Chapter 3: Regional Transportation Finance

This chapter examines the sources of funding for transportation investments in the coming years. It describes recent legislative actions that have changed the transportation revenue outlook, identifies funding issues that continue to face the region, includes policies and strategies that will guide regional transportation investments over the next two decades and assesses the level of revenues that will be available for highway and transit purposes. Chapter 6: Highways and Chapter 7: Transit provide a broad plan for expending these revenues to 2030.

The lack of adequate funding was identified in the Council's *2030 Transportation Policy Plan* adopted in 2004 as the most significant transportation problem facing the region and, despite the 2008 changes in state financing for highways and transit, it remains a significant issue.

Recent Funding Developments

A constitutional amendment passed in 2006 and an omnibus transportation funding bill, Chapter 152, passed by the Legislature in 2008 will result in new revenues for transportation purposes in the coming decades. The constitutional amendment dedicated state Motor Vehicle Sales Tax (MVST) revenues for transportation investment purposes, and Chapter 152 increased the state gas tax and vehicle registration tax and established a quarter cent sales tax for transit. Given this recent state legislation, large additional increases in state funds for transportation are unlikely in the next few years.

At the federal level, the six-year transportation funding bill was scheduled for reauthorization in 2009, but as of 2010, no bill had yet been passed by Congress. The new bill offers some potential for higher levels of federal highway and transit funds; however, it is not predicted that the new revenues will be sufficient to alter the policy direction of this plan.

The lack of a federal reauthorization bill with increased transportation funding has in part been off-set by the establishment of new one-time federal funding programs that emphasize specified outcomes. In 2009, a federal bill known as the American Reinvestment and Recovery Act (ARRA) provided a substantial one-time influx of funds for both highways and transit with the primary emphasis being on job creation to stimulate the nation's economy. The bill provided approximately $250 million for the region's state and local highways and $70 million for metropolitan transit purposes. Other one-time federal funding opportunities have also been available in 2009 and 2010 including the TIGER I (Transportation Investments Generating Economic Recovery), and TIGER II discretionary grant programs, and the HUD Sustainable Communities grants which all have an emphasis on economic development opportunities, livability and sustainability. The region was successful in obtaining a $35 million TIGER grant for the Union Depot project. It is anticipated that if a federal bill is not passed in the near future these one-time grant opportunities will continue to offer a potential source of increased transportation funding. The region should seek to obtain these competitive funds for projects consistent with the priorities and policy direction of this plan.

Figure 3-1: MVST will be phased in from FY 2008 to FY 2012

MVST Revenue Dedication

Motor vehicle sales tax revenues (MVST) are the revenues derived from the state's current 6.5 percent tax on the sale of new and used motor vehicles. Prior to fiscal year 2008, 54.75 percent of the total MVST revenues were statutorily dedicated to transportation purposes. The remaining MVST revenues were deposited in the state's general fund.

The constitutional amendment established a five-year phased-in dedication of MVST revenues so that by fiscal year 2012, 100 percent of the revenues would be dedicated with at least 40 percent to transit and not more than 60 percent to highway purposes. Subsequent to passage of the amendment, the Legislature statutorily specified how the revenues would phase-in and how the revenues would be allocated – 40 percent to transit (36 percent to metropolitan area transit and four percent to Greater Minnesota transit) and 60 percent to the highway user fund in 2012.

A schedule of the phased-in dedication is shown in Table 3-2. Beginning in fiscal year 2008 (July 1, 2007 - June 30, 2008), the phase-in of the MVST dedication began and the revenues will be 100 percent dedicated to transportation by July 1, 2011 (FY 2012).

At the time the dedication was adopted (November 2006), statewide MVST revenues for 2006 were forecast to be $540 million. They had been on a decline for several years, dropping approximately 10 percent between FY 2002 (when a portion of the revenues became statutorily dedicated to transportation) and FY 2005, but the state forecast at the time predicted a recovery in MVST revenue collection beginning in 2007, with revenues increasing on the order of two percent to four percent annually.

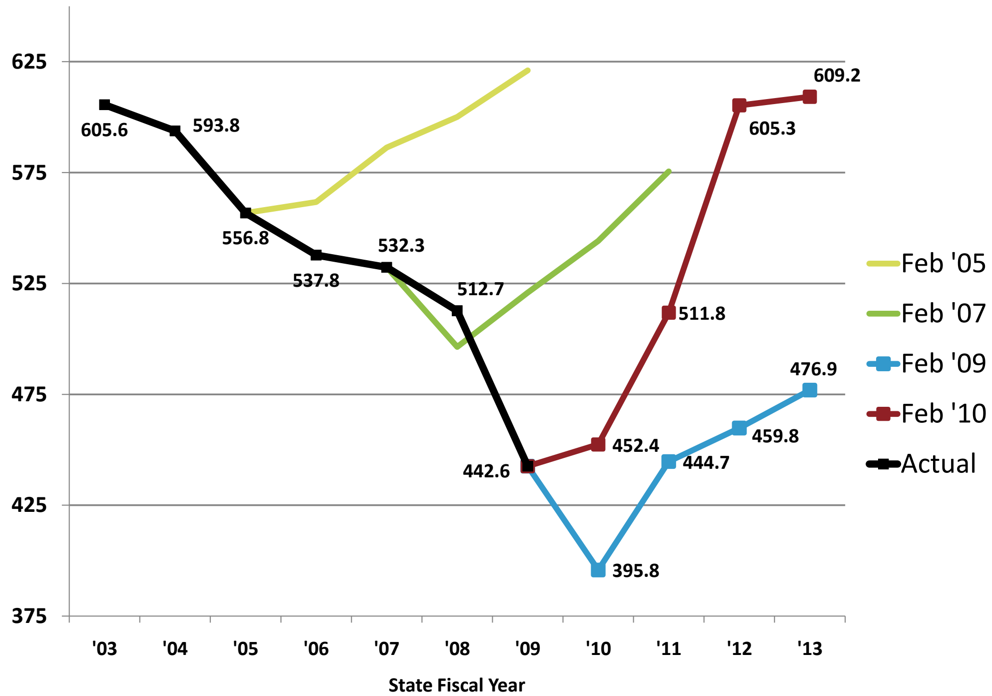
The actual experience since the adoption of the constitutional dedication has been a continual annual decline in MVST revenue collections. This trend is shown in Figure 3-3, which shows the biannual state MVST forecasts along with actual MVST collections. The most recent state forecast done in February 2010 predicts the MVST revenues will recover beginning in FY 2010. Under this forecast, total statewide MVST revenues would have declined more than 28 percent, from revenue collections totaling $614 million in FY 2002 to a FY 2009 total of $ 442 million, but are predicted to begin increasing with 2010 statewide MVST collections at $452 million and reaching $609 million by FY2013 .

Table 3-2: MVST Phase-In Distribution FY 2008 - FY 2012

	FY-08	FY-09	FY-10	FY-11	FY-12
Highway User Fund	38.25%	44.25%	47.50%	54.50%	60.00%
Metropolitan Area Transit	24.00%	27.75%	31.50%	35.25%	36.00%
Greater Minnesota Transit	1.50%	1.75%	4.75%	4.0%	4.00%
Transportation Subtotal	**63.75%**	**73.75%**	**83.75%**	**93.75%**	**100%**
State General Fund	**36.25%**	**26.25%**	**16.25%**	**6.25%**	**0%**
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**

Therefore, while the phase-in of the constitutional dedication of MVST will bring new revenues to transportation, the falling total collections has not resulted in nearly the level of new transportation revenues originally expected. The MVST revenue volatility and a downward trend in collections have been particularly troublesome for metropolitan area transit, which depends on MVST revenues to fund approximately 36 percent of its total transit

Figure 3-3: Forecasted Statewide MVST Revenues



operating costs. Once the MVST revenues are fully phased in, collections will need to increase by at least three percent to five percent annually just to enable the transit system to maintain its existing levels of service. In the transit chapter, this plan makes the assumption that MVST revenues will recover and grow at a rate of three percent to five percent annually to allow for maintaining existing transit service operating levels. Given the past volatility of the MVST revenues, this assumption does have a level of risk and may not prove to be true.

2008 Omnibus and 2013 Corridors of Commerce Transportation Funding Bills

The major omnibus transportation funding bill (Chapter 152) passed in the 2008 session contained a number of transportation revenue increases. The law contained an increase in the motor fuels tax (gas tax), a debt service surcharge on the gas tax, an increase in the vehicle registration tax and allowed for implementation of a new quarter cent sales tax for transitway development and operating purposes by the seven metropolitan counties. Furthermore, the 2013 Minnesota Legislature created the Corridors of Commerce program by authorizing the sale of up to $300 million in new bonds for the construction, reconstruction and improvement of trunk highways (2013 Session Law, Chapter 117). The major provisions of the 2008 and 2013 bills are described in the following sections.

Table 3-4: Gas Tax and Debt Service Surcharge

Year	Debt Surcharge (cents)	Total Gas Tax (cents)
FY 07	-	20.0
FY 08	-	22.0
FY 09	0.5	25.5
FY 10	2.1	27.1
FY 11	2.5	27.5
FY 12	3.0	28.0
FY 13 & on	3.5*	28.5

** Maximum or actual amount needed for debt service.*

Highway Funding Provisions

One of the major highway funding provisions in the bill was an increase in the gas tax from the existing 20 cents per gallon to 22 cents per gallon on April 1, 2008, and to 25 cents per gallon on October 1, 2008.

A half cent debt service surcharge was also added to the total gas tax beginning August 1, 2008, and an additional amount is added for debt service each July 1st until July 1, 2012. The surcharge revenues are dedicated to paying the debt service necessary for the trunk highway bonds authorized in the bill. The surcharge is assessed according to the schedule in Table 3-4. After fiscal year 2012, the total statewide gas tax including the debt service surcharge will be 28.5 cents per gallon, an increase of 8.5 cents per gallon over the rate in effect prior to 2008.

The debt surcharge will partially finance $1.7 billion in trunk highway bonds for state road construction and program delivery purposes over a 10-year period (FY 2009 - FY 2018), including $40 million for interchange construction and at least $50 million for transit facility improvements on trunk highways. The

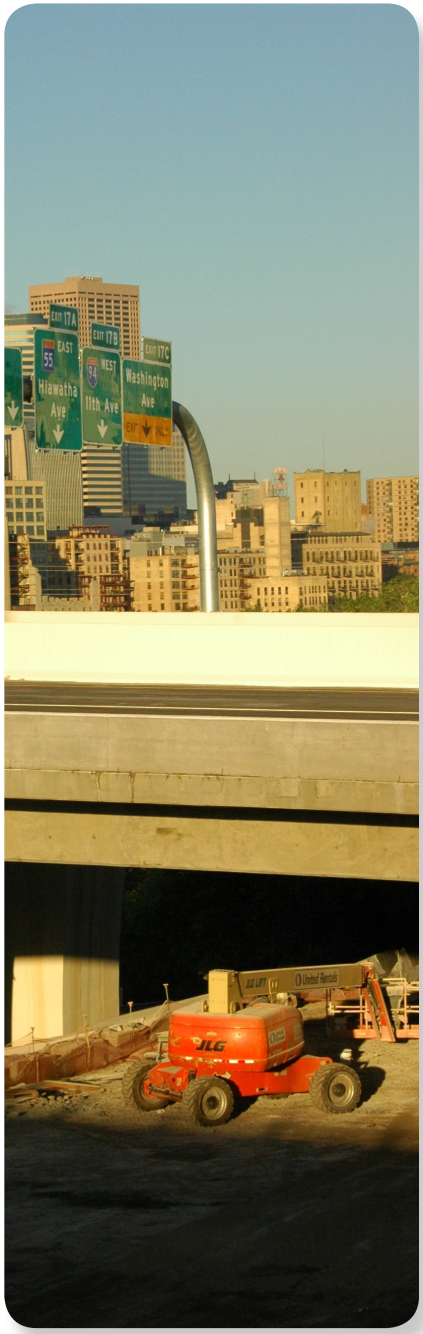


Figure 3-5: Bridge construction work is an investment priority mandated by the Legislature

bond funds must be used primarily to fund a Bridge Improvement Program established to accelerate repair and replacement of trunk highway bridges. The Mn/DOT commissioner is required to classify all state bridges into Tier 1, 2 and 3. Tier 1 consists of all bridges that have average daily traffic above 1,000 and a sufficiency rating below 50 or that have been identified by the commissioner as a high-priority project. Tier 2 bridges consist of any bridge that is not a Tier 1 and is fracture-critical and has a sufficiency rating below 80. Tier 3 bridges include all other bridges in the program. All Tier 1 and 2 bridges are required to be under contract for repair or replacement by June 30, 2018. A specific bridge may continue in service if the reasons are documented in a required report.

During the 2010 legislative session an additional $100 M in state bonds was authorized bringing the total trunk highway bonding for road construction to $1.8 billion. The time frame for bond authorization was also shortened to be an 8-year period (FY 2009-FY2016) rather than ten.

In addition, the 2008 legislation changed the vehicle registration tax to eliminate the caps on the tax put in-place in 2003, and adjusted the depreciation schedule for vehicles to slow the reduction in vehicle value. The registration tax increase applied only to vehicles first registered after August 1, 2008- previously registered vehicles were grandfathered in at the current tax amount or less.

Furthermore, the 2013 Minnesota Legislature created the Corridors of Commerce program by authorizing the sale of up to $300 million in new bonds for the construction, reconstruction and improvement of trunk highways (2013 Session Law, Chapter 117). The legislation establishes two major goals: to provide additional highway capacity on segments where there are currently bottlenecks in the system, and to improve the movement of freight and reduce barriers to commerce. Based on the legislative criteria, the MnDOT Commissioner selected projects across the state. Up to $177 million is available for two projects in the Twin Cities Metropolitan Area (based on actual project costs). They are I-94 from Rogers to St. Michael, and TH 610 from I-94 to County State Aid Highway 81.

Transit Funding Provisions

Chapter 152 dramatically changed the outlook for metropolitan transit revenues by authorizing a quarter-cent sales tax for transitway development and operating purposes. The law authorized the seven metropolitan area counties to participate, if they so chose, in a Joint Powers Agreement, and to impose a quarter cent sales tax and $20 motor vehicle excise tax (in lieu of the quarter cent sales tax increase on vehicles) for transitway development purposes.

In April 2008, five of the metropolitan counties (Anoka, Dakota, Hennepin, Ramsey and Washington) voted to impose the tax. The five counties proceeded to enter into a joint power agreement and form the Counties Transit Improvement Board (CTIB), which is responsible for allocating the sales tax revenues. In CY2009, the first full year of implementation, the new sales raised approximately $88 million.

The metropolitan sales tax legislation also specified the following:

- Expenditure of the sales tax proceeds are limited to the following purposes:

- ▫ capital improvements to transitways including the purchase of buses and rail vehicles,
    - ▫ transitway studies, design, property acquisition and construction,
    - ▫ operating assistance for transitways,
    - ▫ capital costs for park-and-ride facilities, and
    - ▫ up to 1.25 percent of the proceeds for pedestrian and bicycle programs and pathways
    - ▫ assistance for general bus operations is not eligible for funding.
- The sales tax proceeds are to be allocated by the Joint Powers Board through a grant application process.
- Projects selected for funding must be consistent with the Council's *Transportation Policy Plan* (TPP), as determined by the Council.

Additional 2008 legislation related to transitway spending prohibits the individual counties from contributing more than 10 percent of the capital costs of a light rail or commuter rail project, and limits the state share of light rail or commuter rail capital costs to 10 percent. The assumption for future rail transitway projects is that the county sales tax revenues will be used to pay 30 percent of the capital costs, federal funds will contribute 50 percent, and the counties and state will each contribute 10% of the capital cost. Similarly, another section of 2008 law prohibits county Regional Rail Authorities from contributing any funds toward the operation of a light rail or commuter rail line. A new law also specified that the state will pay 50 percent of rail transitway operating costs, with the assumption that the remaining 50 percent will be paid by the CTIB using the county sales tax revenues.

Transportation Finance Issues and Trends

Volatility and Decrease of MVST Revenues

While the constitutional dedication of MVST revenues brings additional resources to transportation, the decline and volatility of these revenues renders it a very unstable funding source, making it very difficult to know what revenues will be available to maintain existing or expand transit operations. Recent revenue trends indicate that it is highly unlikely this revenue source will provide adequate revenues to grow the bus system. This plan assumes MVST will grow at a rate of three percent to five percent annually to allow existing transit service levels to be maintained.

Revenue Source Lacking to Grow Bus Operations

Two major transit funding sources that were previously eyed to fund expansion of the bus system have been passed into law – the dedication of MVST and a regional sales tax. But in the foreseeable future, MVST revenues will not allow for funding of bus system expansion. A regional sales tax is now available but its expenditure purposes are limited to the implementation and operation of transitways and construction of park-and-rides and it cannot be used for general bus operations. While this policy plan calls for the doubling of transit ridership by 2030 (see Chapter 7: Transit), of which over 28 percent is anticipated to come from growth in the bus system, it is very uncertain that a funding source to provide for this growth can be identified.

Increasing Gas Prices and Leveling off of Gas Tax Revenues

During the first half of 2008 gas price increases to levels nearing $4.00 a gallon, caused both a reduction in vehicle miles of travel and increased use of transit and more fuel efficient vehicles, both of which cause a reduction in the amount of motor fuel taxes collected While gas prices dropped during later 2008 and 2009, the economic recession and loss of jobs continued to dampen vehicle travel in the region. While a reduction in travel may ease congestion in the short term, there is no indication that it will have a significant impact on the level of highway expenditure required in the region.

In addition, since 2006, state motor fuel collections per penny of tax have been falling from approximately $32.5 million per penny of tax in 2006 to an estimated $30.4 million per penny of tax in 2010. While the recently enacted state gas tax increases will provide an initial influx of revenues, on a per gallon tax basis, gas tax revenues are not expected to grow over time and most likely will continue to decrease.

Uncertain Future of Federal Revenues

The six-year federal highway and transit funding bill was set to be reauthorized in fiscal year 2009. Congress failed to pass a reauthorization bill in both 2009 and 2010, instead passing continuing resolutions which provide approximately the same amount of funding as provided in the final year of SAFETEA-LU. In addition, the federal highway trust fund has been dangerously close to insolvency, requiring transfers from the federal general fund to maintain the current spending levels. While there are indications that Congress will act to preserve and most likely increase spending levels in the reauthorization bill, it is very uncertain what level of funding states should plan for into the future. The lack of increased transportation funding through a federal reauthorization bill has somewhat been offset by the establishment of one-time federal programs that emphasize specified outcomes such as the ARRA program for job creation and the TIGER I and TIGER II programs which have emphasized economic development , livability and sustainability. These one-time programs can offer significant amounts of funding but are difficult to plan for or include in future revenue estimates.

Lack of Funding for Highway Expansion

Despite the passage of Chapter 152 and the Corridors of Commerce program which increased revenues it made available for highway programs, it is clear that there continues to be inadequate funding available for highway expansion projects over the next twenty years, even if previously identified expansion projects are rescoped so that they can be constructed at a lower cost. Additional revenue will be needed for the rescoped highway expansion projects and to make other strategic highway capacity investments.

Transportation Finance Policies and Strategies

The following policies and strategies will guide the region's transportation investments over the next two decades.

Policy 1: Ensure Adequate Resources for Transportation System Investments

The Metropolitan Council will identify and pursue an adequate level of resources for regional transportation investments. The first priority is to ensure that adequate resources are available to preserve, operate and maintain the existing systems and the second is to seek resources to address identified but unmet needs and demands.

Strategy 1a. Resources Available and Needed: The Metropolitan Council will identify (1) transportation resources currently available and reasonably expected to be available in the future, (2) the level of resources needed for transportation investments in preservation, operations and maintenance of existing systems and (3) resources required to meet unmet needs and demands.

Strategy 1b. Adequate Resources: The Metropolitan Council, working with the Governor, Legislature, local governments and others will pursue an adequate level of transportation resources to preserve, operate and maintain existing systems and to meet identified unmet needs.

Figure 3-6: A system of regional trails provide transportation options for bicycles and pedestrians

Policy 2: Prioritizing for Regional Transportation Investments

The priorities for regional transportation investments are to adequately preserve, operate and maintain existing transportation systems and to make additional transportation investments on the basis of need and demand consistent with the policies, strategies and priorities of this policy plan and the *Regional Development Framework.*

Strategy 2a. System Preservation: The first priority for transportation investments for all modes is the preservation, operation and maintenance of existing systems and facilities.

Strategy 2b. Highway System Investments: After preservation, operations and maintenance, the second priority for highway system investments is to effectively manage the system and third is expansion that optimizes the performance of the system.

Strategy 2c. Transit Capital and Operating Investments: After preservation, operations and maintenance of the existing transit system, regional transit capital and operating investments will be made to expand the local and express bus system and develop a network of rail and bus transitways to meet the 2030 goal of doubling transit ridership and 2020 goal of a 50% ridership increase.

Strategy 2d. Bicycle and Pedestrian Investments: The Council will encourage roadway and transit investments to include provisions for bicycle and pedestrian travel. Funding priority for separate bicycle and pedestrian improvements will be based on their ability to accomplish regional transportation objectives for bicycling and walking.

Strategy 2e. Multimodal Investments: Criteria used by the region to prioritize projects for federal funding will encourage multimodal investments. Examples of such investments include bus-only shoulders, high-occupancy vehicle and high-occupancy toll (HOV/HOT) lanes, priced dynamic shoulder lanes, HOV bypasses at highway interchanges, bicycle and pedestrian connections to transit stations and corridors and rail/truck intermodal terminals.

Highway and Transit Revenues

Under federal law, the region is required to develop a fiscally constrained long-range plan. This requires developing an estimate of the highway and transit revenues that will be available to the region over the next 20 years. All revenue estimates are uncertain and in the end will prove to be off by some degree. This plan uses estimates of revenue based on known state and federal allocation formulas, current state revenue forecasts and also based upon past experience with receiving federal, state and other competitive or discretionary revenues.

Chapter 6: Highways, estimates that $3.6 - $4.1 B will be available to Mn/DOT for state road construction from 2015-2030. The majority of these funds are estimated to be generated through existing formula allocations, with a small amount estimated to be obtained through discretionary appropriations or competitive grants, including the Regional Solicitation. Transit funding estimates are much more heavily dependent upon the assumption that the region will be successful in obtaining competitive revenues. For example in Chapter 7: Transit, the estimated revenues to expand the transit system include revenues from the federal New Starts program, CTIB, and state bond appropriations. All of these sources of funding are competitive and the future amounts assumed to be available in this plan contain a higher level of risk and uncertainty than do the formula driven highway revenues.

Highway Revenues

The state highways are funded through four primary funding sources, the state gas tax, vehicle registration tax, a portion of the motor vehicle sales tax (MVST) and federal allocations funded through the federal gas tax. All three state highway revenues are constitutionally dedicated to highway purposes and must be deposited in the state highway user fund.

While local property taxes play a very important role in funding county and city roads, they typically are not used to fund the metropolitan highways covered by this policy plan (principal arterials and “A” minors arterials). The Metropolitan Highway System is funded primarily through state and federal highway taxes. Each of these funding sources is briefly described below.

Prior to the 2008 Legislative session, the state gas tax was 20 cents per gallon and in FY 2007 total revenues were approximately $650 million, or about $32.5 million per penny of tax. Under the new legislation, the gas tax will increase to 28.5 cents per gallon by 2013, however due to reductions in travel and increases in vehicle fuel efficiency, the tax is expected to become less productive generating only about $30.4 million per penny of tax or approximately $870 million annually by 2013 when the tax is fully phased-in.

Passenger vehicles pay a registration tax assessed on the basis of the value and age of the vehicle and as discussed previously, under the 2008 legislation an increase to these tax revenues will be phased in over the next decade or so. In FY 2007 the vehicle registration tax generated approximately $484 million and it is expected that this amount will grow to about $590 million annually by 2013.

Prior to the adoption of the 2006 constitutional amendment to dedicate the MVST revenues to transportation, highways received 32 percent of the total MVST revenues or about $160 million in FY 2007. Under the new constitutional dedication, this amount will grow to 60 percent of total MVST revenues by 2013 or about $365 million annually.

Figure 3-7: Minnesota Highway User Tax Revenue Historical and Forecast

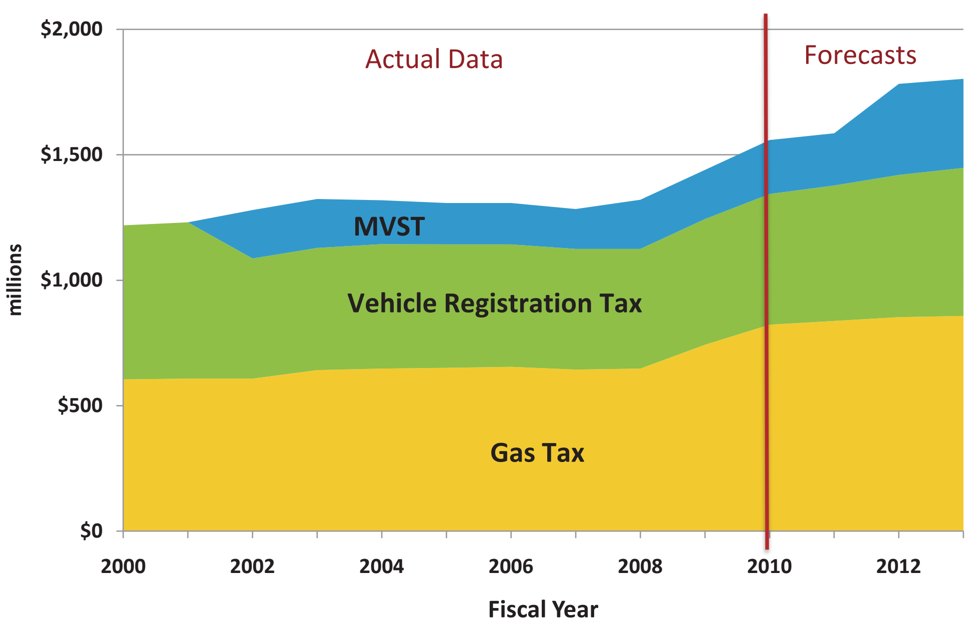


Figure 3-7 shows the actual and forecast total revenues to the highway user fund generated by the three state funding sources (gas tax, registration tax and highway share of MVST). Under the Minnesota constitution, Mn/DOT receives about 59 percent of the revenues in the highway user fund for the state trunk highway system. The remaining funds are allocated about 28 percent to the state’s 87 counties for county state aid highways, eight percent to municipalities with a population over 5,000 for municipal state–aid streets and five percent is distributed to the various highway systems under a formula determined by the Legislature every six years.

In FY 2009 the highway user fund revenues totaled over $1.4 billion statewide, about $835 million of which was transferred to the trunk highway fund for Mn/DOT, with the remainder allocated to county and municipal state-aid roads. The Mn/DOT funds were further allocated about $ 495 million for operations and maintenance purposes, about $280 million for state road construction and $60 million for debt service. In addition to the state highway user funds, Minnesota receives approximately $450 million annually in federal highway aid for construction

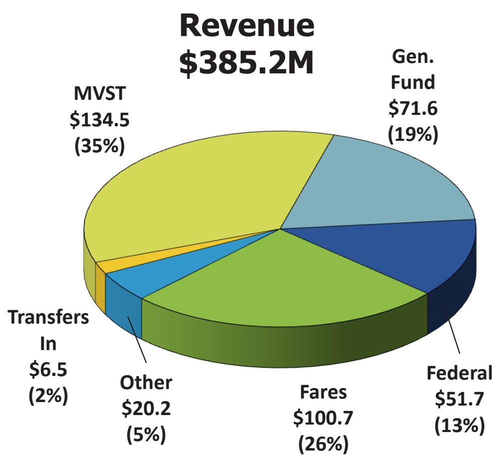
Figure 3-8: Highways are funded by state gas taxes, MVST, vehicle registrations and federal gas taxes

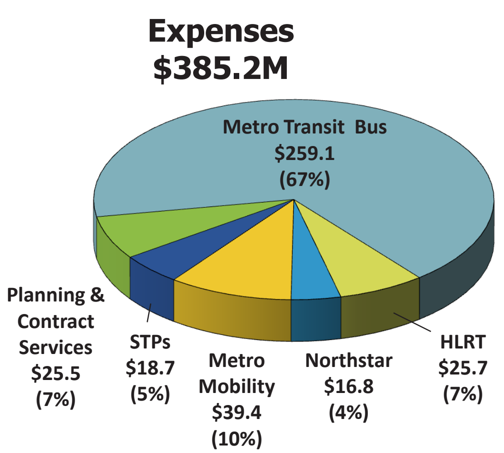
purposes and about $40 million in federal aid for Mn/DOT operations each year. This figure can vary considerably depending upon special appropriations and grant programs such as in FY 2009 and 2010 when the state received approximately $500 million in federal ARRA funds. Statewide the federal funds are typically allocated 70-75 percent or about $340 million annually to Mn/DOT for the trunk highways and 25-30 percent for local roads.(In the metro area the share of federal funds allocated to local road projects has tended to be higher than the statewide average with typically about 45% of the federal funds available for the regional solicitation process). Between the state ($280 million) and federal funds ($340 million), Mn/DOT's state road construction program would have typically totaled approximately $620 million. However, because the Legislature authorized the bridge replacement program and the spending of over $1.8 billion in trunk highway bonds, Mn/DOT's construction program will be substantially larger between 2008 and 2018. This construction increase will be off-set by an increase in the debt service necessary to repay the bonds which is estimated to reach about $140 million by 2013.

In federal fiscal year 2009, Congress was scheduled to enact a reauthorization of the six-year federal transportation funding bill. As of mid-2010 no new legislation had passed - Congress has enacted two continuing resolutions in 2009 and 2010 keeping the level of highway funding approximately where it had been in the last year of the previous bill SAFETEA-LU. At this point in time it is very uncertain what level of federal funding to expect in the future, though most transportation professionals expect at least a modest increase in highway funding when the new bill is passed. This plan projects that Mn/DOT's federal revenues will remain at a flat level of federal highway funding through 2016, followed by an increase in federal revenues averaging 1.6% per year.

This policy plan is primarily concerned with the estimated funding available for trunk highway construction (preservation and expansion) in the metropolitan area under the jurisdiction of Mn/DOT's Metro District. Mn/DOT has established a formula for distributing the available highway construction funds to the individual eight Mn/DOT construction districts throughout the state. This formula, referred to as the "target formula", uses factors such as vehicle miles traveled, number of fatal and injury crashes, pavement needs, bridge needs and the amount of heavy commercial traffic in each district to distribute the construction funds. Under Mn/DOT's target funding formula, the Metro District typically receives about 43 percent of the total state and federal revenues available for distribution. Mn/DOT is responsible for forecasting the state highway construction revenues that will be available to the Metro District in this plan. The available target revenues for the metro area (Mn/DOT projects and local road projects funded through the Regional Solicitation) shown in Table 6-19 of Chapter 6: Highways total $5.6 billion and average approximately $300 million per year from 2015-2020, increasing to an average of $370 million per year from 2021-2030. These target funds are exclusive of the funding that will be available from the passage of Chapter 152. The Chapter 152 funds are used for Mn/DOT's operating budget and to fund the repayment of authorized trunk highway bonds, which are primarily used for the Tier 1 and Tier 2 bridge program.

Figure 3-9: Metropolitan Council 2010 Transit Operating Budget





Because the 2008 and 2013 legislation authorized Mn/DOT to issue trunk highway bonds financed by the new Chapter 152 and Corridor of Commerce tax revenues respectively, the actual level of highway construction spending in a given year will vary significantly up or down from the available revenues. The total amount estimated to be available to the Metro District for state highway construction in the 2015-2030 time frame from the existing state and federal taxes and from the 2008 transportation funding bill is approximately $3.85 - $4.35 billion and is discussed in more detail in Chapter 6: Highways (see Table 6-24). Of this amount approximately $1.1 billion is estimated to be available for allocation in this plan for safety and congestion mitigation/mobility improvements.

Transit Revenues

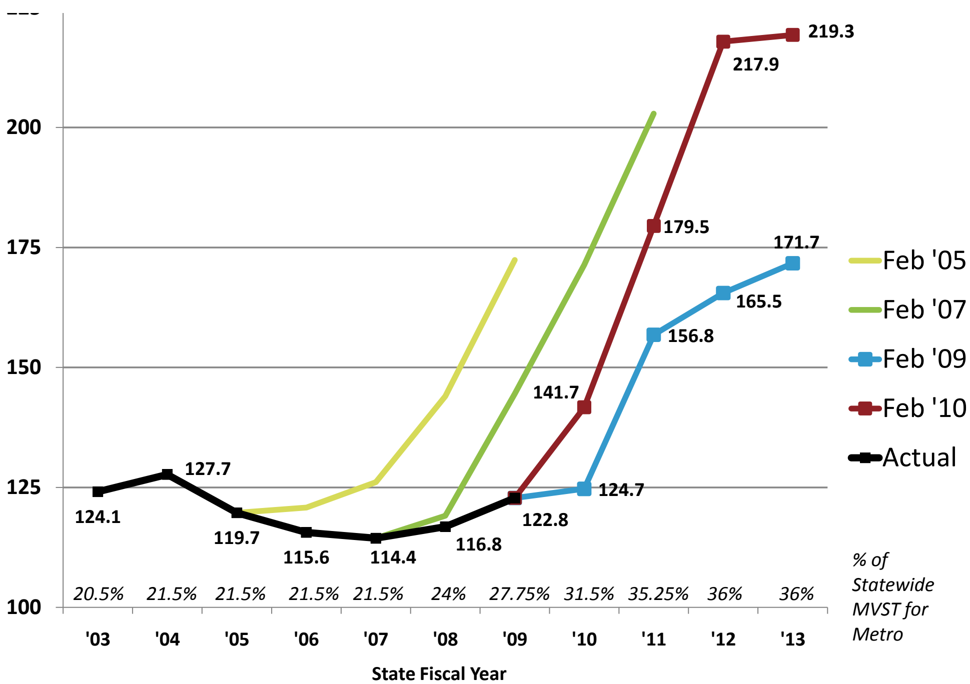
Operating Revenues

Transit relies on five primary sources of revenue for operations - transit fares, Motor Vehicle Sales Tax (MVST), the state general fund, the federal government and other sources. The breakdown of revenue sources, as well as expenditures, for transit operations, is shown in Figure 3-9. In calendar year 2010, the Council's adopted transit operating budget was about $385 million (including MVST revenues passed-through to Suburban Transit Providers) in revenues and expenses. MVST revenues are the biggest funding source for transit operations at approximately 35 percent of the transit budget, the state general fund provided 19 percent, passenger fares 26 percent, federal 13% other revenues 5 percent of total revenues and a transfer from reserves provided the remaining 2%.

As the MVST constitutional dedication phases in, it is anticipated that the MVST share of the total operating budget may increase to 40 percent or more, however this will be dependent on the performance of the MVST revenue collections. On the expenditure side, Metro Transit bus operations are the largest expenditure category in the Council's budget at approximately 67% of total expenses; Hiawatha LRT expenses are approximately 7%; Northstar commuter rail 4%; Metro Mobility is 10%; planning and contracted services are 7%; and the Suburban Transit Providers (STP) are 5% of expenditures. Figure 3-9 includes only regional transit expenditures that are included in the Metropolitan Council budget. For example fare revenues collected directly by the suburban providers and county transit expenses are not included.

Heading into CY 2009, the Council was anticipating a significant shortfall in the revenues available to maintain the existing transit system. In addition the state was facing a large budget deficit and during both 2009 and 2010 the general fund revenues appropriated to transit were cut by approximately $10 million annually. A combination of events and actions taken during 2009 and 2010 including an increased state MVST forecast, a late 2008 fare increase, a shifting of federal transit capital funds into the operating budget, a use of existing reserves and legislative actions that authorized the Council to access non-transit funds for transit purposes, allowed the region to maintain existing levels of transit service. A short range outlook indicates that under the current MVST forecast the region will be able to continue to maintain existing transit service levels through 2013. Making financial predictions beyond 2013 is difficult, however, at this point the MVST constitutional dedication will be fully phased-in and the revenues allocated to transit will begin to level off. Figure 3-10 shows the actual MVST revenues received and the biannual forecast for the metropolitan area share of MVST revenues from FY 2003-FY 2013. While statewide MVST collections fell significantly from FY04 – FY09, the constitutional dedication and increased share of MVST revenues for transit helped off-set what would have otherwise been a significant decline in transit revenues. The most recent state MVST forecast (Feb. 2010) predicts a recovery in the MVST revenues beginning in FY 2010.

Figure 3-10: Forecasted MVST Revenues for Metropolitan Area Transit



This policy plan assumes that after 2012, the existing transit operating revenues will grow at a rate to maintain existing levels of service. It is assumed the growth to cover inflationary cost increases will occur primarily through growth in the MVST revenues and will require a growth rate of three percent to five percent annually. If the MVST revenue growth does not occur, it is assumed the state appropriations will grow at a level to maintain existing operations. It is not expected that the current transit operating funding sources will grow at a level to allow for service expansion.

Under 2008 legislation, it was expected that new rail transitway operating expenses would be paid 50 percent from the county transit sales tax and 50 percent from additional state appropriations. CTIB has provided 50% of the funding for Northstar commuter rail operations which began in late 2009. However, during the 2009 legislative session no new state funding was received for Northstar operations and the Council's general fund appropriations for bus operations were reduced. The financial actions mentioned previously allowed the Council to avoid service reductions and also allowed for the funding of the state share of Northstar operations.

Bus transitway operations are also eligible for sales tax funding and to date CTIB has provided funding for expanded bus transitway operations related to the implementation of the Urban Partnership (UPA) on Cedar Avenue BRT and I-35W BRT.

The regional goal of doubling transit ridership by 2030 cannot be met without both the development and operation of new Transitways and an expansion of the bus system. At this point, it is not clear what funding source will provide for the bus expansion or if the state commitments to operating new Transitways will materialize. The estimated unfunded costs are discussed in Chapter 7: Transit. In addition Chapter 12: Work Program includes a new study which will conduct a long term financial analysis of the bus and Transitway system, identify issues of concern and potentially make recommendations for future financial actions.

Transit Capital Revenue

The primary funding sources traditionally used for transit capital expenditures include: property tax supported regional transit capital (RTC) bonds; federal funds including federal formula earnings, Congestion Mitigation/Air Quality (CMAQ) funds, discretionary appropriations and New Starts funding for transitways; and state funds including general obligation bonds, general funds and trunk highway bonds where allowable. In addition, the new county sales tax offers a new source of funding for transitway capital and operating costs and park-and-ride construction.

Each year the Council must receive specific authorizations from the state Legislature to issue regional bonds for necessary transit capital projects. Regional Transit Capital or RTC is the term commonly used to refer to these bond funds. The debt service on the bonds is paid with property tax receipts collected from within the Transit Taxing District (TTD). In recent years, RTC funding has totaled $33-34 million annually. RTC is the funding source most often used to provide for fleet replacement, fare collection and other technology needs, park-and-ride construction, facility repair and maintenance and to provide the 20 percent local match required for federal funding.

The Council currently operates under a policy whereby the RTC expenditure level is not allowed to increase at a rate greater than one percent per year (plus increases due to new communities agreeing to pay the levy, such as Lakeville which will begin paying in 2009). This growth rate allows the Council to meet the goal of no growth in the impact of regional property taxes on typical taxpayers. There have been instances in recent years where the Legislature has not passed additional regional transit bonding authorization. This causes a shortage of funds to accomplish the Council's planned capital improvement program (CIP) and results in delayed or cancelled capital projects.

The Council and other regional transit providers earn federal formula funds distributed to the metropolitan region based upon a number of demographic and transit service statistics the Council reports annually. Typically the Twin Cities region receives around $45 million in federal formula funds annually. This federal funding must be matched with 20 percent local funds, usually the RTC funding.

The region receives federal Congestion Mitigation/Air Quality (CMAQ) funding totaling approximately $25 million annually. These funds are distributed through the Council's and Transportation Advisory Board's (TAB) regional solicitation process on a biannual basis. Typically at least 80 percent or more of the CMAQ funds are awarded to transit projects. The funds must be used for service expansion and mainly are used for new bus purchases or park-and-ride construction. A portion of the CMAQ funding also supports the travel demand mitigation activities of Metro Transit and the Transportation Management Organizations (TMOs) in the region. CMAQ funding available for transit projects is usually matched using RTC funding. If the project is outside of the TTD, other local funds provide the match.

Federal New Starts funding is the source used to fund major rail and dedicated busway projects. New

Starts funding is awarded nationally on a competitive basis through the Federal Transit Administration. Projects must apply and receive approval to enter preliminary engineering and must also apply again to enter final design and construction.

New Starts projects are currently evaluated by the FTA based upon "Project Justification" and "Financial" ratings; both of these ratings, and the overall project rating for a project, must be medium or better to receive FTA New Starts funding. FTA considers six project justification factors: Economic Development Benefits; Transit-Supportive Land Use; Mobility Improvements; Cost-Effectiveness; and Environmental Benefits. The financial rating is based upon the project sponsor's ability to support the operations and maintenance of the transit system, the amount and proportion of the local funding match commitment, and the stability and dependability of that match. Historically, those projects that have been competitive for federal funds commit at least a 50 percent local match (beyond the required 20 percent minimum).

In this region, the assumed formula for the remainder of the capital costs would be: 10 percent from the local entities where the project is located (usually the county regional rail authorities), 30 percent using sales tax funds awarded from the CTIB and 10 percent from the state, most likely using state bonds. The revenue estimates in Chapter 7: Transit, assume that this region will continue to receive federal New Starts funding to construct the major transitway projects, but it is likely that only one project would be receiving federal New Starts construction funding in any given year. The region should pursue funding for multiple transitways if changes in federal guidance and available funding levels indicate that this assumption can be modified.

Figure 3-11: Early construction on the Central Corridor Light Rail, which is partially being funded using Federal New Starts

In addition to matching New Starts funding, state bond fund requests are considered to be a major source of funding for transit capital investments including transitway studies, park-and-ride construction, transit stations, bus garages and investments in Bus Rapid Transit. Over the past decade state bond fund appropriations for transit have averaged about $40 million per year, though this amount can vary significantly depending on the project needs. This plan assumes that in the future state bond funds will continue to be allocated for transit capital projects at least at the same level as previous bond funding.

The new county sales tax will provide a significant amount of funding for transitway investments. The funds will be distributed by the Counties Transit Improvement Board or CTIB as described previously. The funds are available for transitway capital and operating expenses, park-and-ride facilities, and a small amount for bike and pedestrian programs. The current revenue estimate is $88 million annually from the quarter cent sales tax. This plan assumes that at a minimum the CTIB funds will be used to provide 30 percent of the capital funding for engineering and construction of any future New Starts transitway project and 50 percent of the on-going operating costs of the projects. Under the CTIB investment guidelines funds would also be available for 30% of the Highway BRT transitway capital investments and could provide 50% of the funding for new bus service in a BRT corridor.