Thrive MSP 2040

TRANSPORTATION POLICY PLAN

Chapter 4:
Regional Transportation Finance

2040

TRANSPORTATION POLICY PLAN

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Chapter 4: Transportation Finance

Transportation Finance

Overview

This section examines the sources of funding that will be available for transportation investments within the region in the coming years and the general areas of expenditure for those revenues. In particular, this section identifies the revenues that can reasonably be expected to be available and investment spending that will occur under what is known as the "Current Revenue Scenario" and also identifies an "Increased Revenue Scenario" under which a realistic amount of additional revenue might be available.

As identified in the *2030 Transportation Policy Plan*, uncertainty and limitations affecting transportation funding continue to be major issues facing the region. Under the Current Revenue Scenario, expectations are that the performance of the highway system will decline because revenues will not even meet the needs to operate, maintain and preserve the existing system. And while the preservation needs of the transit system are estimated to be largely met, the important regional goal of growing and improving the bus and transitway systems cannot be achieved. The Increased Revenue Scenario provides an estimate of increased revenues that might be realistically attainable and that would move the region in a direction closer to achieving the outcomes of *Thrive MSP 2040* and the transportation goals envisioned by this plan.

Two Funding Scenarios

This Transportation Policy Plan considers two funding scenarios; one representing the investments that can be funded under current revenues, and a second representing a scenario in which new revenues are obtained.

- The Current Revenue Scenario assumes revenues that the region can reasonably expect to be available based on past experience and current laws and allocation formulas. Under federal regulations, this scenario is called "fiscally constrained." If increases in state or local taxes, or the availability of competitive funds are assumed within the Current Revenue Scenario, the assumptions must be based on the region's past history and experiences. The Current Revenue Scenario in this plan assumes only inflationary increases in the revenue sources. No increases in local, state or federal tax rates are assumed.
- The Increased Revenue Scenario assumes revenues that the region might reasonably attain through policy changes, laws or decisions that increase local, state or federal funding sources. Under federal regulations, the programs or projects in the Increased Revenue Scenario are illustrative of what might be achieved with additional revenues, but the projects are not considered part of the approved plan.

The regional transportation revenues and spending generally fall into three primary categories: state highways, transit and local transportation.

- The state highways category includes revenues and spending on the state highway system owned and operated by MnDOT's Metro District in the metropolitan area.
- The transit category includes revenues and spending by all regional transit providers, the Counties Transit Improvement Board and local governments for the regional bus and transitway systems.
- Local transportation includes revenue and spending by the counties and cities on local roads (including six principal arterials and the A-minor arterials owned by the counties and cities) and on the local bicycle and pedestrian system.

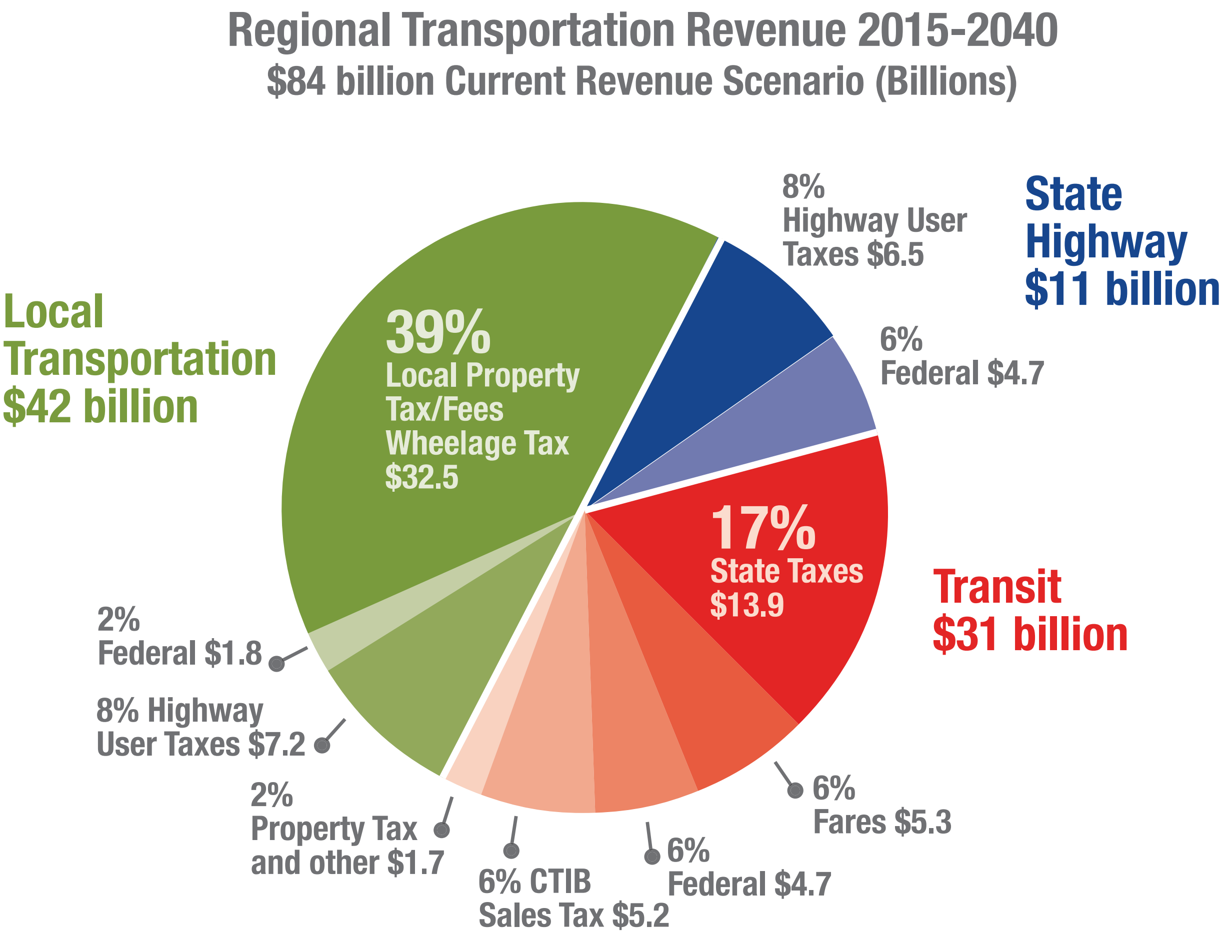
The general revenue and spending assumptions for each scenario and each transportation category (state highways, transit and local transportation) are contained in this section, while the specific state highway and transit investments that can be accomplished within each scenario are detailed in the "Highway Investment Direction and Plan" and "Transit Investment Direction and Plan" chapters of this Transportation Policy Plan. The local transportation projects that can be accomplished under each scenario are identified by each city and county under its individual decision making processes.

Current Revenue Scenario Assumptions

The funding assumptions used for the Current Revenue Scenario were developed cooperatively with the MnDOT and Metro Transit using existing financial resources and documents where possible. Information on local transportation revenues were obtained from state-aid allocation reports, state auditor data and averaging past federal allocations.

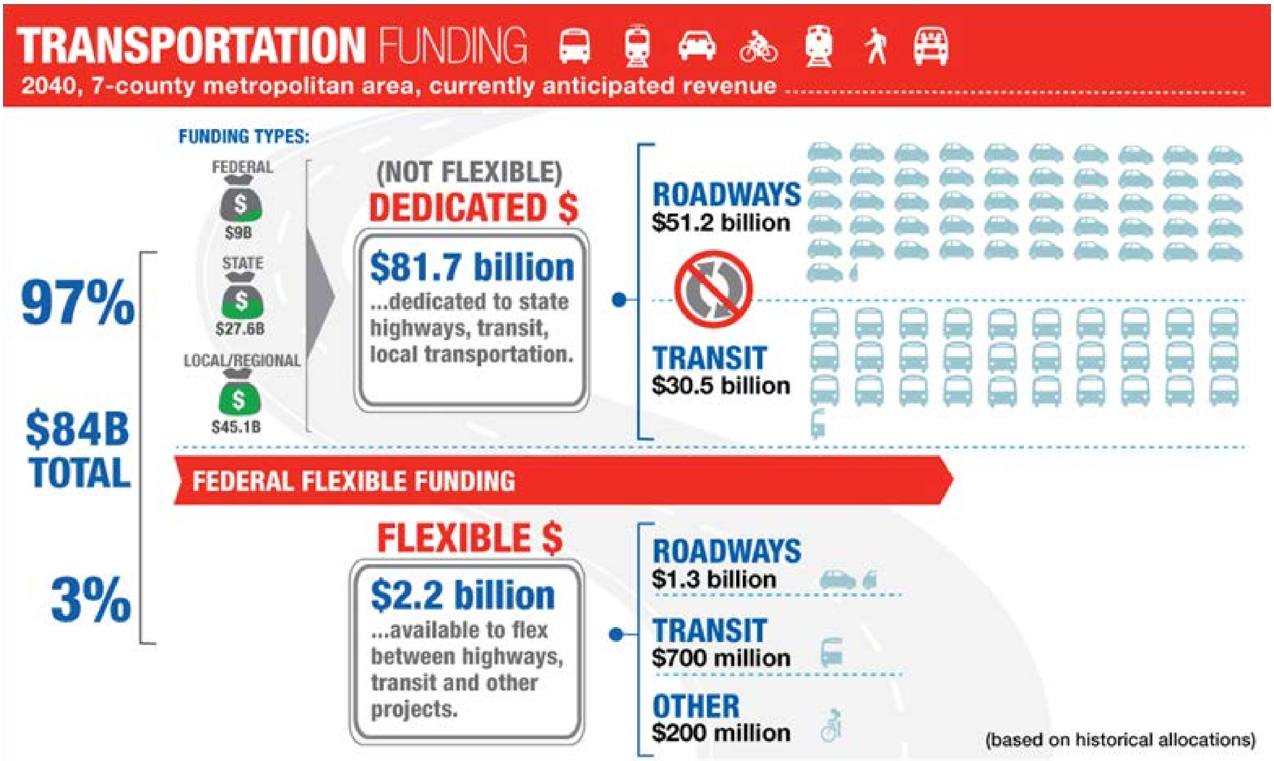
The pie chart in Figure 4-1 shows the total transportation revenues, estimated at $84 billion, expected to be available to the region over the 26-year period of this plan (2015-2040), in year-of-expenditure dollars. Each of the major categories (state highways, transit and local transportation) will receive funding from federal, state, regional and local funding sources. The revenue sources and assumptions used for each are detailed in the following sections and are shown in Table 4-1, "Metropolitan Area Projected Revenues by Funding Source and Time Period."

Figure 4-1: Regional Transportation Revenue, 2015-2040



It is important to note that due to constitutional dedications and specific federal and state allocation formulas, the vast majority of the revenues expected to be available to the region are dedicated funds that cannot be moved from one spending category to another, i.e. state highway revenues cannot be spent on transit, transit revenues are not available for expenditure on the state highway system. The one source of "flexible" funding available to the region is through the allocation of federal funds by the region's Transportation Advisory Board (TAB) through the Regional Solicitation process. This competitive process allocates funds to local and state roadways, transit and bicycle and pedestrian projects as determined by TAB. Over the time period of this plan, approximately $2.2 billion of "flexible" federal funding is expected to be available through the Regional Solicitation using federal Surface Transportation Program (STP), Congestion Mitigation Air Quality (CMAQ) and Transportation Alternative Program (TAP) funding allocated to the region. As shown in Figure 4-2, while a substantial amount of total transportation revenue will be available to the region through 2040, flexible funding from the Regional Solicitation accounts for only about 3% of the total funding that will be available to the region.

Figure 4-2: Dedicated and Flexible Transportation Funding, 2015-2040



State Highway Revenues

State highway revenues are the revenues used by MnDOT for the state highway system in the metropolitan area, which includes most of the region's principal arterials and also 20% of the A-minor arterials owned by MnDOT (see Chapter 1 Existing System Description Highways). MnDOT's primary sources of revenues are the state highway user tax revenues and federal revenues as described below.

Highway User Tax Revenues

In Minnesota, revenues from the state gas tax, vehicle registration tax and up to 60% of the motor vehicle sales tax are constitutionally dedicated to highway purposes and are collectively referred to as highway user tax revenues. The Constitution also provides that these dedicated highway user tax revenues are divided 62% to state highways, 29% to county roads and 9% to city streets.

MnDOT is responsible for tracking the highway user tax revenues and forecasting revenue into the future. The long-range estimates for highway user tax revenues were updated by MnDOT in 2013 as part of its work on the Minnesota State Highway Investment Plan (MnSHIP). In predicting future highway user tax revenues MnDOT considered factors such as improvements to vehicle fuel efficiency, increases in the number of electric and hybrid vehicles and impacts of decreasing per capita vehicle miles traveled. MnDOT anticipates gas tax collections will slightly decrease over the time period of this plan (averaging -.6% annually), while vehicle registration taxes and motor vehicle sales taxes will annually increase (averaging 2.2% and 2.5% respectively). Taken together, the three highway user taxes are expected to increase by an annual average through 2040 of 1.2%.

As part of MnSHIP, MnDOT also prepared the estimate of highway user tax revenues that would be allocated statewide for construction and operations purposes and also the percentage of each to be allocated to the MnDOT Metro District. Under this forecast, the Metro District will receive approximately 38% of the total statewide highway user tax revenues available for state construction purposes and approximately 25% of the statewide revenues available for state highways operations purposes. In 2015, the total highway user taxes estimated to be available to MnDOT's Metro District are $330 million. From 2015 to 2040, it is estimated that the Metro District will receive approximately $6.5 billion from the state highway user tax revenues.

As noted at the outset of this chapter, the Current Revenue Scenario contains only those revenues that are ongoing and estimates are based on past experience, current law and allocation formulas. It does not include special funding programs such as the state's Corridor Investment Management Strategy, Transportation and Economic Development, and the Corridors of Commerce programs. Regionally significant projects selected for funding from these competitive programs will need to be amended into the Current Revenue Scenario of the plan.

Federal Highway Revenues for MnDOT

Federal transportation revenues are generated through a federal fuel tax. The revenues are deposited in the federal highway trust fund, about 85% of which are deposited in the highway account and 15% in the transit account. At the time this Transportation Policy Plan was adopted, the federal law in place to distribute the federal revenues was known as MAP-21 - Moving Ahead for Progress in the 21st Century. Under MAP-21, there are five primary highway funding programs through which the state receives revenues - National Highway Performance Program (NHPP), Surface Transportation Program (STP), Congestion Mitigation/Air Quality (CMAQ), Transportation Alternatives Program (TAP) and the Highway Safety Improvement Program (HSIP). In order to align with the MnSHIP forecasts, all federal revenues covered by this plan are forecast to grow by an annual average rate of 1.4%.

In Minnesota, the state's NHPP funds and half of the STP funds are allocated to MnDOT for the state highway construction program. MnDOT's federal NHPP and STP funds are then allocated to the MnDOT districts along with the available state highway user tax revenues. The metro area receives 38% of the federal funds available to MnDOT for capital purposes. It is estimated that MnDOT's Metro District will receive approximately $150 million in federal funds and from 2015 to 2040 will receive approximately $4.7 billion in federal highway funds.

Federal Highway Funds for Regional Solicitation

The remaining half of the state's STP funds are allocated to local Area Transportation Partnerships, which involve local elected officials and members representing various modes to help determine expenditure of the funds. In the metropolitan area, the Council and Transportation Advisory Board (TAB) together serve as the Area Transportation Partnership and are responsible for allocating the regional STP funds. Half of the state's federal TAP and HSIP funds and all of the federal CMAQ funds received by the state are also allocated to the TAB for distribution in the metropolitan area.

The regional STP, CMAQ, TAP and HSIP funds are allocated to specific projects through a biennial process known as the Regional Solicitation. Through this process, TAB establishes project criteria and a scoring system to evaluate projects within specified categories. The region has directed use of any federal funds for roadway purposes to the A-minor arterials and the non-freeway principal arterials owned by MnDOT, counties and cities. From 2015 to 2040 Regional Solicitation funding from the four federal programs, is estimated to total $2.5 billion, including $1.3 billion of STP funds, $700 million of CMAQ funding, $200 million of TAP funds and $300 million in HSIP funds.

The Regional Solicitation underwent an in-depth review and revision of the scoring criteria, measures and application design throughout 2013-2014. One of the purposes of the evaluation was to ensure that the criteria used in the solicitation align with *Thrive MSP 2040* outcomes and the transportation system goals and objectives in this plan.

While non-freeway principal arterials and A-minors owned by MnDOT are eligible for the Regional Solicitation revenues, historically the majority of the regional federal revenues have been allocated to local transportation (roadway, bike and pedestrian) projects and transit projects. For simplicity, the financial analysis for this plan assumes that none of the federal revenues available through the Regional Solicitation will be allocated to MnDOT. The Regional Solicitation federal revenues are fully accounted for within the transit and local transportation categories as described in later sections. Local units of government can also apply for and receive federal funding for projects on the MnDOT system within their jurisdiction. This revenue and spending is also accounted for in the local transportation category.

Transit Revenues

Transit revenues are generated by a number of sources, the majority of which are available only for specific transit operating or capital purposes. The transit revenues are largely used by the Council (Metro Transit, Metro Mobility, and Transit Link) and the suburban transit providers to operate and improve the existing bus and transitway systems. Some competitive revenues are also available through the Counties Transit Improvement Board and federal programs to expand the transit system as described below.

Transit Motor Vehicle Sales Tax Revenue

Forty percent of the state's motor vehicles sales tax (MVST) revenues are dedicated to statewide transit purposes, with the Metropolitan Council receiving 36% of the MVST revenues for metropolitan area transit. The state provides a four-year forecast of expected MVST revenues (most recently FY2014-17), which was used as the basis for the MVST revenue estimates in this plan. After 2017, transit MVST revenues are forecast to increase at an annual average of 2.5% (consistent with the highway MVST forecast by MnDOT under the MnSHIP plan) over the time period of this plan. MVST revenues are primarily used for transit operating purposes but can also be used for transit capital. In 2015 the metropolitan area transit share of MVST revenues are estimated at $252 million. From 2015-2040, approximately $9.3 billion is estimated to be available from the transit MVST revenues.

State General Fund and Bond Appropriations

The state has historically provided a general fund appropriation for transit operating purposes. These revenues are in large part allocated to Metro Mobility operations and for the state's 50% share of the net costs of light rail transit operations. For the plan's current revenue forecasts, the state general fund appropriation is assumed to grow to meet the amount needed for these two transit operating purposes. In 2015, the state general fund appropriation for transit operations is approximately $77 million. From 2015-2040, the total amount of transit revenue from the state general fund is estimated at approximately $4.2 billion.

The state also periodically allocates revenues from state general obligation bonds for transit capital purposes. Historically the Council has received bond appropriations for transitway development, both for New Starts/Small Starts and other transitway projects. This plan assumes the state will continue to pay 10% of the capital costs for New Starts/Small Starts transitway development and also will provide an annual average of $5 million in bond proceeds for other transit capital projects. The state bond revenues are estimated at almost $500 million over the time period of this plan.

Transit Fares

The transit fare recovery ratio is a measure used nationally that compares the level of fare revenue received to the total operating costs of a transit system. A fare recovery ratio of 30% would indicate that 30% of the total operating costs are paid through passenger fares. Transit fare recovery ratios can vary significantly across service types, with services such as light rail transit recovering in the range of 35-40% of the operating costs, regular-route bus service recovering 28-33% of costs and ADA services such as Metro Mobility recovering a much smaller percentage, on the order of 10-12% of costs. Transit fare revenues are used primarily for transit operating purposes.

The Council periodically implements fare increases so that the system-wide fare recovery ratio remains fairly stable as a percent of the total system costs – currently at about 25% of system-wide costs. This plan assumes that over time fares will continue to grow with expenses (approximately 2.5% annually) to maintain a constant system-wide fare recovery ratio of 25%. This plan estimates total transit fare revenues at approximately $125 million in 2015 and a total of $5.3 billion from 2015–2040.

Federal Transit Revenues

Under MAP-21, the region receives federal formula transit revenues through two primary programs – 5307 and 5340. These programs provide formula funds for the region to use for transit capital asset management and improvement. For the purposes of forecasting the plan revenues, these programs are expected to continue in a similar form under any new federal law in the future and to grow at an annual average similar to the federal highway funds at 1.4% annually. In 2015 the region's federal formula funds are estimated at approximately $70 million, totaling $2.2 billion from 2015-2040.

As indicated earlier, the region also receives federal CMAQ funds which are distributed by the TAB and Council through the Regional Solicitation. CMAQ funds must be allocated to transportation projects that improve, or reduce impacts on air quality. Historically the region has allocated approximately 80-90% of the available regional CMAQ funds to transit and travel demand management (TDM) projects. The revenue forecasts in this plan assume this historic allocation of CMAQ funds to transit projects will continue into the future and that, similar to other federal revenue, CMAQ funds grow at a rate of 1.4% annually. In 2015 the CMAQ funds for transit are estimated at $24 million and will total almost $750 million over the life of the plan.

The largest competitive federal transit program is the New Starts/Small Starts program, which can provide a significant share of the capital costs for major transitway projects. In the past, the region has received a 50% federal cost share for the construction of the Blue Line, Green Line and Northstar Commuter rail. This plan assumes a federal funding contribution to future New Starts/Small Starts projects including the Orange Line (I-35W South BRT), Green Line extension (Southwest LRT), Blue Line extension (Bottineau LRT), Gold Line (Gateway BRT) and any future New Starts project will continue. The federal share may vary by project – this plan assumes a 50% federal share for all New Starts/Small Starts projects except the Gold Line where a 45% federal share is assumed as adopted by CTIB in its Program of Projects Investment Strategy. The federal New Starts/Small Starts funding in the first 10 years of the plan totals almost $1.8 billion or about $180 million annually, with the assumption that the region may use grant anticipation financing if the federal contribution lags the project expenditures. As described in Chapter 6, Transit Investment Direction and Plan the region will aggressively pursue federal funding to allow for the accelerated development of the regional transitway system. However, there is a level of risk associated with the development of each project and whether the project will successfully compete for the federal New Starts/Small Starts funding.

CTIB Transitway Sales Tax Revenues

In 2008, the legislature allowed the metropolitan counties to pass a quarter cent sales tax for transitway expansion and operating purposes. Five of the metropolitan counties (Anoka, Dakota, Hennepin, Ramsey and Washington) formed the Counties Transit Improvement Board (CTIB) and jointly implemented the sales tax. The sales tax proceeds are used to pay 50% of the net costs of operating regional transitways and also to contribute capital funding to constructing new and improved transitways. Typically CTIB will contribute 30% of the capital costs for a transitway but it may also choose to provide a higher share in order to accelerate transitway development. In 2015, the five-county sales tax is estimated to collect $115 million. This plan assumes the CTIB sales tax revenues will grow at an annual rate of 4%, totaling $5.2 billion over the time period of the plan.

Transit Property Tax and Other Revenues

Two sources of local property tax revenues are used for transit purposes - the Metropolitan Council levies for general transit capital purposes and regional railroad authorities levy for the county share of transitway development. The Metropolitan Council levies a property tax to pay for the debt service on transit bonds known as Regional Transit Capital (RTC). The Council can only issue RTC bonds when authorized by the state legislature to do so. Typically these bonds are authorized on an annual or biannual basis. The RTC funds are used to pay the capital expenses of maintaining the existing system and often to provide the required match to federal CMAQ and other competitive federal funds. The revenue forecasts in this plan assume RTC funds will continue to be authorized at the existing level (approximately $37 million in 2015) and will grow at a rate of 2.5% annually. RTC revenues are estimated at $1.4 billion from 2015 to 2040.

County regional railroad authorities (RRAs) are authorized to levy a property tax for the purpose of developing regional transitways. Typically RRA funds provide 10% of the capital costs for constructing transitways. This plan assumes that RRA property tax funds will provide the 10% amount needed for development of new transitways excluding arterial BRT transitways. Local property tax contributions to transitways are estimated at approximately $300 million from 2015 to 2040.

The Council also receives other revenue used for transit operations from sources including advertising, investment income, and from Wright and Sherburne counties and MnDOT to pay the Greater Minnesota share of operating the Northstar Commuter rail. Other revenues are estimated at approximately $11 million in 2015 and will total $420 million from 2015-2040.

Local Transportation Revenues

Federal transportation planning regulations require the plan to account for all transportation revenues and spending expected to occur in the region over the period of the plan including revenues used by local units of government (cities and counties) on the local road, bicycle and pedestrian systems. The local road system includes local streets, collectors, A-minor and other minor arterials and select principal arterials owned by some local units of government. Because the majority of local transportation spending is funded with local and state revenues, the local transportation revenues and spending are generally not covered in the regional plan in great detail. Only those local projects using federal funds received through the Regional Solicitation process (STP, CMAQ, TAP and HSIP funds) or other competitive federal funds, or that are regionally significant projects (expansion projects with a potential impact on air quality) are shown in the plan in Appendix B Transportation Improvement Program and Appendix E Air Quality Information.

Local transportation revenues come from three primary sources: local property taxes, assessments, fees and other local sources; county and city state-aid allocations from the state highway user tax revenues; and federal STP, CMAQ, TAP or HSIP revenues distributed through the Regional Solicitation process. Counties also are allowed to levy a wheelage tax ($10 per vehicle fee), which six of the metro counties (Carver, Dakota, Hennepin, Ramsey, Scott and Washington) have implemented and under state statute five of the metropolitan counties (Anoka, Carver, Dakota, Scott and Washington) receive an annual distribution from the state motor vehicle lease tax.

The majority of local transportation revenue is provided through local property taxes or local assessments and fees. Frequently when a new housing development is proposed, negotiations between the developer and city can result in all or a portion of the new local roadways being provided either directly by the developer or through related fees. These types of revenues are not estimated for this plan but are generally included in the local property tax category.

As shown in Figure 4-1, approximately $33 billion or almost 80%, of the $42 billion estimated to be spent over the life of this plan for local transportation purposes will come from local property taxes, assessments, wheelage taxes or other local sources. The remaining 20% of local transportation revenue is derived from state taxes and federal allocations.

Total local transportation property tax revenue data was calculated from information submitted by the local units of government to the state auditor and published annually. These reports include the annual reporting of transportation operating and capital expenditures for each local unit of government. Recognizing that these local transportation expenditures can vary significantly from year to year, a base-expenditure year was established by averaging calendar year 2011 and 2012 expenditures, and inflating the average at a rate of 2.5% annually over the plan period. Local wheelage tax data and motor vehicle lease tax data were obtained directly from the counties and also inflated at a rate of 2.5% annually. The local property tax revenue amounts were then calculated by subtracting the known revenue contributions from the local wheelage tax, state highway user taxes, vehicle lease tax, and federal revenue from the total local transportation spending.

Both cities and counties receive highway user tax revenues based on a statutory formula that accounts for factors such as lane mileage, construction needs, vehicle registrations or population. The state highway user taxes must be used on the designated county and municipal state-aid systems. The local highway user tax revenue estimates in this plan are derived from historical MnDOT state-aid allocation data inflated annually at a rate of 1.2%, similar to the inflation rate used in MnSHIP for state highway user tax revenues. Highway user tax revenues estimated to be available for the metropolitan area county and municipal state-aid systems in 2015 is estimated at $210 million and will total approximately $7 billion from 2015 to 2040.

The local transportation federal revenue is allocated through the Regional Solicitation process. The local federal funding is assumed to be approximately equal to the historical levels of STP, TAP and HSIP revenues that have been available to the region, as these sources of funding have primarily been awarded for local projects. The federal Regional Solicitation revenues were inflated annually by 1.4%, similar to all federal revenues. The federal revenues estimated to be available for local transportation purposes through the Regional Solicitation total $58 million in 2015 including $40 million in STP funds, $3 million in CMAQ funds, $7 million in TAP funds and $8 million in HSIP funds. The Regional Solicitation federal funds will total $1.8 billion over the time period of the plan, including $1.2 billion of STP funds, $200 million of TAP funds and $300 million of HSIP funds.

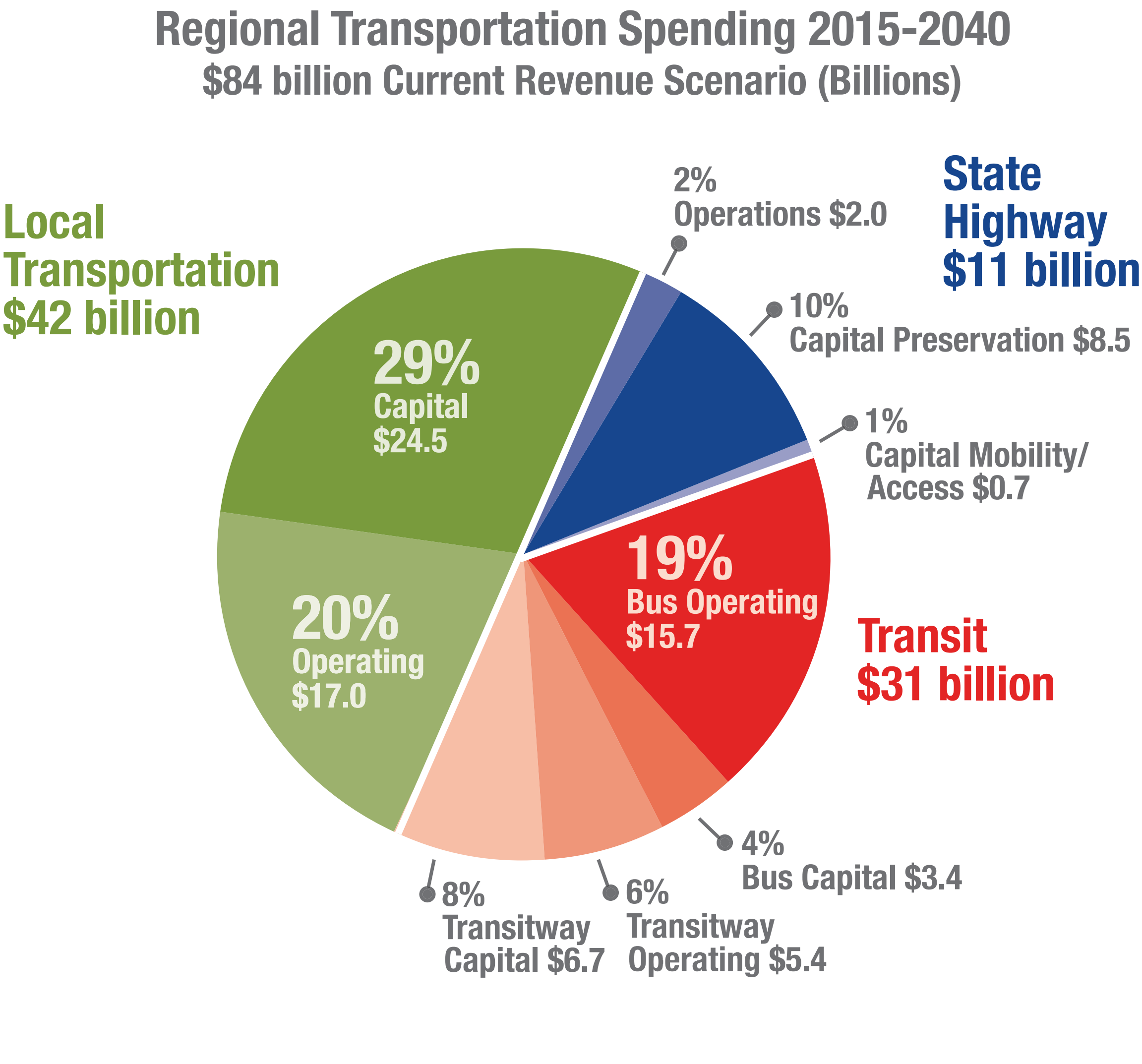
Table 4-1: Metropolitan Area Projected Revenues, 2015-2040 (year of expenditure, in millions)

REVENUE SOURCES	Calendar Years			
	2015-2024 (10 years)	2025-2034 (10 years)	2035-2040 (6 years)	Total Current Revenue Scenario
State Highway Revenues				
Highway User Taxes	2,100	2,500	1,900	6,500
Federal	1,600	1,900	1,200	4,700
Subtotal State Highway Revenues	**$3.7 B**	**$4.4 B**	**$3.1 B**	**$11.2 B**
Transit Revenues				
Motor Vehicle Sales Tax	2,875	3,691	2,694	9,261
State General Fund	1,064	1,719	1,379	4,162
State Bonds	396	58	38	491
Fares	1,509	2,171	1,601	5,280
Federal (CMAQ, 5307, 5340)	1,021	1,164	780	2,965
Federal New Starts (5309)	1,774	-	-	1,774
Sales Tax (CTIB)	1,480	2,043	1,670	5,193
Property Tax and Other	891	703	512	2,106
Subtotal Transit Revenues	**$11.0 B**	**$11.5 B**	**$8.7 B**	**$31.2 B**
Local Transportation Revenues				
Highway User Taxes/Veh. lease Tax	2,400	2,800	2,000	7,200
Federal (STP, TAP, HSIP)	600	700	500	1,800
Wheelage Tax	190	240	170	600
Property Tax	9,700	12,800	9,400	31,900
Subtotal Local Transportation Revenues	**$12.9 B**	**$16.5 B**	**$12.1 B**	**$41.5 B**
TOTAL REVENUES	**$27.6 B**	**$32.4 B**	**$23.9 B**	**$83.9 B**

Current Revenue Scenario Spending

The sections below describe the high level results for state highways, transit, and local transportation spending under the Current Revenue Scenario over the time period of the plan, reflecting the estimated level of revenues previously described. The total estimated spending, $84 billion, is shown in the pie chart in Figure 4-3, "Regional Transportation Spending, 2015-2040." The detail for planned spending under the Current Revenue Scenario can be found in the individual "Highway Investment Direction and Plan" and "Transit Investment Direction and Plan" chapters. In addition, Table 4-2 shows the summary of current revenue scenario spending for state highways, transit and local transportation, broken into the general categories of operations and capital spending.

Figure 4-3: Regional Transportation Spending, 2015-2040



It should be noted that in comparing highway and transit spending, operations activities for transit are very different from that of roadway activities. Transit operations spending includes the costs of the daily operations of the transit system and the necessary vehicle, driver and maintenance associated with running the services. For roadways these types of operational expenses are typically borne by private vehicle drivers and do not appear as public expenditures. Examples of this would include the purchase costs of the private vehicles, gasoline and diesel costs, insurance and vehicle maintenance costs. If accounted for, these private costs would significantly outweigh the public roadway expenditures.

State Highway Spending

The high level expectations for spending on state highways over the time period of the plan are as follows.

- Total state highways spending from 2015-2040 is estimated at $11 billion, split approximately 30% to system operations and 70% to capital spending.
- Growth of the highway user tax revenues and federal revenues (estimated at 1.2% and 1.4% annually respectively) will not keep pace with inflationary pressures on operations and capital spending (estimated at 2.5% annually).
- In the first 10 years of the plan, MnDOT is largely able to meet its needs for system operations and capital asset preservation but has very limited funding for capital mobility/access projects ($700 million). After 2025, MnDOT will not have any revenues available for capital mobility/access projects. However, MnDOT is well positioned to meet the federal asset preservation performance requirements of MAP-21.
- Over time, operations spending decreases as a percent of the Metro District's total highway spending, at the same time as operations needs are increasing due to reduced capital asset preservation spending. As a result, MnDOT will concentrate available resources on the NHS sysem and less on the non-NHS system.

Transit Spending

The high level expectations for spending on transit over the time period of the plan are as described below.

Bus and Support System Spending

- Funding needs for existing bus system operations are met throughout the time period of the plan. This is largely due to expected growth in MVST, fares and general fund revenues, which are assumed to keep pace with the inflationary growth of current spending.
- Funding needs for existing bus and support system capital preservation are estimated to be met over the time period of the plan, primarily relying on funds from the federal transit formula programs and regional transit property taxes.
- No funding is estimated to be available to expand bus system operations, though transit providers may choose to reinvest existing revenues in new services by cutting or reducing spending on existing services.
- A very limited amount of funding will be available for bus system capital modernization and expansion primarily using federal CMAQ funding allocated through the Regional Solicitation. It is expected that this funding will be directed to capital projects that improve the customer experience, result in reduced operating costs, or for capital expansion that requires new operations rely on reinvestment of existing operating funds.

Transitway Spending

- Funding needs for existing transitway operations and capital preservation (METRO Blue Line, Green Line, Red Line, Northstar Commuter rail) are fully funded throughout the plan using state general fund, CTIB sales tax, federal formula funds and regional property tax revenues.
- Funding for transitway capital and operations expansion is available from a number of sources, including the CTIB sales tax, state bond funds, CMAQ, and federal New Starts/ Small Starts or other competitive program sources The capital and operating expansion costs of the Green Line Extension (Southwest LRT), Blue Line Extension (Bottineau LRT), Orange Line (I-35W South BRT), Red Line (Stage 2), Gold Line (Gateway BRT), and four arterial BRT projects can be fully funded (Transitway Investments). There is also some undesignated funding available primarily from the CTIB sales tax revenues to accelerate the development of the Robert Street and Riverview corridors as adopted by CTIB Phase I Program of Projects.

Local Transportation Spending

Spending for local transportation operations and capital projects is expected to grow with inflation over the time period of the plan. Two of the local transportation revenue sources – highway user tax revenues and federal revenues – are estimated to grow at a rate less than the rate of inflation (1.2% and 1.4% respectively). Consequently, local governments will be faced with the option of either increasing property taxes and other local revenue contributions to keep transportation spending at past levels, or will need to reduce transportation spending levels as inflationary pressures reduce the buying power of the state and federal revenues. The revenue and expenditure numbers shown in the figures and tables in this chapter assume local transportation spending will keep pace with inflation and that local property taxes and other local funding sources will provide the increased share.

As indicated previously, local transportation spending decisions are primarily made at the local level and identified through local comprehensive and capital planning efforts. Details on local transportation spending are not included in this plan, though the regional transportation system goals, objectives and strategies are meant to help guide local transportation planning and decision-making efforts. Local transportation projects tht receive federal funding through the Regional Solicitation are include in Appendix B Transpotation Improvement Program and Appendix C Long Range Highway and Transit Project Lists as they become known and funded.

Increased Revenue Scenario

The Increased Revenue Scenario is meant to provide a context for the level of transportation revenues and spending that would be needed to move the region closer to achieving the outcomes identified in *Thrive MSP 2040* and the transportation goals and objectives of this plan. The Increased Revenue Scenario is largely based on the work of the 2012 Governor's Transportation Finance Advisory Committee (TFAC). Appointed by Governor Mark Dayton, this committee was charged with developing recommendations to reverse the decline of investment in the state's highways, roads, bridges, public transit systems and other transportation systems.

- The TFAC mission was to identify investment opportunities to support a thriving economy and high quality of life for Minnesotans over the next 20 years. The committee concluded that to maintain what we have, and position Minnesota to be competitive for the future, the state needs to invest in its transportation infrastructure. Its goal was to identify a level of revenues that would support a transportation system that:
  - Will help Minnesota businesses access labor, move products, prosper and stay in Minnesota.
  - Will help Minnesota compete for jobs, talent and economic growth with other states and regions that are investing in their transportation systems.
  - Is designed to handle Minnesota's growing and changing population.
  - Is modern and better than ever before.
  - Will be funded through balanced and sustainable means.

The committee's work identified a level for funding needed for both state highways and metropolitan area transit. The increased funding need shown for metropolitan area state highways and transit in Table 4-2 is based on the TFAC identified needs, but also has been expanded to include funding needs not considered by TFAC such as state highway operations, and also an allowance for the longer time period of this plan, which extends beyond the 20 years considered by TFAC. It is important to note that the TFAC work for transit did not account for the impacts of inflation because detailed project costs and the anticipated construction year of projects were unknown. If inflation had been factored in, the increased revenue needs for transit would increase.

While the TFAC work did include an unfunded need for local roadways, it did not specifically identify where these needs were located (i.e. metropolitan area or Greater Minnesota) and did not identify specific needs for operations, asset preservation and expansion. This plan does not attempt to identify unfunded needs for local transportation but calls for additional work in this area in the Chapter 11 Work Program study item Identify Regional Highway System Costs of Operations and Asset Preservation.

State Highways Increased Revenue Scenario

The TFAC work estimated that statewide MnDOT's state highway system is facing a funding gap of $12 billion or about $600 million annually for capital asset management and expansion improvements alone for state roads. This included a shortfall for metropolitan area state highways of $2 billion for state highway capital asset preservation and a shortfall of $4 billion for mobility/expansion projects. As shown in Table 4-2, these figures have been increased to a range of $2-$2.5 billion shortfall for capital asset preservation and a $4-$5 billion shortfall for mobility/expansion due to the longer period of the plan as noted above.

The TFAC work did not include shortfalls for state highway operations. The estimated increased funding needs shown for this investment category in Table 4-2 are based upon MnDOT's *Highway Systems Operations Plan, 2012-2015*, published in 2011.

The total increased funding need for metropolitan area state highways is estimated at approximately $10 billion over the time period of the plan. This level of funding would require almost a 100% (doubling) increase in the state highway funding given that $11 billion is estimated to be available for state highways under the Current Revenue Scenario. While this level of funding need is based upon previous analysis and represents a realistic funding gap, it will require significant funding increases and policy changes in order to meet this level of need.

Transit Increased Revenue Scenario

The TFAC work estimated that the increased funding need for metropolitan area transit was approximately $4.2-$5.7 billion over a 20-year time frame or about $210-$285 million annually. This level of funding need was based upon the goal of creating an expanded bus and transitway system and accelerating the rate at which this expansion would occur. The key elements of the expansion plan can be found in the "Transit Investment Direction and Plan" section and is based on maintaining, modernizing and expanding the bus and support system, and also building and operating an expanded interconnected network of bus and rail transitways.

The Increased Revenue Scenario in this plan uses the TFAC level of financial need as a starting point, but also includes consideration of inflation and extending the time period to 2040. As Table 4-2 indicates, the total estimated new revenue need for expanding the transit system is approximately $7 – $9 billion over the 26-year period of the plan. The $7 – $9 billion funding level could be attainable based on a half-cent metropolitan area sales tax increase that was explored through TFAC, but this funding level would not allow for changing historical funding shares of other transit partners (for example, lowering the state or federal shares of a transit capital project or lowering the state share of existing transit system operating costs).

Under the $7 – $9 billion Increased Revenue Scenario, the funding need is estimated to be approximately 25% for bus and support system expansion and 75% for transitway system expansion. This is an average funding level over the 26-year period of the plan with the expectation that spending in any given year will depend on the identified expansion needs and costs of proposed projects.

Local Transportation Increased Revenue Needs

As noted previsouly the increased revenue needs for local transportation have not been determined as part of the analysis for this plan. This analysis would require a significant amount of effort to identify the specific needs and funding gaps of each local governmental unit and, in general, local transportation projects are not the focus of this plan. Local transportation funding needs are primarily identified through the local comprehensive planning and capital planning processes.

However, it is known that the unmet transportation needs at the local level are significant and cannot be met through increases in local property taxes alone. Prior to the next update of this policy plan the Council will work with its local partners to identify the unmet funding needs for operations and asset preservation of the A-minor system. The A-minor arterials along with the principal arterials make up the regional highway system and comprise the system where the region's federal transportation roadway revenues are eligible for expenditure. (See Chapter 11 Work Program, Identify Regional Highway System Costs of Operations and Asset Preservation.) It is important that local transportation funding needs are considered as part of any transportation funding proposal that moves forward at the state legislature.

Table 4-2: Metropolitan Area Projected Expenses, 2015-2040 (year of expenditure, in millions)

EXPENSES	Calendar Years 2015-2024 (10 year)	2025-2034 (10 years)	2035-2040 (6 years)	Current Revenue Scenario	Increased Revenue Scenario*
State Highways Expenses					
Operations	600	800	600	2,000	1,000
Capital Asset Preservation	2,400	3,600	2,500	8,500	3,300-3,800
Capital Mobility /Expansion	700	-	-	700	4,000-5,000
Subtotal State Highways Expenses	**$3.7 B**	**$4.4 B**	**$3.1 B**	**$11.2 B**	**$8.3 – 9.8 B**
Transit - Bus and Support System					
Operations – Existing	4,729	6,261	4,710	15,700	-
Capital – Maint./Preservation	964	1,107	769	2,840	-
Capital – Modern. and Expansion	206	234	162	604	-
Subtotal Bus and Support System	*5,899*	*7,602*	*5,641*	*19,142*	*2 – 3 B*
Transit - Transitway System					
Operations - Existing	982	1,257	917	3.156	-
Operations - Expansion	398	1,085	792	2,275	-
Capital – Maint./Preservation	107	195	136	438	-
Capital – Modern. and Expansion	3,714	78	-	3,793	-
Expansion - Undesignated	-92	1,360	1,188	2,456	-
Subtotal Transitway System	*5,111*	*3,946*	*3,033*	*12,091*	*5 – 6 B*
Subtotal Transit Expenses	**$11.0 B**	**$11.5 B**	**$8.7 B**	**$31.2 B**	**$7 – 9 B**
Local Transportation Expenses					
Operating	5,300	6,700	5,000	17,000	TBD**
Capital	7,600	9,800	7,100	24,500	TBD**
Subtotal Local Transportation Expenses	**12.9 B**	**16.5 B**	**12.1 B**	**41.5 B**	**TBD****
TOTAL EXPENSES	**$27.6 B**	**$32.4 B**	**$23.9 B**	**$83.9 B**	**$ 15 – 19 B**

*Expenses and revenues noted as part of the Increased Revenue Scenario are needs for additional funding on top of needs identified in the Current Revenue Scenario. The Increased Revenue Scenario can be added to the Current Revenue Scenario for a fuller picture of transportation system needs.
** To Be Determined