls - Saint Paul		0.25% of 7.75% total

The bus expansion plans include increased frequency, span of service and geographic coverage as well as improved quality and speed of service for local bus routes. For express bus routes, it includes increased service on routes that are experiencing high demand and additional service to new park-and-ride lots. These lots congregate riders at a single point and allow for cost-effective suburban and rural transit services. Existing lots already serve demand from well beyond the seven-county metro area.

An expanded transitway network, developed with the financial support of the Counties Transit Improvement Board (CTIB) will offer fast, reliable transit services with an improved passenger experience on high-demand corridors. Up to 40 percent of the Hiawatha LRT riders previously did not use transit. Similar trends are expected for Central Corridor LRT (CCLRT) when it opens in 2014 and for Southwest LRT (SWLRT) in 2018.

Transitway investments attract permanent new jobs (94,000 new jobs anticipated along CCLRT and 60,000 along SWLRT by 2030), create significant engineering and construction jobs (4,300 jobs for CCLRT and 3,500 for SWLRT) and promote more efficient and compact transit-oriented development along those corridors.

Arterial BRT corridors are an important subset of the transitway network. In 11 arterial corridors under consideration buses carry 86,000 rides today, with 450,000 people and 460,000 jobs within a half mile of those routes. The proposed Arterial BRT routes are already the most efficient and cost-effective bus

routes in the system. Significant ridership growth, up to doubling current usage, can be achieved with relatively modest investments to improve speeds (up to 30 percent faster) and service levels.

In summary, significant transit expansion will bring positive economic benefits to all Minnesotans. According to an independent study by the Itasca Group, there is an expected return on investment between $6 billion and $10 billion by 2030. [2]

Residents will experience the return on investment via**:**

- Adequate transit resources to meet the expected doubling of transit ridership by 2030,
- Significantly better connections between home, school, work and entertainment,
- Faster, cheaper transportation options that are safe and environmentally-friendly.

Businesses will experience the return on investment via:

- An additional 500,000 employees will have access to jobs via transit within 30 minutes of home,
- Savings on freight and logistics,
- Public investments that compete well with similar investments in peer regions.

Ultimately, significant transit expansion will serve the metro area and the state well. An expanded transit system will increase economic competitiveness, drive efficient development and job growth, improve regional mobility and accessibility, reduce traffic congestion and enhance livability and sustainability.

Counties and Transit

In 2008, the five metro counties of Anoka, Dakota, Hennepin, Ramsey and Washington enacted a quarter-cent sales tax for the purpose of expanding the metro transitway system (light rail, commuter rail and bus rapid transit). The tax generates about $100 million a year and is administered by the County Transit Improvement Board (CTIB).

Each CTIB county also has a regional rail authority (RRA), which has the authority to levy property taxes and contribute 10 percent of the total capital cost of transitway. RRAs pay the costs of feasibility studies, alternatives analyses and early environmental work.

If the region decides to accelerate the development of the economically competitive transit way system, the 10 percent RRA capital contribution will be a significant property tax burden.

Rail, Ports and Waterways

Minnesota has a healthy, vital, and competitive industrial base, including high technology, manufacturing, mining, agriculture, and forest products. The state is geographically centered in the

[2] Regional Transit System: Return on Investment Assessment; Itasca Project, November 30th, 2012

United States. It is distant from most markets and many supply sources, and is often at the end of a long and challenging supply chain. Minnesota needs an efficient, effective, and cost competitive freight transportation system to ensure continued economic success.

Besides an above-average network of roads and interstates, Minnesota is connected via a substantial railroad network, with four Class 1 major carriers, 17 short lines proving 'last mile', and responsive service, and over 4,600 miles of track. In addition, we have eight freshwater ports on two national waterways, the Great Lakes and the Mississippi River system, that provide cost-competitive bulk waterborne transport. The commercial air freight network is substantial and successfully supports a range of high value business lines including electronics and medical technology. Taken together, we are better positioned than most neighboring states and provinces in terms of freight logistics and are well connected to major urban and international markets.

MnDOT provides planning, coordination and targeted financial assistance to support this network. The Minnesota Rail Service Improvement program (MRSI) offers up to 10-year, no-interest revolving loans to short lines and rail shippers to invest in track and capital facilities. MRSI is generally well subscribed and offers more loan resources than neighboring states. Much of this goes to upgrade shortline track that operates at very restricted speeds, and to deficient bridges that limit the size and weight of loaded rail cars. Our Grade Crossing Safety Capital Program evaluates grade crossing needs, including industry specific conditions, and distributes grant and technical assistance to localities with identified high-priority safety issues. MnDOT's Port Development Assistance Program coordinates needs assessments and the responding legislative grants to support the infrastructure of our public Port Authorities, including docks, warehouses, loading facilities, and connecting roads and rail yards. This supports in particular the key industries of agriculture and mining, which accounts for Minnesota's rank of 20th among the states in waterborne tonnage.

Many of these core freight networks are supported by the federal government (navigable waterways, including locks and dams on the Mississippi and the St. Lawrence Seaway, as well as airports and air traffic), or private companies (mainline railroads). However, local facilities continue to need investment for both cyclical maintenance and new expansions. Ports serve as public freight transfer points, and the short line railroads are the local connectors - last mile- or farm-to-market connection. If these links are not kept in serviceable and effective condition, transportation options will begin to erode, costs will escalate, and the cost competitiveness of a large percentage of Minnesota's businesses would be damaged.

Passenger Rail

In 2009, Minnesota adopted its first comprehensive statewide freight and passenger rail plan that guides the future of the rail system and rail services in the State. The plan determined that the option for a high capacity, high-speed rail transportation option is not only desirable, but affordable and even preferable

as fuel prices rise and larger volumes of travelers shift to an available rail system here and around the country. The State Rail Plan is the first step in establishing a federally compliant program with an intentional, well-planned and incremental approach to building a regional and national system, similar to the interstate system of highways.

The vision for passenger rail is that Minnesota should develop a robust interstate and intrastate intercity passenger rail system. These systems will improve travel options, cost and speeds for Minnesota and interstate travelers. Steps in the Midwest Regional passenger service development plan include:

1. Develop an intrastate intercity passenger rail network connecting the Twin Cities and major regional centers;
2. Connect all services to both the Minneapolis Transportation Interchange and St. Paul Union Depot; and,
3. Advance corridors incrementally and simultaneously with Mn/DOT's support depending on financing, right of way acquisition and agreements with freight railroads.

The existing freight rail network can provide a more cost effective backbone to implement passenger rail service with economic benefits to freight operations. Without the integrated, incremental development of the passenger rail network, Minnesotans will have limited travel choices and more of a reliance on over used, degraded infrastructure with little environmental benefit.

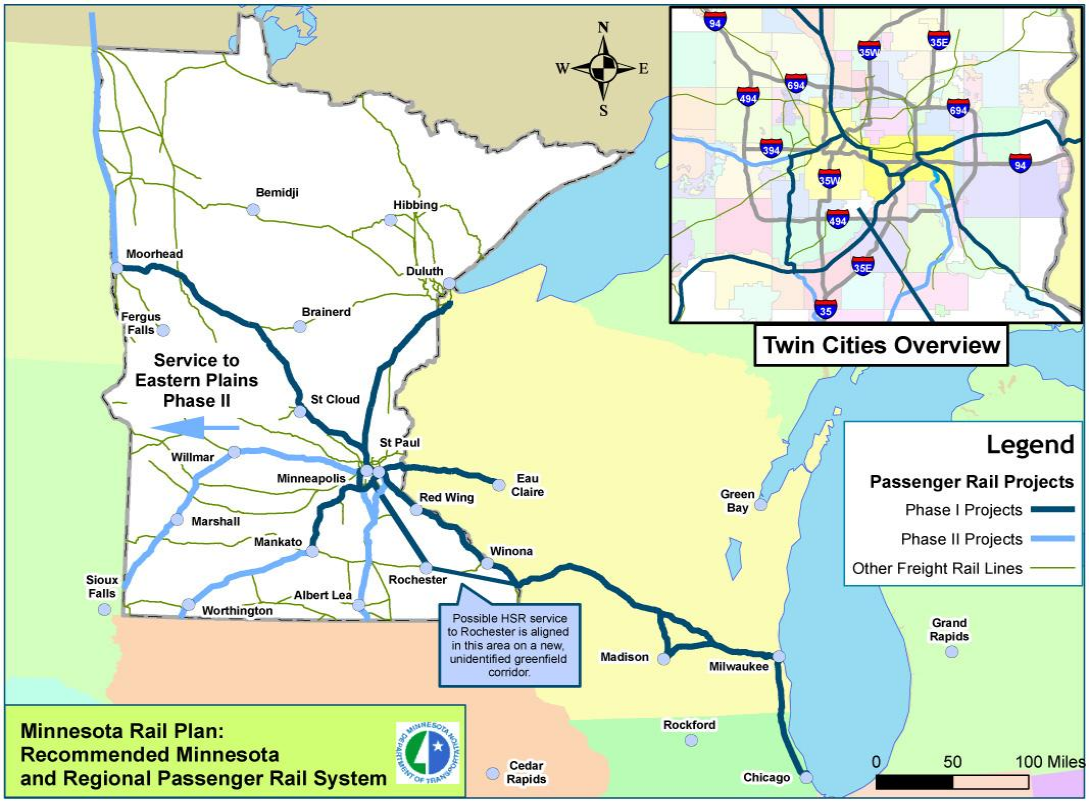


Figure 7. Minnesota Rail Plan

The 20-year State Rail Plan focus is on the development of expanded intercity passenger rail service between the Twin Cities and Chicago, passenger rail service and integration with the Amtrak national system and major regional trade centers in Minnesota and the upper Midwest, and fully coordinated and integrated with shared freight rail improvements. The priority passenger rail program elements are:

- High-speed passenger service from the Twin Cities to Milwaukee/Chicago, to Duluth and new corridor service to Rochester (sustained speeds of 110 mph);
- Enhanced conventional speed service (sustained speeds of 79 to 90 mph) from the Twin Cities to Mankato; St. Cloud, Fargo; and Eau Claire; and between Minneapolis and St. Paul.

Post 20-year passenger rail system developments include additional intercity markets in Minnesota and Wisconsin; Interstate 35 corridor markets; Red River Valley and Canada.

Airports

State Airports

Minnesota has a robust aviation system that is an essential component of the state's economic development, mobility and connection to the national air system The state has 135 publicly-owned airports, more than 150 state-owned navigation aids, approximately 7,500 registered aircraft, and more than 11,800 pilots. Nine communities in Minnesota are currently served by airlines; Bemidji, Brainerd, Duluth, Hibbing, International Falls, Minneapolis-St. Paul, Rochester, St. Cloud, and Thief River Falls. Together these airports accommodate approximately 34 million passengers annually. Collectively, aviation provides nearly 165,000 jobs and more than $12 billion of economic impact to our state economy.

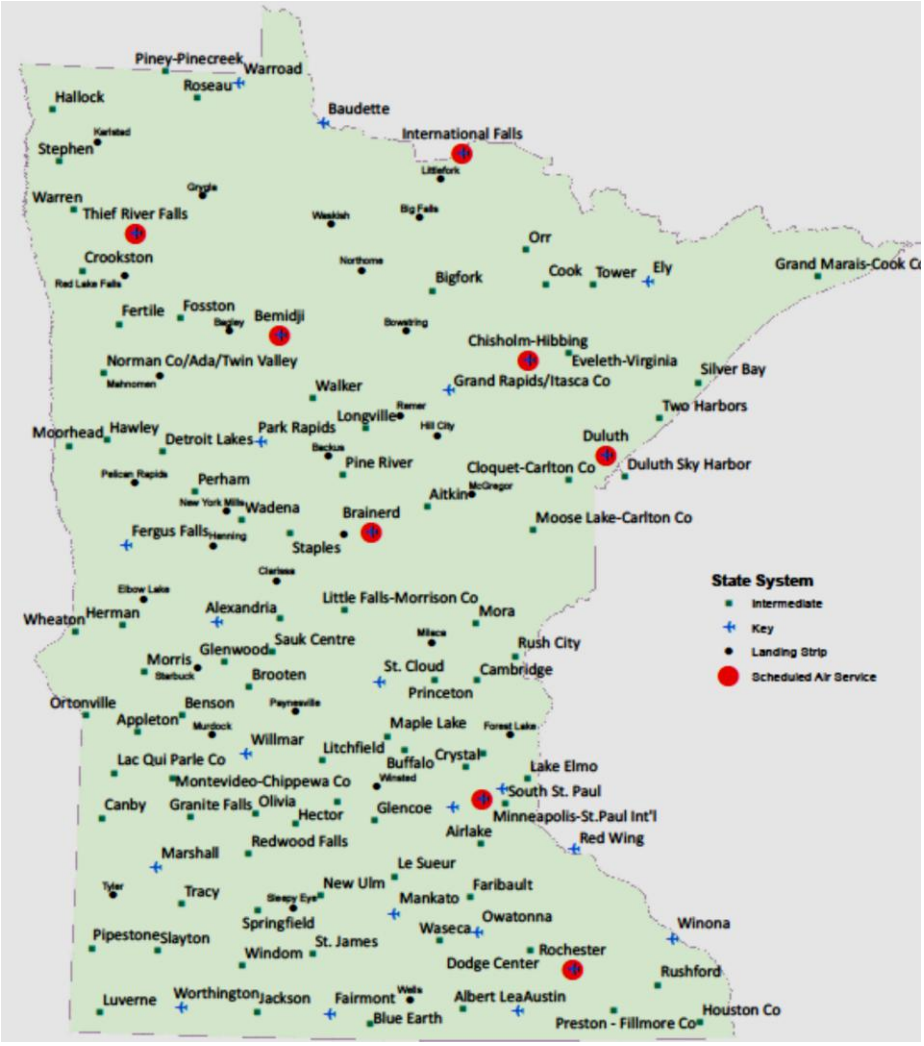


Figure 8. Minnesota State Airport System

Minnesota is unique in how it funds and distributes its state airport fund. The fund revenue comes solely from aviation users through three primary sources; aircraft registration, flight line property tax and aviation fuel tax. Many states use general funds. This system of funding was established in the middle part of last century and has allowed Minnesota to develop a model system of airports and navigational aids often studied by other states.

These aviation funds are then distributed back to the airport system to maintain safety, system maintenance and enable strategic expansion at growing airports in the state. Due to municipal ownership of the airports in Minnesota and their role in funding a portion of the federal projects they pursue, state funds are primarily used to augment funding demand for areas that federal funds cannot assist with. While the majority of funding for our system is federal, the state airport fund allows Minnesota's system to more fully meet the state needs of our air system.

Metropolitan Airports Commission (MAC)

The Metropolitan Airports Commission (MAC) airport system is comprised of seven airports in the Minneapolis-St. Paul Metropolitan Area including Minneapolis-St. Paul International (MSP) and six reliever airports. MSP is the primary commercial service airport in Minnesota. Owned and operated by the MAC, its funding stems from self-generated revenues from airport users, aviation grants, bonds and passenger facility charges. MSP does not receive an appropriation from the State's General Fund, nor has it levied local property taxes since 1986. In 2010, MSP served 32 million passengers and accommodated 437,075 landings and takeoffs making it 15th in North America for the number of travelers served and the 12th busiest airfield in the United States.

Aircraft operations and passenger activity associated with MSP contribute to the Twin Cities' economy by generating or supporting 153,000 associated jobs, $10.7 billion in business revenue and $1.4 billion in local purchases. Despite the MAC's recent $3.2 billion investment in expanding MSP, the airport was ranked the second-most financially efficient airport in North America.[3]

[3] Air Transport Research Society Airport Benchmarking Report 2011, Global Standards for Airport Excellence.

III. NEEDS ANALYSIS AND FUNDING GAP

Trunk Highways

The funding gap is calculated by subtracting the 20-year estimated construction funds from the inflation-adjusted 20-year needs for highway infrastructure improvements. For each scenario, funds from all sources are estimated at $18 billion. Construction needs are inflated at five percent per year.

Status Quo (Scenario 1): his scenario assumes no additional revenues beyond what the existing taxes and fees will generate. If only $18 billion was available to invest, many investment categories would see a decline in performance. Outcomes include:

Figure 9. Severely Deteriorated Pavement Surface Condition

- Significantly worse pavement conditions, perhaps reaching as high as 25 percent in poor condition (see figure8 for an example of a road in poor condition)
- Traffic congestion would continue to increase. Very few expansion projects would be undertaken, and even then, only at the further expense of pavement and bridge conditions.
- Bridges would remain in good condition.
- Fatalities and serious injuries would likely continue to decline, but less quickly than under the other scenarios.

Current Performance Levels (Scenario 2): Maintaining under this scenario, the condition of the highway system remains about the same as it is today. This cannot be accomplished with current revenue. Outcomes include:

- Pavement and bridge conditions would not change
- Fatalities would continue to drop
- Congestion would increase, but a few spot improvement projects could be undertaken in isolated locations. Very few expansion projects would occur in this scenario.

Scenario 2 requires an additional $5 billion of revenue, for a total of $23 billion.

Economic Competitiveness (Scenario 3): Under this scenario, MnDOT is able to meet its performance targets and key objectives. Outcomes include:

- Bridge and pavement condition targets are met
- The rate of decline in traffic fatalities and injuries is increased
- MnPASS vision for the Twin Cities Metro area is completed. Also, a modest number of high priority expansion projects are completed.

Scenario 3 requires an additional **$**12 billion of revenue for a total of $30 billion.

Comparison of Scenarios

The outcomes associated with the three scenarios vary significantly. The investment area that best illustrates these differences is pavement condition. MnDOT has detailed data on current pavement condition and projects the condition of its system as part of its long-range planning process. The graph below shows the different pavement outcomes associated with each scenario.

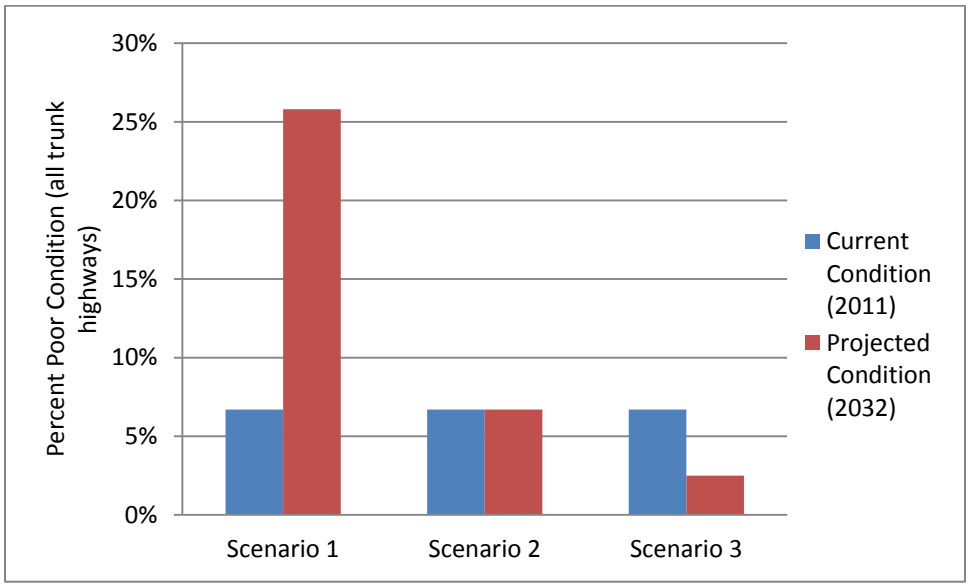


Figure 10. Poor Pavement Outcomes by Scenario

Given current funding levels and investment priorities, the percentage of poor pavement is projected to rise above 20 percent by 2032 compared with approximately 7 percent now. MnDOT's target for pavement is 2 percent to 3 percent poor.

To achieve the outcomes associated with scenarios 2 or 3, a significant increase in revenue is required. Figure 11 below presents the difference in funding required for scenarios 2 and 3.

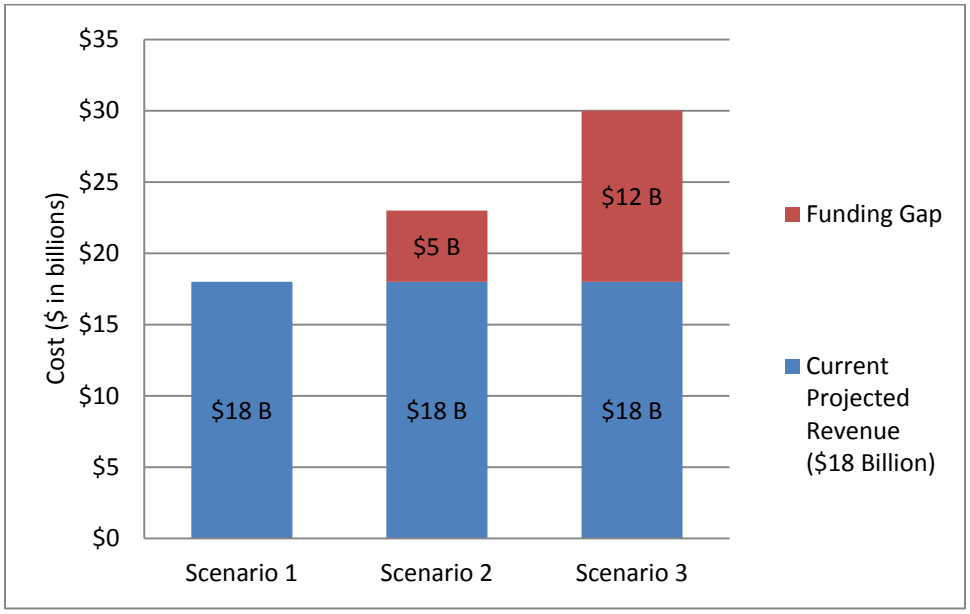


Figure 11. Trunk Highway 20 Year Funding Needs

Scenario 2 has an annual funding gap of $250 million and Scenario 3 has an annual funding gap of $600 million.

Illustrative Scenario 3 Project List

To achieve Scenario 3 for state-owned highways and metro and rural transit, over $10 billion of additional funds will be needed. A list created to illustrate the types of projects that would need to be undertaken in Scenario 3 is located in Appendix D.

Highway spending on the list is based on anticipated investment strategies under development in the Minnesota Statewide Highway Investment Plan (MnSHIP). The list identifies needs in asset preservation (pavement and bridge), safety, congestion and transit. The list includes:

Figure 12. I-35W MnPASS Lane and Traffic Management Technology

Asset Preservation

- Poor pavement (urban and rural) in need of reconstruction
- Major or historic bridges in need of repair or replacement

Congestion

- Projects in the Met Council Transportation Policy Plan including expansion of MnPASS lanes, system-wide Active Traffic Management projects and spot mobility improvements
- Completing MN 610 to Interstate 94
- Enhancements that expand the economic and quality of life access of selected major highways

Transit

- Cost to fill operating funding gap of major transitways and to grow Metro Mobility service to meet demand
- Improvements to transit facilities in Greater Minnesota and cost to fund operating gap in Greater Minnesota transit need

Safety

- System-wide high return on investment improvements such as rumble strips, cable median barriers, or reduced conflict intersections
- Statewide implementation of rural intersection conflict warning systems
- Grade separation of railroad crossings on major highways

The Illustrative Scenario 3 - Project List has the following limitations:

- The list is only demonstrative of the projects that would be undertaken. Additional projects would also be necessary to fully reach Scenario 3 outcomes.
- The list is subject to change based upon further information generated from the Minnesota State Highway Investment Plan process and the implementation of the Federal surface transportation act, MAP-21.
- The list contains only projects that are not programmed, meaning they will only be completed in this time period if new funding sources are realized.
- The list is based upon receiving approximately $10 billion of new funding. The number, nature, and locations of projects on the list are likely to change depending upon the actual amount of funding received.

Table 3. Trunk Highways 20 Year Funding Needs

(20 Year Needs in $ Billions, AFG = Annual Funding Gap)

	Scenario 1	Scenario 2	Scenario 3
State Highway System (Includes funding for bikes and pedestrian needs associated with highway projects)	$18.0 (expected receipts)	$5.0 $250 mil AFG	$10.0 - 12.0 $500 mil.- $600 mil AFG

County State Aid System

Unmet needs for the County State Aid Highway (CSAH) system have increased steadily in the last decade. The local response to these unmet needs has been to raise local property tax levies applied to road and bridge construction and maintenance. There has been increased dependence on borrowing as a finance strategy, and ultimately, the lack of funds has resulted in deferred projects and maintenance.

Status Quo (Scenario 1): Anticipated revenue expected over the next 20 years for the CSAH system is estimated at $5 billion. If revenues remain at this level,

- local roads will continue to deteriorate, some reverting back to gravel surfaces
- congestion levels will increase
- bridge infrastructure will not be brought up to the safest standards, but will continue to deteriorate
- the ability to remain economically competitive in the Midwest region will diminish, especially regarding truck weights as they relate to agriculture and commercial transportation needs.

Current Performance Levels (Scenario 2): Maintaining the system at current performance levels for the next 20 years leaves a $3 billion or a $150 million annual funding gap. Therefore, significant new revenue is required to simply maintain the current state of the CSAH system.

Economic Competitiveness (Scenario 3): It is estimated that for an economically competitive system, the unmet need would be $9 billion for the CSAH system and $9 billion for County Roads. These improvements would include:

- a statewide 10-ton road system,
- system-wide safety improvements,
- elimination of deficient bridges,
- strategic expansion.

The TFAC recommendations will fund Scenario 3 for the CSAH system at 52 percent - generating $4.7 billion of the $9 billion required. This revenue will come from the gas tax increase, of which

approximately 29 percent will be directed to the CSAH system. This amount is an annual average of $85 million more than is needed in order to maintain current performance levels, therefore many of the Scenario 3 improvements will not be realized, including completion of the 10-ton system, system-wide safety improvements, and the elimination of deficient bridges; although, progress would be made towards these goals.

While the TFAC generally challenges the state to address any deficit in funding with the new revenue proposals by working more efficiently and effectively, at a funding recommendation of 52 percent, this may not be realistic to achieve an economically competitive system on the CSAH or County Road systems.

Bonding

A periodic infusion of bonding dollars directed towards the State's Local Road Improvement Plan, Roads of Regional Significance Account (which would fund a 10-ton road system), Rural Safety Account, and Bridge bonding programs could help address the lower funding of the CSAH system.

County Roads (Non-CSAH)

Recommended local funding options such as a county-imposed wheelage fee or local option sales taxes without a referendum requirement will help to address deficits on the local County Road system, and reduce reliance on property taxes and special assessments to raise revenue.

Table 4. County Systems and Township Road 20 Year Funding Needs

(20 Year Needs in $ Billions, AFG = Annual Funding Gap)

	Scenario 1	Scenario 2	Scenario 3
County State Aid System	$5.0 (expected receipts)	$3.0 $150 mil AFG	$9.0 $450 mil AFG
County System	TBD	$4.0 $200 mil AFG	$9.0 $450 mil AFG
Township Roads	TBD	$0.3	$0.5

Municipal State Aid System and City Streets

The Municipal State Aid (MSA) fund is derived from nine percent of the regular distribution of the Highway User Tax Distribution Fund. MSA provides up to 20 percent of funding for streets in cities with populations over 5,000. Currently 147 of 853 Minnesota cities receive MSA. Most cities are ineligible for Minnesota State Aid. In cities that receive MSA funding, the money is often exhausted by cost participation in state and county projects.

Non-MSA city streets are funded with property taxes and special assessments. There is already tremendous pressure on property taxes. In addition, tax exempt property does not pay property taxes. Special assessments have long been unpopular, and they are increasingly difficult to administer due to the benefit test required under Minn. Stat. Chapter 429.

Although maintenance may be affordable, it is not always a priority. Every dollar spent on maintenance and preservation saves seven dollars in future costs. Cities are requesting the ability to establish street improvement districts. At the time of establishing a district the city would determine which projects would need to be completed.

Over 80 percent of the state's cities have a population under 5000. Only 36 Minnesota cities have a population over 10,000. Most cities are ineligible for Minnesota State Aid funds. MSA funds are often exhausted by cost participation in state/county projects. There is already tremendous pressure on property taxes. Special assessments are unpopular in addition to the increasing difficulty of using them because of the benefit test.

The cities are requesting the ability to establish street improvement districts. At the time of establishing a district the city would determine which projects would need to be completed.

Table 5. Municipal 20 Year Funding Needs

(20 Year Needs in $ Billions, AFG = Annual Funding Gap)

	Scenario 1	Scenario 2	Scenario 3
Municipal State Aid System *Municipal System*	$1.6 (expected receipts) TBD	$1.0 $50 mil AFG $5.0 $250 mil AFG	$2.0 $100 mil AFG $8.0 $400 mil AFG

Greater Minnesota Transit

Greater Minnesota transit operations are funded by federal, state and local funds. State funding currently comes from two sources: General Fund (GF) and Motor Vehicle Sales Tax (MVST)—both

regular and leased vehicles. The following chart depicts recent and forecast revenues for Greater Minnesota transit.

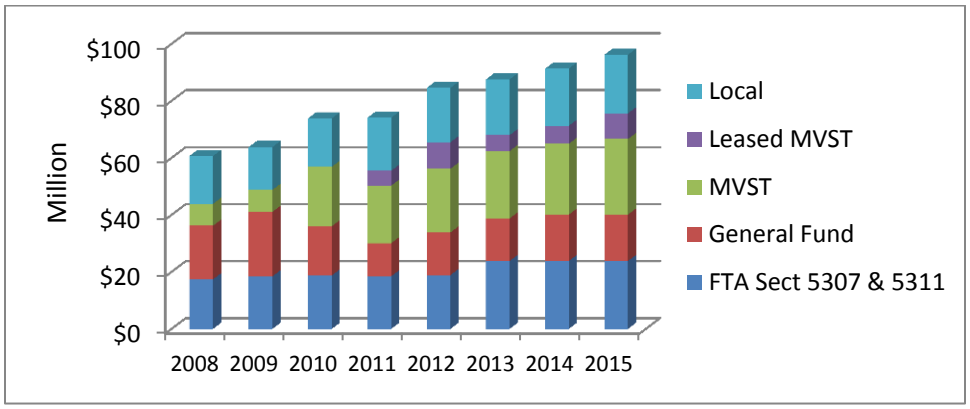


Figure 13. Greater Minnesota Transit Revenues

Extending the forecasts to the 20-year period from 2013 to 2032 would result in operating funds totaling $1.9 billion. Because the revenues would not keep up with inflation, transit service would drop over the 20-year period. A world class transit system meeting the targets identified above and holding at meeting 90 percent of need beyond 2025 would require $2.8 billion in revenues, or $900 million more than forecast.

Table 6. Greater Minnesota Transit 20 Year Funding Needs

(20 Year Needs in $ Billions, AFG = Annual Funding Gap)

	Scenario 1	Scenario 2	Scenario 3
Greater Minnesota Transit	$1.9 (expected receipts)	$0.2 $10 mil AFG	$0.9 $45 mil AFG

Metropolitan Area Transit Needs

The Metropolitan Council developed four scenarios that address metro area transit needs: status quo, maintain current mobility, economic competitiveness and world class. Each scenario includes the funding gap, measured as the difference between the investment level needed to implement the scenario and the existing revenue streams over a 20-year period.

Status Quo (Scenario 1): The first scenario, Status Quo, assumes that current metropolitan transit services, local bus, express bus, Hiawatha LRT and Northstar Commuter Rail will continue operating at current service levels. This means revenue is not available to keep up with increasing service demands and in the long-term, service levels will fall. This scenario also assumes that Central Corridor LRT and

Cedar Avenue BRT, two transitway projects that are nearing construction completion, will open and be operated at service levels proposed during the project development. Metro Mobility, the regional dial-a-ride service for persons with disabilities, will continue to grow with demand as required under the federal Americans with Disabilities Act.

System includes:

- Existing local and express bus service levels
- Mandatory Metro Mobility (ADA) service increases
- Hiawatha LRT
- Northstar Commuter Rail
- Central LRT starting in 2014
- Cedar Ave BRT Stage 1 starting in 2013

Expected outcomes if gap is not addressed:

- Increased fares
- Reduced service
- Reduced ridership
- Does not address growing demand

Gaps:

- $10 million gap in 2015
- $14 million gap in 2016
- After 2016, gap continues to grow annually because of structural funding issues

- **Total 20-Year Investment Need for Status Quo = $760 M**

  **non-inflated figure*

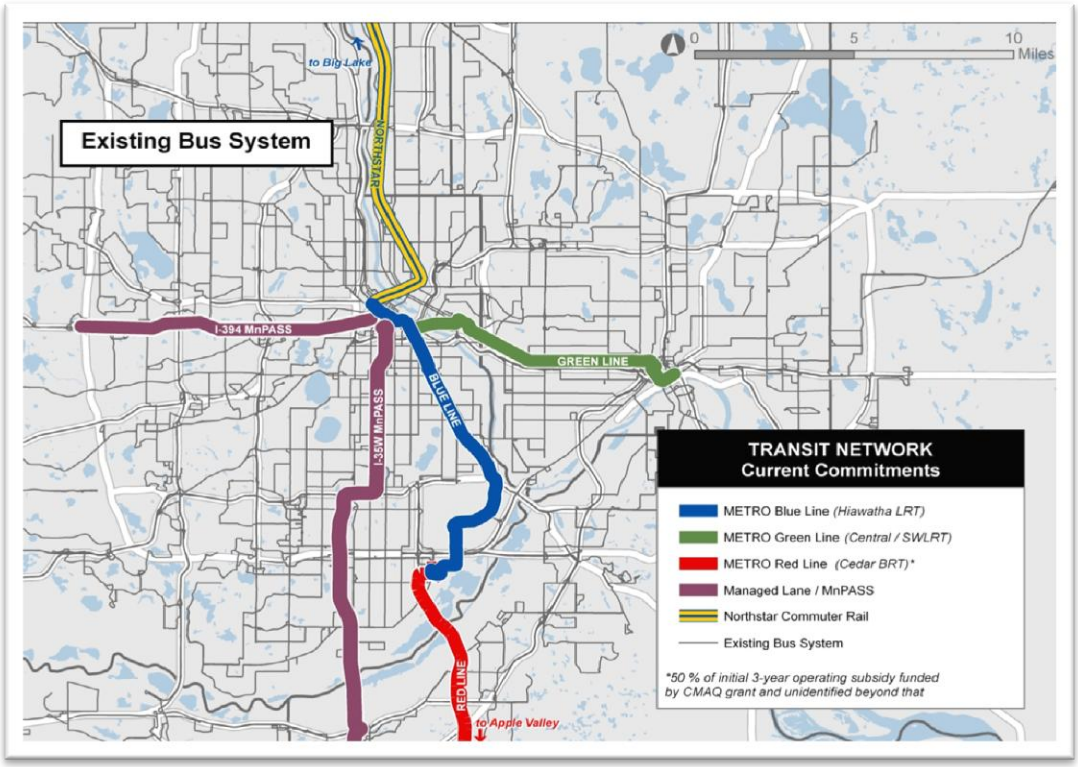


Figure 14. Status Quo Metro Area Transit, Scenario 1

Current Performance Levels (Scenario 2)

This scenario focuses on implementing new transit services that will begin to address increasing transit demand and help to keep regional mobility and congestion levels essentially where they are today. Transit service expansion beyond the services included in the Status Quo scenario would include implementation of two additional transitways, Southwest Corridor LRT and I-35W BRT. Both of these corridors are well underway in terms of design and implementation. In the case of I-35W, two major components of the BRT, the MnPASS lane and a transit station at I-35W and 46th street are already open. Both local and express bus service would be expanded at the rate of 0.5 percent service increase per year. Three Arterial BRT transitways would be implemented on the highest priority arterial corridors.

Arterial BRT provides greatly improved service on existing high ridership transit routes by implementing reduced stops, new stations, signal prioritization, off-board fare collection, level boarding buses and real-time information technology improvements.

System includes:

- Status Quo Scenario 1 services
- Local and express bus service expansion (0.5 percent growth / year)
- Southwest Corridor LRT
- I-35W South BRT
- Cedar Ave BRT Stage 2
- Three Arterial BRT corridors

Expected outcomes:

- Positive results for residents -
  - Begins to address growing transit demand and makes progress toward doubling ridership by 2030
  - New connections between home, school, work and entertainment
  - Regional mobility does not worsen
- Positive results for businesses -
  - Transit spurs economic development
  - Solid infrastructure attracts jobs and development

- **Total 20–Year Investment Need = $1.8 B (~$100 million per year)***

**non-inflated figure*

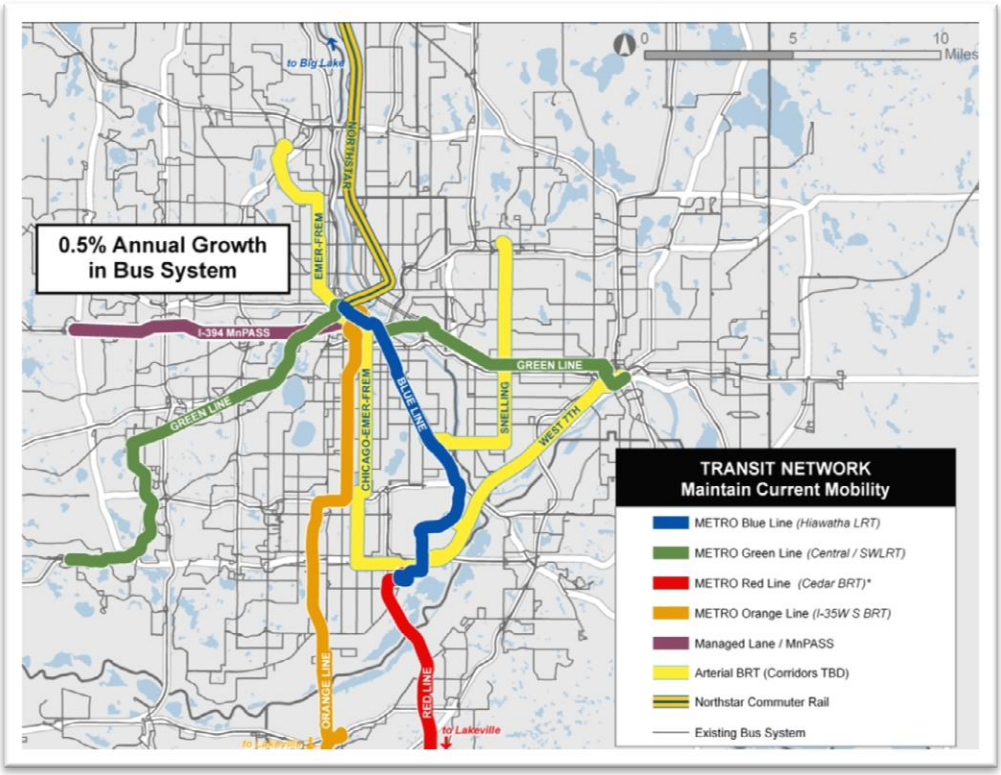


Figure 15. Maintaining Current Performance
Metro Area Transit, Scenario 2

Economic Competitiveness (Scenario 3): The Economic Competitiveness scenario provides a significant level of improved mobility and reduced congestion for residents and businesses, offers connections to major destinations throughout the region, attracts riders and businesses to live and develop near the transit system and offers widespread regional benefits by improving the economic competitiveness and attractiveness of the metropolitan area compared to other peer regions. The Economic Competitiveness Scenario continues the development of the transitway system at a faster rate including additional LRT or BRT lines such as the Bottineau or Gateway corridors, adds additional Arterial BRT lines to create an interconnected system and continues development of the MnPASS managed lane system coupled with BRT implementation in these corridors.

System includes (conceptual example):

- All Scenario 1 and 2 transit services
- Bus service expansion (1.0 percent total growth per year over status quo)
- Two additional LRT lines (after SWLRT)
- Six additional Arterial BRT corridors (9 total)
- Three additional Highway BRT/Managed Lane corridors

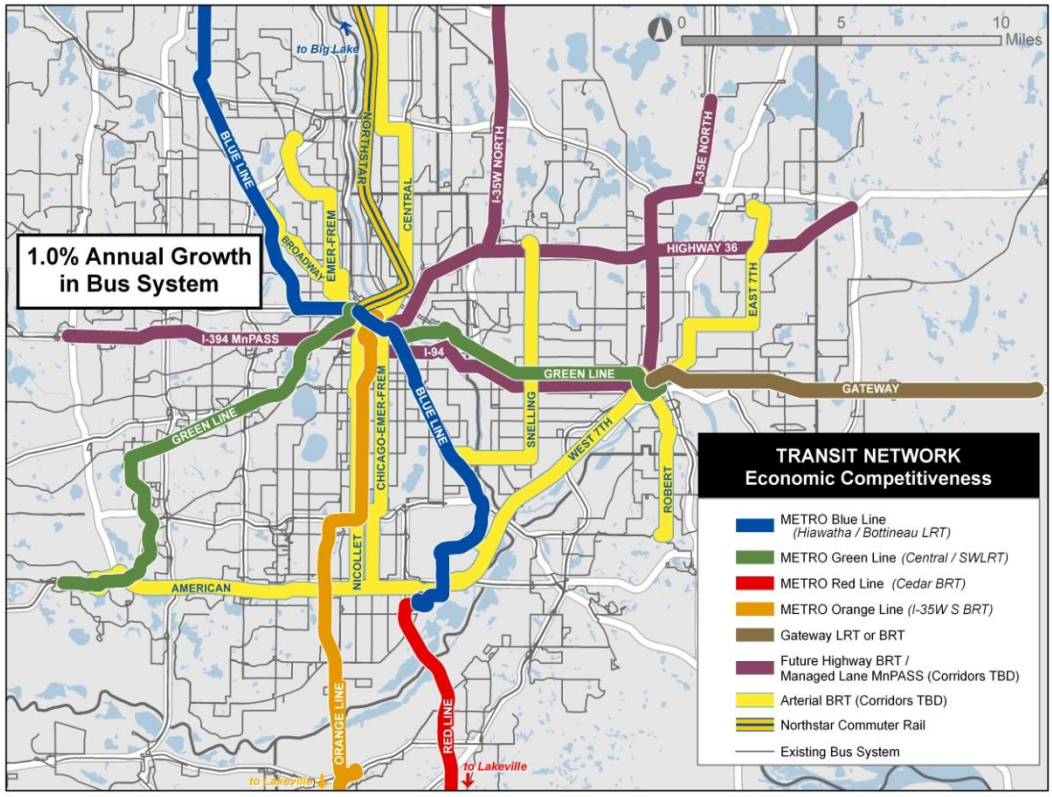
Scenario 3 is based on the transit vision in the Council's 2030 Transportation Policy Plan and the CTIB Program of Projects.

Expected outcomes:

- Positive results for residents
    - Addresses more growth in demand and doubling of transit ridership by 2030
    - Significantly better connections between home, school, work and entertainment
    - Faster, cheaper transportation options that are safe and environmentally-friendly

- Positive results for business and employees
    - Additional 500,000 employees will have access to jobs via transit
    - Freight and logistics savings
    - Investments compete well with similar investments in peer regions
- Positive result for all taxpayers: **A return on investment (ROI) between $6 and $10 billion to 2030**

- **Total 20-Year Investment Need = $4.2 billion (~$200 million per year)***
  **non-inflated figure*



Source: Metropolitan Council

Figure 16. Economically Competitive Metropolitan Area Transit: Scenario 3

Table 7. Metropolitan Area Transit 20 Year Funding Needs

(20 Year Needs in $ Billions, AFG = Annual Funding Gap)

	Scenario 1	Scenario 2	Scenarios 3 & 4
Metropolitan Area Transit	$8.5 (expected receipts)	$1.8 $90 mil AFG	$4.2 $210 mil AFG

Freight - Rail and Ports

As noted in the situation analysis, Minnesota's three rail and port programs respond to a targeted, specific set of needs. Seventeen shortline railroads in the state account for about a fifth of Minnesota's track mileage, but provide an irreplaceable connection to a large number of rail-dependent businesses and a custom, personalized level of service. Their financial resources are often insufficient to cover investment beyond basic maintenance, limiting business development options.

The Minnesota Rail Service Improvement program(MRSI) answers this need, and usually has more demand than can be serviced by the loan program size. Highway/rail grade crossing safety is extremely effective in terms of accident prevention and mortality, but the average active signal installation is aging in place and is now over 30 years old, often technologically obsolete and prone to increasing failure rates. The Port Assistance program has responded successfully to needs in the past, but has no predictable, programmable source of ongoing funds to support identified cyclical costs that are ongoing.

Freight rail and ports needs include three categories:

(1) Improvements to the freight rail system in the state, particularly small railroads; (2) improvements at highway / rail grade crossings; and (3) improvements to the state's public ports. As outlined below, there is an estimated $600 + million funding gap over the next 20 years to achieve a higher desired outcome.

Table 8. Freight – Rail and Ports 20 Year Funding Needs

(20 Year Needs in $ Billions, AFG = Annual Funding Gap)

	Scenario 1	Scenario 2	Scenario 3
Freight - Rail and Ports*	$0.2 (expected receipts)	$0.3 $15 mil AFG	$0.6 $32 mil AFG

* **Investment/Project Descriptions:**

(1) Shortline upgrades including track upgrades to handle 286,000 lbs. rail cars, rail spurs, shipper access and loading facilities, economic development / intermodal projects, including rail-served business parks, intermodal container facilities, trans-load facilities and rail bank; assistance provided through the MRSI program
(2) Install gates and signals at hazardous locations, replace existing gates and signals and implement low cost high value upgrades
(3) Reconstructing dock walls, allow new port-area dredging and channel expansion, warehouse rehabilitation, improving road and rail access, and loading equipment

Passenger Rail

The last State supported passenger rail service was between Minneapolis and Duluth and was discontinued in 1985. Starting in 1996, Minnesota joined other Midwest States and contributed funding for corridor studies as part of the Midwest Regional Rail Initiative with the goal of creating a world class regional high speed rail network radiating out of Chicago. Some states have made capital investments to incrementally increase train frequencies and speeds as part of this network. Interest in passenger rail service in Minnesota focused on re-establishing Duluth service and creating a direct passenger rail

connection to Rochester. The State Rail plan builds upon these three efforts and sets the vision for an economically competitive system.

In 2009, the American Recovery and Reinvestment Act appropriated $8 billion in Federal funding for high speed rail projects. Another $2.5 billion was appropriated in 2010. The Minnesota Legislature authorized $26 million in 2009 bonding for matching funds for Federal intercity passenger rail grants. MnDOT has leveraged over $46 million in Federal funds to begin implementation of projects identified in the State Rail Plan. Without additional state and federal project development funding, no additional service will materialize.

The total capital costs to fully implement the State Rail plan passenger rail service recommendations is estimated to between $5billion and $7 billion. In 2011, MnDOT prepared a Governance and Funding Study identifying methods to create a sustainable funding program to implement passenger rail service identified in the State Rail Plan. The study recommended various strategies to continue currently available funding mechanisms including the use of local tax increment financing for station development; local/ regional railroad authority funding; public /private partnerships for project development; and state capital budget for matching federal and local planning and capital funds. State investments over the next 10 to 20 years, consistent with the recommendations in the State Rail Plan, will ensure the passenger rail system envisioned in the State Rail plan will be achievable.

The study also identified a new funding opportunity to reallocate state general property taxes on railroad property to a dedicated sustainable State Railroad Fund. State property taxes currently collected on railroad property (approximately $9 million annually) go into the general fund. By creating a State Railroad Fund initial passenger rail system implementation activities will be able to continue however, additional state and federal funding would need to be identified to fully meet the 20-year vision.

Table 9. Passenger Rail 20 Year Funding Needs

(20 Year Needs in $billions, AFG = Annual Funding Gap)

	Scenario 1	Scenario 2	Scenario 3
Passenger Rail	$0.1 (expected receipts)	–	$5.0 - 7.0 $250 mil -$350 mil AFG

State Airports and the Metropolitan Airports Commission

Despite best efforts of managing state aviation funds, it is anticipated that needs will exceed available revenues necessary under scenarios to maintain current performance and to achieve an economically competitive system. The draft aviation system plan indicates a $1.3 billion deficit between future needs and funds over the next 20 years. To manage this shortfall, both state and federal funds will continue to be prioritized. The MnDOT Office of Aeronautics and the state's aviation stakeholders have together prioritized needs and will fund safety projects first, followed by preservation, and expansion.

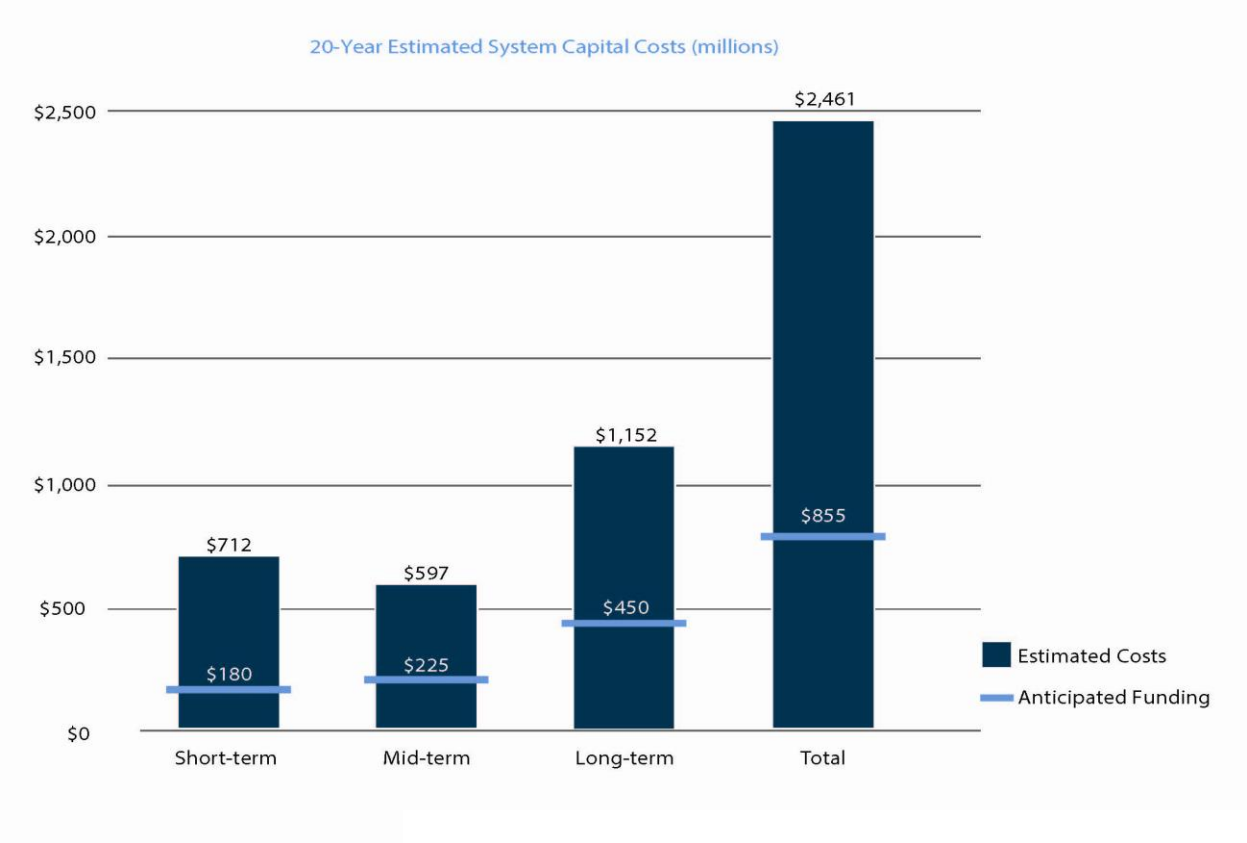


Figure 17. Minnesota Aviation System Cost and Funding Needs Analysis

As a result of the Minnesota Legislature's decision to expand the Minneapolis-St. Paul International Airport (MSP) at its present site rather than build a new airport, in 1996 the Metropolitan Airports Commission (MAC) began implementing *a* $3.2 billion improvement program that included significant landside and airside enhancements. These updates are anticipated to be sufficient to meet operations and passenger requirements through year 2030 forecasts. Some modifications to the terminals, and to airfield and taxiway improvements to facilitate future airfield circulation at MSP may be required, as are improvements to the six reliever airports to meet the Economically Competitive scenario.

Table 10. Airports 20 Year Funding Needs

(20 Year Needs in $ Billions, AFG = Annual Funding Gap)

	Scenario 1	Scenario 2	Scenario 3
State Airports	$1.4 (expected receipts)	$0.6 $30 mil AFG	$0.8 $40 mil AFG
Metropolitan Airports Commission(MSP and Reliever airports)	$2.5	$0.0	$0.6 $30 mil AFG

Summary of Estimated 20 Year Unmet Needs

Under the current funding scenario (status quo) estimated funding receipts for all modes and systems are expected to be in the range of $39.3 billion over the next 20 years. The system/modal needs and the projected funding gap to maintain current performance is estimated to be around $21.2 billion above the status quo (baseline) amount. To achieve a World Class / Economically Competitive System over the next 20 years will require an estimated $50.6 billion to $54.6 billion in additional revenue above the baseline projections.

Table 11. Summary of Twenty Year Funding Needs

(20 Year Needs in $ Billions, AFG = Annual Funding Gap)

	Scenario 1	Scenario 2	Scenario 3
System/Mode **(Includes funding for bikes and pedestrian needs associated with highway projects)**	**Anticipated transportation revenue for the next 20 years: Baseline**	**Increment added to baseline to maintain current performance for the next 20 years**	**Increment added to baseline to become economically competitive/world class system for the next 20 years**
State Highway System*	$18.0	$5.0 $250 mil Annual Funding Gap: AFG	$10.0 - 12.0 $500 mil.- $600 mil AFG
County State Aid System *County System*	$5.0 TBD	$3.0 $150 mil AFG $4.0 $200 mil AFG	$9.0 $450 mil AFG $9.0 $450 mil AFG
Township Roads		$0.3	$0.5
Municipal State Aid System *Municipal System*	$1.6 TBD	$1.0 $50 mil AFG $5.0 $250 mil AFG	$2.0 $100 mil AFG $8.0 $400 mil AFG
Greater Minnesota Transit	$1.9	$0.2 $10 mil AFG	$0.9 $45 mil AFG
Metropolitan Area Transit	$8.5	$1.8 $90 mil AFG	$4.2 $210 mil AFG
Freight - Rail and Ports	$0.3	$0.3 $15 mil AFG	$0.6 $30 mil AFG
Passenger Rail	$0.1	–	$5.0 - 7.0 $250-$350 mil AFG
State Airports	$1.4	$0.6 $30 mil AFG	$0.8 $40 mil AFG
Metropolitan Airports Commission(MSP and Reliever airports)	$2.5	$0.0	$0.6 $40 mil AFG
Totals	**$39.3**	**$21.2**	**$50.6 - $54.6**

IV. IDENTIFICATION OF CORE FUNDING AND FINANCING PRINCIPLES

Overview

The committee developed a set of beliefs on which to premise their recommendations. It was important to members that these principles provide a foundation for not only how the funds are generated, but also how these new revenues are allocated and spent. When the recommendations were completed, the committee did not recommend funding for 100 percent of the need identified; instead, it challenged all transportation providers and the state to address a portion of those needs by working more efficiently and effectively, being innovative in solutions and operations, and using technology to produce a higher quality product.

Additionally, the committee counseled MnDOT and the various transportation agencies to communicate to the public the results of their work and be accountable for meeting the 20-year needs.

The following principles, listed in no particular order, should guide the generation and allocation of transportation funds in Minnesota. The principles are intended to be used collectively.

Principles for the generation of transportation funds

- Funding solutions must be fair and equitable – with consideration for regional, business and individual impacts.
- Funding solutions and recommendations must be long-term and sustainable.
- Transportation revenues must increase as the economy grows, whether through indexing or another type of system.
- User fees, such as the motor fuel tax, must be a part of the solution so people know what product or service they are purchasing.
- Funding solutions must embrace efficiency in the cost of collections.
- Revenue streams must recognize different needs of various geographies as well as various types of modes.
- Transportation funding sources should be specific in nature and target specific outcomes.
- Funding solutions must be marketable.
- Funding and financing options are responsive to changes in technology, demographics and the economy.

Principles for allocation and expenditure of transportation funds

- Enhanced safety – The major goal of transportation investments is to maintain and enhance the safety of the public in all transportation systems.
- Economic efficiency and high return on investment – Transportation investments are guided by efficiency and transparency through the development of cost-effective and performance-based solutions.
- Fair and equitable – Multiple formulas for transportation investment may be used to balance the ability to meet the needs of Minnesotans.
- Economic development, prosperity, competitiveness and job growth – Transportation investments are critical to preserve and improve mobility and accessibility opportunities for Minnesota residents and business. This in turn helps create a stronger economy and job growth by allowing Minnesota to remain competitive, allow for business development options, and preserve our quality of life.
- Strategic investment, choice and options – Transportation systems are built to a maintainable scale with a variety of options/solutions for moving people and goods from one point to another in an efficient and effective manner. Broad-based revenue streams address different geographic needs around the state.
- Balance market and public roles – Transportation investment balances the public and private roles in developing our transportation system using the market, where appropriate, and using government, where appropriate.
- Cost sharing – There is recognition that all Minnesotans benefit from transportation investments and, therefore, share in some portion of addressing costs and minimizing burdens of a transportation system.
- Flexible and responsive – As transportation needs change based on technology, demographics and/or economic conditions, the investment in transportation needs to be flexible enough to address and meet these issues.
- Building and maintaining transportation systems – Funding options address both building new transportation systems and preserving existing transportation systems.

V. CONCLUSIONS

Upon consideration of the performance data and condition reports for all of Minnesota's transportation systems and modes, and through an analysis of anticipated funding expected in the coming decades, the committee was asked to define the problem as they saw it. Through a series of conversations, the members developed the following conclusions:

- The transportation system in Minnesota creates a critically important positive economic impact that provides a high quality of life for the citizens of our state. Funding for this system faces declining revenues while the needs and costs keep increasing creating a funding gap. If Minnesota wants to maintain its competitive advantage, significant additional revenue will be needed over the next twenty years to address this gap and provide a competitive, world-class transportation system here in Minnesota.

- To fully address this challenge, we will have to work smarter by doing more with the money we have. MnDOT, the Metropolitan Council, and other governmental entities addressing transportation needs must continue and enhance the delivery of high return on investment strategies for project development and operations.

- The transportation funding gap predicted over the next twenty years must be addressed with a comprehensive funding and investment framework that is sustainable and equitable. Additionally, Minnesota needs a formula that blends a return-on-investment approach with a fair, predictable, and sustainable method for supporting a variety of transportation options throughout the state.

- A partnership must be created between the private and public sectors to deliver high quality competitive transportation system. Additionally this partnership may be needed to generate or help generate additional revenue that provides the infrastructure for economic success.

- Economically Competitive / World Class means a sustainable, globally competitive, technologically innovative system that provides the foundation for a sound economic environment and a high quality of life.

- In context of economic development and tax reform, and overall competitiveness of the state, investment in transportation should be a top priority for the state of Minnesota.

VI. RECOMMENDATIONS

In order to remain competitive in the national and growing world economy and to continue to provide a high quality of life for Minnesotans in the coming decades, the Transportation Finance Advisory Committee recommends that the state of Minnesota pursue a goal to foster and develop an *Economically Competitive / World Class Transportation System*.

The TFAC recognizes that this is an ambitious goal that can only be achieved with a bold vision and commitment and with significant new financial resources which may be attained through a limited number of options.

In order to achieve this goal, the following funding and financing recommendations are offered for consideration by the governor in his 2014-2015 biennial budget:

1. System-wide Revenue Options for Roads

Increase the motor vehicle registration fees to raise revenue by 10 percent through an adjustment in the multiplier, which will generate $1.1 billion in new revenue during the next 20 years for the Highway Users Tax Distribution Fund.

The registration fee for passenger class vehicles is determined by multiplying the vehicle base value by the tax rate of 1.25 percent plus $10. The base value depreciates by 10 percent every year for 10 years. The minimum tax for vehicles 11 years old and older is $35. (MS 168.013, Subd 1a)

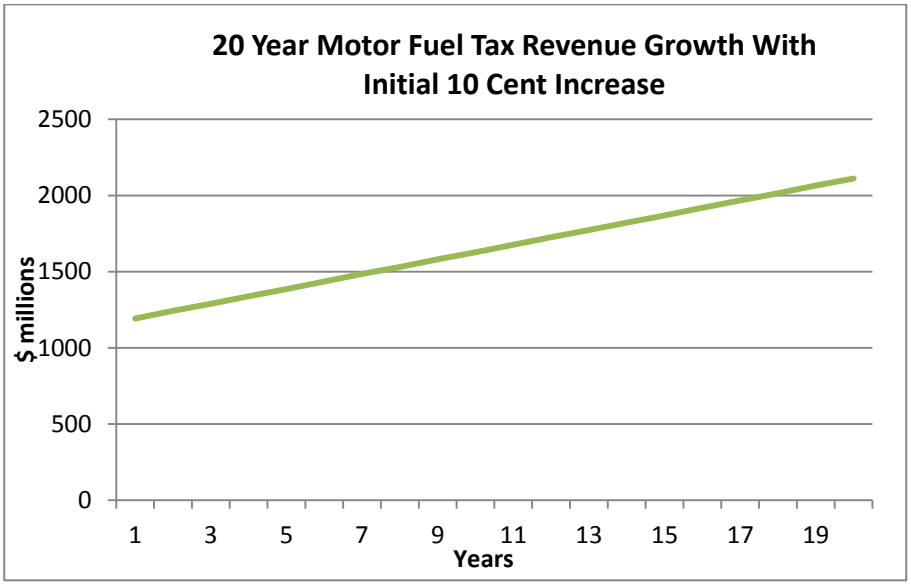
An overall increase of 10 percent in registration fee revenue could be achieved by adjusting either or both of the multipliers used to calculate annual vehicle registration fees. The depreciation rate used to determine the base value could be changed to an annual rate less than 10 percent or the 1.25 percent tax rate could be increased. This would leave the minimum tax unchanged at $35.

Rationale

- Cars are lasting longer while money collected decreases as the cars depreciate.
- Consider this as an ad valorem tax (or standard amount based on value) to keep pace/maintain value of funds collected.

Increase per-gallon excise tax rate on motor-fuels to generate $15.2 billion in new revenue during the next 20 years for the Highway Users Tax Distribution Fund. This option can be achieved in many ways. The committee discussed the following two options:

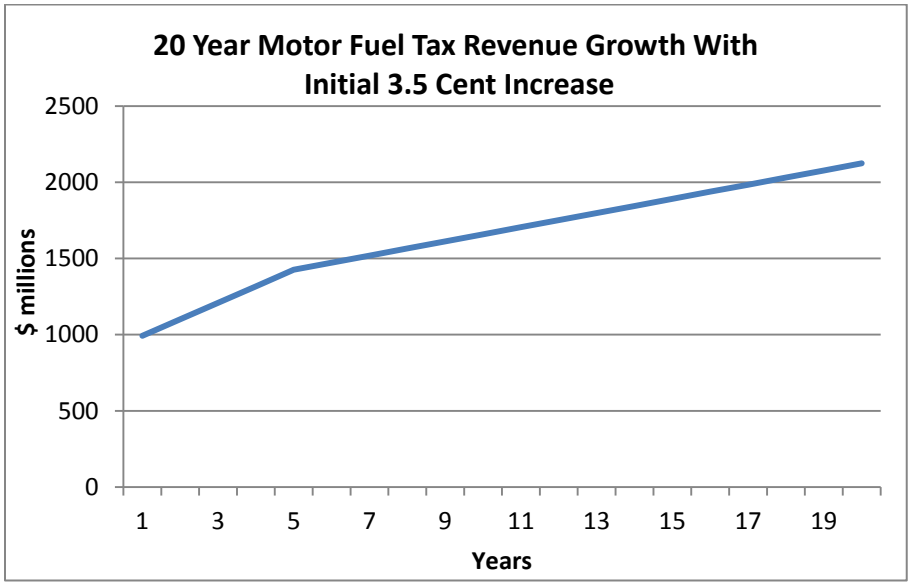
- Option 1: Increase rate by $0.10 per gallon in the first year, with a subsequent phasing in of the excise tax rate at $.0156 per year for 19 years. This approach generates approximately $308 million of new revenue in the first year and total projected first-year revenue of $1.175 billion (adding to the SFY 2012 revenue baseline of $867 million).



(Assumes current vehicle mix and current levels of consumption.)

Figure 18. 20 Year Motor Fuel Tax Revenue Growth with Initial 10 Cent Increase

- Option 2: Increase rate by $0.035 per gallon per year for the first five years and phase in the excise tax rate at $0.015 per year for the remaining 15 years. This approach generates approximately $108 million of new revenue in the first year and total projected first-year revenue of $975 million.



(Assumes current vehicle mix and current levels of consumption.)

Figure 19. 20 Year Motor Fuel Tax Revenue Growth with Initial 3.5 Cent Increase

Rationale

- Accentuates constitutional dedication of funds, sustainable, administratively simple and understandable
- Raises revenue for locals without another tax (62 percent to state, 29 percent to counties, and 9 percent to cities; note that 5 percent off the top goes to townships, state patrol, etc.)
- Phasing in of motor fuel tax increase addresses projected need and inflation
- Volatility and uncertainty in the federal program
- Less regressive than other fees
- Flexible phasing and indexing options are possible
- Amount collected through annual phasing in can keep pace, somewhat, with inflation
- Option 1 generates money early and provides consistency through the 20-year period
- Option 2 may be "easier to sell" but does not generate sufficient revenue until more than three years into the 20-year period

Outcomes Achieved by System-wide Revenue Options for Roads

- 83 percent of revenue target is met for the State Trunk Highway System - These measures together will generate $500 million per year on average.
- 52 percent of revenue target met for County State Aid System – These measures together will generate $235 million per year on average. 73 percent of revenue target met for Municipal State Aid System – These measures together will to generate $75 million per year on average.

- 80 percent of revenue target is met for the Township System – These measures together will generate $20 million per year on average.
- Expectation of efficiency gains over 20 years.
- Increases to State-Aid revenue reduces pressure on the property tax to fund State-Aid Needs.
- Maintaining and enhancing infrastructure creates the opportunity for economic development, enhanced productivity, job formation and sustainable growth. (In 2012, the Federal Highway Administration estimated that 13 transportation and construction related jobs are created for each million dollars of investment.)
- Helps achieve greater productivity and economic development and opportunities for job creation.

2. Transit Dedicated Sales Tax Options

Add $0.005 to the existing $0.0025 cent sales tax for transit in the Twin Cities metropolitan area (five counties), which is estimated to generate $200 million annually.

Capture the remaining leased vehicle sales tax from the state general fund (estimated at $32 million annually) for transportation.

Increase by $32 million annually the allocation to Greater Minnesota Transit to address statutory required service (71 percent of revenue gap for Greater Minnesota Transit over 20 years is $640 million).

Rationale

The increased metropolitan area sales tax for transit:

- Recognizes the special transit needs in the Twin Cities metropolitan area
- Establishes a stronger relationship between who pays (including visitors and tourists) and who benefits from the proposed improvements
- Has significant revenue potential; is stable, predictable and inflation-proof; and is efficient to collect and administer because the tax collection and enforcement structure is already in place

Dedicating the remaining leased vehicle sales tax to Greater Minnesota Transit:

- Provides a dedicated, stable, increased source of funding
- Uses a source of funding that is already partially dedicated to transportation purposes, including Greater Minnesota Transit

Outcomes Achieved With Transit-Dedicated Sales Tax Options

The Twin Cities metropolitan area sales tax increase would:

- Provide sufficient funding to significantly expand the Twin Cities metropolitan transit system
- Improve the economic competitiveness of the Twin Cities, driving economic development and job growth
- Increase the region's competitiveness in seeking federal funds by solidifying the non-federal share of projects costs
- Allow the region to accelerate transit capital investments through bonding against the sales tax revenues independent of state or county bonding limitations
- Generates a high rate of return on investment, between $6 billion and $10 billion, and has a benefit to cost ratio of 1.5 to 2.3 (Source: Itasca Project: Regional Transit System, Return on Investment Assessment, November 30th, 2012.)
- Reduces the state general fund share of transitway capital and operating costs
- Encourage private investment by reducing uncertainty about future transit improvements
- 95 percent of the revenue gap is met under the Economic Competitiveness scenario for Twin Cities metropolitan area transit
- Maintaining and enhancing infrastructure creates the opportunity for economic development, enhanced productivity, job formation and sustainable growth. (In 2009, the American Public Transportation Association estimated that 30 transit and transit/construction-related jobs are created for each million dollars of investment.)

The increased revenue for Greater Minnesota Transit would:

- Covers 71 percent of the gap between service afforded by currently projected revenues and legislative goals for Greater Minnesota transit service
- Help achieve greater productivity and economic development and opportunities for job creation

3. Local Government Revenue Options

Expand the option of the wheelage tax for 80 counties in Greater Minnesota, including raising the cap limit for 87 counties.

Rationale

- Local needs addressed
- Gives locals opportunity to improve roads without adding to the property tax. Ability to locally manage funds for statewide impact (e.g., less congestion and road damage)

Enable the local option for the formation of Transportation Improvement Districts.

Rationale

- Provides an opportunity to raise local /regional revenues that can be used on high-priority local / regional needs
- Gives locals opportunity to maintain and improve roads without adding to the property tax

Enable local option sales taxes for transportation in 80 counties without the need of a referendum.

Rationale

- Provides increased capacity to locals and uses the County Transit Investment Board model, which has been highly effective in advancing Twin Cities metro area transit projects
- Addresses local road needs

Outcomes Achieved With Local Government Revenue Options

- Enhanced options and opportunities for project development and improvements
- Increased flexibility for counties to address local projects
- Additional jobs created

Expand regional transit capital levy (also known as transit taxing district) in entire seven-county Twin Cities metropolitan area and use funds for capital and operating needs. Governance issues need to be considered.

Rationale

- Provides that all residents in the seven-county region contribute to regional transit capital funding

Outcomes Achieved

- Greater equity in funding transit by those who can use transit
- Increases revenue amount and flexibility of current funding source

4. Project Level Revenue Options

Expand MnPASS System (which includes the concept of dynamic pricing) and dedicate revenue to multi-modal enhancements on managed lanes.

Rationale

- Provides added reliability for users of the system
- A MnPASS network will improve the efficiency of the Twin Cities' transportation system by providing a reliable congestion-free option for bus transit, carpools and solo commuters
- Provides additional funds and flexibility for MnPASS development
- Option of dedicated lane accelerates travel time between destinations, allows opportunity to "create time" because of efficient travel

Employ Value Capture concepts around transportation improvements.

Rationale

- Captures a percentage of the increased property or economic value that accrues from a transportation improvement to help cover the cost of the improvement through the use of development fees or other tools

Explore the following areas in more depth:

- Tolling options targeted for new capacity
- Public-private partnerships opportunities for enhancement and financial leveraging of transportation projects
- Monetizing assets to generate revenue

Rationale

- Current state law only allows tolling of new capacity
- Tolling with partnerships may advance projects sooner

Outcomes Achieved With Project Level Revenue Options

- Accelerated MnPASS expansion and associated transit benefits
- Enhanced options and opportunities for project development and improvements
- Additional jobs created

Continue state role in bonding for local roads and bridges, transit, ports, passenger rail, freight rail, safe routes to school (General Obligation Bonding).

Rationale

- Continues historic state role in support of local transportation facilities development

Outcomes Achieved

- Allows flexibility to meet needs not otherwise provided for
- Provides a buffer to local needs not otherwise provided for

Summary

If the decline in Minnesota's transportation system is allowed to continue through inaction with regard to funding, irreparable damage may occur to the state's economy. The consequences of inaction are clear and predictable. The Transportation Finance Advisory Committee (TFAC) therefore recommends that the state of Minnesota pursue the *Economically Competitive / World Class Transportation System* option in order to repair and modernize our transportation infrastructure.

In addition to helping Minnesota compete economically for jobs and talent, an Economically Competitive/ World Class system will enhance our high quality of life by connecting people to everything that matters -- jobs, education, healthcare, entertainment, shopping and recreation and more.

The TFAC recommends that the state pursue a high-performing, efficient and reliable transportation system that is maintained at optimal levels, funded and financed through sustainable means to support a vibrant economic climate.

It will keep Minnesota moving ahead in a smart direction.

VII. APPENDICES

Appendix A: Transportation Finance Advisory Committee - Stakeholder Outreach and Education Process

The TFAC received public and stakeholder input into the process in a variety of ways throughout the 10-month study period. These included:

- An on-line participant process was available throughout the study period
- More than 200 parties signed-up for e-mail updates
- All notes and presentation materials and reports were posted on the TFAC website for each meeting
- An average of 250 parties viewed the TFAC website each month
- Public comment periods were provides regular TFAC meetings on September 24th, October 15th and October 31st, and November 8th and 19th.
- Open house listening sessions and comment periods were scheduled during the Minnesota State Highway Investment Plan meetings at nine locations statewide
- On-line community surveys and discussion

Those participating in the process by offering public and stakeholder input were asked to provide a record of comments for posting on the TFAC website. When those recorded comments were made available, they were posted and can be found at: http://www.dot.state.mn.us/tfac/

Information provided in testimony by the stakeholders is also part of the approved minutes for each TFAC meeting.

STAKEHOLDER COMMENTS: September 24, 2012

Margaret Donahoe, Transportation Alliance:
John Hausladen, Minnesota Trucking Association
Dave Van Hattum, Transit for Livable Communities
Will Branning, Suburban Transit Association
Ethan Fawley, Fresh-Energy
Tony Kellen, Minnesota Public Transit Association

STAKEHOLDER COMMENTS: October 31, 2012

Dorian Grilley, executive director of the Bicycle Alliance commented
William Schroeer, Director of Regional Infrastructure for St. Paul and Minneapolis COC
John Siekmeier, private citizen
Bruce Tanquist representing Minnesota Government Engineers Council
Mark Krebsbach, Transportation Director for Dakota County
Harry Melander, Building and Construction Trades Council

STAKEHOLDER COMMENTS: November 8th, 2012

Bruce Tanquist, representing the Minnesota Government Engineers Council
Keith Carlson, Executive Director of Minnesota Inter-County Association,
John Siekmeier, private citizen
Kent Sulem, Minnesota Association of Townships
Sherry Munyon, Minnesota Public Transit Association

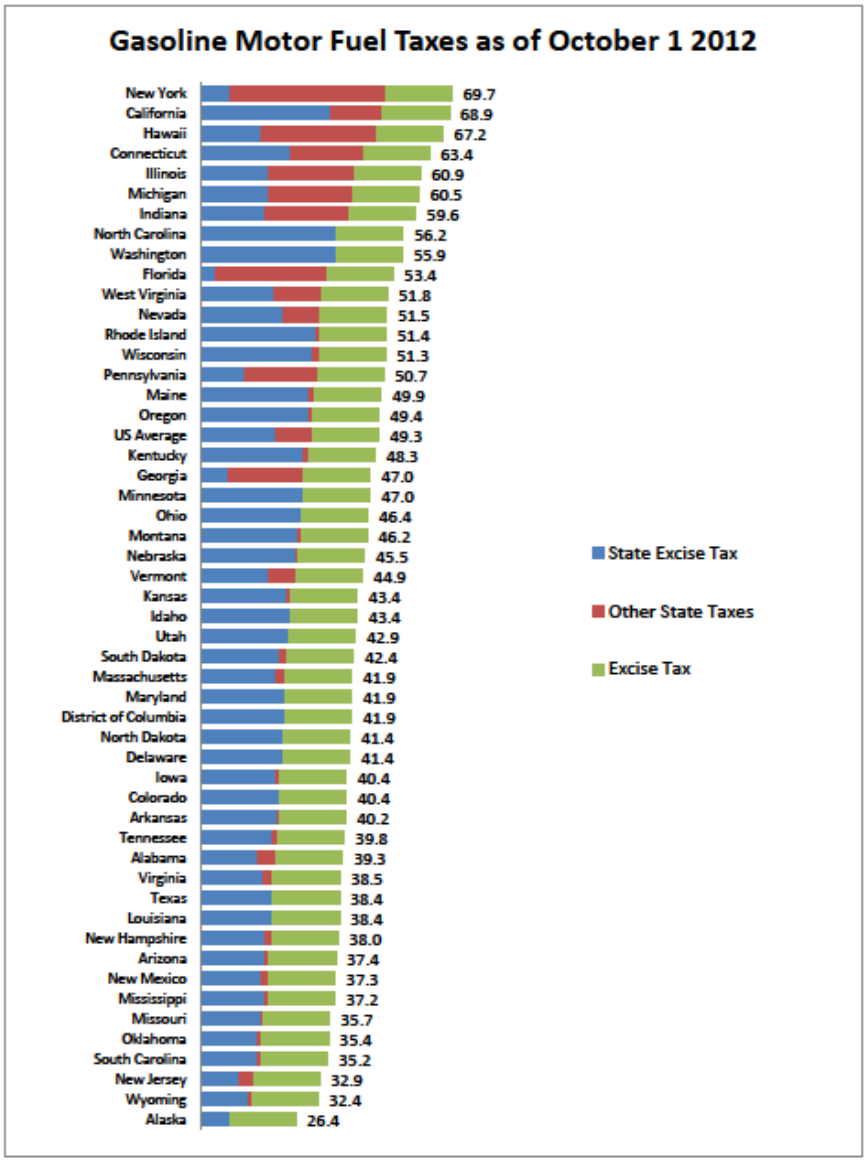
MINNESOTA STATE HIGHWAY INVESTMENT PLAN MEETINGS, Various Dates in October, 2012

As a component of the TFAC Stakeholder Input Process open house meetings were held in conjunction with the Minnesota State Highway Investment Plan at nine locations around the state to engage participants in a dialogue about transportation investments. The following questions were posed to participants:

- What is important about transportation to the citizens of Minnesota?
- What are Minnesota's most significant transportation needs?
- What recommendations do you have that should be considered for funding and financing transportation for the next 20 years?
- What else do you feel we should know about meeting transportation needs now and in the future?

A record of comments received is located on the TFAC website.

Appendix B. Comparison of Gasoline Tax Rates across the United States (Federal Excise Tax is represented by the green portion of the bar)



States with motor fuel tax <u>indexing</u> include: Florida, Iowa, Kentucky, Nebraska, North Carolina, Pennsylvania, and West Virginia

States with <u>sales tax</u> on motor fuels include: California, Georgia, Hawaii, Illinois, Indiana, and Michigan and New York

Appendix C: Minority Opinion

Transportation Finance Advisory Committee Recommendation: Minority Opinion
Polaris Industries, November 29, 2012

Polaris Industries agrees with the need to fund, maintain and develop low-cost, high-quality transportation infrastructure in Minnesota. It is a fundamental obligation of state government and should be one of the top three priorities for Minnesota to promote sustainable economic growth.

However, Polaris also remains concerned about the significant economic pressures facing all Minnesotans, including rural communities, tourism-based small businesses, our customers, employees, independent dealers, and manufacturing-related suppliers who deserve both safe and economical transportation without additional tax burdens.

Because we care about all Minnesotans, particular examination must be on the impact to greater Minnesota. A fuel excise tax increase, which is a key recommendation of the TFAC, is applied equally on a per gallon basis, including in places like Grand Rapids or Brainerd, communities that often pay more per gallon and have fewer transportation alternatives than the Minneapolis-St. Paul metropolitan area. Additionally, because much of the local sales tax revenue they collect is tourism-based, they will feel the impact of a fuel excise tax increase disproportionately than more urban and suburban parts of our state.

The Tax Policy Center at the Brookings Institute indicates Minnesota already ranks near the top of all states in key tax categories. Importantly, our tax rates are consistently higher than our competing, neighboring states. Considering these facts, we believe Minnesota should look to moderate spending, rather than raise taxes.

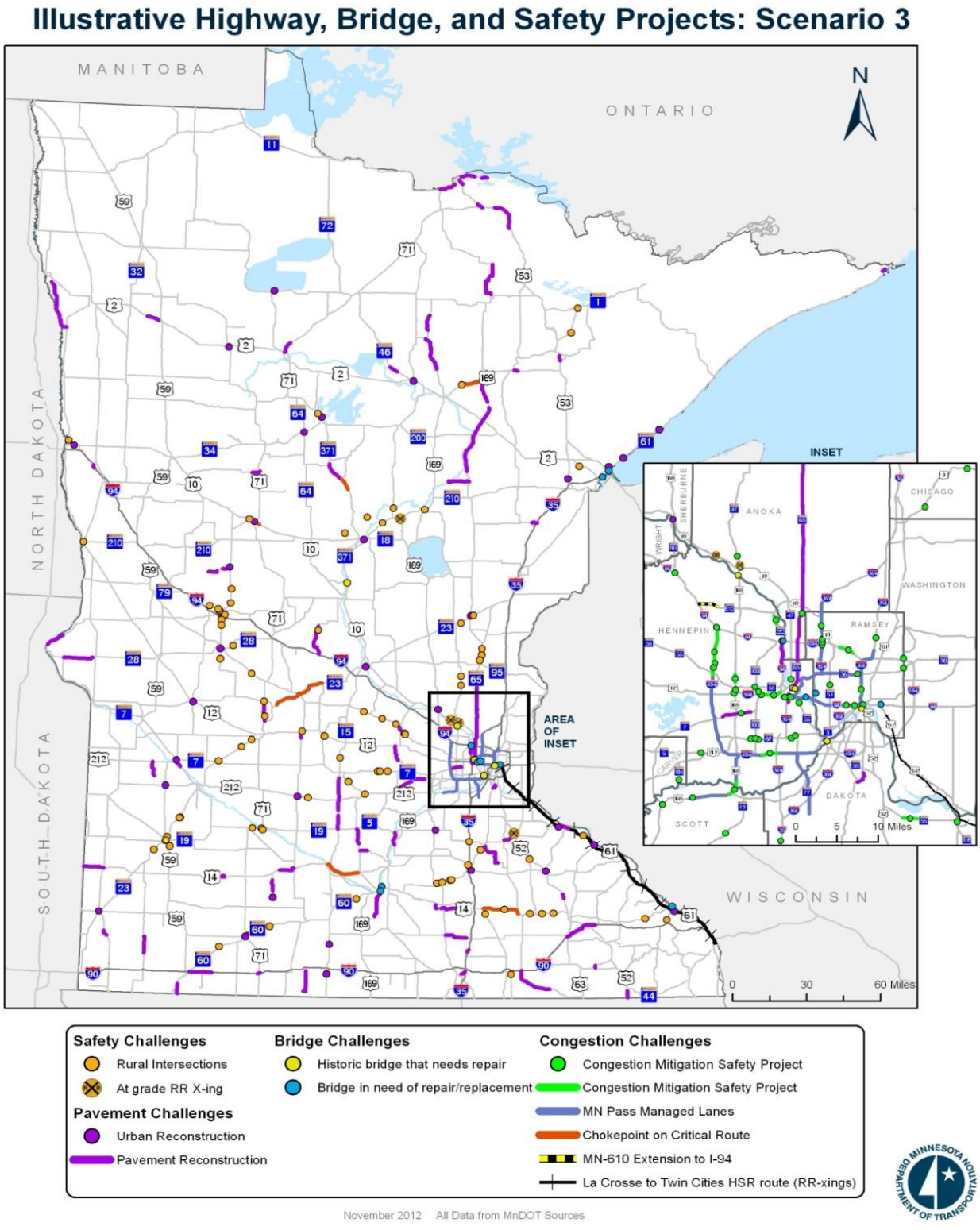
Fuel Excise Tax	Statutory Corporate Income Tax	Individual Tax
Top 10	Top 3	Top 10

While Polaris desires a high-quality transportation infrastructure, we feel the reality of our existing economic climate does not allow a discussion of transportation needs in a vacuum. Polaris does believe that transportation funding needs to be among other top priorities in the current state budget, but at the same time, the overall tax burden for Minnesotans needs to remain neutral or be reduced in order to remain competitive and foster economic growth.

Polaris commends its colleagues on the TFAC for their work, but respectfully dissents in the recommendations called for in its Report Summary and Recommendations unless such recommendations can be implemented while keeping the total tax burden facing Minnesotans essentially neutral.

We instead commit to work with our elected officials to undertake a comprehensive review of Minnesota's priorities during the 2013 legislative session to find ways to support a first class transportation system for Minnesota that meets the challenges of an increasingly competitive regional and national economy in the context of reducing our overall state government spending.

Appendix D: Illustrative Highway and Transit Project List



APPENDIX D-1

Sections of regionally significant roads and highways that are most in need of reconstruction.

All roadway segments are between 1-20 miles in length and carry at least 5,000 average daily traffic (ADT).

County	Urban Area	Route	From/To	Length/ADT	Average Ride Quality Index Rating (RQI)	Importance of facility to regional and state travel	Description of challenge/deficiency	Estimated Cost of Improvement Needed
Multiple	Multiple	18 Routes (i.e. MN 11, MN 65, and other locations)	Non-Principal Arterials in Northeast Minnesota (District 1)	108 miles/1,427 Average ADT	1.5	Supports regional movement of goods and services	Poor pavement on non-principal arterials in Northeast Minnesota (District 1)	$218,000,000-$294,000,000
Multiple	Multiple	6 Routes (i.e. US 53, US 61 and other locations)	Principal Arterials in Northeast Minnesota (District 1)	28.1 miles/3,000 Average ADT	1.2	Supports regional movement of goods and services	Poor pavement on principal arterials in Northeast Minnesota (US 53, US 61 and other locations)	$56,000,000-$76,000,000
Multiple	Multiple	2 Routes (i.e. MN 46, MN 220)	Non-Principal Arterials in Northwest Minnesota (District 2)	25.7 miles/613 Average ADT	1.5	Supports regional movement of goods and services	Poor pavement on non-principal arterials in Northwest Minnesota (MN 46 and MN 220)	$52,000,000-$70,000,000
Multiple	Multiple	2 Routes (i.e. US 2, US 71)	Principal Arterials in Northwest Minnesota (District 2)	10 miles/4,907 Average ADT	2.6	Supports regional movement of goods and services	Poor pavement on principal arterials in Northwest Minnesota (US 2 and US 71)	$20,000,000-$27,000,000
Multiple	Multiple	5 Routes (i.e. MN 25 and other locations)	Non-Principal Arterials in Central Minnesota (District 3)	55.3 miles/1,851 Average ADT	1.4	Supports regional movement of goods and services	Poor pavement on non-principal arterials in Central Minnesota (District 3)	$113,000,000-$153,000,000
Multiple	Multiple	MN 371	Principal Arterials in Central Minnesota (District 3)	7.9 miles/5,200 Average ADT	1.5	Supports regional movement of goods and services	Poor pavement on principal arterials in Central Minnesota (District 3)	$16,000,000-$21,000,000

Multiple	Multiple	4 Routes (i.e. MN 28 and other locations)	Non-Principal Arterials in West Central Minnesota (District 4)	22.3 miles/722 Average ADT	1.7	Supports regional movement of goods and services	Poor pavement on non-principal arterials in West Central Minnesota (District 4)	$45,000,000-$60,000,000
Multiple	Multiple	2 Routes (i.e. I-94, MN 28)	Principal Arterials in West Central Minnesota (District 4)	2.9 miles/10,555 Average ADT	2.4	Supports regional movement of goods and services	Poor pavement on principal arterials in West Central Minnesota (District 4)	$7,000,000-$10,000,000
Multiple	Multiple	8 Routes (i.e. MN 19, MN 30 and other locations)	Non-Principal Arterials in Southeastern Minnesota (District 6)	45.9 miles/1,855 Average ADT	1.4	Supports regional movement of goods and services	Poor pavement on non-principal arterials in Southeastern Minnesota (District 6)	$92,000,000-$124,000,000
Multiple	Multiple	10 Routes (i.e. US 14, I-90 and other locations)	Principal Arterials in Southeastern Minnesota (District 6)	39.9 miles/10,496 Average ADT	1.5	Supports regional movement of goods and services	Poor pavement on principal arterials in Southeastern Minnesota (District 6)	$92,000,000-$124,000,000
Multiple	Multiple	13 Routes(i.e. MN 22, US 75 and other locations)	Non-Principal Arterials in Southern Minnesota (District 7)	55 miles/1,380 Average ADT	1.4	Supports regional movement of goods and services	Poor pavement on non-principal arterials in Southern Minnesota (District 7)	$113,000,000-$153,000,000
Multiple	Multiple	6 Routes(i.e. US 14, I-90 and other locations)	Principal Arterials in Southern Minnesota (District 7)	23.4 miles/6,927 Average ADT	1.6	Supports regional movement of goods and services	Poor pavement on principal arterials in Southern Minnesota (District 7)	$49,000,000-$66,000,000
Multiple	Multiple	3 Routes(i.e. MN 4 and other locations)	Non-Principal Arterials in Southwestern Minnesota (District 8)	11.7 miles/483 Average ADT	1.8	Supports regional movement of goods and services	Poor pavement on non-principal arterials in Southwestern Minnesota (District 8)	$23,000,000-$31,000,000
Multiple	Multiple	12 Routes (i.e. MN 15, US 212 and other locations)	Principal Arterials in Southwestern Minnesota (District 8)	40.5 miles/3,492 Average ADT	1.7	Supports regional movement of goods and services	Poor pavement on principal arterials in Southwestern Minnesota (District 8)	$84,000,000-$114,000,000

Multiple	Multiple	2 Routes(i.e. MN 3 and MN 5)	Non-Principal Arterials in Twin Cities Metro Area	12.3 miles/9,899 Average ADT	0.3	Supports regional movement of goods and services	Poor pavement on non-principal arterials in Twin Cities Metro	$25,000,000-$33,000,000
Multiple	Multiple	4 Routes(i.e. I-94 and other locations)	Principal Arterials in Twin Cities Metro Area	12.4 miles/61,066 Average ADT	2.2	Supports regional movement of goods and services	Poor pavement on principal arterials in Twin Cities Metro	$51,000,000-$69,000,000
Goodhue	Red Wing	US 61	Potter St to 0.1 Mi. S. Carol Ln.	3 miles/18,000 Average ADT	2.60	Regional Trade Center	Poor pavement in urban area	$14,000,000-$19,000,000
Winona	Winona	MN 43	T.H. 61 to Jct. Mankato Ave.	0.5 miles/15,000 Average ADT	1.50	Regional Trade Center	Poor pavement in urban area	$4,500,000-$6,000,000
Goodhue	Zumbrota	MN 58	T.H. 52 to 3rd St	0.9 miles/7,000 Average ADT	2.2	Regional Trade Center	Poor pavement in urban area	$3,500,000-$5,000,000
Rice	Faribault	MN 60	0.4 Mi. E. T.H. 21 to Central Ave	0.7 miles/10,000 Average ADT	2	Regional Trade Center	Poor pavement in urban area	$6,000,000-$8,000,000
Wabasha	Lake City	US 61	S. City Limits to N. City Limits	2 miles/9,000 Average ADT	2.8	Regional Trade Center	Poor pavement in urban area	$14,000,000-$18,000,000
St Louis	Duluth	MN 194	Duluth	2 miles/23,000 Average ADT	1.5	Regional Trade Center	Poor pavement in urban area	$12,000,000-$16,000,000
St Louis	Duluth	US 61	Duluth	1 mile/14,000 Average ADT	2.8	Regional Trade Center	Poor pavement in urban area	$7,000,000-$9,000,000
Carlton	Cloquet	MN 33	Cloquet	1 mile/13,000 Average ADT	1.9	Regional Trade Center	Poor pavement in urban area	$8,000,000-$10,000,000
Lake	Two	US 61	Two Harbors	1.5	3.2	Regional Trade	Poor pavement in urban	$7,000,000-$9,000,000

	Harbors			miles/10,000 Average ADT		Center	area	
St Louis	Tower	MN 169	Tower	0.5 mile/3,700 Average ADT	2	Regional Trade Center	Poor pavement in urban area	$3,500,000-$5,000,000
Beltrami	Red Lake	MN 1	Red Lake	1 mile/5,000 Average ADT	3.7	Regional Trade Center	Poor pavement in urban area	$4,500,000-$6,000,000
Itasca	Deer River	US 2	Deer River	0.5 mile/6,000 Average ADT	3.2	Regional Trade Center	Poor pavement in urban area	$1,500,000-$2,500,000
Hubbard	Akeley	MN 34	Akeley	0.5 mile/3,500 Average ADT	4.1	Regional Trade Center	Poor pavement in urban area	$1,500,000-$2,500,000
Clearwater	Bagley	MN 92	Bagley	1 mile/4,000 Average ADT	3.2	Regional Trade Center	Poor pavement in urban area	$3,500,000-$5,000,000
Cass	Walker	MN 371	Walker	1 mile/8,000 Average ADT	3.5	Regional Trade Center	Poor pavement in urban area	$4,500,000-$6,000,000
Crow Wing	Brainerd	MN 371B	Brainerd	1 mile/12,000 Average ADT	3	Regional Trade Center	Poor pavement in urban area	$4,500,000-$6,000,000
Stearns	St Cloud	MN 23	St Cloud	2.5 miles/25,000 Average ADT	2.8	Regional Trade Center	Poor pavement in urban area	$14,000,000-$19,000,000
Anoka	Elk River	US 10	Elk River	2.5 miles/30,000 Average ADT	2.2	Regional Trade Center	Poor pavement in urban area	$9,000,000-$13,000,000
Kanabec	Mora	MN 65/MN 23	Mora	1 mile/12,000 Average ADT	2.3	Regional Trade Center	Poor pavement in urban area	$3,000,000-$4,500,000
Wadena	Wadena	US 10	Wadena	0.5	2.4	Regional Trade	Poor pavement in urban	$400,000-$600,000

				miles/9,500 Average ADT		Center	area	
Douglas	Alexandria	MN 29	Alexandria	2 miles/18,000 Average ADT	2.3	Regional Trade Center	Poor pavement in urban area	$8,000,000-$11,000,000
Clay	Dilworth	US 10	Dilworth	2 miles/14,000 Average ADT	3.7	Regional Trade Center	Poor pavement in urban area	$8,000,000-$11,000,000
Pope	Glenwood	MN 29/28	Glenwood	2 miles/5,000 Average ADT	2	Regional Trade Center	Poor pavement in urban area	$13,000,000-$18,000,000
Swift	Benson	MN 9/12	Benson	2 miles/4,000 Average ADT	2.5	Regional Trade Center	Poor pavement in urban area	$13,000,000-$17,000,000
Otter Tail	Parkers Prairie	MN 29	Parkers Prairie	1 mile/4,000 Average ADT	2.6	Regional Trade Center	Poor pavement in urban area	$2,500,000-$3,500,000
Renville	Hector	MN 4	Hector	1.5 miles/2,000 Average ADT	1.6	Regional Trade Center	Poor pavement in urban area	$5,000,000-$7,000,000
Lyon	Marshall	MN 19	Marshall	2 miles/9,000 Average ADT	2.2	Regional Trade Center	Poor pavement in urban area	$11,000,000-$14,000,000
Chippewa	Montevideo	MN 29	Montevideo	1.5 miles/3,000 Average ADT	2	Regional Trade Center	Poor pavement in urban area	$7,000,000-$10,000,000
Pipestone	Pipestone	MN 30	Pipestone	1.5 miles/5,000 Average ADT	2.3	Regional Trade Center	Poor pavement in urban area	$7,000,000-$10,000,000
Yellow Medicine	Clarkfield	MN 67	Clarkfield	1 mile/1,500 Average ADT	2.6	Regional Trade Center	Poor pavement in urban area	$6,000,000-$8,000,000
Martin	Fairmont	MN 15	Fairmont	3 miles/10,000 Average	2.3	Regional Trade Center	Poor pavement in urban area	$17,000,000-$23,000,000

				ADT				
Cottonwood	Windom	MN 60	Windom	2 miles/7,000 Average ADT	2	Regional Trade Center	Poor pavement in urban area	$10,000,000-$13,000,000
Le Sueur	New Prague	MN 19	New Prague	1.5 miles/4,000 Average ADT	2.4	Regional Trade Center	Poor pavement in urban area	$7,000,000-$10,000,000
Martin	Truman	MN 15	Truman	1 mile/4,200 Average ADT	2	Regional Trade Center	Poor pavement in urban area	$4,000,000-$5,000,000
Brown	Comfrey	MN 258	Comfrey	0.5 miles/750 ADT	3.6	Regional Trade Center	Poor pavement in urban area	$1,500,000-$2,000,000

APPENDIX D-2 - **Deficient bridges of regional significance that are most in need of repair or replacement.**

County	Urban Area	Route	Feature Intersected	Length/ ADT	Deck/Superstructure/Substructure rating (or other bridge rating)	Importance of facility to regional and state travel
Hennepin	Minneapolis	TH 65 (3rd Ave S)	Mississippi River	2,000 ft/18,300 AADT	Fair	Culturally historic structure
Dakota/Hennepin	Bloomington	TH 55 (Mendota Bridge)	Minnesota River	4,000 ft/44,500 AADT	Good	Culturally historic structure
Anoka/Hennepin	Anoka	US 169	Mississippi River	1,000 ft/45,000 AADT	Good	Culturally historic structure
Morrison	NA	TH 115	Mississippi River	400 ft/2,300 AADT	Satisfactory	Culturally historic structure
Lyon	Marshall	TH 19	Redwood River	100 ft/9,600 AADT	Satisfactory	Culturally historic structure
Ramsey	St. Paul	US 952A (Robert Street)	Mississippi River	1,500 ft/17,600 AADT	Good	Culturally historic structure
Hennepin	Minneapolis	St. Anthony Pedestrian bridge	Mississippi River	2,000 ft/NA	N/A	Culturally historic structure
St Louis	Duluth	I-35	Unstable material	2,000 ft/51,000 AADT	Satisfactory	Major Interstate
Blue Earth	Mankato	US 169	Minnesota River	1,500 ft/32,500 AADT	Good	IRC
Hennepin	Minneapolis	I-94	Mississippi River	1,000 ft/150,000	Satisfactory	Major Interstate
St Louis	Duluth	I-35	CP Railroad	3,000 ft/35,500 AADT	Satisfactory	Major Interstate
Ramsey	St Paul	TH 280	Robbins Street, U of M Transitway, Railroad	1,000 ft/56,000 AADT	Satisfactory	Multimodal Connector
Blue Earth	Mankato	US 14	Minnesota River and Railroad	1,000 ft/37,000 AADt	Satisfactory	IRC
Ramsey	St. Paul	I 94	TH 61NB & three ramps	700 ft/111,000 AADT	Satisfactory	Major Interstate
Anoka/Hennepin	Brooklyn Center/Fridley	I 694 WB	Mississippi River	800 ft/145,000 AADT	Good	Major Interstate
Winona	Winona	TH 43	Mississippi River	1,000 ft/10,500 AADT	Good	Major River Crossing
St Louis	Duluth	I 35 NB	CN Railroad	1,000 ft/42,500 AADT	Fair	Major Interstate

APPENDIX D-3 **Congested sections of roadway that contain chokepoints that hamper commuting or commerce.**

County	Urban Area	Route	Location	Length/ADT	Importance of facility to regional and state travel	Description of challenge/deficiency	Improvement Needed	Estimated Cost of Improvement Needed
Multiple	Twin Cities Metro	Systemwide	Twin Cities Metro Area	N/A	Interstate/Freeway System	Decreased travel time reliability due to accidents, other traffic characteristics	System-wide Active Traffic Management (e.g. Traveler information systems, dynamic signing and re-routing, dynamic shoulder lanes, and other improvements)	$255,000,000-$345,000,000
Multiple	Twin Cities Metro	11 Routes (I-35W at I-694, I-394 at MN 100, I-694 at I-94/MN 252, MN 101, MN 47, MN 7, MN 51, MN 65, US 8, MN 55 at US 61, I-494)	Twin Cities Metro Area	N/A	Interstate/Freeway System	Traffic congestion bottlenecks (Tier 1 Congestion Mitigation and Safety Projects)	High return on investment capacity enhancements and spot improvements (e.g. interchange reconstruction, auxiliary lanes, and other improvements)	$500,000,000-$675,000,000
Multiple	Twin Cities Metro	17 Routes (I-35, I-35E, I-35W at I-694, I-394 at US 169 and I-94, I-494, I-694, I-94 at I-35W, I-94 at I-35E, US 10 at MN 47 and I-35W, MN 101 at I-94, MN 120, MN 13, US 169, MN 36 at I-35E and MN 120, MN 5, MN 55 at MN 100, MN 62 at MN 100, MN 7)	Twin Cities Metro Area	N/A	Interstate/Freeway System	Traffic congestion bottlenecks (Tier 2 Congestion Mitigation and Safety Projects)	High return on investment capacity enhancements and spot improvements (e.g. interchange reconstruction, auxiliary lanes, and other improvements)	$500,000,000-$675,000,000
Multiple	Twin Cities Metro	8 Routes (I-35E, I-35W, I-494, I-94 at I-494, US 169 at MN 41, MN 252, MN 62, US 8)	Twin Cities Metro Area	N/A	Interstate/Freeway System	Traffic congestion bottlenecks (Tier 3 Congestion Mitigation and Safety Projects)	High return on investment capacity enhancements and spot improvements (e.g. interchange reconstruction, auxiliary lanes, and other improvements)	$500,000,000-$675,000,000
Hennepin/Ramsey	Twin Cities Metro	I-35E/MN 610	Twin Cities Metro Area	33,500-120,000 AADT	Interstate/Freeway System	Lack of freeway connection in North Metro, peak period traffic congestion, lack of transportation options on 35E	New freeway connection (MN 610), Extend managed lane on I-35E, one other managed lane corridor	$400,000,000-$600,000,000
Multiple	Twin Cities Metro	6 Routes (MN 36, I-94, I-35W, I-494, US 169, MN 77)	Twin Cities Metro Area	45,000-190,000 AADT	Interstate/Freeway System	Peak Period traffic congestion, lack of transportation options	Managed lanes	$1,500,000,000-$2,000,000,000
Itasca	NA	US 169	Taconite/Pengily	9 miles/6,000 Average ADT	IRC	Chokepoint on a critical statewide connector route	Enhancements that expand the economic and quality of life access to areas served by the corridor.	$103,000,000-$207,000,000
Stearns	NA	MN 23	Paynesville/Richmond	8 miles/8,000 Average ADT	IRC	Chokepoint on a critical statewide connector route	Enhancements that expand the economic and quality of life access to areas served by the corridor.	$23,000,000-45,000,000

Otter Tail/Wadena	Wadena	US 10	Wadena	6 miles/8,000 Average ADT	IRC	Chokepoint on a critical statewide connector route	Enhancements that expand the economic and quality of life access to areas served by the corridor.	$39,000,000-74,000,000
Dodge/Steele	NA	US 14	Owatonna/Dodge Center	15 miles/8,000 Average ADT	IRC	Chokepoint on a critical statewide connector route	Enhancements that expand the economic and quality of life access to areas served by the corridor.	$100,000,000 - 200,000,000
Kandiyohi/Steams	NA	MN 23	New London/Paynesville	7 miles/7,000 Average ADT	IRC	Chokepoint on a critical statewide connector route	Enhancements that expand the economic and quality of life access to areas served by the corridor.	$23,000,000-45,000,000
Crow Wing	NA	MN 371	Jenkins / Pine River	16 miles/7,500 Average ADT	IRC	Chokepoint on a critical statewide connector route	Enhancements that expand the economic and quality of life access to areas served by the corridor.	$78,000,000 - $150,000,000
Nicollet	NA	US 14	Nicollet/New Ulm	14 miles/7,000 Average ADT	IRC	Chokepoint on a critical statewide connector route	Enhancements that expand the economic and quality of life access to areas served by the corridor.	$80,000,000-$129,000,000
Multiple	Multiple	Multiple	LaCrosse - Twin Cities (Rail Crossings)	N/A	Supports regional movement of people, good and services	At-grade railroad crossing along potential future high-speed rail rail (LaCrosse to Twin Cities)	Grade Separations	$26,000,000-$34,000,000

APPENDIX D-4 Metropolitan Area and Greater Minnesota Transit

Service Description	County	Urban Area	Route	From/To	Length/Daily Ridership	Importance of facility to regional and state travel	Description of challenge/deficiency	Improvement Needed	Estimated Cost of Improvement Needed
Existing base bus service deficit	all 7 counties	Twin Cities	all	all	2011 regional ridership was 91 M rides by all regional providers	Bus transit offers a travel alternative to commuters and to those who do not have an available vehicle or are unable to drive	Under current law and funding structures there is a structural deficit to being able to maintain existing levels of bus transit service into the future	Maintain current transit service levels to meet current demand	$250 M cumulative thru 2030 or about $14M annually in 2015 $'s
Metro Mobility ADA service mandatory expansion	all 7 counties	Twin Cities	NA	all	In 2011 Metro Mobility ridership was 1.59 M riderships with a 4.8% growth over 2010; 2012 has had an increase of 10.3% over 2011, through the month of July	Metro Mobility is a federally mandated service that must be supplied within 3/4 mile of either side of a regular route to offer those unable to use transit due to a disability a comparable option. Service is further mandated beyond the federally mandated 3/4 mile by the state, to all areas with the regular route service area.	Under fedeal requirements the ADA service must have a trip denial rate of essntially zero. In addition state law sets a footprint within which Metro Mobility service must be provided. The past 3-4 years have seen year-over-year ridership increases of 5% to 8% far outstripping increases in regular route ridership.	Grow levels of Metro Mobility service provided to met growing demand and federal requirement for zero trip denials	$140 M cumulative thru 2030 or about $8 M annually in 2015 $'s
Hiawatha LRT	Hennepin	Twin Cities	Route 55 / Blue Line	downtown Minneapolis to MOA	12- miles, 10.5 M rides annually, 31,000 per average weekday	The Hiawatha Blue line provides appraoximately 12% of the total regional transit rides and is an important connection for commuters to downtown Minneapolis, the University of Minnesota, Minneapolis/St. Paul International Airport, and the Mall of America	When Hiawatha first opened the regional expectation was that the state would provide 50% of the operating subsidies and Hennepin county and now CTIB would provide 50%. The state provide an original appropriation of $5 M but has not provided the 50% funding. Funding is now provided thru funds that would otherwise go to the base bus system	Funding for 50% of Blue line operations	$97 M cumulatively thru 2030 or approximately $5 M per year in 2015 $'S
Central Corridor LRT	Ramsey/Hennepin	Twin Cities	Green line	downtown St. Paul to downtown Mpls including the U of MN	11- miles, estimated 11 M+ rides annually, 32,400 per average weekday	The Green Line will prvide an important connection between the major employment centers of downtown Minneapolis, downtown St. Paul and the University of MN. It will provide an important transportation option for commuters, students those living along the line and transit-dependent populations.	The financing plan for operations of the Green line assumed that according to state law 50% of operating subsidies would be provided by the state and 50% by CTIB.	Funding for 50% of Green line operations - unclear that the state will provide the required 50% share.	$106 M cumulatively thru 2030 or approximately $7 M annually in 2015 $'s
Cedar Avenue BRT station-to-station service phases- 1 and 2	Dakota/Hennepin	Twin Cities	Red line	Apple Valley to MOA/28th Avenue station	10- miles, estimated 2,250 rides per average weekday for Phase I	In Phase 1, Red line will provide an all-day, frequent connection between various stations in Apple Valley, Eagan and Bloomington ending at the Mall of America and 28th Avenue stations on the Blue Line. A later Phase 2 will provide connections to stations in Lakeville.	Operating subsidies are assumed to be funded 50% by CTIB and the remaining 50% is unidentified. CMAQ funds will provide the unidentified share for the first three years of operations.	Funding for 50% of Red line station-to-station operations	$30 M cumulatively for Phase 1 thru 2030 or approximately $2 M annual in 2015 $'s; additional $1 M annually with the addition of Phase 2 to Lakeville.
Expansion of base bus system	all 7 counties	Twin Cities	NA	all	1.5% annual increase in service will provide an additional 5-10 M rides annually	The Twin Cities region is expected to grow by approxiately 900,000 more people and 570,000 more jobs by 2040. Serving this increased population and employment, along with a growing market share of existign trips, will require growth in the base bus system.	Providing increased route coverage, frequency and span of transit service to meet existing unmet demand and future population and employment growth.	It is estimated that growing the base buse service at a rate of 1.5% annually will be needed to meet the growing demand for services. Other growth rates will be less effective in providing the levels of service needed to meet demand.	.5% growth - $210 M cumulatively or $11 M annually 1.0 % growth rate - $415 M cumulatively or $23 M annually 1.5% growth rate - $620 M cumulatively or $34 M annually
Southwest LRT	Hennepin	Twin Cities	Green line extension	downtown Mpls thru St. Louis Park, Hopkins, Minnetonka and Eden Prairie	15- miles, estiamted 10 M rides annually, 30,000 per average weekday in 2030	The Green line extension will provide an important connection between Minneapolis and the southwest suburbs providing a link for commuters to many major employers both in downtown Mpls and along the entire corridor.	The financing plan for the capital costs of the Green line extension assumed a 10% state contribution and as required under state law assumed a 50% contribution to the operations of the Green line extension.	Funding for 10% of the SW LRT capital costs and 50% of operations	Capital - $120 M Operations - $132 M cumulative thru 2030 or $11 M annually (2015 $'s beginning in 2018)
I-35W BRT station-to-station service	Hennepin/Dakota	Twin Cities	Orange line	I-35W downtown Minneapolis thru SW Mpls, Richfield, Bloomington and Burnsville	22- miles, estimated 6,000 riders per average weekday in 2030	The Orange line will provide all day service along I-35W south connecting stations along the corridor at Lake Street, 46th Street, 66th street American Bouleard, 98th, the Burnsville station and Kenrick Avenue.	Operating subsidies are assumed to be funded 50% by CTIB and the remaining 50% is unidentifed.	Funding for 50% of Orange line station-to-station operations	Capital - $45 M Operations - $43 M cumulative thru 2030 or $2.7 M annually (2015 $'s beginning in 2016)
Arterial BRT corridors	Hennpein/Ramsey/ Anoka/Dakota	Twin Cities	Various including: Snelling Ave, East 7th, West 7th, Nicollet, Central Ave, Chicago, Robert St. Amecian Blvd., Fremont /Emerson, Lake St., Penn Ave. and Broadway Ave.	Connecting downtown Minneapolis and downtown St. Paul to neighborhoods and development along vairous arterial corridors.	100- mile system of 12 corridors, estimated 140,000+ rides per average weekday in 2030, about twice the existing ridership	System currently provides about 86,000 average weekday rides in the regional transit system with about 450,000 people and 460,000 jobs within 1/2 mile of the routes. The Arterial BRT system would provide a faster, higher amenity transit service in these strong existing transit markets to attract new riders and improve the experience of existing riders.	Currently, the funding for building this system and the funding for the incremental operating costs are unidentified	Funding for capital costs and incremental operating subsidies over today's system	Capital - $332 M Operations - $330 M cumulative thru 2030 (built in phases) or about $33 M annually when the full system is built (2015 $'s with system built-out by 2024)

Highway BRT Corridors	all 7 counties	Twin Cities	Various including: I-35E north, I-35W north, I-94 east, TH 36,	all	30- miles across 3 lines, estimated range of 4,000-6,000 riders per line (12,000-18,000 combined) per average weekday in 2030 on the station-to-station service (does not include existing or future express ridership)	The regional highway system is continuing to become more congested as population and employment grows within the region. Highway BRT will provide additional connections between major regional centers of activity and residents while taking advantage of improvements in travel time as a result of coordinated highway investments.	Capital costs are assumed to be funded 30% from Federal, 30% from CTIB, 10% by local authorities and the remaining 30% is unidentified. Operating subsidies are assumed to be funded 50% by CTIB and the remaining 50% is unidentifed.	Funding for 30% of the capital costs and 50% of the station-to-station operations	Capital - $300 M Operations - $54 M cumulative thru 2030 or $5.4 M annually when all three lines are operational (2015 $'s with lines opening in 2019, 2021, and 2023)
2 additional LRT lines	all 7 counties	Twin Cities	Various: Bottineau Transitway, Gateway Corridor, Rush Line Corridor still under consideration	all	24- miles across 2 lines, estimated range of 20,000-25,000 riders per line (40,000-50,000 combined)	Additional LRT lines will provide capacity and added service levels to high-demand transit corridors currently not served by LRT service. Lines will connect major regional employment centers and centers of activity and foster future economic development in a region expected to grow by approxiately 900,000 more people and 570,000 more jobs by 2040.	Capital costs are assumed to be funded 50% from Federal, 30% from CTIB, 10% by local authorities and the remaining 10% is unidentified. Operating subsidies are assumed to be funded 50% by CTIB and the remaining 50% required to be funded by the state under state law.	Funding for 10% of the capital costs and funding for 50% of operations - unclear that the state will provide the required 50% share.	Capital - $240 M Operations - $136 M cumulative thru 2030 or $18 M annually when both lines are operational (2015 $'s with lines opening in 2022 and 2025)
Greater Minnesota Buses	Greater MN Counties	Greater MN	Various	all	N/A	Transit in Greater MN provides residents with access to jobs,education, health care, shopping and recreation. These systems enhance the mobility of the elderly and persons with disabilities	Transit providers in Greater MN do not have the funds to provide adequate bus service to meet transit needs	Purchase of buses to provide transit service to Greater MN	$22,000,000-$30,000,000
Greater Minnesota Public Transit Facilities	Greater MN Counties	Greater MN	Various	all	N/A	Transit in Greater MN provides residents with access to jobs,education, health care, shopping and recreation. These systems enhance the mobility of the elderly and persons with disabilities	Transit providers in Greater MN do not have the funds to provide adequate bus service to meet transit needs	Improvements to transit facilities in Greater MN	$10,000,000-$14,000,000
Greater Minnesota Public Transit Operating Costs	Greater MN Counties	Greater MN	Various	all	N/A	Transit in Greater MN provides residents with access to jobs,education, health care, shopping and recreation. These systems enhance the mobility of the elderly and persons with disabilities	Transit providers in Greater MN do not have the funds to provide adequate bus service to meet transit needs	Fund operating gap for ten years to meet 80% of Greater MN transit need	$300,000,000-$400,000,000

APPENDIX D-5 - **Roadway corridors with significant safety challenges.**

County	Urban Area	Route	Description of challenge/deficiency	Improvement Needed	Estimated Cost of Improvement Needed
Multiple	Multiple	Trunk Highways in Northeast MN	Locations with higher than average safety risk factors	System-wide high return on investment safety improvements (e.g. rumble strips, cable median barriers, signage, reduced conflict intersections)	$12,000,000-$16,000,000
Multiple	Multiple	Trunk Highways in Northwest MN	Locations with higher than average safety risk factors	System-wide high return on investment safety improvements (e.g. rumble strips, cable median barriers, signage, reduced conflict intersections)	$3,500,000-$4,500,000
Multiple	Multiple	Trunk Highways in Central MN	Locations with higher than average safety risk factors	System-wide high return on investment safety improvements (e.g. rumble strips, cable median barriers, signage, reduced conflict intersections)	$4,500,000-$6,000,000
Multiple	Multiple	Trunk Highways in West Central MN	Locations with higher than average safety risk factors	System-wide high return on investment safety improvements (e.g. rumble strips, cable median barriers, signage, reduced conflict intersections)	$11,000,000-$15,000,000
Multiple	Multiple	Trunk Highways in Southeast MN	Locations with higher than average safety risk factors	System-wide high return on investment safety improvements (e.g. rumble strips, cable median barriers, signage, reduced conflict intersections)	$12,000,000-$17,000,000
Multiple	Multiple	Trunk Highways in Southern MN	Locations with higher than average safety risk factors	System-wide high return on investment safety improvements (e.g. rumble strips, cable median barriers, signage, reduced conflict intersections)	$19,000,000-$26,000,000
Multiple	Multiple	Trunk Highways in Southwestern MN	Locations with higher than average safety risk factors	System-wide high return on investment safety improvements (e.g. rumble strips, cable median barriers, signage, reduced conflict intersections)	$16,000,000-$22,000,000
Multiple	Multiple	Trunk Highways in Twin Cities Metro Area	Locations with higher than average safety risk factors	System-wide high return on investment safety improvements (e.g. rumble strips, cable median barriers, signage, reduced conflict intersections)	$44,000,000-$60,000,000
Multiple	Multiple	100 Intersections Statewide	Intersections with higher than average safety risk factors and crash rates	Statewide Implementation of Rural Intersection Conflict Warning Systems	$7,000,000-$9,000,000
Anoka	Anoka	MN 47	At-grade railroad crossing	Grade Separation	$13,000,000-$17,000,000
Goodhue	Cannon Falls	US 52	At-grade railroad crossing of major highway	Grade Separation	$17,000,000-$23,000,000
Crow Wing	Crosby	MN 210/6	At-grade railroad crossing of major highway	Traffic signal for railroad pre-emption	$600,000-$800,000
Anoka	Ramsey	US 10/Ramsey Blvd	At-grade railroad crossing of major highway	Grade Separation	$68,000,000-$92,000,000

APPENDIX D-6

Congested sections of roadway that contain chokepoints that hamper commuting or commerce.

County	Urban Area	Route	Location	Length/ADT	Importance of facility to regional and state travel	Description of challenge/deficiency	Improvement Needed	Estimated Cost of Improvement Needed
Multiple	Twin Cities Metro	Systemwide	Twin Cities Metro Area	N/A	Interstate/Freeway System	Decreased travel time reliability due to accidents, other traffic characteristics	System-wide Active Traffic Management (e.g. Traveler information systems, dynamic signing and re-routing, dynamic shoulder lanes, and other improvements)	$255,000,000-$345,000,000
Multiple	Twin Cities Metro	11 Routes (I-35W at I-694, I-394 at MN 100, I-694 at I-94/MN 252, MN 101, MN 47, MN 7, MN 51, MN 65, US 8, MN 55 at US 61, I-494)	Twin Cities Metro Area	N/A	Interstate/Freeway System	Traffic congestion bottlenecks (Tier 1 Congestion Mitigation and Safety Projects)	High return on investment capacity enhancements and spot improvements (e.g. interchange reconstruction, auxiliary lanes, and other improvements)	$500,000,000-$675,000,000
Multiple	Twin Cities Metro	17 Routes (I-35, I-35E, I-35W at I-694, I-394 at US 169 and I-94, I-494, I-694, I-94 at I-35W, I-94 at I-35E, US 10 at MN 47 and I-35W, MN 101 at I-94, MN 120, MN 13, US 169, MN 36 at I-35E and MN 120, MN 5, MN 55 at MN 100, MN 62 at MN 100, MN 7)	Twin Cities Metro Area	N/A	Interstate/Freeway System	Traffic congestion bottlenecks (Tier 2 Congestion Mitigation and Safety Projects)	High return on investment capacity enhancements and spot improvements (e.g. interchange reconstruction, auxiliary lanes, and other improvements)	$500,000,000-$675,000,000
Multiple	Twin Cities Metro	8 Routes (I-35E, I-35W, I-494, I-94 at I-494, US 169 at MN 41, MN 252, MN 62, US 8)	Twin Cities Metro Area	N/A	Interstate/Freeway System	Traffic congestion bottlenecks (Tier 3 Congestion Mitigation and Safety Projects)	High return on investment capacity enhancements and spot improvements (e.g. interchange reconstruction, auxiliary lanes, and other improvements)	$500,000,000-$675,000,000
Hennepin/Ramsey	Twin Cities Metro	I-35E/MN 610	Twin Cities Metro Area	33,500-120,000 AADT	Interstate/Freeway System	Lack of freeway connection in North Metro, peak period traffic congestion, lack of transportation options on 35E	New freeway connection (MN 610), Extend managed lane on I-35E, one other managed lane corridor	$400,000,000-$600,000,000
Multiple	Twin Cities Metro	6 Routes (MN 36, I-94, I-35W, I-494, US 169, MN 77)	Twin Cities Metro Area	45,000-190,000 AADT	Interstate/Freeway System	Peak Period traffic congestion, lack of transportation options	Managed lanes	$1,500,000,000-$2,000,000,000
Itasca	NA	US 169	Taconite/Pengily	9 miles/6,000 Average ADT	IRC	Chokepoint on a critical statewide connector route	Enhancements that expand the economic and quality of life access to areas served by the corridor.	$103,000,000-$207,000,000
Stearns	NA	MN 23	Paynesville/Richmond	8 miles/8,000 Average ADT	IRC	Chokepoint on a critical statewide connector route	Enhancements that expand the economic and quality of life access to areas served by the corridor.	$23,000,000-45,000,000
Otter Tail/Wadena	Wadena	US 10	Wadena	6 miles/8,000 Average ADT	IRC	Chokepoint on a critical statewide connector route	Enhancements that expand the economic and quality of life access to areas served by the corridor.	$39,000,000-74,000,000
Dodge/Steele	NA	US 14	Owatonna/Dodge Center	15 miles/8,000 Average ADT	IRC	Chokepoint on a critical statewide connector route	Enhancements that expand the economic and quality of life access to areas served by the corridor.	$100,000,000 - 200,000,000
Kandiyohi/Stearns	NA	MN 23	New London/Paynesville	7 miles/7,000 Average ADT	IRC	Chokepoint on a critical statewide connector route	Enhancements that expand the economic and quality of life access to areas served by the corridor.	$23,000,000-45,000,000
Crow Wing	NA	MN 371	Jenkins / Pine River	16 miles/7,500 Average ADT	IRC	Chokepoint on a critical statewide connector route	Enhancements that expand the economic and quality of life access to areas served by the corridor.	$78,000,000 - $150,000,000
Nicollet	NA	US 14	Nicollet/New Ulm	14 miles/7,000 Average ADT	IRC	Chokepoint on a critical statewide connector route	Enhancements that expand the economic and quality of life access to areas served by the corridor.	$80,000,000-$129,000,000
Multiple	Multiple	Multiple	LaCrosse - Twin Cities (Rail Crossings)	N/A	Supports regional movement of people, good and services	At-grade railroad crossing along potential future high-speed rail rail (LaCrosse to Twin Cities)	Grade Separations	$26,000,000-$34,000,000

Page left blank

Appendix E: Transportation Funding and Financing Options Considered

Revenue sources/options to preserve and enhance the transportation system in Minnesota for the next 20 years.

REVENUE SOURCE/OPTION	Mode/System Served (possible)	Potential Annual Net Revenue	Category
Local focus			
A. Joint powers proposal: local government options for transportation; includes a variety of funding options • *Includes street improvement districts* • *Allow joint power authorities to issue revenue bonds*	State Highway System County State Aid Highway System Municipal State Aid System Greater Minnesota Transit Metropolitan Area Transit Passenger Rail Freight, Rail, Ports Airports	**Moderate:** Revenue potential varies depending upon location	Project Revenue
B. Value Capture for transit station development (Tax Iincrement Financing-like) • *This option would most likely contribute limited, if any, revenue for the operation and capital needs of the regional transit system. However it is an important tool for local governments to use to promote and incent project specific development near transit stations thereby increasing ridership and making the overall transit system more successful and efficient. There is also some potential for the increased local property tax revenues to be used to fund a portion of the transit station costs or to be used to implement street cars on short, high demand local routes.*	State Highway System County State Aid Highway System Municipal State Aid System Greater Minnesota Transit Metropolitan Area Transit Passenger Rail Freight, Rail, Ports Airports *Local government development*	**Low:** Revenue potential varies depending upon the project / development	Project Revenue
Bonding			
C. Front end increased bonding for specific projects	State Highway System County State Aid Highway System Municipal State Aid System Greater Minnesota Transit Metropolitan Area Transit Passenger Rail	**No new revenue**	Borrowing

REVENUE SOURCE/OPTION	Mode/System Served (possible)	Potential Annual Net Revenue	Category
	Freight, Rail, Ports Airports		
D. Increase General Obligation bonds for local roads and bridges	County State Aid Highway System Municipal State Aid System Greater Minnesota Transit Metropolitan Area Transit Passenger Rail Freight, Rail, Ports Airports	**No new revenue**	Borrowing
E. Creation of a separate bonding authority	State Highway System County State Aid Highway System Municipal State Aid System Greater Minnesota Transit Metropolitan Area Transit Passenger Rail Freight, Rail, Ports Airports	**No new revenue**	Borrowing
New taxes			
F. Increasing all "visitor" taxes: rental car, hotel tax, hospitality tax, etc.	State Highway System County State Aid Highway System Municipal State Aid System Greater Minnesota Transit Metropolitan Area Transit Passenger Rail Freight, Rail, Ports Airports	**Low:** Revenue potential depends upon how this option is implemented and what share is directed from general fund to transportation	System Revenue / Governance
G. State tire excise tax	State Highway System County State Aid Highway System Municipal State Aid System Greater Minnesota Transit Metropolitan Area Transit Freight, Rail, Ports	**Moderate:** estimated to be $25 million with a $6.50 per-tire tax	System Revenue

REVENUE SOURCE/OPTION	Mode/System Served (possible)	Potential Annual Net Revenue	Category
H. Transportation payroll tax. (Portland Example)	Greater Minnesota Transit Metropolitan Area Transit	**Low:** Amount generated will be dependent upon rate	System Revenue
I. Nationwide Amazon/Internet sales tax with money going to states	State Highway System County State Aid Highway System Municipal State Aid System Greater Minnesota Transit Metropolitan Area Transit Passenger Rail Freight, Rail, Ports Airports	**Low:** Dept. of Revenue estimates $394 million was uncollected from e-commerce, catalog sales and remote sellers in 2011. Potential depends upon how this option is implemented and what share is directed from general fund to transportation	Governance / Enforcement
Property tax			
J. Restore transit spending to property tax; operations and capital spending – *Increase transit spending on the property tax for metropolitan area transit capital spending* • *Currently the Metropolitan Council has the authority to levy a property tax within a designated taxing area to pay for the debt service on bonds used for transit capital purposes. This source provides the funding needed to preserve and maintain the base bus system – i.e. replace fleet and maintain facilities. This funding source should continue and needs to grow to allow for continued preservation of the transit system. The designated taxing area should also be expanded to include the entire 7 county area which benefits from the capital expenditures.* *In addition, current law requires the Legislature to authorize the total amount of bonds that can be sold. This authorization has become political and difficult to obtain and annually puts the system at risk of not having the basic funding to preserve the existing system.*	Greater Minnesota Transit Metropolitan Area Transit	**Moderate:** amount generated will be dependent upon rate	Governance / Redistribution

REVENUE SOURCE/OPTION	Mode/System Served (possible)	Potential Annual Net Revenue	Category
MnPASS			
K. Increase speed lanes	State Highway System	**No new revenue**	Operations and Efficiency
L. Revise concept to generate more revenue	State Highway System	**Low:** Revenue potential varies depending upon the project / network	Project Revenue
Fuel tax			
M. Sales tax on fuel	State Highway System County State Aid Highway System Municipal State Aid System	**High:** estimated to be $870 million by 2022 at current sales tax rate	System Revenue
N. Equalize fuel tax on all fuel types; i.e. link to diesel and other fuels	State Highway System County State Aid Highway System Municipal State Aid System	**Low:** estimated to be under $1 million	System Revenue
O. Hybrid/electric vehicle tax	State Highway System County State Aid Highway System Municipal State Aid System	**Low:** estimated to be $4.5 million by 2022	System Revenue
P. Increase gas tax and all other special fuels proportionally; phase in option • *Motor fuel taxes are constitutionally dedicated for highway purposes and represent an appropriate, user-fee source of funding for highways. Increasing the gas tax can raise significant amounts of funds for highways, is easy to administer and is understandable and acceptable to the public. A gas tax increase could be phased in over time, i.e. three to five cents increase every two or three years.*	State Highway System County State Aid Highway System Municipal State Aid System	**High:** each cent generates $31 million annually	System Revenue
Sales tax			
Q. Local option sales tax increase for 80 counties in Greater Minnesota with no referendum • *Local option sales tax increase for counties in Greater Minnesota <u>but with possible referendum options</u> (similar to option Q under Sales Tax*	State Highway System County State Aid Highway System Municipal State Aid System Greater Minnesota Transit	**Moderate to High:** 0.50% increase in sales tax yields $335 million	System Revenue

REVENUE SOURCE/OPTION	Mode/System Served (possible)	Potential Annual Net Revenue	Category
category) • *Capturing all revenue from base expansion of the sales tax.*			
R. Metro sales tax increase for transit above current amount • *A sales tax of .25 percent is currently levied in five counties in the metropolitan area for Transitway purposes and currently raises about $100 million annually. This tax could be increased to raise significant revenues for additional Transitway and bus purposes allowing for both preservation and expansion of the metropolitan transit system.* *This local dedicated source is an appropriate funding source for the reasons specified on the attached sheet.* • *Capturing all revenue from base expansion of the sales tax.*	Metropolitan Area Transit	**Moderate to High:** 0.50% increase yields $200 million	System Revenue
S. Leased vehicles sales tax (with 100 percent of proceeds to transportation)? • *Capturing all revenue from base expansion of the sales tax.* • *Redirect tax to transportation needs rather than General Fund*	State Highway System County State Aid Highway System Municipal State Aid System Greater Minnesota Transit Metropolitan Area Transit	**Low to Moderate:** $32 million is generated under current system with a formula distribution	Revenue Redistribution
T. Motor vehicle sales tax	State Highway System County State Aid Highway System Municipal State Aid System Greater Minnesota Transit Metropolitan Area Transit	**High:** 0.50 percent increase yields $43.5 million with formula distribution	System Revenue
Registration fees			
U. Motor vehicle registration fee increase • *Motor vehicle registration fees are constitutionally dedicated to highway purposes only. This revenue source is appropriate for highways and represents a user fee. This tax could be*	State Highway System County State Aid Highway System Municipal State Aid System Greater Minnesota Transit	**High:** 0.25 percent increase yields $115 million with formula distribution	System Revenue

REVENUE SOURCE/OPTION	Mode/System Served (possible)	Potential Annual Net Revenue	Category
increased/modified in a number of ways to raise significant additional revenues for highway purposes. Options include increasing the tax rate, modifying the vehicle depreciation schedule and increasing the base fee.	Metropolitan Area Transit		
Efficiency and effectiveness of transportation operations			
V. Get best value for transportation dollars through performance management system and high return on investment **Conduct a thorough inside and outside evaluation of how we do business from the state through all local levels. (See letter attached)* • *Concept here becomes a statement prior to discussing fund generating ideas*	State Highway System County State Aid Highway System Municipal State Aid System Greater Minnesota Transit Metropolitan Area Transit Passenger Rail Freight, Rail, Ports Airports	**No new revenue**	Operations Efficiency
W. Improve permitting process to save time and money	State Highway System County State Aid Highway System Municipal State Aid System Passenger Rail Freight, Rail, Ports Airports	**No new revenue**	Operations Efficiency
General fund reallocation to transportation			
X. Larger percent of sales tax collections going to transportation	State Highway System County State Aid Highway System Municipal State Aid System Greater Minnesota Transit Metropolitan Area Transit Passenger Rail Freight, Rail, Ports Airports	**Moderate to High:** Revenue potential depends upon how this option is implemented and what share is directed from general fund to transportation	Revenue Redistribution

REVENUE SOURCE/OPTION	Mode/System Served (possible)	Potential Annual Net Revenue	Category
Tax compliance			
Y. Analysis of all exemptions and or tax credits converted to revenue	State Highway System County State Aid Highway System Municipal State Aid System Greater Minnesota Transit Metropolitan Area Transit Passenger Rail Freight, Rail, Ports Airports	**Low:** Revenue potential depends upon how this option is implemented and what share is directed from general fund to transportation	Governance and Enforcement
Other ideas			
Z. Also include indexing of the gas tax rate to adjust it annually with inflation. • *Currently the buying power of the gas tax erodes over time as it is collected on a per gallon basis and does not increase with inflation or the cost of fuel. Also, as vehicles become more fuel-efficient the amount collected on a per gallon basis has been decreasing. Indexing the gas tax to the consumer price index would allow the collections to at a minimum keep pace with inflation and help allow for continued preservation of the highway system.* • *Index* • *Use with educating the public concept*	State Highway System County State Aid Highway System Municipal State Aid System	**High:** If the Consumer Price Index (CPI) were used this option would generate $100 million annually in 2022; If the Construction Cost Index (CCI) were used this option generates $870 million annually in 2022	System Revenue
AA. Allow joint power authorities to issue revenue bonds		**No new revenue**	Governance / Borrowing
BB. Tolling/P3's		**Low to Moderate:** Rev. potential varies depending upon the project	Project Level
CC. Transportation ballot measure		**Unknown**	Governance
DD. Mileage based user fees	Develop for future use	**Unknown**	System Rev

Appendix F: Alignment of Recommendations with System / Modal Needs

Option / Funding Source	Alignment With System / Modal Needs								
	State Highway Sys.	County State Aid System / Cty. System	Municipal State Aid System / Mun. Sys.	Townships	Greater Minnesota Transit	Metropolitan Area Transit	Passenger Rail	Freight, Rail, Ports	Airports
1. System-wide Revenue Options for Roads									
- Increase motor vehicle registration fees	✓	✓	✓					✓	✓
- Increase gas tax and other fuels proportionally, index to inflation	✓	✓	✓	✓				✓	✓
2. Transit Dedicated Sales Tax Options									
- Increase Metropolitan Area sales tax for transit						✓			
- Capture leased vehicle sales tax for transportation	✓	✓	✓	✓	✓	✓	✓	✓	✓
- Direct funding to Greater MN transit					✓				
3. Local Government Revenue Options									
- Expand the option of the wheelage tax for 80 counties in Greater MN, raise cap limit for all		✓							
- Enable local option for formation of Transportation Improvement Districts		✓	✓		✓		✓	✓	✓
- Enable local option sales tax for 80 counties in Greater MN without referendum		✓							
- Expand regional transit capital levy in entire seven county Metro area						✓			
4. Project-Level Revenue Options									
- Expand MnPASS system and dedicate revenue to multi-modal enhancements on manage lanes	✓					✓			
- Employ Value Capture concepts for transportation improvements	✓	✓	✓			✓	✓		
- Explore tolling for new capacity, P3s and monetization of assets to generate revenue	✓	✓	✓					✓	✓
- Continue state role in bonding for local roads, bridges, transit, ports, rail, etc.		✓	✓	✓			✓	✓	✓

Appendix G: Alignment of Recommendations with Core Funding and Financing Principles

Option / Funding Source	Alignment With Core Funding and Financing Principles								
	Fair and Equitable	Long-term and Sustainable	Revenues grow with the Economy	Sends Appropriate Price Signal	Efficient to Collect	Appropriate for Various Modes and Jurisdictions	Responsive to Changing Technologies and Demographics	Target Specific Outcomes	Marketable to the Public
1. System-wide Revenue Options for Roads									
- Increase motor vehicle registration fees	✓	✓	✓					✓	✓
- Increase gas tax and other fuels proportionally, index to inflation	✓	✓	✓	✓	✓			✓	✓
2. Transit Dedicated Sales Tax Options									
- Increase Metropolitan Area sales tax for transit	✓	✓	✓		✓	✓	✓	✓	✓
- Capture leased vehicle sales tax for transportation	✓	✓	✓	✓	✓	✓			✓
- Direct funding to Greater Mn transit		✓	✓		✓	✓	✓	✓	
3. Local Government Revenue Options									
- Expand the option of the wheelage tax for 80 counties in Greater MN, raise cap limit for all	✓	✓			✓				✓
- Enable local option for formation of Transportation Improvement Districts	✓				✓	✓	✓	✓	✓
- Enable local option sales tax for 80 counties in Greater MN without referendum	✓	✓	✓		✓			✓	✓
- Expand regional transit capital levy in entire seven county Metro area	✓	✓	✓		✓	✓	✓	✓	
4. Project-Level Revenue Options									
- Expand MnPASS system and dedicate revenue to multi-modal enhancements on manage lanes	✓	✓	✓	✓	✓			✓	✓
- Employ Value Capture concepts for transportation improvements	✓	✓	✓		✓	✓	✓	✓	✓
- Explore tolling for new capacity, Public-Private Partnerships and monetization of assets to generate revenue	✓	✓	✓	✓	✓	✓	✓	✓	✓
- Continue state role in bonding for local roads, bridges, transit, ports, rail, etc.	✓	✓	✓		✓	✓	✓	✓	✓