STATE ADVISORY COUNCIL ON

MAJOR TRANSPORTATION PROJECTS

Final Report

February 1995

Pursuant to 1994 Minn. Laws Chap. 635 Art. 1 Sec. 31

Prepared by:

John Williams, House Research
Amy Vennewitz, Senate Research

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MAJOR TRANSPORTATION PROJECTS – PLANNING

1. In general, the priorities for investing in major transportation projects should be to:
    - Preserve existing levels of highway and transit service
    - Reinvest in existing systems
    - Improve highway and transit service beyond their present levels
    - Undertake major transportation projects

2. Major transportation projects are those projects that:
    - Have a high cost
    - Require several years to plan and construct
    - Are critical elements of a regional transportation system
    - Are vital to the economic health of the region or state

3. Major transportation projects must:
    - Emerge from a comprehensive planning and selection process
    - Support land use planning
    - Expand transportation choices
    - Reduce highway congestion and improve air quality
    - Achieve broad state and local policy goals

4. The Legislature should have no greater role in selecting major transportation projects than in selecting other projects.

MAJOR TRANSPORTATION PROJECTS -- FUNDING

1. Changing the Minnesota Constitution as part of a comprehensive transportation funding proposal would be divisive and politically challenging.

2. The Advisory Council believes that a workable funding package can be assembled without changes in the Constitution.

3. A sound transportation funding package must provide for preserving the existing transportation system and making necessary improvements to it, as well as providing for major transportation projects.

4. The Advisory Council identified the most important criteria in evaluating funding options as:

   - Revenue potential
   - Public acceptability
   - Potential for having an impact on travel behavior

II. SUMMARY OF RECOMMENDATIONS

1. The Legislature should increase the present motor fuels tax by five cents per gallon and provide for annual indexing of the tax at the rate of inflation in subsequent years.

2. The Legislature should authorize the Metropolitan Council to impose a sales tax of up to one-half cent within the seven-county area to fund transit improvement projects currently identified by the Metropolitan Council, to replace general fund metro transit appropriations (other than Metro Mobility) and to replace the metro transit property tax currently levied by the Metropolitan Council.

3. The Legislature, Metropolitan Council, and Department of Transportation should take the necessary steps to authorize and eventually implement a system of road pricing to fund major transportation projects by the year 2000. Beyond the funding initiatives already proposed by the Advisory Council, the Legislature should identify a funding source or sources, following the recommended priorities established by the Advisory Council, to support the development of major transportation projects until such time as sufficient road-pricing revenues become available to underwrite those projects.

4. The Legislature should examine the state trunk highway system with a view toward reducing the size of the system and placing some trunk highways under local jurisdiction.

STATE ADVISORY COUNCIL ON MAJOR TRANSPORTATION PROJECTS

FINAL REPORT

1. INTRODUCTION

In 1994, the Legislature passed a bill creating a State Advisory Council on Major Transportation Projects. This Council was to provide a forum at the state level for education, discussion, and advice to the Legislature regarding the financing of major transportation projects. The Council's charge was to identify projects that could not be funded within the current transportation funding structure, evaluate funding methods, receive public testimony, and submit to the Legislature a report and recommendations for a preferred financing plan for significant highway and transit projects.

The Council consisted of fifteen members appointed as follows: three senators and two public members appointed by the Senate, three representatives and two public members appointed by the Speaker of the House, and five public members appointed by the Governor. In addition, one of the legislative members appointed by the Senate and the House was a member of the minority caucus to assure that the work of the Council represented a bi-partisan effort.

A copy of the 1994 legislation and listing of the Council members is shown on pages 2 and 3.

The Advisory Council met eleven times between September 1994 and January 1995. These meetings covered a variety of topics and issues, and resulted in a recommendation for a transportation financing package which was submitted to the Legislature in February 1995.

One of the most difficult issues the Council struggled with was how to define the scope of their work. While the legislation specifically mentioned the financing of major transportation projects, there was a realization on the part of Council members that it was very difficult to limit their discussions and recommendations to this narrow mission. Transportation projects -- whether they be for preservation and maintenance, or expansion and upgrading of the existing system, or for major construction and reconstruction projects -- are intertwined and may compete for the same revenue sources. There was a general fear that if the Council were to concentrate only on the financing of major transportation projects, the need for increased financing of the existing transportation system would be ignored and possibly foregone.

The Council came to the agreement that while major transportation projects are important to the state's economic vitality, they should not be funded at the expense of preserving the public's existing investment in the transportation system and making needed improvements to it. The Council's recommendations, therefore, include measures both for addressing the financing needs of our existing transportation system and for major transportation projects. While not all votes of the Council were unanimous, this report represents a consensus of the Council's membership.

The remainder of this report contains a summary of the Council's meetings, a review of transportation funding needs within the state, potential financing mechanisms for meeting these needs, and a listing of the Council's final findings and recommendations.

LEGISLATION

Laws of 1994, Chapter 635, Article 1

Sec. 31. [ADVISORY COUNCIL ON MAJOR TRANSPORTATION PROJECTS.]

Subdivision 1. [ESTABLISHMENT; PURPOSE.] A state advisory council is established to provide a forum at the state level for education, discussion, and advice to the legislature on the financing of major transportation projects.

Subd. 2. [AUTHORITY; DUTIES.] The advisory council shall:

(1) identify significant highway and transit projects that could not be funded within the current transportation funding structure;

(2) evaluate methods for funding the identified projects;

(3) receive public testimony and consult with governmental units; and

(4) submit to the legislature a report and recommendations for a preferred plan to finance significant highway and transit projects by February 1, 1995.

Subd. 3. [MEMBERSHIP.] The advisory council shall consist of 15 members who serve at the pleasure of the appointing authority as follows:

(1) six legislators; three members of the senate appointed by the subcommittee on committees of the committee on rules and administration, and three members of the house of representatives appointed by the speaker; and

(2) nine public members who are residents of the state: two appointed by the subcommittee on committees of the committee on rules and administration of the senate, two appointed by the speaker of the house of representatives, and five appointed by the governor. The appointing authorities must consult with each other to assure that no more than eight members of the advisory council are of the same gender.

Subd. 4. [CHAIRS.] The legislative appointing authorities shall each designate a legislative appointee to serve as co-chair of the advisory council.

Subd. 5. [ADMINISTRATION.] Legislative staff and the commissioner of transportation shall provide administrative and staff assistance when requested by the advisory council.

ADVISORY COUNCIL MEMBERSHIP

Senate Appointments

Senator Carol Flynn, Council Co-Chair
Senator Keith Langseth
Senator William Belanger
Gary DeCramer, Senior Fellow, State and Local Policy Program, Humphrey Institute of Public Affairs
Rebecca Yanisch, Executive Director, Minneapolis Community Development Agency

House Appointments

Representative Bernie Lieder, Council Co-Chair
Representative Betty McCollum
Representative Virgil Johnson
El Tinklenberg, Mayor, City of Blaine
James Prosser, City Manager, City of Richfield

Governor Appointments

Dottie Rietow, Chair, Metropolitan Council
Sally Evert, Special Assistant to the Chair, Metropolitan Council, and former Chair, Regional Transit Board
Elaine Hanson, Commissioner, Department of Administration, and former Director of Finance, City of Duluth
Diane Vinge, Owner, L and D Trucking Corporation
Charles Ferrell, Partner, Faegre & Benson

2. SUMMARY OF ADVISORY COUNCIL MEETINGS

The Advisory Council's meetings can be categorized into three distinct phases: a gathering of transportation information and review of financing needs; establishment of group consensus on transportation needs, the definition of major transportation projects, and criteria for evaluating financing mechanisms; and selection of a package of financing mechanisms for funding transportation needs. A copy of the agenda for each meeting can be found in the appendix.

Information Gathering

During its first five meetings, the Council invited a number of individuals from the transportation industry to make presentations on the existing transportation financing system and transportation needs within the state. The purpose of this information-gathering phase was to give the Council members a common base of knowledge and understanding of transportation from which to make decisions.

In particular, the Council's second meeting was devoted to a full-day retreat held at the Minnesota Department of Transportation's training center in Arden Hills. At this meeting, the members received presentations on the:

- Present highway financing system and constitutional dedication of highway funds
- Present transit financing system for both Greater Minnesota and the metro area
- The State Transportation Improvement Program for 1995-1997
- Metropolitan area highway/transit plan to year 2015
- Travel behavior inventory and major transportation trends
- Comparison of Minnesota's transportation financing with other states

Meetings three and four concentrated on the financing needs for both highways and transit and the unfunded portions of these needs. These needs are described in more detail in Section 3 of this report. The Council's fifth meeting consisted of a number of presentations on the subject of road pricing (congestion pricing) and a mileage-based revenue system.

Consensus Building

At the sixth and seventh meetings, the Council members split into two separate groups and discussed identical questions relating to spending needs, the definition of major transportation projects, investment priorities, constitutional dedication, and preferred criteria for evaluating financing options. At the end of each meeting, the two groups came back together to compare responses and identify areas of agreement. The consensus items which emerged from these meetings are shown below.

- The present level of spending is too little for both highways and transit, although highway spending is closer to being adequate than is transit spending.

- Transit and highway service levels can range from superior to inadequate although, in general, both have inadequate service levels.

- The primary characteristics of major transportation projects are:

  -- Large cost and long time to build

  -- Vital to the economic stability of the state; are of critical importance to the state or a region; are a critical element of a transportation system

  -- Positive economic benefit over the long term

  -- Achieve state and regional policy goals

- Selection of a major transportation project should:

  -- Emerge from a comprehensive planning process

  -- Be evaluated through a cost-benefit analysis

  -- Involve the public and stakeholders

  -- Be objectively selected through a professional process

  -- Avoid legislative project selection

- Transportation needs exceed funding availability and available funding limits transportation spending.

- Transit and highway funding must be linked.

- The highest investment priority is to operate and maintain key transportation service levels.

- Transportation financing should generally move towards more flexibility to respond to future changes. The existing constitutional dedication of highway user fees tends to limit flexibility and separates highway and transit funding.

- Major transportation projects will most likely require a unique funding source that does not distract from other transportation needs.

- The preferred criteria for evaluating financing options in order are:

1. Revenue yield
2. Public acceptability
3. Effects on travel behavior
4. Equity
5. Ease of administration
6. Progressivity
7. Environment/energy impacts
8. Sensitivity to inflation
9. Interstate competitiveness
10. Effect on state finance
11. Constitutional restrictions

Selection of a Transportation Financing Package

At its final meetings, the Council's efforts centered on the selection of a financing package that would contain recommendations for meeting both the funding needs of the existing transit and highway systems and major transportation projects. The staff presented a number of potential funding options and described the potential revenue yield for each. The Council reviewed each option in light of the criteria it had previously identified in its work. A detailed description of the financing options is contained in Section 4 of this report.

The public was invited to testify at the eighth meeting of the Council. Each testifier was asked to respond to the following questions:

1. What constitutes a major transportation project and why are they needed?

2. How should major transportation projects and other transportation needs be financed?

Eight individuals chose to testify before the Council, and one additional individual submitted written comments. A copy of the public testimony and written comments is contained in the appendix to this report.

The Council's final three meetings concentrated on further analysis of the financing options, developing consensus on the preferred financing package, and approving the final report and recommendations of the Council. The Council's final findings and recommendations are shown in Section 5 of this report.

3. TRANSPORTATION FUNDING NEEDS

As part of its charge, the Advisory Council looked in detail at the level of transportation need facing the state. This need is often difficult to quantify because it can vary considerably with the level of service goals which are to be met. While there is not widespread agreement on the precise dollar amount of need, there is general agreement that transportation funding must be increased if we are going to maintain and improve the existing system.

There are a number of factors and trends which are contributing to Minnesota's growing transportation needs and the gap between these needs and transportation spending. Over the past decade, travel on Minnesota's highways has increased at a rate much faster than population or job growth. From 1980 to 1990, population rose seven percent, the number of households grew by 14 percent, Minnesota added over 400,000 new jobs, and total travel on our roadways increased by over 36 percent. This rapidly growing travel demand is being put on an aging transportation system that receives comparatively fewer dollars than it did in 1972.

Minnesota's last gas tax increase occurred in 1988, at which time the tax went from 16 cents per gallon to the present-day 20 cents per gallon. However, because the gas tax is not indexed for inflation, Minnesota's buying power in the area of transportation has dropped. An Information Brief prepared by House Research and shown in the appendix to this report indicates that, since 1972, highway expenditures as a percent of total state and local government spending have dropped from 11.6 percent of total spending in 1972 to 7.5 percent of government expenditures in 1992.

In 1988, the Legislature created the Transportation Study Board to conduct a study of Minnesota's Surface Transportation Needs into the 21st century and recommend a program for making transportation improvements to meet those needs. The Study Board issued its final report in 1991 and found substantial needs in all areas of Minnesota's transportation systems. Unfortunately, the funding recommendations of the Study Board were never implemented and most of these needs continue to exist today. A summary of the identified needs from this report is shown below and was presented to the Advisory Council on Major Transportation Projects at its third meeting.

- The Study Board needs were identified in two broad categories: "full service needs" which include all identified transportation needs through the year 2011 and "acceptable level of service needs" which are those needs critical to maintaining current levels of mobility.

- Full-service transportation needs (both highways and transit) through 2011 were estimated to be $63.9 billion (1990 dollars); the state and federal share of this 20-year need was estimated at $38.5 billion, or $1.9 billion annually.

- Current state and federal 20-year revenues are projected at $24 billion, or $1.2 billion annually.

- Resulting in a 20-year unfunded full-service transportation need of $21.6 billion, or $725 million annually. This is a 60 percent increase over existing funding levels.

- Acceptable level of service 20-year needs were estimated at $54.5 billion; the state and federal share of this need was estimated at $32.1 billion, or $1.6 billion annually.

- Resulting in a 20-year unfunded acceptable level of service need of $8.1 billion or an annual unfunded need of $400 million, a 33 percent increase over existing funding levels.

In 1992, the Minnesota Department of Transportation (MnDOT) also conducted an extensive study into Minnesota's transportation needs through the year 2000. MnDOT looked at five potential funding scenarios and identified the increased level of transportation funding that would be needed to accomplish each scenario. The results of this study were also presented to the Advisory Council at its third meeting and a complete description of each scenario is contained in the appendix. A summary of the results of this study is shown below.

The first scenario -- described as a "deteriorating infrastructure" scenario -- estimates the impacts on the state's transportation system if no funding increases occur through the end of the decade. The scenario predicts a loss of federal funds due to insufficient matching state funds, no annual construction program beginning in FY 2000, a serious decline in transit programs, and a significant reduction in private-sector jobs dependent upon highway construction. (MnDOT has taken steps to avert this scenario through implementing efficiency measures and reducing agency costs.)

The "investment preservation plus transit" scenario would maintain the existing level of highway construction program spending at $400 million annually and would provide for identified transit needs. This scenario would require an additional average annual investment of $93 million for state highways and $45 million for state transit programs. The third scenario is similar, except that funding would be provided only for the next biennium to avoid cuts in the annual construction program. This would require an increase of $65 million for highways and $27 million for state transit programs.

The final two scenarios -- "economic development" and "competitive advantage" -- describe instances in which significant funding increases would be devoted to transportation to provide for greater levels of highway construction and reconstruction and new transit program development. The economic development scenario would require an increase of $465 million per year for highways and $45 million per year for transit (similar to the Study Board's adequate level of service needs), and the competitive advantage scenario would require $867 million per year for highways and $47 million per year for transit programs (similar to the Study Board's full-service needs).

While the Advisory Council did not spend a lot of time and effort trying to reach agreement on the exact level of transportation need in Minnesota, it did come to the conclusion that significant funding increases were necessary to bring our transportation system up to an adequate level of service. Further, it concluded that if major transportation projects were to be funded, these projects would require a source of funding that was capable of raising substantial revenue and which did not have an adverse impact on the level of funding needed to maintain our existing system. A description and summary of the revenue options considered is given in the following section.

4. FINANCING ALTERNATIVES

As part of its exploration of how to pay for major transportation projects, the Advisory Council considered a wide variety of revenue sources. In doing so, the Advisory Council began with the broadest possible range of alternatives, gradually reducing them to a manageable number.

The Advisory Council began with this range of options:

Fuel-Based Revenue Sources

- Fuel tax
- Extension of general sales tax to fuels
- Wholesale fuel tax
- Local fuel tax
- Diesel differential
- Indexed fuel tax
- Petroleum gross receipts tax
- Environmental taxes

Vehicle-Based Revenue Sources

- Increased vehicle license taxes
- Indexed vehicle tax rates
- Increased minimum auto tax
- Weight-distance tax
- Motor vehicle sales (excise) tax
- Mileage tax
- Environment-based taxes
- Driver license fees

General Sales Tax Revenue Sources

- Statewide sales tax for transportation
- Sales tax on vehicle repair services
- Metro-area regional sales tax

Property-Based Revenue Sources

- Value-capture financing
- Public-private partnerships
- Transportation benefit districts
- Severance taxes
- Parking taxes

Highway-Based Revenue Sources

- Toll financing
- Road pricing

Credit Financing
- Bonding

Local Revenue Sources
- Tax increment financing
- Transportation impact fees
- Wheelage taxes
- Local sales tax
- Local fuel tax
- Transportation districts

Numerous criteria were used to systematically evaluate these alternatives. The first range of criteria was intended to be as wide-ranging as the revenue alternatives.

FINANCIAL CRITERIA

Revenue yield. What revenues has the alternative yielded in the past? How do these compare with the scope of the needs? Is the alternative likely to be significantly more or less productive in the future?

Revenue certainty. Does the alternative produce a reasonably predictable revenue yield? What fluctuations in revenue yield has it historically experienced? Is it sensitive to inflation? What other factors can affect revenue certainty?

Administrative efficiency. How easy or difficult is the alternative to administer? Does the administrative framework already exist, or would it have to be invented? What is the cost of administration/collection compared to the revenue generated?

State finance. What effect would the alternative have on the state general fund?

Local finance. Would the alternative have an effect on the finances of local governments?

ECONOMIC CRITERIA

Equity. How is collection of the revenue related to use of the transportation facility being financed? Is there a relationship between taxes paid and cost imposed? Does the alternative involve cross-subsidization among facility users? To what extent does the alternative reflect the true overall cost of the transportation improvement?

Progressivity. How is payment of the revenue related to ability to pay? Is it more or less progressive than existing revenue sources?

Transportation efficiency. Does the alternative promote efficiency in the use of transportation systems?

POLITICAL/LEGAL CRITERIA

Public acceptability. How likely is the public to accept the alternative? Can it be explained in readily understandable terms? Is it likely to be perceived by the public as fair and reasonable? Would it be perceived as a "new tax"?

Constitutional status. Does the alternative potentially conflict with any constitutional restrictions? What is the likelihood of having to defend it in court? What would be the likelihood of its constitutionality being sustained?

SOCIAL/ENVIRONMENTAL CRITERIA

Travel behavior. How would the alternative affect travel behavior? Would it affect an overall goal of reducing average peak-hour vehicle occupancy? Would it expand or limit transportation alternatives?

Environmental. What are the alternative's likely environmental effects?

Development. Would the alternative have identifiable effects on development patterns in metropolitan areas, regional centers, or rural areas?

Energy. How would the alternative affect energy consumption?

OTHER CRITERIA

Experience. Has the alternative ever been used in Minnesota, and what were the experiences? Is the alternative being used in other states or regions? Has it ever been used in other jurisdictions? Is their experience with it relevant to Minnesota?

The Advisory Council ranked these criteria in importance, then evaluated the major revenue sources (major in terms of revenue potential) according to the weighted criteria. The leading financial alternatives according to this process were:

- Road pricing
- Motor vehicle sales (excise) tax
- Gasoline tax increase
- Sales tax on gasoline
- General or regional sales tax
- Gasoline tax indexing

Further refinement of these alternatives led to detailed revenue estimates over a five-year period. These estimates are shown in Table 1. Using these revenue estimates, the Advisory Council then developed findings and recommendations on funding.

TABLE 1

Revenue Estimates for Major Financial Alternatives
(in $ millions, for fiscal years)

	1995	1996	1997	1998	1999
One cent gas tax	21.5	24.1	24.6	25.2	25.6
Three cent gas tax	64.6	72.3	73.8	75.6	76.7
Five cent gas tax	107.7	120.4	123.0	126.0	127.9
6.5% Motor vehicle sales tax	362.6	361.1	371.5	389.7	404.5
6.5% Gasoline sales tax	165.3	182.9	184.7	186.6	188.5
.5% Statewide sales tax	205.2	208.8	215.6	224.7	232.4
.5% Metro sales tax (including vehicles)	121.8	154.5	159.5	166.3	172.1

(The assumed effective dates for each of these alternatives is July 1, 1995, except for the metro sales tax which probably could not be implemented before September 1, 1995. Revenue from a gas tax imposed effective July 1, 1995, would not be received until the next month. The gasoline sales tax estimate assumes a pump price of $1.10 per gallon with the entire price taxable.)

5. COUNCIL FINDINGS AND RECOMMENDATIONS

MAJOR TRANSPORTATION PROJECTS -- PLANNING

In general, the priorities for investing in major transportation projects should be:

- Preserve existing levels of highway and transit service
- Reinvest in existing systems to provide the capital necessary to maintain existing service levels
- Improve highway and transit service beyond their present levels
- Undertake major transportation projects

Major transportation projects are those projects that:

- Have a high cost (in excess of $100 million or, in the case of highway projects, exceed 100 percent of a district's annual improvement budget)
- Require several years to plan and construct
- Are critical elements of a regional transportation system
- Are vital to the economic health of the region or state

Major transportation projects must:

- Emerge from a comprehensive planning and selection process that includes the public and local elected officials, following the model of area transportation partnerships and the Metropolitan Council's transportation advisory board
- Support land use planning
- Expand transportation choices
- Reduce highway congestion and improve air quality
- Achieve broad state and local policy goals

In general, the Legislature should have no greater role in selecting major transportation projects than in selecting other projects.

This policy recognizes that the Legislature may need to identify major transportation projects in order to fund them.

The Legislature should examine the state trunk highway system with a view toward reducing the size of the system and placing some trunk highways under local jurisdiction.

One factor complicating highway funding is the cost of providing for Minnesota's large state trunk highway system. Those trunk highways that MnDOT has identified as belonging on the 4,800-mile market artery system clearly serve a statewide function and should be a state responsibility, as do many other miles of state highway. However, testimony before the Advisory Council indicated that some 2,000 miles of trunk highways are potential candidates for turnback to local government. The Legislature should seriously consider how many miles should be turned back, how the process should be handled, whether overall cost savings would result, and what requirements should be imposed as to pre-turnback improvements.

MAJOR TRANSPORTATION PROJECTS -- FUNDING

Changing the Constitution as part of a comprehensive transportation funding proposal would be divisive and politically challenging.

Although there is considerable support for either loosening dedication of highway user taxes or for constitutionally dedicating another revenue source for transit, there is also considerable opposition. This controversy has helped to doom transportation funding packages that otherwise had broad support in the Legislature.

The Advisory Council believes that a workable funding package can be assembled without changes in the Constitution.

Although statutory, rather than constitutional, dedication of funds runs the risk of subsequent diversion of revenue for non-transportation purposes, the Advisory Council still believes that avoiding constitutional changes offers the best prospect of assembling a politically viable funding proposal.

A sound transportation funding package must provide for preserving the existing transportation system and making necessary short- and mid-term improvements to it, as well as providing for major transportation projects.

As important as major transportation projects are to the economic vitality of the state, they should not be funded if it means that preserving the public's investment in the present transportation system and making needed improvements in present-day service levels would be neglected. Transportation needs must be seen as a whole, even while they are being addressed with separate measures.

The Advisory Council has identified the most important criteria in evaluating funding options as:

- Revenue potential
- Public acceptability
- Potential for having an impact on travel behavior

RECOMMENDATIONS FOR FUNDING TRANSPORTATION NEEDS

The Legislature should increase the present gasoline tax by five cents per gallon and provide for annual indexing of the tax at the rate of inflation in subsequent years.

A five cent tax increase would make up for declines in purchasing power of the gas tax since the last increase in 1988, and allow the state not only to maintain the present level of highway service but also to make a modest expansion in the highway improvement program. Indexing the gas tax to annual changes in the consumer price index would protect this revenue source from future erosions in its purchasing power.

The Legislature should authorize the Metropolitan Council to impose a sales tax of up to one-half cent within the seven-county area to fund transit improvement projects currently identified by the Metropolitan Council, to replace general fund metro transit appropriations (other than Metro Mobility) and to replace the metro transit property tax currently levied by the Metropolitan Council.

A one-half cent sales tax in the region would generate approximately $150 million per year when fully implemented, assuming that it applied to motor vehicles as well as to other purchases. This revenue would take the place of the $80 million in transit property taxes collected in the region each year as well as most of the present (FY 1995) general fund appropriation of $36 million to metropolitan transit. (Metro Mobility, which is funded at about $15 million per year, is a state-mandated program and therefore should continue to be paid for by state general fund appropriations.) It would also make up a projected $8 million deficit in the metropolitan transit budget and make substantial strides toward funding the Metropolitan Council's "vision for transit" to meet the region's transit needs.

Stability is a major issue in transit funding, and the fear that a dedicated revenue source for transit could be "undedicated" by a future legislature is a widespread one. Delegation of the taxing authority to the Metropolitan Council would diminish the likelihood of this kind of diversion and help to insure long-term continuity in funding transit.

The Legislature, Metropolitan Council, and Department of Transportation should take the necessary steps to authorize and eventually implement a system of road pricing to fund major transportation projects by the year 2000.

"Road pricing" is the collection of payments from motorists for the privilege of using a specific highway. The form of road pricing that most persons are familiar with is toll collection at plazas, but technology is now making it possible to electronically record highway use by a particular vehicle and periodically bill the vehicle owner for that use. Road pricing offers the potential to raise money for funding major transportation projects that cannot be funded by other methods (including the methods recommended above), while helping to manage the transportation system to achieve greater efficiency and reduce social costs. It may be implemented statewide or in the metro area only.

Much work remains in order to identify the steps needed to implement road pricing and determine the specific policies that will guide its use. The Advisory Council recommends that these general policies be followed in that process:

- Road pricing should eventually be implemented in the metropolitan area on all freeways and expressways and at all major access points to the region.

- Road prices should attempt to recover the actual cost to the system of each class of vehicle, and also to encourage single-occupant drivers to shift to transit or high-occupancy vehicles during peak periods.

- Implementation of road pricing should be preceded by an environmental impact statement. Where there is private involvement in the construction or operation of a road-priced facility, the cost of the EIS should also be shared between the public and private sectors.

- Projects that involve road pricing should have components to increase transit and HOV use, with road pricing revenues helping to support those components.

- Road pricing should first be undertaken on a demonstration-project basis, possibly using a major river crossing.

- The road-pricing study now being done by MnDOT and the Metropolitan Council should guide the decision as to whether road pricing should be in place during the construction of a major highway project or be implemented only after completion of the project.

Initially, road pricing would probably supplement rather than replace existing highway user taxes as a source of road financing. Eventually, however, it is reasonable to expect that for these projects road pricing would eventually replace highway user taxes as a financing source. In the long run, as envisioned in legislation passed in 1994 (Laws 1994, chapter 635, article 1, section 30), highway user taxes would largely be replaced statewide by an electronically-monitored mileage tax where each vehicle would be taxed directly on the basis of actual miles traveled. Road pricing as a means of funding major transportation projects would be integrated into such a system.

Beyond the funding initiatives already proposed by the Advisory Council, the Legislature should identify a funding source or sources, following the recommended priorities established by the Advisory Council, to support the development of major transportation projects until such time as sufficient road-pricing revenues become available to underwrite those projects.

IV. APPENDIX

A. Meeting Agendas.

B. House Information Brief, "Highway Spending in Minnesota 1972 to 1992."

C. Minnesota Department of Transportation, "Minnesota Transportation Scenarios", Fall/Winter 1992-93.

D. Public Testimony/Written Statements.

The appendix to this report is available upon request.

Please call (612) 296-7681 to receive a copy.
