

Transportation

FY16-17 Biennial Budget Change Item

Change Item: NexTen for Transportation

Fiscal Impact (\$000s)	FY 2016	FY 2017	FY 2018	FY 2019
General Fund				
Expenditures	6,530	8,600	12,600	12,600
Revenues	(1,900)	(4,200)	(5,300)	(5,800)
*Highway User Tax Distribution Fund				
Expenditures	234	222	222	222
Revenues	364,570	562,095	584,142	637,447
Transfers Out	364,277	561,791	583,833	637,133
Trunk Highway Fund				
Expenditures	306,221	426,621	482,538	534,194
Revenues	209,712	323,774	336,834	368,218
County State Aid Fund				
Expenditures	115,894	178,928	186,145	203,489
Revenues	115,894	178,928	186,145	203,489
Municipal State Aid Fund				
Expenditures	30,442	46,999	48,895	53,451
Revenues	30,442	46,999	48,895	53,451
Net Fiscal Impact = (Expenditures – Revenues)	(104,939)	(115,647)	(163,604)	(184,376)
FTEs (MNDOT)	338	564	675	819
FTEs (DOR)	3	3	3	3

*HUTD Transfers out are including transportation funds only.

Recommendation:

The Governor recommends that the state commit to a major investment plan for transportation to fund the estimated \$6 billion dollar gap that exists between funding needs and revenues in the next 10 years. The Governor proposes filling the \$6 billion gap in road and bridge funding by:

- Initiating a 6.5% gross receipts tax on gas
- Increasing registration fees (increase additional tax rate from 1.25% to 1.5% and base tax from \$10 to \$20; phased-in over 4 years)
- Authorizing \$2 billion in trunk highway bonds over the next 10 years
- Leveraging MnDOT efficiencies (up to 15% of new revenue)

The gross receipts tax and registration tax increases will fund roads and bridges at the state, county and municipal levels.

The Governor recommends funding Department of Revenue's cost for administering the NexTen Transportation proposal. These costs include \$234,000 in FY 2016 and \$222,000 in subsequent years for initiating and implementing the 6.5% gross receipts tax on gas.

Other Components:

In addition to the new funding above, the Governor recommends:

- Appropriating the existing trunk highway fund balance for additional state road and bridge funding and to restore purchasing power to MnDOT's operations.
- Increasing general fund appropriations to fund transportation needs not eligible for trunk highway funds. These include:
 - Greater Minnesota transit - \$4 million in FY16 and \$6 million in FY17 for a \$10 million increase for the biennium, with a \$10 million dollar base increase in the following years.
 - Bike and pedestrian infrastructure, including Safe Routes to Schools – a \$2.5 million annual base increase.

Decreasing general fund revenues of \$4.1 million for the FY16-17 biennium for increased petroleum refunds and \$2 million for increased income tax refunds from increased registration fees. Also, increasing general fund appropriations \$130,000 for the biennium for increased aid under M.S. 270C.19 due to the increase in gas tax, and increasing highway user tax appropriations \$456,000 for administrative costs related to the gross receipts tax.

Authorization for the sale of \$2 billion in trunk highway bonds over the next ten years. Debt service for these bonds is estimated to be \$2.750 million in FY 2016 and \$29.734 million in FY 2017, a total of \$32.484 for the FY2016-17 biennium. This estimate increases to \$149.061 for the FY2018-19 biennium. These estimates were provided by the Department of Minnesota Management and Budget.

To maximize funding uses and deliver our program more efficiently the Governor recommends allowing the use of the State Road Construction appropriation for internal department costs associated with delivering MnDOT's construction program. Currently, consultant costs are eligible for State Road Construction funding, but costs for internal MnDOT staff are not.

Rationale/Background:

Minnesota cannot preserve and improve quality and performance of the state's transportation systems under current investment levels and current infrastructure lifecycle replacement practice. The consequences of underinvesting in the state's transportation system will include a deterioration in service, increase in congestion, failing infrastructure and diminished ability to remain economically competitive. This is because transportation systems facilitate the efficient movement of people and goods and create the opportunity for economic development, enhanced productivity, job formation and sustainable growth. Without additional investment, the transportation system will not be able to expand to accommodate expected population and job growth. In addition, alternatives to driving alone must play a larger role in satisfying growing transportation demand - roads, transit and other transportation modes must work together as one system.

Road and Bridge funding components

Inflation has overtaken revenue growth for transportation. In 2012 the Transportation Finance Advisory Committee (TFAC) determined additional funding was needed for transportation. The department faces a \$6B gap in revenue over the next ten years above current fund balance projections, to fund activities such as state road construction and operations and maintenance. \$4B is needed for preservation and modernization, and \$2B is needed for strategic expansion.

Without additional revenue, there will be:

- Increased deterioration of pavement and bridges on state system
 - Currently 5% of highway pavement is considered in poor condition (rough driving surface); it is estimated to be 11% in 20 years
 - Currently 3% of bridge deck pavement is considered in poor condition; it is estimated to be 8-10% in 20 years
- Very little expansion to address population and economic growth
- Likely staff reductions at MnDOT, and therefore reduction of products and service delivery

In order to restore purchasing power lost from inflation, MnDOT needs operating appropriations increased 3 percent for FY 2016 and approximately 6 percent per year for FY 2017 (compounding from FY 2016). In addition, more operations and maintenance dollars are recommended, calculated as 5% of new trunk highway fund revenues. This additional funding will be spent on snow plowing, fixing pot holes and guard rails, etc. These are needed due to declining asset conditions, increased snow and ice requirements, and the need for more timely maintenance.

While the Department has always worked to be good stewards of public funds, the department has taken a more targeted approach to identify and quantify efficiencies as well as find areas for greater efficiencies. When the Department identifies savings on current projects, we release the programmed funds to advance additional projects (examples include the 494/694 project in Plymouth and Highway 371 north of Nisswa). Under this proposal, the Department commits to finding 15% efficiencies of new revenues.

General Fund - Transit

Greater Minnesota Transit has a statutory goal to meet 90% of the transit need by 2025. In 2013, public transit systems met 63% of the need, based on the demographic models developed for the recent Greater Minnesota Investment Plan. This gap of operating funds includes those needed by local service providers to deliver more service, acquire and replace buses, provide bus maintenance and storage facilities. A small portion will be used by MnDOT to administer the larger program and keep up with inflation.

General Fund – Bike and pedestrian infrastructure, including Safe Routes to Schools

There is a need to increase access to safe options for active transportation – walking and bicycling. Statewide Bicycle System and Pedestrian System plans are in progress to identify specific future needs. Since 2006 MnDOT has received Safe Routes to School applications requesting more than \$100 million and has awarded approximately \$17 million in grants, illustrating the gap between current need and investment. These grants to schools, in partnership with cities and counties, implement infrastructure projects that improve safety or access for children walking or bicycling to school.

Proposal:

Road and Bridge funding components

New revenues, bonding and MnDOT efficiencies would be identified to help close the funding gap in the next ten years. The goal is an integrated transportation system that optimizes the movement of people and goods across the state. With new funding, we can:

- Improve asset management - preserve and modernize the existing system
- Expand MnPASS and bus rapid transit lanes
- Complete strategic expansion on key corridors throughout the state
- Complete Main Street improvements

The benefits for taxpayers will include:

- reduced wear and tear on their cars
- fewer stops at the fuel pump
- fewer accidents
- more time doing what they need to do

MnDOT has identified pavement and bridge needs as well as mobility projects that are not currently being addressed through its 10-year work plan. These unmet needs and projects will be given priority. These funds will provide for capital costs of construction as well as project development and engineering activities of up to 17% of the project costs, allowing the department to utilize this funding in the most efficient manner.

Internally MnDOT will narrow the transportation funding gap by saving or avoiding costs through efficiencies, innovation and improved program and project management and thereby stretch public dollars further. Efficiencies will also be realized in the long-term asset management of the transportation system with increased benefits and savings when the right investment is made at the right time.

The increase in our operating and capital appropriations allow us to make more timely asset preservation investments and greater utilize our unreserved fund balance. This is reflected in the fiscal impact section which shows that expenditures will outpace the new revenue estimates. The agency understands that it is important to retain a reasonable amount of unreserved fund balance for unforeseen events, but also that the majority of the funds would be best used in state road construction and maintenance.

MnDOT proposes to utilize the increased operating appropriations for our highest-priority products and services. Some of these include:

- Snow and Ice - Keeping the roads clear of snow and ice
- System Roadway Structures Maintenance – remove potholes (Pavement repair)
- Bridges and Structures Inspection and Maintenance

General Fund – Transit

In Greater Minnesota, MnDOT's highest priorities will be to establish service in locations without any existing public transit. Currently, only Waseca County has no form of public transit service available, although many counties do not have county-wide service.

Assuming all eligible locations are served by public transit, MnDOT's top priorities for service expansion include:

- Expand service hours in the morning and night to serve more trips
- Expand multi-county services to link more communities
- Provide service on more days of the week
- Expand service frequencies and coverage

General Fund – Bike and pedestrian infrastructure, including Safe Routes to Schools

Provide safe routes infrastructure to increase access to safe options for active transportation in communities across Minnesota. Safe routes for bicyclists and pedestrians are the most effective way to increase walking and bicycling. Safe bicycle and pedestrian access

to schools for Minnesota children has numerous benefits including reducing congestion around schools, reducing school transportation costs, and providing an opportunity for physical activity which decreases obesity, improves health and supports academic achievement.

IT Related Proposals:

N/A

Results:

Road and Bridge funding components

MnDOT would plan to rehabilitate the system for the 21st century by:

- Improving 2,200 additional miles of pavement
- Repairing or replacing an additional 330 bridges, such as Robert St bridge over Mississippi River in St Paul
- Accelerate progress toward state goal of zero highway deaths with targeted installation of rumble strips, median barriers, lighting and other safety improvements. The Minnesota Toward Zero Death program has helped decrease traffic fatalities on Minnesota roads by 40.5% - saving an estimated 2,046 lives since 2003
- Keep roadside infrastructure in a state of good repair.

In addition, MnDOT has operating performance measures that will be impacted by this proposal. All are anticipated to decline without additional funding; and this would reduce the decline. They include:

- Snow Plowing Performance – meet clearance targets
- Smooth Roads – percent of pavement patching addressed
- Percent of projects let in the year scheduled

General Fund – Transit

The additional funding allows the State to meet 90% of projected need for Greater Minnesota transit by 2025 by increasing transit service by nearly 500,000 service hours.

General Fund – Bike and pedestrian infrastructure, including Safe Routes to Schools

Additional bicycle infrastructure investments would focus on local bicycle networks via local planning assistance with partners. Expanding the State Bikeways Systems (e.g. Mississippi River Trail) and investing in local network connection projects would also be prioritized.

Additional pedestrian infrastructure investments will improve the condition of existing infrastructure (sidewalks, pedestrian bridges, traffic signals, etc.), and fill gaps in the sidewalk network.

Increasing the Safe Routes to Schools investment would provide safer walking and biking to school options for thousands of school students.