



Minnesota's Transportation System

A guide to the essentials
2010



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Transportation is Critical

Our transportation infrastructure forms the backbone of our state economy. The movement of people and goods is dependent upon a safe and efficient transportation system. The quality of our highways, transit systems, ports, and rail systems impacts:

- **Economic Development** – Businesses and industries need a transportation system that will ship products to market and workers to the job in a safe and efficient manner. Our ability to attract and retain businesses is impacted by the condition of our transportation system. *Congestion costs the country over \$78 billion in wasted time and fuel each year.*
- **Safety** – Crumbling infrastructure and roadways with safety hazards contribute to injuries and fatalities on our roads and bridges. *In Minnesota, close to 500 people, on average, lose their lives on our highways.*
- **Quality of life** – Wasting time and money stuck in traffic, choking on air pollution or finding yourself stranded with no way to get around hurts the quality of life we offer in Minnesota. *The transportation system impacts people's lives every day.*

Transportation Investments Create Jobs

Investing in our transportation system will:

- Put people back to work in construction, engineering and maintenance positions; retaining highly skilled members of the workforce who earn family-wage salaries;
- Address growing safety and mobility needs on our aging transportation infrastructure that continue to grow and become more expensive each year;
- Maintain the value of the transportation assets that state and local governments own thanks to the investments made by taxpayers in the past;
- Provide the quality transportation network that businesses and industries require in order to compete effectively and thrive in our state.

On the national level, ever \$1 billion of investment creates almost 35,000 jobs in highway construction and related industries while \$1 billion of annual investment in public transit can lead to more than \$1.7 billion of net annual additional GDP due to cost savings.

As people go back to work in construction and other transportation industries, those wages are spread throughout communities, improving the state's economy and helping to bolster tax collections that can reduce the state's general fund deficit.

Everyone in the State of Minnesota relies on the transportation system. Whether someone drives, takes the bus, runs a business or simply needs products delivered to the local pharmacy and grocery store, we all need a safe, integrated transportation network to get around and live our lives.

Now is the time to make strategic investments in public infrastructure:

- **Bids are coming in significantly lower than original engineer's estimates**
- **Interest rates are low**

The Cost of Doing Nothing

Minnesota's population is projected to increase by at least one million people over the next 15 years. These new residents will generate over 4 million additional trips every day on our highways. Our population is also aging and with high fuel prices, people are looking for options. The state's unemployment rate is a concern while bridges have been closed due to wear and tear on aging infrastructure.

If action is not taken to increase investments, we can look forward to:

- **Continuing deterioration of the system.** Our transportation system is aging, requiring increasing investments just to maintain its current condition, much less improve it.
- **Little improvement in reducing traffic crashes and fatalities**
- **Growing congestion** that will cost businesses money and residents precious time with family and friends.
- **Increased costs due to project delays.** The longer it takes to address bottlenecks, build new bridges, provide more transitways and expand two-lane highways with safety problems, the more expensive those projects become for taxpayers. *Every year of delay adds to the cost of a project as inflation in the cost of materials has skyrocketed.*

Minnesota's Transportation System

Minnesota's transportation infrastructure consists of:

- Roadways
- Transit Systems
- Ports and Waterways
- Railroads
- Airports

Roadways – From township roads to city streets to county highways to the interstate system, roadways form the backbone of our transportation system, allowing people to move within communities while providing key connections between regional centers and other states. The roadway system consists of:

- ❖ **Trunk Highway System** – Consists of 11,882 miles (29,227 lanes miles) of highway including the interstate system.
- ❖ **County Highway System** – Consists of 44,946 miles (91,072 lane miles) of highway including 30,543 miles on the County State Aid system.
- ❖ **City Street System** – Consists of 22,020 miles (44,855 lanes miles) of streets including 3,221 miles on the Municipal State Aid Street system.
- ❖ **Township Roads** – Minnesota has 56,486 miles (112,973 lane miles) of township roads.

Bridges – With our thousands of lakes and waterways, Minnesota needs thousands of bridges. We currently have 13,067 bridges in the state and of those, over 1,000 bridges are structurally deficient and over

400 bridges are functionally obsolete. The condition of Minnesota's bridges has come under intense scrutiny in the aftermath of the I-35W bridge collapse. A number of aging bridges were closed due to deterioration problems: the Highway 23/DeSoto bridge in St. Cloud, the Lowry Avenue bridge in Minneapolis and the Winona bridge. These bridges are now being fixed thanks to revenue made available through the 2008 Transportation Funding bill (Chapter 152).

Transit Systems – Minnesota communities benefit from the availability of transit service. From the Hiawatha Light Rail Transit line in Minneapolis and the new Northstar Commuter Rail Line to dial-a-ride service in rural areas, thousands of Minnesota residents rely on transit service to get to work, to medical appointments, to meetings, to businesses and other important destinations. Transit service allows everyone to have the mobility we need to live our lives.

❖ **Metropolitan Area Transit** – In the 7-county Twin Cities Metropolitan Area, transit service is provided by a variety of providers through various services. All transit service in the Twin Cities area falls under the jurisdiction of the Metropolitan Council. In 2008, providers in the Twin Cities Metropolitan Area provided 94,738,106 rides. Here's the breakdown:

- Metro Transit Bus 70,852,419
- Hiawatha Light Rail 10,221,681
- Metro Mobility 1,220,775
- Contracted Providers 2,873,469
- Suburban Providers 5,243,680
- Community Based 550,287
- Northstar Coach 168,600
- U of M Shuttle 3,551,145

❖ **Greater Minnesota Transit** – MnDOT's Office of Transit has jurisdiction over transit service provided in the 80 counties outside of the Twin Cities Metropolitan Area. In 2008, Greater Minnesota transit systems provided 11,188,467 rides. These rides were provided by urbanized systems in areas like Duluth, St. Cloud and Rochester, small urban systems and rural systems. Within 6 of the counties in Greater Minnesota, transit service is only provided in certain cities while in 5 counties in Greater Minnesota no public transit service is available at all.

Ports and Waterways - The Mississippi River system includes over 222 miles in Minnesota. The river system supports 5 ports (St. Paul, Minneapolis, Savage, Red Wing and Winona) whose combined 2009 transported tonnage was 10.8 million tons.

Minnesota's largest river tonnage commodities are agricultural products, namely corn, soybeans and wheat. Minnesota agriculture ships over 60% of its total agricultural exports down the Mississippi River. The river navigational system serving Minnesota is maintained by the federal government. The U.S. Corps of Engineers operates all 29 locks and dams on the upper Mississippi River.

Minnesota has four ports (Duluth, Two Harbors, Silvery Bay and Taconite Harbor) on Lake Superior whose combined transported tonnage in 2009 was 4.51 million net tons.

Freight Rail – Minnesota is home to four Class I railroads: Burlington Northern Santa Fe Railway, Canadian Pacific Rail, Union Pacific Railroad, and Canadian National. These systems operate on a total of 2821 miles of track. In addition, we have five Class II railroads (Dakota, Minnesota & Eastern; Duluth, Missabe and Iron Range; Duluth, Winnipeg & Pacific; Wisconsin Central and Iowa, Chicago and Eastern) operating on 861 miles of track. Minnesota also has 15 Class III railroads operating on 775 miles of track.

Air Service – Minnesota is served by 158 airports located in 141 cities providing air transportation for people and cargo to keep people connected and keep our businesses competitive.

Transportation Funding in Minnesota

The need for adequate funding to maintain and improve the state's transportation infrastructure has not always received the attention it deserves. Despite the fact that we couldn't have much of a state economy without a transportation system that gets people and products where they need to go, transportation issues have often taken a back seat to concerns over funding for education, health care and other government services. Prior to the passage of the 2008 Transportation funding bill, transportation infrastructure was neglected with a resulting backlog of projects and increase in the deterioration of our roads and bridges.

Roadway Funding – Roadways are funded through a combination of federal, state and local dollars. Federal and state funds are derived mainly from user fees including the gas tax, vehicle registration fees and motor vehicle sales tax. Local property taxes contribute substantially to local road funding.

Minnesotans have long understood the need for highway construction to have stable, dedicated funding. As far back as 1898, voters approved a Constitutional Amendment to provide a state road and bridge fund and subsequently approved numerous increases in the state road and bridge tax, culminating in the passage of a Constitutional Amendment in 1956 creating the current trunk highway articles and sections with revenue from the gas tax and license tab fees dedicated solely for highway purposes. The State Constitution further specifies that revenue in the Highway User Tax Distribution Fund be distributed such that 62% is deposited in the trunk highway fund, 29% in the county state aid fund and 9% in the municipal state aid fund.

The state gas tax and license tab fees account for the majority of the funding for roads and bridges. These user fees combine with federal funds generated by the federal gas tax to provide for the maintenance and improvement of our roadways and bridges. Very few general fund dollars are typically used for the roads and bridges in our state.

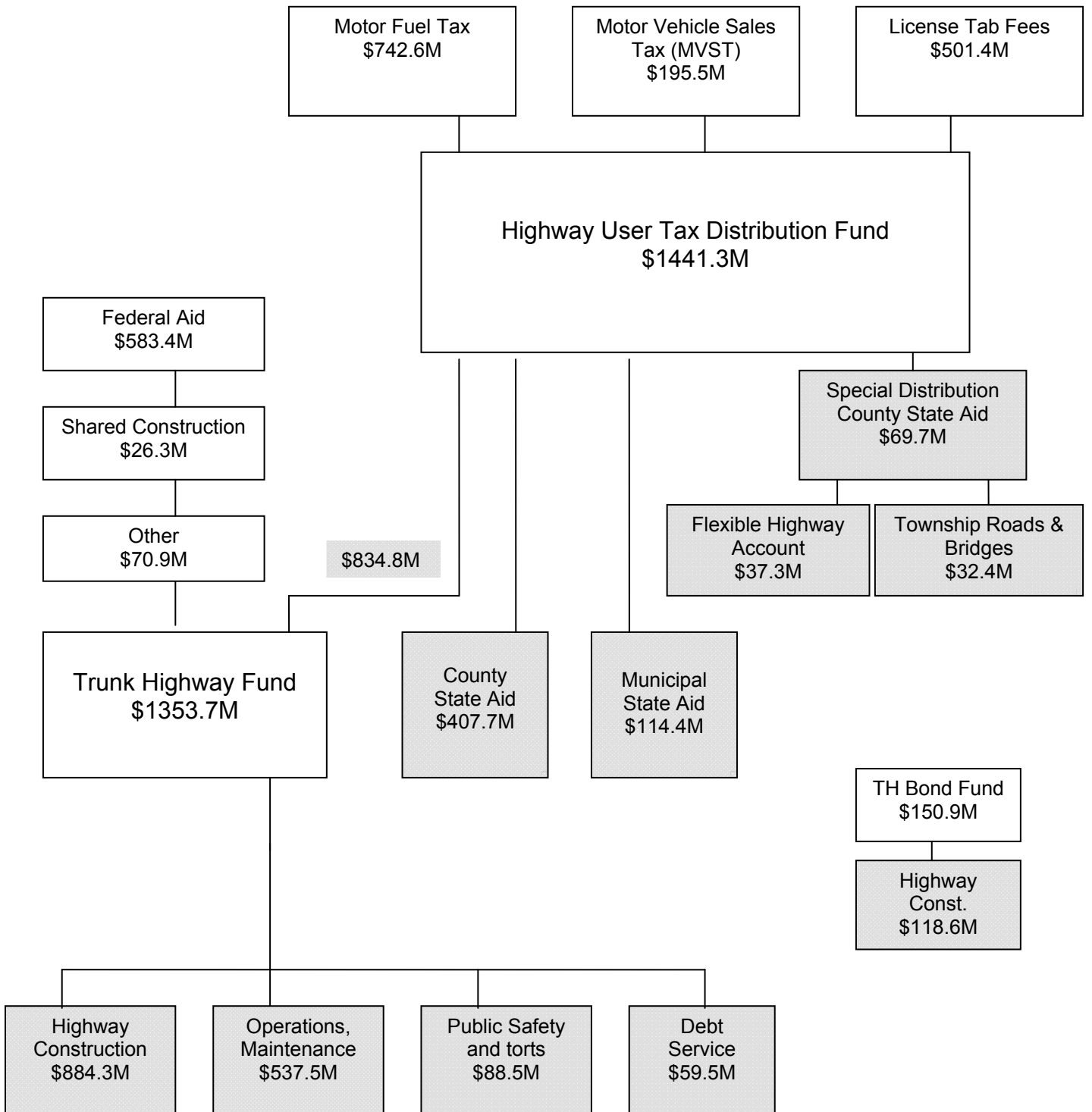
Transit Funding – Transit systems in Minnesota are also funded through a combination of federal, state and local dollars. Federal funds include some revenue derived through the federal gas tax. State sources include the state general fund, motor vehicle sales tax and general obligation bond proceeds. Local sources include passenger fares and local levies.

In 2006, voters approved another Constitutional Amendment dedicating all of the proceeds from the sales tax on motor vehicles to highways and transit by 2012 with at least 40% of the revenue dedicated to transit funding and no more than 60% dedicated to highway funding. Under current law, 100% of the motor vehicle sales tax or MVST will be dedicated to transportation in 2012 with 40% of the revenue deposited in transit accounts and 60% of the revenue deposited in the Highway User Tax Distribution Fund.

State funding levels for transportation impact local property tax levies. When state funding is not adequate to maintain important roadways, local property taxes need to be used to keep the infrastructure in a state of good repair and meet important transportation needs.

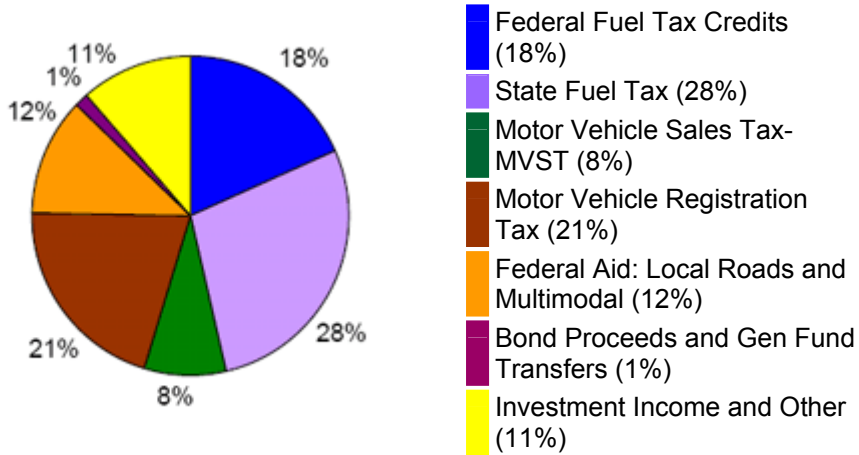
Transportation Funding

Highway Funding FY2009 Final

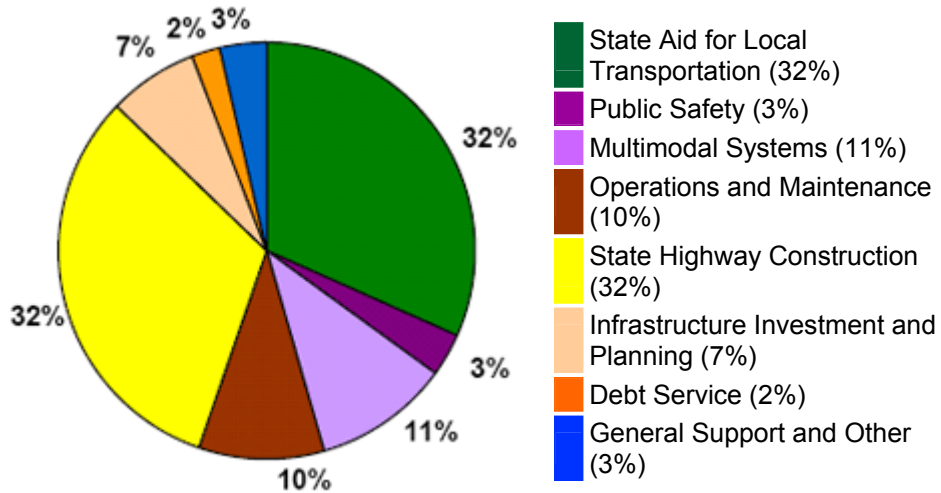


MnDOT Funds Fiscal Year 2008

Sources of Minnesota state transportation funds



Uses of Minnesota state transportation funds

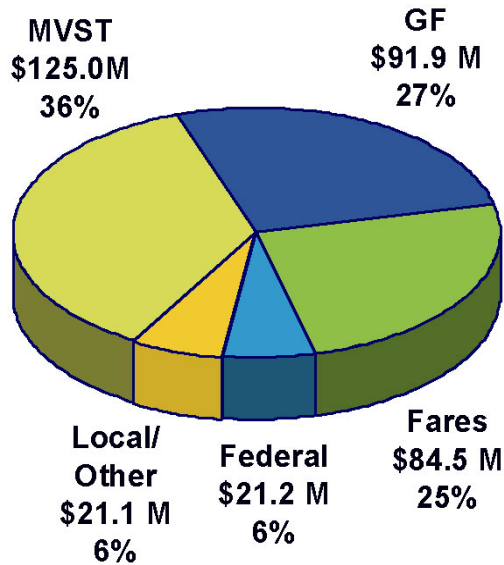


Twin Cities Metropolitan Area Transit

2008 Revenue and Expenses

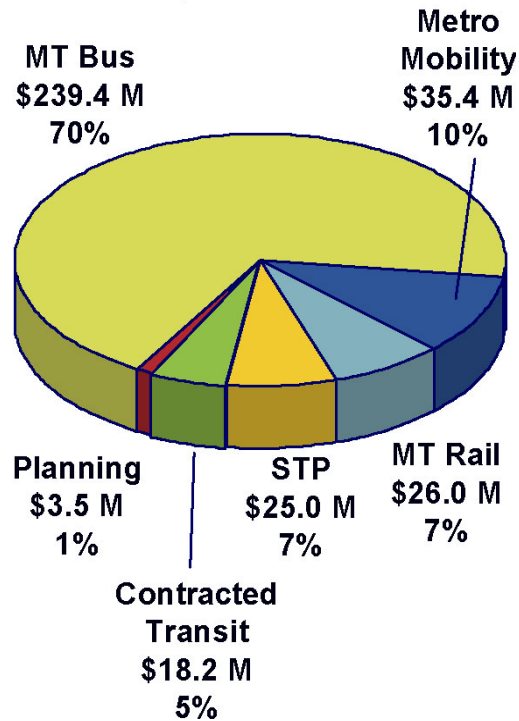
Revenue

\$343.7 M



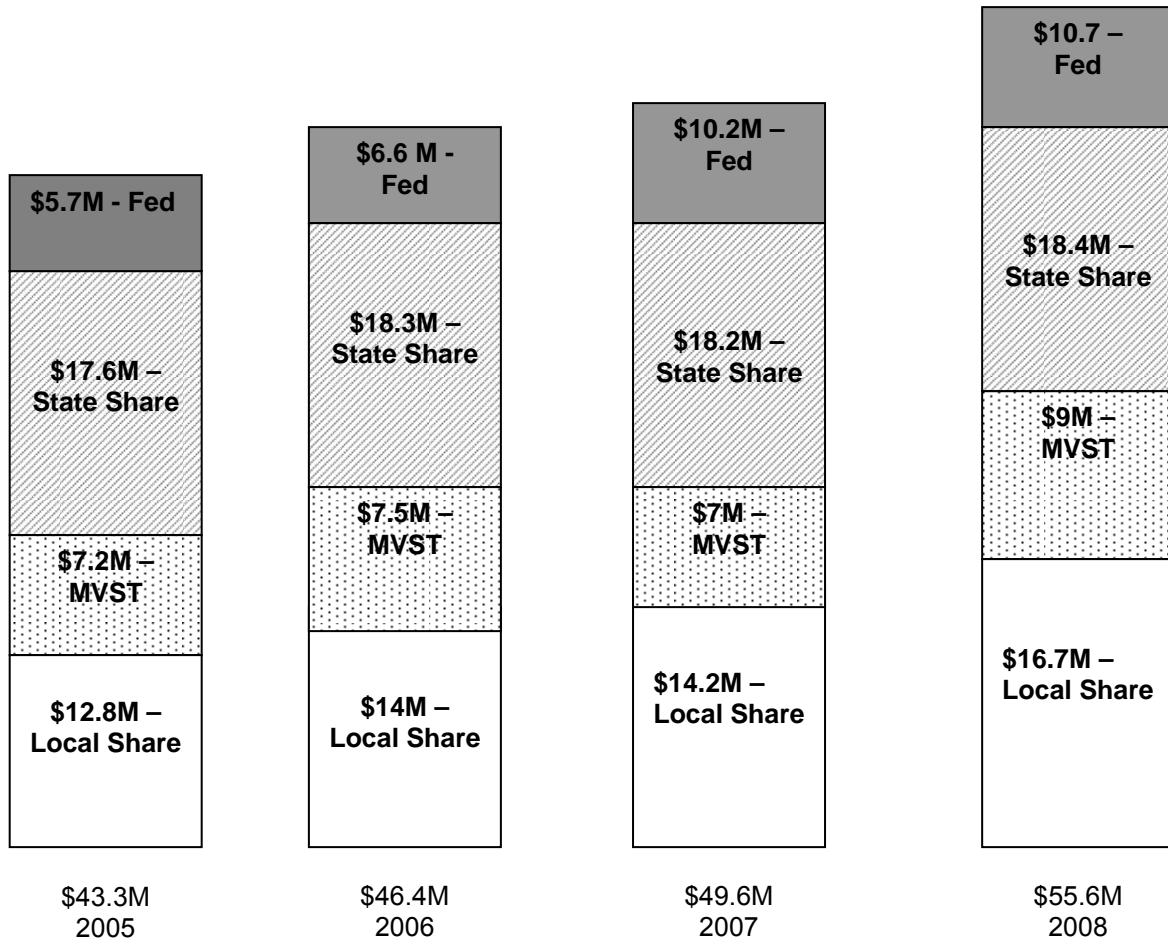
Expenses

\$347.1 M



- 2008 Budget assumes a \$3.4M shortfall for MT & MTS
- Assumes a revenue source for Northstar in Other Revenue
- Suburban transit provider fares are excluded from tallies

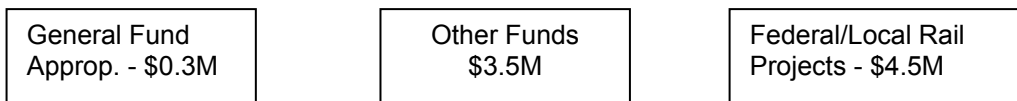
Greater Minnesota Transit



Aeronautics Funding



Rail and Waterway Expenditures



Transportation Needs in Minnesota

Just how far behind Minnesota had fallen in transportation investments was highlighted by estimates of the funding gap that were created in 2007. The Minnesota Department of Transportation had estimated that the trunk highway system faced a gap between the funding levels needed to meet performance measures and the amount of revenue estimated to be generated between 2008 and 2030 of over \$1 billion per year. County and City Engineers Associations took a look at the amount of funding needed to maintain the existing local system on a 50-year lifecycle basis while transit systems estimated the level of funding needed to meet growing demand for transit service in their communities. The estimate of additional funding needed to maintain our transportation system in good condition and to meet some of the growing demand on the system was estimated at \$1.8 billion per year.

We continue to face a backlog of projects for which there is no funding while communities struggle to maintain existing infrastructure which is nearing the end of its design life. Safety problems will continue to contribute to fatalities and injuries, congestion will continue to impair our quality of life, and the condition of our roads and bridges will continue to deteriorate unless action is taken.

Providing a safe and efficient transportation system is a core government function, one that needs to be made a higher priority.

2008 Transportation Funding Bill – Chapter 152

Against a backdrop of growing transportation funding needs and serious problems with deficient bridges, the legislature worked to pass a transportation funding bill early in the 2008 Legislative Session. Based on legislation passed in 2005 and 2007 that had been vetoed, the bill contained increases in constitutionally dedicated transportation user fees as well as authorization for local governments to increase funding for local transportation needs.

At the time the legislation was enacted, lawmakers recognized that the funding package only addressed a fraction of the needs and that more would need to be done in the future to keep up with growing demands on the system.

The transportation funding package, HF2800, passed both the House and Senate with wide approval margins. The bill was vetoed by Governor Pawlenty. The veto was overridden in the House by vote of 91-41 and in the Senate by a vote of 47-20, meeting the requirement for 2/3 approval to override a veto.

Funding elements of the bill:

- 5 cent increase in gas tax
 - 2 cents April 1, 2008
 - 3 cents on October 1, 2008

- 3.5 cent surcharge on gas tax for trunk highway bond debt
 - Surcharge rate schedule
 - FY2009 .5 cent
 - FY2010 1.5 cents
 - FY2011 .5 cent
 - FY2012 .5 cent
 - FY2013 .5 cent

- \$1.8B in trunk highway bonds over 10 years FY2009-FY2018
 - \$600M (\$300M in FY09 and \$300M in FY2010) of trunk highway bonds dedicated to new Bridge Account for repair and improvements of state Bridges
 - \$100M per year for FY2011-2018
- \$50M in GO bonds for local bridges and \$10M in GO bonds for local roads
- Eliminating caps on license tab fees and changing the depreciation schedule. **For any vehicle previously registered in Minnesota, the fee does not increase.**
- Dedicating one-half of sales tax on leased vehicles to Greater MN transit and local roads starting in FY2010 and fully phased-in by FY2012
 - 50% to Greater MN transit
 - 50% to CSAH fund – to counties in the metropolitan area
- Providing a \$25 tax credit for low-income residents (repealed in 2010)
- Authorizing metropolitan area counties to impose a ¼ percent sales tax for transit
 - Eligible counties include: Anoka, Carver, Dakota, Hennepin, Ramsey, Scott and Washington
- Authorizing counties in Greater MN to levy a sales tax of up to ½ percent for transportation purposes with passage of local referendum.
- Prohibits any road authority from charging tolls on existing general purpose lanes. The prohibition does not apply to any toll facility or HOV lane constructed prior to Sept. 1, 2007 or an additional lane including dynamic-priced shoulder lane, or HOT lane added to a highway after Sept. 1, 2007.
- A Transportation Strategic Management and Operations Advisory Task Force was created to advise the governor and legislature on management and operations strategies that will improve efficiency in transportation.

Impact of Chapter 152 – What It Means

The 2008 Transportation Funding bill placed a high priority on dealing with structurally deficient bridges in Minnesota. Thanks to the additional funding provided in this legislation, MnDOT has announced the following accelerated schedule for bridge replacements on the trunk highway system:

- Hwy. 11 over Red River - 2008
- Highway 23/DeSoto bridge - 2009
- Hwy 52/Lafayette bridge – 2010
- Hwy 61/Hastings bridge - 2010
- I-90 near Dresbach - 2011
- Hwy 60/Stillwater - 2013
- Cayuga St. bridge St. Paul - 2012
- Hwy 43 in Winona - 2014
- Hwy 63 in Red Wing - 2018
- Hwy 2 E. Grand Forks - 2018
- Hwy 72 in Baudette – 2018

Additional Funding for State Highways and Bridges

Passage of Chapter 152 means that an additional 29 projects worth \$549 million will be added to MnDOT's existing construction program for 2009 and 2010. It means there will be significantly more funding for operations and maintenance. The legislation sets aside \$600 million for state bridges and provides approximately \$1 billion in trunk highway bonds for additional projects.

Additional Funding for County State Aid Highways

All 87 counties will benefit from a permanent increase in dedicated funding. For 2009, counties are expected to receive an increase of approximately 10% over the 2008 state aid apportionment. Increases over that level of funding will continue into the future as the gas tax increase, tab fee changes and motor vehicle sales tax dedication are phased-in. Without this additional funding, more projects would have to be delayed as counties are dealing with dramatic increases in material costs related to highway and bridge construction (i.e. steel, aggregate, asphalt, etc.) or local property taxes would have to be increased to pay for needed projects.

Additional Funding for Municipal State Aid Streets

Cities with a population of 5,000 or more receive funding from the Municipal State Aid fund to help pay for repairs on designated municipal streets. Thanks to the additional funding in Chapter 152, many cities across the state will receive additional state dollars each year to help with needed street repairs and reduce the pressure on local property taxes to pay for these repairs.

Additional Funding for Transit Systems Statewide

For transit systems around the state, additional funding in the 2008 Transportation Funding bill will help them cope with growing demand for service as people look for options to driving alone. The authorization provided in the bill to counties in the Twin Cities Metropolitan Area to increase the local sales tax for transitways will allow for expansion of the transit system as five of the seven metropolitan area counties have voted to impose the tax and use the proceeds for transitways that have been planned for the region.

Modest Impact for Minnesotans

The increases in the user fees contained in this legislation will not result in huge tax increases for families. For a driver who drives 15,000 miles per year in a vehicle that gets 20 miles per gallon, the 5 cent increase in the gas tax will cost that person \$37.50 per year. For a family with two vehicles, the cost is \$75 per year. The change in the license tab fees only applies to vehicles that have not previously been registered in the State of Minnesota and the difference in cost varies greatly depending on the value and age of the vehicle you purchase. The change makes the tax more progressive, with those who can afford more expensive vehicles paying a higher fee. The estimated cost for a family in one of the five Twin Cities metropolitan counties that have levied a sales tax increase (includes the ¼ percent increase in sales tax) is \$130 per year or much less than a dollar day.

The Best Legislation for Minnesota's Transportation System

Some have argued that while the need for increased investments in transportation has become clear, taxes did not have to be raised to fix our roads and bridges. Proposals have been floated to shift one-time funds from the general fund to meet highway needs or to increase the state's reliance on bonding as alternatives. One-time shifts of funds only provide a very short-term boost while making long-term planning very difficult. With the need to deal with a shortfall in the general fund during the 2008 legislative session, there was very little political appetite for shifting funds to highway purposes.

Chapter 152 does include a significant amount of bonding. About \$1.8 billion in trunk highway bonds are authorized over the next 10 years to get a jump start on needed highway and bridge projects. However, bonds have to be paid back with interest and while the bill includes a fuel surcharge designed to help with debt service payments on the bonds, the surcharge will not raise enough money to cover all of the debt service costs on that level of bonding. A higher level of bonding would take more revenue out of the trunk highway fund for debt

service, leaving fewer dollars for construction and maintenance work. In addition, trunk highway bonds can only be used on trunk highway. Local roads and bridges cannot be repaired with state trunk highway bonds.

More Work is Needed

The legislation passed in 2008 provides ongoing increases in dedicated revenue and will make a significant difference in improving the safety and quality of our transportation system. However, after so many years of neglect (the state had not increased the gas tax since 1988) the backlog of needs could not be made up in one piece of legislation. Chapter 152 meets about one-third of the identified needs on our transportation system.

Rather than wait so many years between funding bills, the legislature should remain vigilant and continue to make incremental progress in closing the existing funding gap. Particularly as construction costs have been rising dramatically, regular funding adjustments will be needed to account for inflation in transportation project costs.

Federal Transportation Funding

Funding for Minnesota's transportation system is like a three-legged stool made up of federal, state and local funding. When one leg of the stool is inadequate, the stool doesn't work well. We've made progress in strengthening the state share of our transportation funding system, but now we're threatened with funding shortfalls from the federal portion of our funding.

New Federal Surface Transportation Authorization bill

The current six-year surface transportation authorization bill expired in September of 2009. The Safe, Accountable, Flexible, Efficient Transportation Equity Act – A Legacy for Users (SAFETEA-LU) provided Minnesota with a significant increase in federal funding for transportation projects. However, with recent reductions in fuel consumption combined with dramatic increases in construction costs, additional revenue will be needed in order for federal transportation funding to maintain our nation's infrastructure.

The US has traditionally enjoyed an advantage over other countries thanks to the quality of our transportation system. However, our federal interstate system is more than 50 years old and showing its age. China is investing 9% of its GDP on transportation infrastructure, India is at 9%, while the US investment has remained at 0.9% of GDP since 1982.

Minnesota Congressman Jim Oberstar, Chair of the House Transportation and Infrastructure Committee in the US House of Representatives has introduced a new multi-year surface transportation program that would provide more flexibility in how federal funds are used while also requiring more accountability for how those dollars are spent in terms of meeting performance goals. The bill includes:

- Six year program provides \$450B for highways, transit and safety programs
- Compares to \$286B in SAFETEA-LU
- Another \$50B for high-speed passenger rail
- US DOT estimates \$30B needed annually in new investment to maintain current system and \$75B to improve conditions and performance

Congress recognized the value to the economy of funding transportation infrastructure investments through the American Recovery and Reinvestment Act. Those funds will be spent shortly. In the last two years, Congress has shifted \$36 billion in general fund revenue to the federal Highway Trust Fund. Continuing that trend will only add to the federal deficit. Congress needs to act this year to pass the New Surface Transportation Authorization Act.

We cannot simply pass on these ever-increasing needs to the next generation. We have a responsibility to create a safer, more secure and increasingly more productive transportation system.

State Transportation Funding Options Matrix

Funding Mechanism		Per Unit Yield	Illustrative Rate	Hypothetical Estimated Revenue
Highway User Tax Distribution Fund Sources				
	Gas Tax	1¢/gallon ≈ \$30 million	5¢/gallon	≈ \$150 million
	Gas Tax Rate Indexing (NOTE: (3.85% in '08; 2.85% in '07)	1% ≈ \$6.2 million	3% / yr.	≈ \$18.6 million
	Vehicle Registration Tax (Tab Fees)	1% total revenue increase	5%	≈ \$26.5 million
	Motor Vehicle Sales Tax	½¢ MVST incr ≈ \$13.8 million	1¢ increase	≈ \$27.6 million
Other Potential Sources		Notes:		
	Drivers License Fees	2007 licensed drivers: 3.9 million		
	Special Fuels			
		Liquified petroleum	Current rate: 18.75¢ per gallon	
		Liquified natural gas	15¢ per gallon	
		E-85	17.75¢ per gallon	
		M-85	14.25¢ per gallon	
		"Unrefunded" non-highway-use fuels to DNR	\$15 million in 2008	
		Underground Petroleum Tank Release Fund	2¢ add'l tax effective 4 months/yr	
	Sales Tax on Leased Vehicles	≈\$30M annual revenue; distribution TBD		
	Local Wheelage Tax	≈\$80M for all 87 counties		
	Sales Tax on Motor Fuels	Tax Expenditure ≈ \$609M in 2010		
	Transit Advertising			
	Transit Fairbox Recovery			
	Transit Contracts for Service			
	Sales tax on auto repair services	Tax Expenditure ≈ \$169.5M in 2010		
	Surcharge on DWI and moving violations			
Non-Transportation Dedicated Fees / Taxes		Notes:		
	General Fund transfers	2008: \$78M Metro; \$18.7M Greater Mn.; \$350M transfer THF in 2000 Session		

	Local Option Sales Tax		5 metro counties levy ¼¢ (\$100M/yr); Greater Mn counties authorized to levy ½¢ (2010≈\$112M)
Bonding / Financing			
	Trunk Highway Bonds		
	G.O. Bonds		
	Transportation Revolving Loan Fund (TRLF)		loan funds available
	Right-of-Way Acquisition Loan Fund (RALF)		loan funds available
"New" Revenue Types			
	Public Private Partnerships		
	Weight / Distance Tax		
	Mileage Tax		
	Local Street Maintenance Fee		
	Payroll Tax - Transit		
	"Value Capture" taxes		
	Tolling		
	Congestion Pricing		