

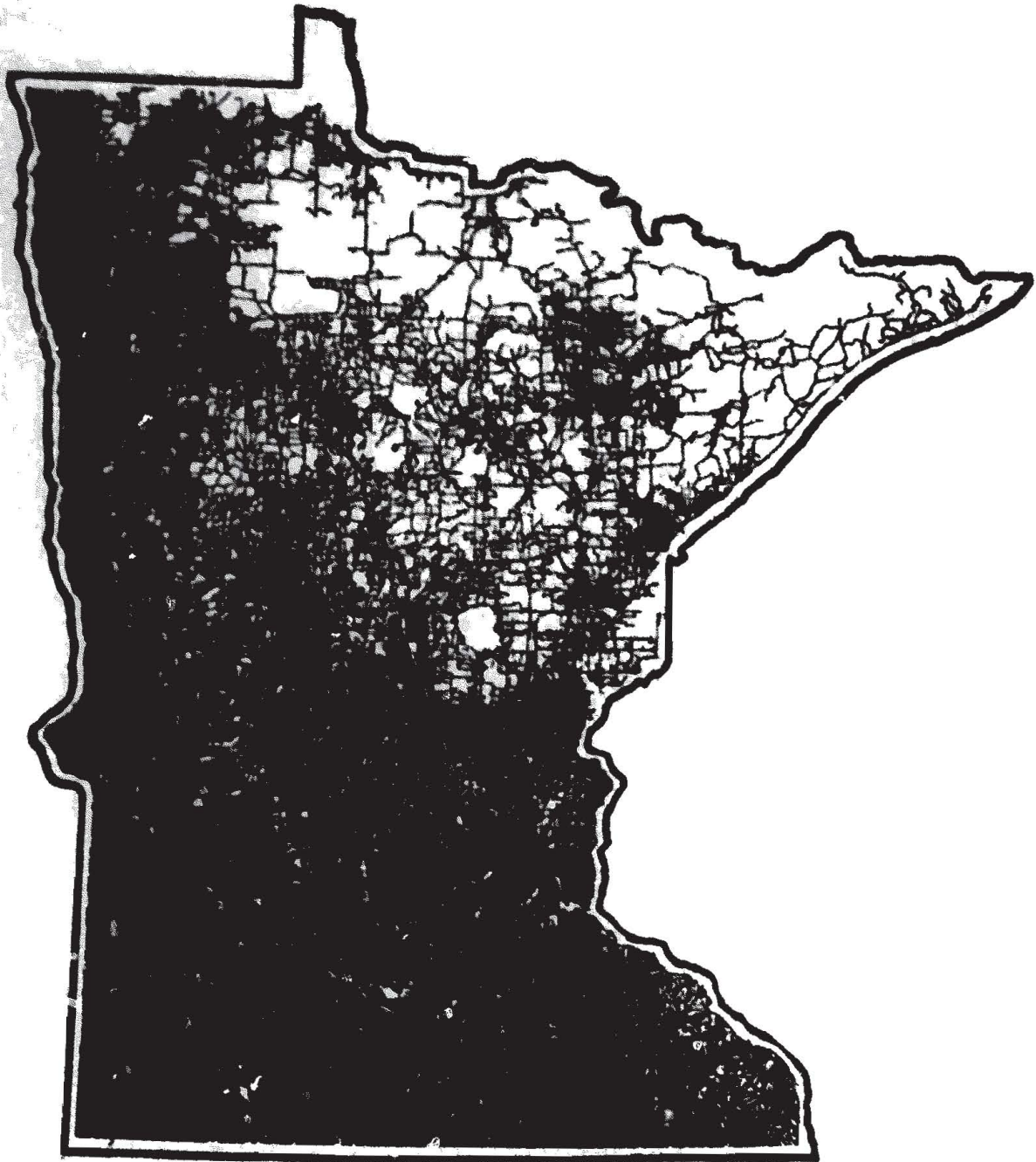
I-39

10 copies

REPORT
of the
LEGISLATIVE
INTERIM COMMISSION
on
HIGHWAY TAXES DISTRIBUTION

Submitted To
THE LEGISLATURE OF THE STATE OF MINNESOTA
September 1, 1956

MINNESOTA'S 121,000 MILE ROAD NETWORK



REPORT
of the
LEGISLATIVE
INTERIM COMMISSION
on
HIGHWAY TAXES DISTRIBUTION



Submitted To
THE LEGISLATURE OF THE STATE OF MINNESOTA
September 1, 1956



Members of the Senate
NORMAN J. LARSON
ARCHIE H. MILLER
C. G. MITCHELL
E. G. NOVAK
HERBERT ROGERS

State of Minnesota
Highway Taxes Distribution Commission

State Capital - St. Paul 1, Minnesota

CHARLES L. HALSTED, Chairman E. G. NOVAK, Vice Chairman
AUDREY W. DIRLAM, Secretary

Members of the House
E. J. CHILDREN
AUDREY W. DIRLAM
CHARLES L. HALSTED
WILLIAM L. SHOVELL
EDWARD J. TOMCZYK

September 1, 1956

To the Governor of the State of Minnesota
and the Members of the Legislature

Gentlemen:

In accordance with Minnesota Laws 1955, Chapter 505,
this Commission submits herewith its report on the dis-
tribution of highway user funds to political subdivisions
of the state.

Respectfully submitted,

Highway Taxes Distribution Commission

By Charles L. Halsted

Charles L. Halsted, Chairman

<u>Audrey W. Dirlam</u>	<u>E. G. Novak</u>	<u>William L. Shovell</u>
<u>C. G. Mitchell</u>	<u>E. J. Children</u>	<u>Herbert Rogers</u>
<u>Edward J. Tomczyk</u>	<u>Norman J. Larson</u>	<u>William L. Shovell</u>

HIGHWAY TAXES DISTRIBUTION COMMISSION

Pursuant to Chapter 585, Laws of Minnesota, 1955, the following members of the Highway Taxes Distribution Commission were appointed by the 1955 Legislature of the State of Minnesota:

Appointed by the Senate

SENATORS

NORMAN J. LARSON
ARCHIE H. MILLER
C. C. MITCHELL
B. G. NOVAK, *Vice Chairman*
HERBERT ROGERS

Appointed by the House

REPRESENTATIVES

E. J. CHILGREN
AUBREY W. DIRLAM, *Secretary*
CHARLES L. HALSTED, *Chairman*
WILLIAM L. SHOVELL
EDWARD J. TOMCZYK

GERALD H. SWANSON
Executive Secretary

The Minnesota Legislative Research Committee provided the necessary stenographic and clerical assistance. As a member of the Committee staff, Mr. Swanson was assigned to the Highway Taxes Distribution Commission.

TABLE OF CONTENTS

Transmittal Letter	3
Members of the Commission.....	4
Background of Commission Report.....	7
Basic Considerations	10
The Development of Highway User Taxes Allocation.....	10
Philosophy of Distribution Under Proposed Article XVI.....	11
Basic Factor in a Distribution Formula.....	11
Highway Classification as Necessary in Distribution.....	11
Use of State-Aid Funds on Tertiary Routes.....	13
The Degree of Perfection in Measuring Need.....	14
Criteria for Selection of Factors.....	14
County Distribution	15
Money Needs Factor.....	15
Mileage Factor	17
Registration Factor	18
Equalization Factor	19
Percentages Applied to Selected Factors.....	19
Disaster Fund	19
Administrative Costs	20
Municipal Distribution	21
Municipalities 5,000 or Over.....	21
Money Needs Factor.....	21
Population Factor	22
Disaster Fund	23
Administrative Costs	23
Municipalities Below 5,000 Population.....	23
Allocation of Highway User Funds.....	25
Appendix	
I. Financial Report	25
II. Act Creating The Commission.....	26
III. Constitutional Amendment No. 2.....	27

BACKGROUND OF COMMISSION REPORT

As in most other states, highways, roads and streets in Minnesota are primarily financed by a tax on motor fuel, a vehicle registration fee and a tax on property within the local road jurisdictions. The only source of tax for the state trunk highway system is the motor fuel tax and registration fee. Local roads and streets are principally financed from the property tax and special assessments. In addition, counties presently receive one-third of the motor fuel tax receipts for use on county-aid and state-aid roads. Municipalities do not receive a direct allocation from these funds.

A recent study undertaken by the Minnesota Highway Study Commission of the 1953-54 biennium focused attention on the status of the state's transportation system. An inventory of needs was conducted as part of this study by the Automotive Safety Foundation which included an appraisal of the existing mileage on the basis of tolerable standards as a minimum requirement for each class of highways, roads and streets. Future road requirements were related to estimated increases in highway use. Also under this study the Public Administration Service submitted a comprehensive report concerning methods of financing a highway program in Minnesota.

As a result of this legislative study completed in the fall of 1954, deficiencies were revealed in several classifications of Minnesota's highway system. It was recommended that to meet the problem of inadequate local roads and streets, and the likelihood of greater deficiencies in the future, constitutional and statutory changes would be necessary in highway classification and in the use of highway user funds comprising the motor fuel and license fee receipts.

In line with this thinking, the 1955 Legislature adopted a proposed constitutional amendment providing for the creation of a single fund composed of highway user revenues to be distributed 62 percent to the trunk highway system, 29 percent to a county state-aid system and 9 percent to a municipal state-aid system.¹ This amendment will be voted on by the electorate in the fall of 1956.

Coupled with the proposed constitutional amendment is the equitable distribution of highway user funds among the

¹See Appendix for: Chapter 882, Minnesota Laws, 1955, Constitutional Amendment No. 2.

local road jurisdictions. For this purpose the 1955 Legislature established the Highway Taxes Distribution Commission "to study the formulation of a fair, equitable and definite formula for use in determining the distribution among the several counties and several cities, villages and boroughs of the state of the proceeds of any gasoline tax or motor vehicle license tax."¹ The statute creating the Commission provided that a report be made to the Legislature not later than September 1, 1956, setting forth its findings as the result of such investigation and study and making such recommendations as it deems necessary to assist the Legislature in the drafting of laws as might be required to provide a fair and equitable distribution of the proceeds of highway user funds among the counties and municipalities of the state.

The ten members appointed to the Commission included five Senators and five Representatives. During the biennium period a total of sixteen meetings were held. A majority of these meetings were arranged to provide time in which interested persons and organizations could present their opinions and information relative to the study. Those governmental units directly affected by the revision of the present provisions of distributing highway user funds cooperated extensively at these meetings. Indicative of this cooperation were the analytical studies incorporating both statistical and theoretical aspects presented by county and municipal bodies. Their material was compiled as a result of meetings held throughout the state to which county and municipal officials were invited as well as local civic, farm, trade and capital improvement organizations.

Final recommendations of formulas for distribution which would best meet the situation on the county and municipal level were reserved until the summer of 1956 at which time all available information necessary to assist in the study of the Commission was reviewed. Each possible factor which could be used as a basis of distribution was discussed and related to certain criteria agreed on by the members as a guide to a useable factor. To assist in the evaluation of technical engineering problems, state and local engineering officials were called on at different times as the need arose. This afforded the Commission a continuing cognizance of the need for a formula which would accomplish both the designated purpose of distribution and readily lend itself to practical administration.

¹See Appendix for: Chapter 585, Minnesota Laws, 1955, Act creating Highway Taxes Distribution Commission.

The recommendations contained in this report, with minor exceptions, were unanimously approved by the Commission. The selected formulas and respective factors were substantiated by complete investigation and study; and therefore, it is believed that if these recommendations are accepted into law, distribution of highway user funds under the allocation provisions of the proposed constitutional amendment can be accomplished with the greatest possible fairness and equity.

The study supplementing this report and the recommendations contained herein were prepared contingent on the passage of Constitutional Amendment No. 2. As the result of the analysis of various formulas the Commission agreed that present constitutional provisions do not facilitate any changes in the current method of distribution through the use of other measurements of need for state aid.

It is the recommendation of the Commission that the expenditure of trunk highway funds between urban and rural areas remain an administrative decision as it presently exists.

The Commission gratefully acknowledges the cooperation received from the County Commissioners Association, County Engineers Association, City Engineers Association, League of Minnesota Municipalities, and in particular the assistance provided by the State Department of Highways through the engineers of the County Division and the Division of Traffic and Planning.

BASIC CONSIDERATIONS

The importance of motor vehicle transportation in Minnesota is depicted every day in the voluminous movement of automobiles and trucks on the highways, roads and streets of the state. To a great extent, the state's economy is geared to the continued movement of goods and people. Traffic is generated as local rural, inter-county, city and inter-state. No one segment of the highway system* is exclusive in its importance; each performs an important and indispensable function with varying degrees of benefit to the general welfare of the state. Those who are responsible for this facet of industry and those who are dependent on its function, need and request better roads, streets and highways.

The Development of Highway User Taxes Allocation

The history of highway development includes a gradual transition from financial dependency on local property assessment to the introduction and increased reliance on taxes levied against the ownership and use of motor vehicles. This was a necessary change as the need for an expanded transportation system arose along with the increased use of automobiles and trucks. Fees for the registration of motor vehicles were originally collected locally; and subsequently, the state administered the collection of these funds, as well as a tax levied on motor fuel, in order to finance the construction and maintenance of a state-wide system of trunk highways.

With the state collection of highway user taxes the total amount of which represented a formidable source of revenue from those directly benefited by an improved transportation system, it became necessary that local road jurisdictions be allocated a portion of these funds. The movement for the apportionment to the counties resulted in the setting aside of one-third of the motor fuel tax for county roads in 1928. Since this constitutional change was made in the disposition of these funds, no readjustment has been found acceptable, yet the need for more road and street funds in the counties and municipalities has continually increased along with the growth of highway transportation.

*Unless otherwise indicated, the use of the term "highways" in this report refers to city streets, county roads and trunk highways.

Within the last decade repeated efforts have been made to change the constitutional provisions governing the division of highway user funds, but it was not until the 1955 Legislative Session that this movement had complete factual data on which to base recommendations for readjustment.¹

Philosophy of Distribution Under Proposed Article XVI

Fundamental to the proposed constitutional amendment is the distribution of state aid to counties and municipalities to foster the establishment of a *balanced* system of highways sufficient to serve the varied types and volumes of traffic.

In allocating state aid to assist the counties, cities, villages and boroughs in carrying out the idea of the proposed state program, it is essential that each unit receive aid in proportion to its relative needs. Distribution by needs in its broadest sense means a measurement of highway mileage, density and type of traffic, unit costs of construction and maintenance, and future changes in these general factors necessitated by variations in highway service. To distribute funds on any other basis would imbalance a state highway program by allocating insufficient funds to some local jurisdictions while others may receive more than enough funds to maintain a designated portion of a state-aid system. Distribution of highway user funds should not perpetuate this latter type of situation. Instead, an apportionment should be according to relative need which will in itself promote a balanced system of better roads and streets.

Basic Factor in a Distribution Formula

It is the recommendation of the Commission that the dollar value of needs furnishes the most equitable and logical distribution ratios among the several counties and cities. This factor should receive the greatest amount of consideration within any selected formula.

Highway Classification as Necessary in Distribution

Essential to the allocation of road user funds collected by the state is the responsibility of the state, counties and municipi-

¹See "Report of the Minnesota Highway Study Commission," December 22, 1954; "Highway Transportation in Minnesota—An Engineering Analysis," Automotive Safety Foundation, September, 1954; "Financing a Proposed Highway Program in Minnesota," Public Administration Service, October 1, 1954.

palities for the construction, maintenance and improvement of roads and streets in the transportation system. This responsibility is the result of legislation designating highway jurisdiction to governmental units which in turn stems from the classification of highways according to their economic importance in the light of traffic service.

In accordance with this concept, the trunk highway system functions as the basic highway network of the state. This system provides inter-city and inter-state routes with the use and economic benefit affecting practically all Minnesotans. The state, therefore, through its Department of Highways is and should be fully responsible for this system. Furthermore, since all highway users as a class have a special interest in the trunk mileage, its entire financial support is and should continue to be derived from taxes levied on highway use.

The second system of highways designated by classification is the county state-aid highway system and the municipal state-aid street system which is provided for in the proposed constitutional amendment. These routes include the more important county roads and municipal streets selected with the viewpoint that they connect trade centers, shopping districts, recreational areas, and points of community interest. In providing such broad services the routes are necessarily more heavily traveled and benefit road users over and above the benefits accruing to abutting property owners. This secondary system is not limited by geographic boundaries. The delineation between service to abutting property owners and the general class of road users indicates that the state and local governments have a primary interest in these routes.

Since there is a combined local and state responsibility for the construction, maintenance, and improvement of the county state-aid highways and the municipal state-aid street system, the state should carry out its responsibility by assisting the counties and municipalities by partially financing these two classes of highways forming the secondary system. Direct support is accomplished through the allocation of state aids and as such is not full support of this system, but is financial payment to execute the state's responsibility. The degree to which either the state or local governments are responsible for this system is immeasurable, and it is subject to legislative policy.

The third segment of the state's transportation system by classification in accordance with principal functions and economic use is the system of local roads and streets commonly designated the tertiary system. Although this consists of the largest mileage in the state, these roads and streets are lightly traveled and are maintained and constructed primarily for land-access purposes and community functions. In view of this limited service the actual cost of these roads should be fully supported by local revenue measures.

While classification of highways according to services rendered and economic benefits can be used to assign responsibility to governmental units, it also forms a useable basis on which highway user funds can be allocated. Allocation of funds in conformity with the needs of highways selected because of their service to the general class of highway users is in agreement with the benefit theory of taxation. In addition, there is a corresponding relationship between highway use and the amount of funds to be expended for the construction and maintenance of selected routes. An exact distinction between highways giving service to the general class of users and those serving special interest groups, such as the abutting property owners, is not necessary. For the purpose of allocating funds to fulfill the state's responsibility, tolerable classification can be accomplished with the presently available knowledge concerning the economic benefit and use of these routes. The determination of needs on this system uniformly throughout the state is possible by the selection of applicable standards developed by highway engineers.

Use of State-Aid Funds on Tertiary Routes

The proposed constitutional amendment does not limit the expenditure of highway user funds to the selected state-aid system.¹ Instead, use of these funds on other roads and streets may be authorized by legislative action. In the study of the Commission it has not been possible to determine to what extent or under what circumstances expenditures on other county roads and municipal streets should be authorized. Actual experience under the allocation of funds provided for in the amendment as well as further information concerning local conditions will be necessary before any general legislation can

¹Refer to proposed Article XVI, Sections 7 and 8.

be enacted. It is the recommendation of the Commission that due regard be given to those instances where a reasonable level of taxation in counties and municipalities does not provide sufficient funds to use on the tertiary system. In such cases, county and municipal state-aid funds should be authorized for expenditure on this mileage outside of the state-aid system.

The Degree of Perfection in Measuring Need

The possibility of mathematical preciseness in a formula is limited. For this reason any formula of distribution should be selected according to its ability to approximate the philosophy of distribution, rather than on the inability to measure exactly certain common-to-all considerations.

CRITERIA FOR SELECTION OF FACTORS

Any number of factors can be used in a formula which will in some way denote the needs of each local road jurisdiction. Each factor, however, has certain characteristics either as an advantage or disadvantage in meeting the basic reason of distribution. It is necessary, therefore, as an initial step to select certain criteria by which to identify those factors which best conform to the purpose of distribution. Among the criteria selected by the Commission were the following:

- (1) The determination of indexes by use of a factor should not be subject to prejudiced influences.
- (2) The factors should be capable of simple and accurate measurement.
- (3) Changes in the need should be accurately reflected.
- (4) The factors should measure the need of the road and where necessary the funds available to meet these needs.
- (5) Variations in road costs should be indicated to provide the same quality of service in different areas.

Few, if any, factors will meet all of the above criteria, but each of the factors selected for county and municipal distribution are compatible within practical limitations and can be fully supported. The measurement of relative needs is influenced by

numerous elements which include generally the geographic, topographic and economic conditions. In order to reflect the effect of these conditions and any future changes, a number of methods of measuring need must be used either as individual factors or as part of a composite factor.

COUNTY DISTRIBUTION

The following factors are recommended for use in a distribution formula for the 87 counties of the state: money needs, mileage, registration, and equalization. Deductions should be made for a disaster fund and administrative costs before any allocation of funds.

Money Needs Factor

The development of a formula based on the relativity of needs in the various counties requires a recognition of the physical structure which is the responsibility of each county. Throughout the state there is wide variation in the unit cost of any given length of road or bidge. This difference is due to the type of soil or base on which the road or bridge is built, the topography, climate, availability of materials, cost of labor and the traffic service requirements. Any formula based on the needs should include a measurement of the effect of these influences. To accomplish this, the factor of highway costs of the secondary system is recommended since it will show the relative construction costs as a measurement of need and will indicate the change in the need if periodic reviews are made. Such reviews should be performed every two years.

Engineering standards have been developed cooperatively by the American Association of State Highway Officials and the Bureau of Public Roads. These standards as used in the needs study of Minnesota are recommended for use in estimating the costs of needed improvements in the county system. An analysis of road requirements based on these standards adjusted to the local characteristics of traffic will subject all counties to the same basic consideration. The difference in the monetary value of the needs will reflect only the difference due to the peculiar economic and transportation condition of each county rather than any variance due to construction policy. No county

will receive funds except as its due share when road needs are compared.

To restrict the factor of construction needs to either the present needs or those of a 15 or 20 year period would tend to penalize those counties which in the past have maintained a high level of taxation and construction programs in an attempt to keep abreast of traffic conditions. Counties following a limited program would receive direct compensation for this difference in taxation and construction programs. This penalizing action can be eliminated by projecting the construction needs to a 25 year period which on the average approximates the theoretical time within which it would be necessary to replace all roads on a selected system.

The third step in the derivation of money needs following the setting-up of road and bridge standards and the period of analysis is the segregation of segments of the county mileage on the secondary system according to traffic requirements. The cost of each group of miles can then be established by taking into consideration the cost of the various items required by construction according to ruggedness of terrain, scarcity of materials, labor costs, soil composition, and the impact of other economic conditions. The construction needs estimates should include expenditures which are necessary for the improvement of county roads routed over city streets in places under 5,000 population, and the center 24 feet of such streets in places of 5,000 population and over. The total needs of each traffic group by county represents the basic needs of those counties. This will require a resurvey of the county state-aid system. The resurvey should be done through the cooperation of the county engineers and the commissioner of highways. It is recommended that the commissioner of highways make or cause to be made such a resurvey in accordance with state-aid rules and regulations; that a committee of county engineers appointed by their membership review and screen the cost factors submitted by each county; and following this, that final approval of the needs index should be the responsibility of the commissioner of highways.

With the total estimated costs known on the secondary system for each county and the state as a whole, it is possible to make a comparison to indicate the extent to which available highway user funds would meet these costs. While a portion of the cost of construction would be borne by the future road-

user fund, the residual would remain as the counties' liability. In order to measure the extent to which the counties can meet this liability a 2-mill levy on the rural counties total valuation and a 1.2-mill levy for urban counties should be used. The funds produced by this levy in each county subtracted from the total costs would represent the county money needs factor.

In the analysis of various factors, weights of factors and other combinations, it was immediately recognized that the proposed formula would insure all but a few counties of a minimum increase of at least 10 percent over their last allotment. It was determined advisable to establish a special factor that would insure this minimum of additional assistance to each county. A special factor incorporated into the formula would bring all counties a minimum of 10 percent over their last allotment and provide for a proportionate sharing of any future increase in road-user funds. This special factor must, therefore, continue to be recognized as an integral part of the formula, and be retained as a necessary constant adjustment for each of the several counties to which it is applied, until such time as new factor values under this formula are developed.

Mileage Factor

The direct allocation of highway user funds to the counties under the proposed constitutional amendment is primarily for the construction and maintenance of a county state-aid system. The method of determining the county mileage to be included in this system is to be provided by legislative action within the broad restriction that it shall provide for an "integrated and coordinated highway system." Its selection is a necessary step in the distribution of highway user funds. Because of the wide range of service provided by local roads and the still greater difference in economic value to the state or county, allocation of funds according to total mileage of all county roads would not be a valid counterpart of an equitable formula.

Since the application of the standards whereby such a system can be established requires experienced personnel having knowledge of traffic patterns, the selection of the secondary system of county roads should be accomplished by the individual boards of county commissioners in cooperation with the commissioner of highways. The Commission recommends as a guide to the selection of this system the following generally accepted

criteria which were also recommended by the Automotive Safety Foundation; the mileage included in the county state-aid system should:

1. Carry relatively heavier traffic volumes.
2. Connect towns, communities, shipping points, and markets within a county or in adjacent counties.
3. Serve as principal arteries of rural mail routes, school bus routes and farm to market roads.
4. Provide access to rural churches, schools, and community meeting halls.
5. Act as collectors of traffic from several roads of individual interest.
6. Occur at reasonable intervals consistent with the density of population.

The use of this selected mileage factor also reflects the maintenance costs which under ordinary operating conditions are assumed to be fairly equal throughout the state; thus a county having greater mileage will receive a greater sum of money to compensate for added maintenance costs.

Registration Factor

The number of vehicles using a selected system of transportation is a good indication of the relative importance of the system, as well as the method of measuring both the highway user revenue received from the system and the relative deterioration due to its use. Neither mileage of county secondary roads nor money needs will substantially indicate relative use. In order to apply a factor wherein a measure of road use is considered, registration of motor vehicles has been selected as a third consideration. Although it is generally accepted that vehicle miles more accurately measures the relativity of road use and revenue, these figures while being available over rural county roads are not presently tabulated on municipal extensions. Registration is the next best factor.

Each county accredited with its proportionate share of the total motor vehicle registration recorded by place of residence will be compensated for the relative importance of the secondary system within its boundaries.

Equalization Factor

All counties experience certain needs that are not measured by the factors of money needs, mileage, or registration. Among these are costs which arise out of administration which include the employment of a staff and expenditures for supplies. Inter-county traffic is another aspect of county needs that is not directly measured in the other factors. An equal division of a portion of available funds to each county will partially compensate each county for these additional needs.

Percentages Applied To Selected Factors

Precise mathematical indicia of the relative need for each county according to physical requirements, traffic volumes, mileage and intangible influences cannot be accomplished in a distribution formula. Equitable distribution, however, can be approximated through the use of scientific highway and traffic engineering practices in estimating the needs, and by the selection of those considerations which more accurately measure the importance of each county system according to use and the ability of the county to provide the required system.

The fairness of a formula can also be met through the selection of the weight which each factor is to receive in the formula. The difficulty of accomplishing this final phase of developing an equitable formula is diminished by the fact that the factors themselves have been selected because of their peculiar ability to reflect county needs. It is a matter of rating the factors according to the ability to comprehend the total requirements. With this in mind, the following percentages are recommended:

Money needs factor:	50%
Mileage factor:	30%
Registration factor:	10%
Equalization factor:	10%

Disaster Fund

The likelihood of extenuating disaster in any one county affecting the status of roads and bridges warrants recognition in the disposition of highway user funds. Past experience has shown that the effectiveness of each county portion of the transportation system can be abruptly curtailed or even destroyed by the

advent of flood or other calamity. In such a case, no county should be expected to pay the entire cost of repair or reconstruction by local assessment on a system which is in itself both a state and local government responsibility. It is recommended that a revolving fund of \$300,000 be created from the total highway user funds available to the counties for allocation in the case of any hardship that a county might encounter beyond normal conditions. Allocation of this fund should be accomplished by requiring the county board of each county desiring additional aid to present a request to a committee composed of three county engineers and three county commissioners appointed by the commissioner of highways. This committee, then, should determine whether or not additional aid would be justified on the basis of the request, additional information filed, and if necessary, actual examination of the area. Final approval should be the responsibility of the commissioner of highways.

Administration Costs

The responsibility of administering the proposed distribution of highway user funds and providing the necessary technical supervision including costs of approving disaster allocations by the State Highway Department requires the establishment of a state-aid division to carry out the intent of the constitutional amendment. The cost of providing this service should be deducted from the total county state-aid funds available before any distribution is made. During the Commission's study, it has not been possible to determine the exact amount of funds that will be necessary to finance this division; however, operational experience will provide the necessary information. Items of costs to be included in the operation of the division depend on the extent of assistance and work performed. The state-aid division will be responsible for the development of information pertinent to an adequate road and street program including the giving of assistance on traffic, engineering and management problems. It is believed that a deduction of not to exceed 1½ percent from the county share of the user fund should go toward the financing of this state-aid division.

MUNICIPAL DISTRIBUTION

Municipalities of 5,000 or Over

The following factors are recommended for use in a formula for distribution of highway user funds to municipalities with a population of 5,000 or more: money needs, and population. Deductions should also be made for a disaster fund and administrative costs prior to any allocation.

Money Needs Factor

The significance of the money needs factor as a comparison of construction and maintenance needs in evaluating the relative position of mileage within road jurisdictions continues within the municipal areas. No other basis can more equitably and fairly compare the states responsibilities in the numerous cities over 5,000 population. To establish this index a similar procedure is necessary as in the county formula; that is, the system should be selected, an engineering survey made and a comparison of the respective totals for each municipality.

As previously stated the state's responsibility for certain highways within the local road jurisdiction is based on the type of traffic service afforded by the local streets. Where a street functions to collect and disperse major traffic within the municipalities and provides access to business establishments as well as the state-aid and trunk highway systems, it becomes important to the general class of motor vehicle owners and operators that the street is adequately constructed and maintained. This service is paramount to any incidental benefits to abutting land owners, and it affords the state a large amount of revenue through the use of taxation of motor vehicles. For the purpose of distributing highway user funds to insure the adequacy of these streets, each municipality of 5,000 population and over should submit a tabulation of the street mileage which it requests as a part of the secondary system for review and approval by the commissioner of highways. These streets should be selected on the basis of criteria developed by the commissioner of highways in the light of fostering a balanced street program throughout the state's metropolitan areas.

Subsequent to the establishment of the system, the actual construction and maintenance needs of the municipal state-aid street system require an extensive engineering analysis by the

city engineer in each metropolitan area. Development of this factor is premised on an original evaluation of the selected mileage according to the various cost factors affecting the price of construction and maintenance. Each segment of the system should be analyzed according to the amount of traffic served, the type of traffic, widths required and the intensity of maintenance. The survey should include the cost of drainage, lighting, and right-of-way acquisition as well as the costs attributable to the construction and maintenance of bridges. A resurvey should be made every two years.

Construction needs and other highway costs analyzed in the needs survey should be projected over a 25 year period. If not, past construction and maintenance policies may be reflected in the total needs to the disadvantage of cities which have administered a better than average street program.

The estimate of needs within all the municipalities with a population of 5,000 or more should be conducted in accordance with construction and maintenance criteria determined by the city engineers in cooperation with the commissioner of highways. It is recommended that the commissioner of highways make or cause to be made a resurvey of needs in accordance with state-aid rules and regulations; that a committee of municipal engineers appointed by their membership review and screen the cost factors submitted by each municipality; and following this, that final approval of the needs index should be the responsibility of the commissioner of highways. Each municipality should be allocated aid under this consideration on the basis of its total needs as compared to the total needs in all municipalities with a population of 5,000 or more.

It is recommended that of the available funds for municipalities with a population of 5,000 or more, 50 percent should be allocated by use of the money needs factor.

Population Factor

The remaining 50 percent of the municipal state-aid fund should be allocated among the municipalities with a population of 5,000 or more on the basis of the respective population as shown by the last decennial census. In the absence of other available and useable factors showing a fair representation of economic benefits, population of the cities indicates on a uniform

basis the relative importance of motor vehicle transportation and the need for state-aid.

Disaster Fund

In order to maintain a balance of transportation efficiency in the various municipalities as well as in the counties of the state, it is necessary to include a disaster fund in a distribution formula. It is believed that a 2 percent allocation from the total available funds for distribution to the municipalities with a population of 5,000 or more would be sufficient to provide this financial flexibility in the form of additional aid to supplement the cost of repair and reconstruction necessitated by flood or other calamity. To avoid the possibility of building up excessive amounts in this fund, whenever the 2 percent allocation will bring the total in the fund to an amount exceeding 5 percent of the current net amount in the municipal street fund, only that amount necessary to maintain the 5 percent figure should be added.

Allocation of the disaster fund to those municipalities which have experienced damage to their state-aid street system under emergency circumstances should be administered by requiring an application of the city council to a committee of three municipal engineers and three councilmen appointed by the commissioner of highways. Final approval of the request should rest with the commissioner of highways.

Administrative Costs

In the metropolitan areas strategic routes are important links in the secondary system. As such, they should be designated with careful planning in the light of present and future traffic requirements. For the purpose of extending the municipalities similar supervision and assistance as that given to the counties, and to aid in the development of necessary master engineering plans, it is recommended that an amount of not to exceed 1½ percent be deducted from the municipal state-aid fund to go toward the financing of the state-aid division in the Highway Department.

Municipalities Below 5,000 Population

In order that the movement of traffic in all areas can be accomplished with the least amount of congestion and incon-

venience, a statewide system of primary roads and streets should include selected streets in the municipalities less than 5,000 population. The proposed constitutional amendment in providing for assistance in the maintenance and construction of local roads and streets provides that the county state-aid system shall include in its total mileage those streets in places of less than 5,000 population where necessary to provide an integrated and coordinated highway system. These streets should be selected according to the general criteria that they must connect the focal points of traffic interest within a city, or provide an important link in the communications with other communities and the outlying areas. They should be designated as municipal portions of the county state-aid system through the cooperation of the municipal councils and the county boards. Final approval of the selected routes should rest with the commissioner of highways.

The 29 percent apportioned to the counties should include an allocation to the approved state-aid routes through municipalities of less than 5,000 persons. The amount of state aid to be specifically earmarked within each county for expenditure on these municipal routes should be determined and separately allocated by the commissioner of highways in the ratio that the needs of these municipalities bears to the total needs of the county within which they are located. These needs should be determined in a manner similar to the determination of needs on county state-aid highways outside the municipalities.

Total funds available to any one municipality will not in many instances be sufficient to make an appreciable difference in available funds as compared to necessary expenditures. Direct allocation each year to all municipalities, therefore, would defeat any program for extensive improvement in some areas. Because of this, user funds allocated to the counties for use in the municipalities below 5,000 population should be expended at the discretion of the county board.

To insure the expenditures of these funds in the municipalities less than 5,000 population and the development of long range street plans, it is recommended this portion of the funds allocated for use by the counties be retained in a municipal account and, except as provided by law, be expended within these municipalities. A separate state-aid report for this municipal account should be filed with the commissioner of highways in the form required by him.

Allocation of Highway User Funds

The Commission recommends that the county state-aid fund and the municipal state-aid fund be allocated to the respective recipients by the commissioner of highways. It is further recommended that the funds be apportioned on or before January 1 of each year and be released in accordance with state-aid rules and regulations that the commissioner deems necessary.

APPENDIX I

Financial Report

The expenses received and incurred by the Commission are as follows:

EXPENDITURES	
Office Salaries and Expenses.....	\$5,288.45
Members' Expenses	3,110.17
Miscellaneous	69.50
	<hr/>
Total.....	\$8,468.12

Estimated obligations of the Commission which have been budgeted yet not paid are as follows:

Printing of Report.....	\$1,000.00
Additional Expenses	1,449.00
	<hr/>
Total.....	\$2,449.00

A complete report will be made to the Legislature when all expenses are paid.

APPENDIX II

MINNESOTA SESSION LAWS OF 1955, CHAPTER 585

AN ACT

CREATING AN INTERIM COMMITTEE TO INVESTIGATE AND STUDY ALL MATTERS RELATING TO THE DISTRIBUTION AMONG COUNTIES AND AMONG OTHER MUNICIPALITIES AND RATIO OF EXPENDITURE BETWEEN URBAN AND RURAL UPON TRUNK HIGHWAYS OF THE PROCEEDS OF ANY GAS OR MOTOR VEHICLE TAX AVAILABLE THEREFOR UNDER PRESENT PROVISIONS OF THE CONSTITUTION OR AS MAY BE AUTHORIZED BY ANY AMENDMENT TO THE CONSTITUTION SUBMITTED BY THIS SESSION OF THE LEGISLATURE, TO MAKE SUCH RECOMMENDATIONS AS THE FACTS MAY WARRANT, AND APPROPRIATING MONEY FOR THE PURPOSE OF THIS ACT.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. A Commission is hereby created to investigate and study all matters relating to:

(1) The formulation of a fair, equitable and definite formula for use in determining the distribution among the several counties of the state of the proceeds of any gasoline tax or motor vehicle license tax now available for distribution among the counties for highway purposes under Articles 16 and 9 of the Constitution or such as may be available for distribution among the counties by reason of any proposed amendment of the Constitution concerning said matters submitted by this session of the legislature.

(2) The formulation of a fair, equitable and definite formula for use in determining the distribution among the several cities, villages and boroughs of the state of the share of the proceeds of any gasoline tax or motor vehicle license tax made available to the cities, villages and boroughs or any of them as the case may be for highway purposes by reason of any proposed amendment of the Constitution submitted by this session of the legislature.

(3) The necessity, propriety and advisability of further regulating by law the expenditure of trunk highway funds so as to provide for the amounts or proportions thereof that permissibly may or mandatorily must be expended in the construction and maintenance of trunk highways both outside of and within the corporate limits of cities, villages and boroughs and such other and further regulation by law concerning the expenditure and use of said fund in the construction and maintenance of trunk highways as this Commission shall deem necessary, expedient or advisable considering first the trunk highway fund as it now is established by Article 16 of the Constitution consisting of two-thirds of the gas tax and second considering separately any trunk highway fund made up of all or part of any gas or motor vehicle tax made available for trunk highway purposes by reason of any proposed amendment of the Constitution submitted by this session of the legislature.

Sec. 2. The Commission shall make a comprehensive, detailed and complete investigation and study of all the factors and circumstances incidental to and reasonably necessary for its determination of what further regulations by law, if any, should be imposed on the expenditure of trunk highway funds within and outside of cities, villages and boroughs and otherwise and for its determination of a formula for an equitable, fair, reasonable and just distribution of the proceeds of any gas or motor vehicle license tax among the several counties of the state and among the several cities, villages and boroughs of the state all within the mandate of the Constitution of this state as it is now written and also under any proposed amendment to the Constitution submitted by this session of the legislature.

Sec. 3. The Commission hereby created is to consist of five members of the Senate to be appointed by the committee on committees and five members of the

House of Representatives to be appointed by the speaker. The appointment of such Commission shall be made upon the passage of this act. Any vacancy that may occur in the membership of the Commission shall be filled by the appointing power.

Sec. 4. The Commission may hold meetings at such times and places as it may designate. It shall select a chairman, a vice-chairman and such other officers from its membership as it may deem necessary.

Sec. 5. The Commission may subpoena witnesses and records, and employ such assistants as it deems necessary to effectually perform its duties. It may do all the things necessary and convenient to enable it to adequately accomplish its purposes.

Sec. 6. The Commission shall make a report to the Legislature not later than September 1, 1956, setting forth its findings as a result of such investigation and study and shall make such recommendations as it deems proper in an effort to assist the Legislature in the formulation of a fair and just system and formula for the distribution among the several counties and among the several cities, villages and boroughs of the state of the proceeds of said gasoline and motor vehicle taxes and what if any further or other regulation by law should be imposed concerning the expenditures made from the trunk highway fund in the construction and maintenance of trunk highways generally and their expenditures and the amount or proportion thereof to be made within or outside of cities, villages and boroughs.

Sec. 7. The members of the Commission shall be reimbursed for all expenses actually and necessarily incurred in the performance of their duties.

Sec. 8. The sum of \$10,000 is hereby appropriated from the trunk highway fund in the state treasury and \$10,000 is hereby appropriated from the state road and bridge fund in the state treasury or proportionately so much thereof as may be necessary all to the Commission in this act created for use in performing the duties imposed under the provision of this act. For the payment of such expenses the Commission shall draw its warrants upon the state treasurer, which warrants shall be signed by the chairman and at least two other members of the commission and the state auditor shall then approve and the state treasurer pay such warrants as and when presented. A general summary or statement of expenses incurred by the Commission and paid shall be included with the commission's report.

Approved April 20, 1955.

APPENDIX III

MINNESOTA SESSION LAWS OF 1955, CHAPTER 882

AN ACT

PROPOSING AN AMENDMENT TO THE CONSTITUTION OF THE STATE OF MINNESOTA BY INCLUDING A CONSOLIDATED ARTICLE ON PUBLIC HIGHWAYS, PROVIDING FOR SYSTEMS OF PUBLIC ROADS TO BE CONSTRUCTED, IMPROVED AND MAINTAINED BY THE STATE, COUNTIES AND MUNICIPALITIES; AUTHORIZING THE STATE TO CONSTRUCT AND MAINTAIN TRUNK HIGHWAYS AND AID IN THE CONSTRUCTION AND MAINTENANCE OF OTHER PUBLIC HIGHWAYS; ESTABLISHING AND AUTHORIZING THE CREATION OF A FUND FOR SUCH PURPOSES BY THE TAXATION OF MOTOR VEHICLES AND MOTOR FUEL; THE ISSUANCE OF BONDS FOR SUCH PURPOSES AS TO TRUNK HIGHWAYS; CONSOLIDATING AND COMBINING THE SEVERAL PROVISIONS OF THE CONSTITUTION RELATING THERETO INTO A SINGLE ARTICLE TO BE KNOWN AS ARTICLE XVI TAKING THE PLACE OF PRESENT ARTICLE XVI, ARTICLE IX, SECTION 16, AND REPEALING INCONSISTENT PROVISIONS OF THE CONSTITUTION.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. An amendment to the constitution of the State of Minnesota is proposed to the people of the state for their approval or rejection, which amendment if adopted shall be known as Article XVI and shall take the place of present Article XVI and Article IX, Section 16. The proposed amendment reads:

ARTICLE XVI

Section 1. Subject to the limitations of this article the state may establish, locate, construct, reconstruct, improve and maintain public highways and may assist political subdivisions in such work.

Sec. 2. There is hereby created a trunk highway system which shall be established, located, constructed, reconstructed, improved and maintained as public highways by the state. Said trunk highway system shall consist of the trunk highway routes numbered 1 through 70 described in the constitutional amendment adopted November 2, 1920, the trunk highway routes added to said foregoing routes by the legislature prior to the effective date of this article, and such additional routes as may be added to the trunk highway system hereby created pursuant to authority in this article contained. The said highways shall extend as nearly as may be along the routes number 1 through 70 described in said constitutional amendment adopted November 2, 1920, and the routes described in any act of the legislature which has made or will hereafter make a route a part of the said trunk highway system. The more specific and definite location of said routes shall be fixed and determined by such boards, officers or tribunals and in such manner as shall be prescribed by law, but in fixing such specific and definite routes there shall not be any deviation from the starting points or terminals set forth in said routes nor shall there be any deviation in fixing such routes from the various villages and cities named therein through which such routes are to pass.

The legislature may add by law new routes to said trunk highway system. Said trunk highway system shall not exceed 12,200 miles in extent, provided however that the legislature may add by law trunk highways to said system in excess of said foregoing mileage limitation as the legislature may determine as necessary or expedient to meet, use, or otherwise take advantage of any federal aid made available by the United States to the State of Minnesota for highway purposes.

Any route added by the legislature to the trunk highway system either prior or subsequent to the effective date of this article may be altered, amended, relocated, changed or removed from said system, as provided by law. The definite location of said trunk highways number 1 through 70 heretofore fixed pursuant to this article may be thereafter changed and relocated as provided by law but no such change or relocation shall be authorized which would cause a deviation from the starting points or terminals set forth in said routes nor cause any deviation from the various villages and cities named therein through which such routes are to pass.

Sec. 3. The legislature is hereby authorized to provide by law for the establishment of a system of county state-aid highways. The county state-aid highway system shall be established, located, constructed, reconstructed, improved and maintained by the counties as public highways in such manner as shall be provided by law. Such system shall include streets in cities, villages, and boroughs of less than 5,000 population where necessary, as provided by law, to provide an integrated and co-ordinated highway system and it may include similar streets in other cities, villages, and boroughs. The county state-aid highway system as herein authorized shall not exceed 30,000 miles in extent, provided however that said limitation of 30,000 miles may be increased or decreased by the legislature by law.

Sec. 4. The legislature is hereby authorized to provide by law for the establishment of a system of municipal state-aid streets within cities, villages and boroughs having a population of 5,000 or more. The municipal state-aid street system shall be established, located, constructed, reconstructed, improved and maintained as public highways by such cities, villages and boroughs in such manner as shall be provided by law. The municipal state-aid street system as herein authorized shall not exceed 1,200 miles in extent, provided that said limitation of 1,200 miles may be increased or decreased by the legislature by law.

Sec. 5. There is hereby created a fund which shall be known as the highway user tax distribution fund. The highway user tax distribution fund shall be used solely for highway purposes as specified in this article. Said fund shall consist of the proceeds of any taxes authorized to be imposed by sections 9 and 10 of this article. After the deduction of collection costs as provided by law and the payment of refunds authorized by law, the net proceeds of such taxes shall be transferred to the following funds in the following proportions: 62 percent to the trunk highway fund; 29 percent to the county state-aid highway fund; nine percent to the municipal state-aid street fund. After January 1, 1963, the legislature is authorized to provide by law that five percent of the net proceeds of the highway user tax distribution fund may be set aside and if so set aside shall be apportioned as provided by law to one or more of the three foregoing funds on such basis as the legislature may determine. After said five percent may have been so set aside the balance of the highway user tax distribution fund shall in all events be transferred to the trunk highway fund, the county state-aid highway fund, and the municipal state-aid street fund in accordance with the percentages hereinbefore set forth. No change in the apportionment of the proceeds so set aside shall be made within six years of the commencement of the year in which the last previous change occurred.

Sec. 6. There is hereby created a trunk highway fund which shall be used solely for the purposes specified in section 2 of this article and the payment of principal and interest of any bonds which may be issued under the authority of section 12 of this article and any bonds issued for trunk highway purposes under the constitution prior to July 1, 1957. All payments of principal and interest on any such bonds issued shall be a first charge on moneys coming into this fund during the year in which such principal or interest is payable. The fund created by this section shall also be used for the carrying on of work undertaken and the discharge of obligations incurred payable out of or chargeable to the trunk highway fund or the trunk highway sinking fund constituted and established by the constitution prior to July 1, 1957, and all moneys in said funds on the effective date of this article are hereby transferred to the fund created by this section.

Sec. 7. There is hereby created a county state-aid highway fund. Such fund shall, in addition to the share of the highway user tax distribution fund transferred to it by section 5, receive and include all moneys accruing from the income derived from investments in the internal improvement land fund. All moneys in the state road and bridge fund as constituted and established by the constitution prior to July 1, 1957, are hereby transferred on the effective date of this article to the fund created by this section. To render aid for highway purposes the county state-aid highway fund shall be apportioned among the counties as provided by law. Except as provided herein, the funds apportioned shall be used by the counties as provided by law for aid in the establishment, location, construction, reconstruction, improvement and maintenance of county state-aid highways. The legislature may authorize the counties as provided by law, to use a part of said funds so apportioned to them to render aid in the establishment, location, construction, reconstruction, improvement and maintenance of other county highways, township roads, municipal streets, and any other public highways, including but not limited to trunk highways and municipal state-aid streets within the respective counties.

Sec. 8. There is hereby created a municipal state-aid street fund. To render aid for highway purposes the municipal state-aid street fund shall be apportioned as provided by law among the cities, villages and boroughs having a population of 5,000 or more. Except as provided herein, the funds apportioned shall be used by such cities, villages and boroughs as provided by law for aid in the establishment, location, construction, reconstruction, improvement and maintenance of municipal state-aid streets. The legislature may authorize such cities, villages and boroughs, as provided by law, to use a part of said funds so apportioned to them to render aid in the establishment, location, construction, reconstruction, improvement and maintenance of other municipal streets and any other public streets, including but not limited to trunk highways within such cities, villages and boroughs and county state-aid highways within the counties wherein such cities, villages and boroughs are located.

Sec. 9. The legislature is hereby authorized to provide by law for the taxation of motor vehicles using the public streets and highways of this state on a more

onerous basis than other personal property; provided, however, that any such tax on motor vehicles shall be in lieu of all other taxes thereon, except wheelage taxes imposed by political subdivisions solely for highway purposes and except that the legislature may impose such tax upon motor vehicles of companies paying taxes under gross earnings system of taxation and upon the right to use such vehicles upon the public highways notwithstanding the fact that earnings from such vehicles may be included in the earnings of such companies upon which such gross earnings taxes are computed. Any such law may, in the discretion of the legislature, provide for the exemption from taxation of any motor vehicle owned by a nonresident of the state, but properly licensed in another state, and transiently or temporarily using the streets and highways of the state. The proceeds of such tax shall be paid into highway user tax distribution fund.

Sec. 10. The state may levy an excise tax upon any substance, material fluid, force or other means or instrumentality, or the business of dealing in, selling or producing any or all thereof, used or useful, in producing or generating power for propelling motor or other vehicles used on the public highways of this state. The proceeds of such tax shall be paid into the highway user tax distribution fund.

Sec. 11. The legislature may authorize any political subdivision, upon such terms, conditions and in such manner as shall be provided by law, to aid or lend aid in the establishment, location, construction, reconstruction, improvement and maintenance of trunk highways within their respective boundaries. The enumeration as in this section contained of the power of the legislature to authorize political subdivisions to participate in trunk highway work shall never operate or be construed so as to limit, prejudice or curtail in any degree or manner whatsoever any power or authority now vested in the legislature concerning or relating to any other public highways.

Sec. 12. The legislature may provide by law for the issue and sale of the bonds of the state in such amount as may be necessary to carry out the provisions of section 2 of this article; provided, however, that the total amount of such bonds issued and unpaid shall not at any time exceed \$150,000,000, par value. The proceeds of the sale of such bonds shall be paid into the trunk highway fund. Any bonds so issued and sold shall mature serially over a term not exceeding 20 years. They shall not be sold for less than par and accrued interest and shall not bear interest at a greater rate than five percent per annum. In case the trunk highway fund shall not be adequate to meet the payment of the principal and interest of the bonds authorized by the legislature as hereinbefore provided, the legislature may provide by law for the taxation of all taxable property of the state in an amount sufficient to meet the deficiency, or it may, in its discretion, appropriate to such fund moneys in the state treasury not otherwise appropriated.

Sec. 13. Article XVI and Article IX, section 16, are hereby superseded in their entirety; and any and all provisions of the constitution of the State of Minnesota inconsistent herewith are repealed so far but only so far as the same prohibit or limit the power of the legislature to enact laws authorizing or permitting the doing of the things hereinbefore authorized.

Sec. 14. This article shall take effect on the first day of July, 1957.

Sec. 2. The proposed amendment shall be submitted to the people of the state for their approval or rejection at the general election for the year 1956 in the manner provided by law for the submission of amendments to the constitution, and the votes thereon shall be counted, canvassed, and the result thereof proclaimed as provided by law. The ballots used at this election shall have printed thereon the following:

"Shall the Constitution of the State of Minnesota be amended by including a consolidated article on public highways, establishing and continuing the trunk highway system which is to be constructed and maintained by the state, authorizing the issuance of bonds for trunk highway purposes; authorizing the state to aid in the construction and maintenance of other public highways; authorizing the taxation of motor vehicles and the levying of an excise tax on motor fuel to create a fund for highway purposes, and apportioning the moneys in said fund for highway purposes as follows: 62 percent to the trunk highway fund, 29 percent to the county state-aid highway fund, and nine percent to the municipal state-aid street fund?"

Yes No

Approved April 25, 1955.