



# Summary of Meeting with John Walz & Erik Rudeen

Civic Caucus, 8301 Creekside Circle, Bloomington, MN

*Friday, August 4, 2006*

**Guest resource persons:** John Walz, legislative fiscal analyst, Minnesota House of Representatives, and Erik Rudeen, project specialist, Government Affairs, Minnesota Department of Transportation (MnDOT)

**Present:** Verne Johnson, chair; Lee Canning, Chuck Clay, Paul Gilje, Jim Hetland (by phone), and Jim Olson (by phone)

**A. Context of today's meeting—** During last Friday's Civic Caucus discussion, many questions arose about unfunded financial needs for highways and transit. The Caucus was considering pros and cons of a proposed constitutional amendment on transportation to be voted on in Minnesota in November. Today the Caucus is attempting to get some answers to those questions.

**B. Welcome and introduction—** Verne welcomed John Walz and Erik Rudeen, who agreed to call in on the Civic Caucus conference call line to answer questions. Paul had visited with both Walz and Rudeen earlier this week and also with Bob McFarlin, assistant to the commissioner of transportation for transportation policy and public affairs. During the discussion among members of the Civic Caucus and with Walz and Rudeen the following points were made:

**1. Clarification of federal funds—** Last week members of the Caucus inquired whether unmet financial needs for highways and transit would be financed in part by federal funds. Today's discussion clarified that estimates for federal funds are included in calculations of available revenues at current rates. Consequently, unmet financial needs can be assumed to be the amounts that would need to be covered by state and local resources only.

Federal funds are used primarily for construction, Walz and Rudeen said. An exception is that federal funds for transit in communities outside the metropolitan area can be used for operations. Walz said the federal government formerly provided large cities with operating funds for transit. That practice was discontinued seven years ago. Now federal transit dollars in metropolitan areas go for capital. About \$19 million a year in federal funds now comes to the Metropolitan Council to help pay for new buses. So far about \$7,750,000 in federal planning funds has been received for the proposed North Star commuter line.

**2. Magnitude of unmet financial needs—** Paul reported that Bob McFarlin told him earlier this week that annual unmet financial needs for highways and transit in Minnesota are in a range of \$750 million to \$1.2 billion. The unmet needs are estimated by four different groups and then assembled as a total. No single governmental office assesses the validity of the needs. One person's "needs" might be someone else's "wants", it was noted. The groups are (1) Minnesota Department of Transportation, for state trunk highways and non-metropolitan transit, (2) Metropolitan Council, for metropolitan transit, (3) Association of Minnesota counties, for county highways, and (4) League of Minnesota Municipalities, for municipal highways.

Paul said we expect to receive an updated list of needs for the four groups from the MnDOT Office of Investment Management in a few days. Paul noted that it is important for us to receive the needs for each group to be able to compare how needs are distributed relative to shares of MVST that will be received. Our preliminary data indicate that most needs are for state trunk highways, but only slightly more than one-third of MVST funds will go to state trunk highways.

**3. How needs can vary among counties—** Some counties might include as a "need" a plan to use additional funds to reduce property tax levies, while others might use additional funds for more construction. In the continuing discussion of property tax authority for transportation, Walz clarified that cities and counties are subject to overall limits on the property tax for all purposes, including transportation. He noted that the Metropolitan Council formerly levied about \$100 million a year in property taxes for transit. But that levy was eliminated when it was given an equivalent amount from the Legislature, by statute, from the motor vehicle sales tax (MVST). The Council has a smaller levy now for transit that is going for rolling stock and capital facilities.

**4. Condition of Minnesota's highways relative to the rest of the nation—** It was noted that the Civic Caucus received information from the Federal Highway Administration this past week that revealed the condition of highways in Minnesota is better than the average of the nation and better than that of Wisconsin and Iowa.

**5. Difficulty in estimating—** It was noted that the Civic Caucus has received estimates ranging from \$750 million to \$2.4 billion for transportation needs for the future. Walz said that estimating is very difficult because of the acute increases in the price of steel, concrete, and labor. That's a reason, he said, to support acceleration in construction, using such instruments as bonding. If you can build today, it will cost you less—maybe even to pay for interest expense in bonding—because prices are rising so fast.

**6. High cost of right-of-way in the metro area—** One big expense, Walz said, is the purchase of right-of-way in the metropolitan area. Transportation officials usually calculate those costs on a per-acre basis. But in certain high demand areas of the Twin Cities, such as near the Mall of America or I-494, they are using per-square-foot. Paul noted that the Civic Caucus in its report three years ago recommended that the state capture some of the windfall that property owners realize when their property values rise because of nearby highway interchanges or transit stations.

**7. Whether MVST provides enough money to be worth the effort—** Discussion revealed two ways of looking at whether MVST would represent a significant benefit for state trunk highways. If state trunk highway needs are estimated at \$1 billion a year, MVST would cover about 13 percent (on the

assumption that transit's share is capped at 40 percent). On the other hand, if you look at current expenditures, the current state highway construction program represents about \$550 million a year. MVST would provide a 20 percent increase. Advocates note that MVST provides additional funds for transportation by shifting dollars from the state general revenue fund, not by raising taxes. Others argue that taking general revenue fund dollars means denying those funds to other services such as education and health.

**8. Difficulty in accomplishing a comprehensive solution—** If total transportation unfunded needs (for trunk highways, transit, and county and municipal highways) are \$1.7 billion a year, and if those needs were to be funded wholly with an increase in the state gasoline tax (yielding approximately \$32 million for each cent-a-gallon increase), a 53-cent-a-gallon gasoline tax increase would be required.

**9. Mismatch between needs and distribution formula—** It was noted that irrespective of needs, a constitutional formula dictates the distribution of highway user funds among state trunk highways, county highways and municipal highways. Thus, for example, needs of state trunk highways could be driving a decision to increase the gasoline tax. But counties and municipalities will share in the gasoline tax, irrespective of their needs.

**10. Difficulty in measuring the easing of congestion—** Rudeen noted that congestion on I-694 in the northwest part of the metropolitan area eased considerably when a third lane was added. But usually when congestion eases in one place it builds up elsewhere, so it is hard to measure how congestion is eased throughout the region. Studies by the Texas Transportation Institute reveal substantial increases in congestion in the Minneapolis-St. Paul metropolitan area and in other metropolitan areas in recent years.

**11. Leadership by the Governor is critical—** A member of the Civic Caucus said that the Governor needs to present the people of Minnesota with a clear statement of the overall transportation need for transit, state highways, and county and municipal highways, combined with specific proposals for meeting that need. Paul said that McFarlin told him this past week that incremental improvements have been the norm for transportation in Minnesota and that the amendment falls in that category. Comprehensive needs are so great, McFarlin was quoted as saying, that no public official could make a comprehensive proposal that would be accepted by voters. If trunk highway construction were to increase by \$1 billion annually from its current level of \$500 million, that would represent a tripling of the budget for trunk highways. In response, a Civic Caucus member asked who is going to outline the real needs for Minnesota if it's not the Governor.

**12. Defense of the amendment—** Walz and Rudeen said the amendment is a good idea for Minnesota, particularly when you consider the anti-tax attitude that has been present. No additional taxes are proposed by the amendment. In response to a question about other services seeking similar constitutional protection, Walz said that the sales tax on motor vehicles is recognized widely as a transportation tax, such as the gasoline tax and the motor vehicle license fees, which already are constitutionally dedicated. As to whether the amendment takes general revenue from other services, Walz said that education always is first in line—and transportation last—when the Legislature is faced with revenue surpluses.

**13. Need to fix the overall transportation system—** A member of the Civic Caucus took note of the fact that transportation needs merely are assembled from various transportation interests and not

subject to comparative evaluation. Also, the member noted, the state constitution's inflexible distribution formula requires that highway user funds be distributed in a certain way—irrespective of how need are distributed. These facts prompted the member to suggest that the entire system is fragmented and needs to be fixed. It was noted that the Civic Caucus report three years ago suggested a new structure for transportation governance.

**C. Thanks—** On behalf of the Civic Caucus, Verne thanked Walz and Rudeen for meeting with us today.

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**A few days after this meeting, the Civic Caucus received the following report from MnDOT, concerning unmet trunk highway needs.** You'll note that the report contains an estimate of \$1 billion a year for 23 years. When combined with unmet needs for transit and county and municipal highways, total annual unmet needs are about \$1.7 billion a year.

#### Mn/DOT Trunk Highway Unmet Needs

Based on the District Plan Summary June, 2005

*(2004 dollars)*

During the District Plan process, each Mn/DOT District developed two work program scenarios for the years 2008 to 2030. One scenario looked at the performance-based needs<sup>1</sup> regardless of available funding, and the other scenario looked at performance-based needs<sup>1</sup> using the forecasted available funding<sup>2</sup>. These scenarios were presented to Mn/DOT management in the Spring of 2005 and have been used to represent Mn/DOT's Trunk Highway needs since June of 2005.

- Performance-based needs (2008 to 2030) = \$38.1 billion *(including Community Improvement Priorities<sup>3</sup>)*
- Performance-based needs (2008 to 2030) = \$37.2 billion *(not including Community Improvement Project Priorities<sup>3</sup>)*
- Available Funding Scenario (2008 to 2030) = \$15.1 billion *(including Community Improvement Project Priorities<sup>3</sup>)*
- Available Funding Scenario (2008 to 2030) = \$14.6 billion *(not including Community Improvement Project Priorities<sup>3</sup>)*
- Community Improvement Project Priorities<sup>3</sup> (2008 to 2030) = \$513 million
- Funding Gap (2008 to 2030) = \$22.6 billion *(not including Community Improvement Project Priorities<sup>3</sup>)*
- Annual Average Funding Gap (2008 to 2030) = \$1 billion/year for 23 years

Notes:

<sup>1</sup> Performance-based needs and prioritization of work types were developed by Mn/DOT districts consistent with the District Plan Guidance.

Web address: <http://www.oim.dot.state.mn.us/long-range-plans.html>

<sup>2</sup>The forecasted available funding was based on inflation adjusted trends in State and Federal revenues available to Mn/DOT over the period of 1988 to 2000. The forecast was adjusted by 5% for planning purposes should additional money become available.

<sup>3</sup> *Community Improvement Projects Priorities are projects that are not based on system performance. These projects represent Mn/DOT prior commitments and Mn/DOT's share of locally initiated projects.*

***The Civic Caucus*** is a non-partisan, tax-exempt educational organization. Core participants include persons of varying political persuasions, reflecting years of leadership in politics and business.

A working group meets face-to-face to provide leadership. They are Verne C. Johnson, chair; Lee Canning, Charles Clay, Bill Frenzel, Paul Gilje, Jim Hetland, John Mooty, Jim Olson, Wayne Popham and John Rollwagen.

**[Click Here](#)** to see a biographical statement of each.