CHAPTER 4
TRANSPORTATION FINANCE

Introduction

This Update does not take into consideration the COVID-19 (coronavirus) outbreak and its impacts on transportation revenue. Understanding the short- and long-term impacts is very important and requires an in-depth future financial analysis when more information is well-known and the trends better understood.

It is already clear that many of the most important revenue sources for transportation will see, at a minimum, severe near-term shortfalls, and in the longer-term may grow at rates different than anticipated within this chapter. Decreases in travel are affecting important transportation revenue sources. Federal and state gas tax revenues and transit fares have significantly dropped, and as auto sales slowed, so has the revenue from Minnesota's Motor Vehicle Sales Tax, a major funding source for transit operations and also highways. The analysis of the financial impact of COVID-19 on transportation revenues and spending is a major future planning activity for the region and is included in Chapter 13, Work Program. The results of this planned financial analysis will be incorporated as an amendment to this plan or potentially, as part of the next regular plan adoption.

This chapter 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 chapter 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 identifies an "Increased Revenue Scenario" under which a realistic amount of additional revenue might be available.

As identified in past Transportation Policy Plans, an inadequate level of transportation funding continues to be a major issue facing the region. Under the Current Revenue Scenario, expectations are that performance measures related to preservation of the highway system pavements and bridges will begin to decline, and that highway congestion will continue to grow. And while the preservation needs of the existing transit system are estimated to be largely met, the important regional goal of growing and improving the bus system cannot be achieved without additional revenues. The Increased Revenue Scenario provides an estimate of a higher level of revenues that might be realistically attainable, and that would move the region in a direction closer to achieving the outcomes envisioned by *Thrive MSP 2040* and the transportation goals in this plan.

Financial Risks

This plan depends heavily on historical experience to forecast future revenues and expenditures. While this is the best guide available to produce an estimate of what to expect in the future, we also know that changes are likely over the twenty-year planning timeframe that could cause large movements away from these estimates, particularly as mentioned previously as due to the COVID-19 outbreak. These potential changes are not accounted for in these estimates because their timing, scale and specific impacts are uncertain now.

Many of the other uncertainties in the transportation financial outlook in our region are due to emerging technologies. Traditional gasoline and diesel fuel vehicles on the road today travel more miles per gallon of fuel than ever, and hybrid electric and fully electric vehicles are becoming more common, further reducing fuel consumption. Each of these trends will produce important benefits to our environment and reduce our reliance on foreign energy, however each also reduces the amount of fuel taxes collected and dedicated to transportation. Motor fuel taxes have been the largest contributor to the state funding provided for transportation purposes and these revenues support both state and local roadways.

There is also broad uncertainty around autonomous vehicles - particularly the timing of development, market adoption and impacts on travel. However, the level of private investment and development activity taking place makes it clear that autonomous vehicles will be part of our medium to long term future. One likely impact is that the number of vehicles purchased and owned in the region and state will decline as adoption rates of autonomous vehicles increase due to increased vehicle sharing. Fewer total vehicles would reduce both the revenues collected through the state motor vehicle registration tax and the motor vehicle sales tax. These revenues are used by the state, region and local agencies for both roadway and transit purposes.

More traditional financial concerns also pose a challenge in forecasting future transportation revenues. Specific assumptions are documented in this chapter for estimated annual increases in revenues and costs (i.e. inflation). Fluctuations from these assumptions can have significant impacts on the buying power of anticipated revenues and our region’s ability to meet performance targets.

There are large uncertainties in transportation finance over the time covered by this Plan. It is important to note that many changes will not follow a linear pattern but may begin slowly and accelerate over time. It is critical that our region continues to monitor these trends and to discuss their implications so that, as stewards of the transportation system, we can make timely decisions in our region’s best interests.

Two Funding Scenarios

This Transportation Policy Plan considers two funding scenarios; one representing the investments that can be funded under current estimated 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 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 history and experiences. The Current Revenue Scenario in this plan assumes that current revenue sources will continue along with inflationary growth. This plan incorporates recently enacted increases in local county sales taxes and wheelage taxes for transportation purposes and new trunk highway fund revenues provided in the 2017 legislative session. No other 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, and that could provide for investment in an illustrative set of prioritized projects and programs. 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 in the metropolitan area.
- The transit category includes revenues and spending by all regional transit providers, the counties and other local governments for the regional bus and transitway systems.
- Local transportation includes revenues and spending by the counties and cities on the local transportation system including six principal arterials, A-minor arterials owned by the counties and cities, all other local roads and the local bicycle and pedestrian systems.

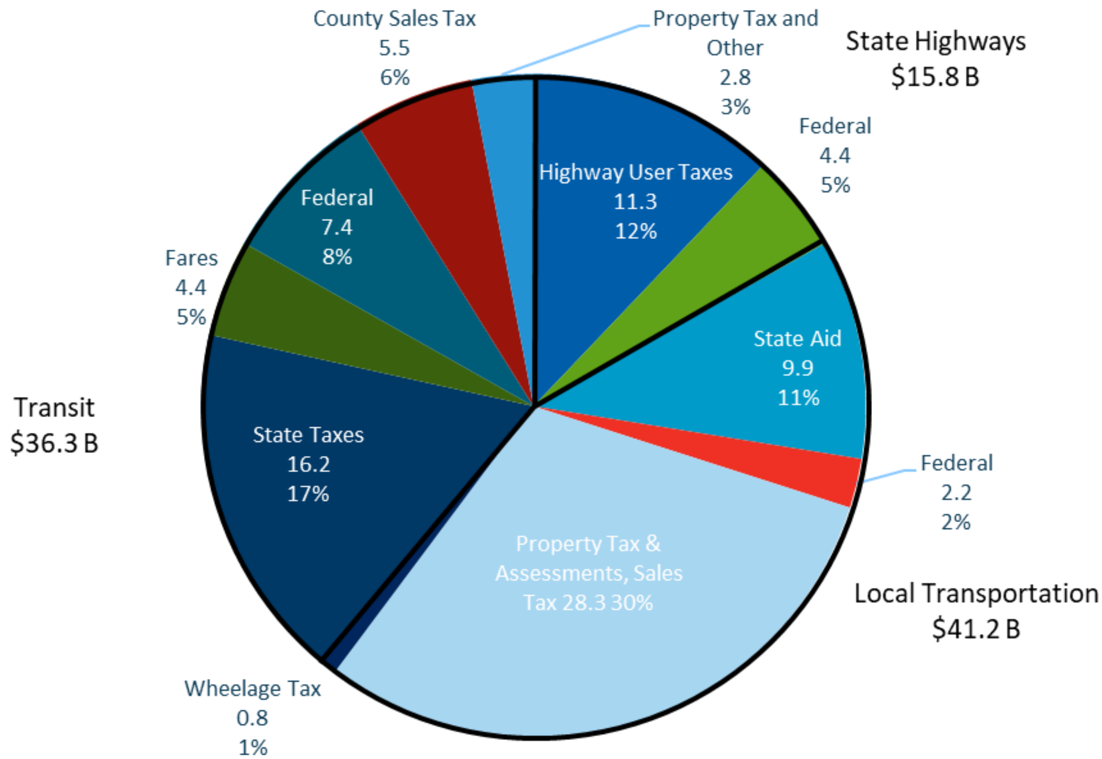
The general revenue and spending assumptions for each scenario and each transportation category (state highways, transit and local transportation) are contained in this section, while the specific state highway and transit investments that can be accomplished within each scenario are detailed in Chapter 5, "Highway Investment Direction and Plan," and Chapter 6, "Transit Investment Direction and Plan," of this Transportation Policy Plan. The local transportation projects that can be accomplished under each scenario are identified by each city and county under their individual decision-making processes and are documented in local plans. Regionally significant local projects that have been identified by the counties and cities are noted in the Current Revenue Scenario project list in Appendix C.

Assumptions of Current Revenue Scenario

The funding assumptions used for the Current Revenue Scenario were developed cooperatively with 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 regional transportation revenues, estimated at $93 billion, expected to be available to the region over the 26-year period of this plan (2015-2040). This is shown in year-of-expenditure dollars. Each of the major transportation 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 4-2, "Metropolitan Area Projected Revenues, 2015-2040."

Figure 4-1: Regional Transportation Revenue 2015-2040 $93B Current Revenue Scenario (Billions)



It is important to note that due to constitutional dedications and specific federal and state allocation formulas, the vast majority of the transportation 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 and transit revenues are not available for expenditure on the state highway system.

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, described in the Overview of this Transportation Policy Plan. This competitive process can provide funds to all the regional transportation categories; state highways, transit and local transportation, including local roadways, and bicycle and pedestrian projects. Under adopted Transportation Advisory Board (TAB) policy, the freeway principal arterials are not eligible for use of these funds. Over the time of this plan approximately $2.7 billion of “flexible” federal funding is expected to be available through the Regional Solicitation (excluding the regional Highways Safety Improvement Program funds which are dedicated to roadway safety projects). This represents approximately 3% of the transportation funds that will be available in the region.

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 20 percent of the region's A-minor arterials. 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 Minnesota Constitution also provides that after taking 5% off the top for the non-state aid highway network, the remaining dedicated highway user tax revenues are divided 62% to state highways, 29% to county state-aid roads and 9% to city state-aid 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 2016 as part of its work on the *Minnesota State Highway Investment Plan (MnSHIP)* adopted January 2017. 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 flattening levels of per capita vehicle miles traveled. MnDOT anticipates gas tax collections will slightly decrease over the time period of this plan (averaging -0.7% annually), while vehicle registration taxes and motor vehicle sales taxes will annually increase (averaging 2.2% and 3.4% respectively). Taken together, the three state highway user taxes are expected to increase by an annual average of 2.0% through 2040.

As part of the 2017 MnSHIP, MnDOT prepared the estimate of highway user tax revenues that would be allocated for construction and operations purposes to the MnDOT Metro District. In past plans, the construction funding to the Metro District was typically in the range of 41% - 43% of MnDOT's total construction funding. However, due to a new statewide shift towards prioritizing preservation of the state's pavements and bridges, and a lack of adequate highway revenues, the Metro District will begin to receive a declining share of the total statewide highway user tax revenues available for state construction purposes under the MnSHIP revenue forecast. Within MnSHIP, the Metro district's share of total statewide construction revenues between 2018- 2021 will be at approximately 41%; from 2022 – 2027 the Metro share is forecast at approximately 40% of statewide construction revenues and, from 2028-2037, the Metro share will fall to approximately 30% of statewide construction revenues.

MnDOT and Metropolitan Council staff have been discussing potential options for mitigating this future decline and identified a short-term action that is incorporated into the highway revenue assumptions in this plan. The revenue estimates for the state highway mobility investment category in this plan include an additional $9 - $30 million annually for lower cost high benefit mobility projects beginning in 2022, or about an additional $450 million over the period of the plan that was not allocated in MnSHIP. Additionally, MnDOT reallocated $50 million each year from 2024 to 2026 from statewide pavement to mobility in the metro area. Approximately two-thirds of this is new money to this region. While important and beneficial, this level of funding does not off-set the expected declining share of total statewide highway funding to the Metro area predicted within MnSHIP, but it allows time for the state and Metropolitan Council to determine how this issue will be addressed.

Approximately 25% of the statewide revenues available for state highways operations purposes are allocated to the Metro District, these are estimated at $88 million in 2018 and $2.9 billion from 2015-2040.

In 2018, the total highway user taxes estimated to be available to MnDOT's Metro District for both capital and operating purposes are $315 million. From 2015 to 2040, it is estimated that the Metro District will receive approximately $11 billion from the state highway user tax revenues.

As noted at the outset of this chapter, the Current Revenue Scenario estimates are based primarily on those revenues that are on-going, and estimates are based on experience, current laws, and allocation formulas. This plan also includes special one-time funding of $530 million from the state's Corridors of Commerce program provided in both the 2017 and 2018 legislative sessions and the new 2017 base revenues that were authorized by the 2017 Legislature.

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 about 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 the Fixing America's Surface Transportation Act, or FAST Act, passed in 2015. The FAST Act contains five primary highway funding programs through which the state receives revenues:

- National Highway Performance Program (NHPP),
- Surface Transportation Program Block Grant (STPBG) program (which includes a set-a-side of 7% of the funding for transportation alternative modes),
- Congestion Mitigation/Air Quality (CMAQ) program,
- National Highway Freight program, and
- Highway Safety Improvement Program (HSIP).

To align with the MnSHIP forecasts, all federal revenues covered by this plan are forecast to grow by an annual average rate of 2.2%.

In Minnesota, the state's NHPP funds and half of the STPBG funds are allocated to MnDOT for the state highway construction program. MnDOT's federal NHPP and STPBG funds are then allocated to the MnDOT districts along with the available state highway user tax revenues. The Metro District's share of these federal highway funds is included in the overall revenue estimates provided by MnDOT.

MnDOT receives approximately $25 million annually for the National Highway Freight Program, which it allocates through a competitive process. In 2017, the process allocated approximately $100 million for 2019-2022. Metro area projects were successful in obtaining 80% of this funding, about $20 million annually. This plan assumes this level of freight funding will continue to MnDOT through 2040.

The remaining half of the state's STPBG funds, along with the state's CMAQ funds and half of the state HSIP federal funds are allocated to local Area Transportation Partnerships throughout the state, which involve local elected officials and members representing various modes to help determine expenditure of the funds. In the metropolitan area, the Metropolitan Council and Transportation Advisory Board (TAB) together serve as the Area Transportation Partnership and are responsible for allocating the regionally available federal funds. These funds are distributed every-two-years through a process known as the Regional Solicitation, which is described in a later section of this chapter.

Transit Revenues

Transit revenues are generated by several sources, most which are available only for specific transit operating or capital purposes. The three major sources of transit funding are state taxes, the state motor vehicles sales tax and state general funds provided through state law and appropriations, and federal funds provided through formula appropriations. These revenues, along with fares, are largely used by the Metropolitan Council (Metro Transit, Metro Mobility, and contracted transit services) and suburban transit providers to operate, maintain and improve the existing bus and transitway systems. Additional competitive revenues are also available through the federal Capital Investment Grants (e.g. New Starts and Small Starts) program, the Regional Solicitation and from local county sales tax funds 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. The February 2020 forecast was used as the basis for the MVST revenue estimates in this plan. After the state forecast years, transit MVST revenues are forecast to increase at an annual average of 3.4% (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 2018, the metropolitan area transit share of MVST revenues were $291 million. From 2015-2040, approximately $10.9 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 allocated to Metro Mobility operations and for the state's 50% share of transitway 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 2018, the state general fund appropriation for transit operations was approximately $125 million. From 2015-2040, the total amount of transit revenue from the state general fund is estimated at approximately $5.3 billion.

The state also periodically allocates revenues from state general obligation bonds for transit capital purposes. Historically, the Metropolitan Council has received bond appropriations for transitway development, both for New Starts/Small Starts projects and other transitway projects. Past plans have included an assumption that future state bond funding would be available for transitway development. Over time, this assumption proved to be unreliable and actual experience was that the assumed state share was often the final unfunded amount needed for a major transitway project. Therefore, this plan (and the 2018 plan) recognize only existing state bond allocations – it does not assume any future state bond allocations, though it is anticipated the Metropolitan Council and local partners will continue to make requests for bond funding for major capital projects such as arterial bus rapid transit development and bus garages. The formerly assumed 10% state bond share of transitways funded through the federal Capital Investment Grants program (e.g. New Starts/Small Starts) has been replaced with assumed county sales tax funds.

Transit Fares

Transit fare revenues are used primarily for transit operating purposes. 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 28% would indicate that 28% of the total operating costs are paid through passenger fares. Transit fare recovery ratios can vary significantly across transit service types, with services such as light rail typically recovering in the range of 30-40% of the operating costs, regular-route bus service recovering 20-30% of costs and Americans with Disabilities Act services such as Metro Mobility recovering a much smaller percentage, on the order of 10-15% of costs.

The Metropolitan Council periodically implements fare increases so that the system-wide fare recovery ratio remains 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 (approximately 1.7% annually) to maintain a constant system-wide fare recovery ratio over time. This plan estimates total transit fare revenues at approximately $124 million in 2018 and a total of $4.4 billion from 2015–2040.

Federal Transit Revenues

Under the FAST Act, the region receives federal formula transit revenues through two primary programs−Urbanized Area Formula Grants (section 5307) and State of Good Repair Grants (section 5337). 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 2.2%. In 2018 the region’s federal transit formula funds are estimated at approximately $112 million, totaling $3.3 billion from 2015-2040.

As indicated earlier, the region also receives federal CMAQ funds that are distributed by the TAB and Metropolitan Council through the Regional Solicitation. CMAQ funds must be allocated to transportation projects that improve air quality. Historically, the region has allocated approximately 80-90% of the available regional CMAQ funds to transit and travel demand management (TDM) projects, with the remaining CMAQ funds supporting roadway traffic management activities. The revenue forecasts in this plan assume this historic allocation of federal funds to transit projects through the Regional Solicitation will continue and that, similar to other federal revenue, these funds grow at a rate of 2.2% annually. In

2018 the Regional Solicitation funds for transit are estimated at $24 million and will total about $750 million over the life of the plan.

The largest competitive federal transit program is the Capital Investment Grants (CIG) program (e.g. New Starts/Small Starts), 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 similar federal funding contribution to future CIG projects will continue, including the Orange Line (I-35W South BRT), Green Line extension (Southwest light rail), Blue Line extension (Bottineau light rail), Gold Line dedicated BRT (Gateway corridor), Rush Line dedicated BRT and Riverview Modern Streetcar. The federal share may vary by project – this plan assumes about a 50% federal share for all CIG projects. The federal CIG funding through 2031 of the plan totals approximately $3.3 billion or about $200 million annually in the first 16 years of the plan (with the assumption that the region may use grant anticipation financing if the federal contribution lags the project expenditures). As described in the 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, whether CIG funding will be available nationally, and whether the project will successfully compete for the funding.

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 a portion of 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 Metropolitan Council can issue RTC bonds only 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 to provide the 20% required match to federal formula, 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 $44 million in 2018) and will grow at a rate of 3.3% annually. RTC revenues are estimated at $1.8 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. Local property tax contributions to transitways are estimated at approximately $600 million from 2015 to 2040.

The Metropolitan 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 $400 million from 2015-2040.

County Sales Tax Revenues for Transit

In 2008, the legislature allowed the metropolitan counties to pass a 1/4 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. Through 2017, CTIB provided funding for up to 30% of a transitway's capital costs and 50% of the net costs of operating the light rail and Northstar commuter rail system.

In 2015, state law was changed to allow metropolitan counties that were not levying the 1/4-cent sales tax to levy up to a half cent sales tax for transportation purposes. In 2015, Scott county implemented a half cent tax for transportation purposes that allows up to $1.0 million annually for transit. In 2017, Carver county also implemented the sales tax but has not indicated that any amount of it will be used for transit purposes. In 2017, the five CTIB counties determined that it would be more advantageous to disband the Board and for each county to levy its own transportation sales tax. This action went into effect on June 30, 2017 and the individual counties each implemented a county transportation sales tax starting October 1, 2017. Each county is responsible for passing resolutions to identify the projects that will be funded through its sales tax revenues. Hennepin and Ramsey counties have indicated the majority of their sales tax revenues will be used for transitway capital and operating purposes. Anoka, Dakota, and Washington will use the sales tax revenues for transportation purposes that include transit and other modes.

This plan assumes the county sales tax revenues will be used to cover CTIB's former 30% share of transitway capital costs and 50% share of operating costs, and the 10% share of transitway capital costs formerly assumed to be provided through state bonds. This plan identifies approximately $5.5 billion of sales tax revenues for transitway use from 2015-2040, with $5.1 billion allocated to specific transitway capital and operating projects and an additional $400 million in as yet undesignated sales tax revenues.

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 most of local transportation spending occurs on the local system, the local transportation revenues and spending are generally not covered in the regional plan in detail. Only those local projects using federal funds received through the Regional Solicitation process, HSIP, 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, Appendix C: Regional Project list, and Appendix E: Air Quality Information.

Local transportation revenues come from the following primary sources: local property taxes, local bonding, assessments, fees or other special taxing districts established for transportation purposes; local transportation sales tax and wheelage tax revenues; county and city state-aid allocations from the state highway user tax revenues; federal revenues distributed through the Regional Solicitation process and HSIP federal funds.

As described in the transit revenues section, the Counties Transit Improvement Board disbanded in 2017 allowing the CTIB counties along with the other state counties to implement a local transportation sales tax of up to one-half percent. Hennepin and Ramsey counties chose to implement a half cent sales tax primarily for transitway purposes and Anoka, Dakota and Washington counties implemented a quarter cent sales tax for all transportation purposes. Carver, Scott, Sherburne and Wright counties have also implemented half cent sales taxes for transportation purposes. These local sales tax revenues will provide significant funding for the local roadway, transitway, and if the counties so choose, MnDOT's state highway system, and bicycle and pedestrian projects. Projects must be identified for funding through resolutions passed by the county boards. This plan estimates that from 2015-2040 approximately $6.3 billion in local sales tax revenues will be available for transportation purposes including $5.5 billion already identified by the counties for transitway specific purposes and $850 million still to be designated by the counties likely for specific local transportation or state highway projects.

Under state law, counties can levy a wheelage tax of up to $20 per vehicle for roadway purposes. Dakota, Scott and Sherburne counties currently collect a $10 per vehicle fee and Carver, Hennepin, Ramsey and Washington collect a $20 per vehicle fee. Anoka and Wright counties do not collect the wheelage tax. Also, 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 wheelage tax and motor vehicle lease tax revenues total approximately $800 million and $1.2 billion from 2015-2040 respectively.

Most local transportation revenue is provided through local property taxes or local assessments, fees or other special taxing districts established for transportation purposes. 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 $30 billion or about 71%, of the $41 billion estimated to be spent over the life of this plan for local transportation purposes will come from local property taxes, assessments, sales taxes, wheelage taxes or other local sources. The remaining 29% of local transportation revenue is derived from state highway user taxes and federal competitive funds.

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 years 2011 through 2015 expenditures and inflating the average at a rate of 2% annually over the plan period. The local property tax revenue amounts were calculated by subtracting the known revenue contributions from the state highway user taxes, vehicle lease tax and federal revenue from the known 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 and 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 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 2018 is $308 million and will total approximately $10 billion from 2015 to 2040.

The federal revenue available for local transportation purposes is allocated through the Regional Solicitation process (described in the following section). The local federal funding is assumed to be approximately equal to the historical levels of STP (including allocations for both roadway and bicycle and pedestrian projects) 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 2.2%, like all federal revenues. The Regional Solicitation federal funds assumed to be available for local transportation will total $2.2 billion over the time period of the plan, including $1.9 billion of federal funds for roadway, and bicycle and pedestrian projects, and $0.3 billion of HSIP funds.

Regional Solicitation Process

From 2015 to 2040, total federal funds allocated to the metro region are estimated to total $3 billion, including $1.95 billion of Surface Transportation Block Grant (STPBG) program funds, $750 million of Congestion Mitigation Air Quality (CMAQ) program funds and $300 million of Highway Safety Improvement Program (HSIP) funds. STPBG and CMAQ funds are allocated through a competitive process, the Regional Solicitation, which is overseen by the region's Transportation Advisory Board (TAB) and approved by the Metropolitan Council. The HSIP funds, while also approved by the TAB and Metropolitan Council, are allocated through a competitive process that is overseen by MnDOT's Metro District and Office of Traffic Safety.

The Regional Solicitation process is a long-standing competitive process used to award regionally available federal transportation funds to roadway, transit and bicycle and pedestrian projects in the metropolitan area. The process uses a detailed system of establishing important transportation criteria and measures to score projects submitted in modal application categories. In 2014, the criteria, measures and overall process went through a major re-evaluation and revision by the Transportation Advisory Board to assure that the process reflected new federal guidance and regional transportation goals. In addition, after each Regional Solicitation, the TAB reviews the process and outcomes and makes adjustments for the next solicitation. The regional outcomes and goals are defined through *Thrive MSP 2040*, the regional development framework for the metropolitan area and through the region's long-range transportation plan, the *2040 Transportation Policy Plan (TPP)*. The Regional Solicitation funds are intended to help the region achieve the outcomes and goals envisioned in the transportation plan and to address transportation problems identified in local comprehensive plans.

While there are national goals for the region's transportation system, including the implementation of a performance-based planning approach to selecting investments, federal legislation requires metropolitan areas to set their own goals. Projects funded through the Regional Solicitation do not need to be specifically named in the TPP because they prove consistency with regional goals and policies during the qualifying, scoring and selection process. The goals of the TPP are strongly reflected in the prioritizing criteria used to select projects as shown in the following table.

Table 4-1: Regional Solicitation Connection to Regional Policy

Prioritizing Criteria	Thrive Outcomes	TPP Goals
Role in the Regional Transportation System and Economy	• Prosperity • Livability	• Access to Destinations • Competitive Economy
Usage	• Livability • Prosperity	• Access to Destinations • Competitive Economy
Equity and Housing Performance	• Equity • Livability	• Access to Destinations • Leveraging Transportation Investments to Guide Land Use
Infrastructure Age	• Stewardship • Sustainability	• Transportation System Stewardship
Congestion Reduction/Air Quality	• Prosperity • Livability	• Healthy Environment • Competitive Economy
Safety	• Livability • Sustainability	• Safety and Security
Multimodal Facilities and Existing Connections	• Prosperity • Equity • Livability • Sustainability	• Access to Destinations • Transportation and Land Use • Competitive Economy
Risk Assessment	• Stewardship	• Transportation System Stewardship
Cost Effectiveness	• Stewardship	• Transportation System Stewardship

The region has directed use of the Regional Solicitation funds available for roadway purposes to the A-minor arterials and the non-freeway principal arterials owned by MnDOT, counties and cities. While non-freeway principal arterials and A-minors owned by MnDOT are eligible for the Regional Solicitation revenues, historically most 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 revenues and spending categories. The HSIP funds are allocated only to the city and county roadway system and are accounted for within the Local Transportation revenue and spending category.

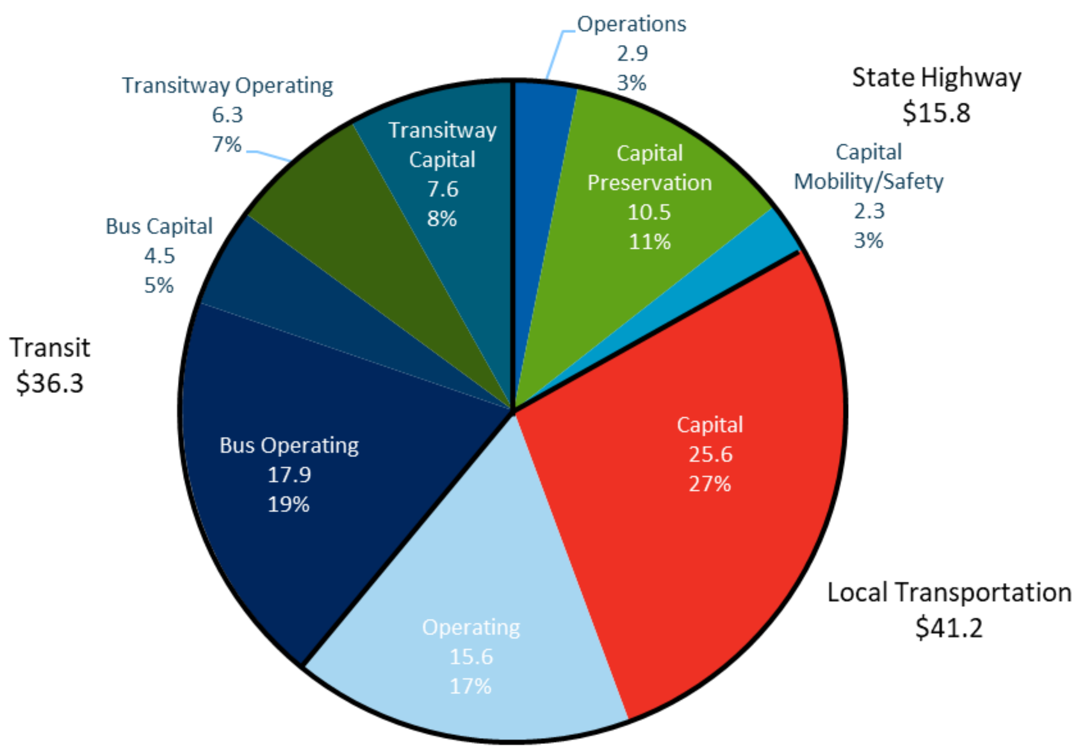
Table 4-2: Metropolitan Area Projected Revenues, 2015-2040 (year of expenditure)

REVENUE SOURCES	Ongoing or Project Specific Funding	2018 Annual Amount	Total Current Revenue Scenario 2015-2040
State Highway Revenues			
Highway User Taxes	Ongoing	315M	11.3B
Federal	Ongoing	124M	4.4B
Subtotal State Highway Revenues		**$439 M**	**$15.8 B**
Transit Revenues			
Motor Vehicle Sales Tax	Ongoing	291M	10.9B
State General Fund/Bonds	Ongoing	132M	5.3B
Fares	Ongoing	121M	4.4B
Federal Regional Solicitation	Ongoing	24M	0.8B
Federal Formula (5307, 5340)	Ongoing	112M	3.3B
Fed. Capital Investment Grants (CIG)	Project-Specific	0	3.3B
County Sales Tax	Project-Specific	328M	5.5B
Property Tax and Other	Project-Specific	131M	2.8B
Subtotal Transit Revenues		**$1.1 B**	**$36. 3 B**
Local Transportation Revenues			
Highway User Taxes/Veh. Lease Tax	Ongoing	308M	9.9B
Federal Regional Solicitation/HSIP	Project-Specific	64M	2.2B
Wheelage Tax	Ongoing	26M	800M
Property Tax/Sales Tax/Assessment	Ongoing	911M	28.3B
Subtotal Local Transportation Revenues		**$1.3 B**	**$41.2 B**
TOTAL REVENUES		**$2.9 B**	**$93.3B**

Spending under Current Revenue Scenario

The sections below describe the high-level results for state highways, transit, and local transportation spending under the Current Revenue Scenario over the period of the plan, reflecting the estimated level of revenues previously described. The total estimated spending, $93.3 billion, is shown in the pie chart in Figure 4-2, "Regional Transportation Spending, 2015-2040." The detail for planned spending under the Current Revenue Scenario can be found in the Chapter 5, "Highway Investment Direction and Plan," and Chapter 6, "Transit Investment Direction and Plan." In addition, Table 4-3 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 4-2: Regional Transportation Spending, 2015-2040 $93B Current Revenue Scenario (Billions)



It should be noted that in comparing highway and transit spending, operations activities for transit are very different from roadway activities. Transit operations spending includes the costs of the daily operations of the transit system and the necessary vehicle, driver and maintenance costs associated with running these daily 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 of owning and operating a vehicle would significantly outweigh the public roadway expenditures.

State Highways Spending

The high-level expectations for spending on state highways within the Current Revenue Scenario over the time period of the plan are as follows.

- Total state highways spending from 2015-2040 is estimated at $15.8 billion, split approximately 20% to system operations and 80% to capital spending.
- Annual growth of the highway user tax revenues and federal revenues, estimated at 2.0% and 2.2% respectively, will not keep pace with inflationary pressures on operations and capital spending, estimated at 3.2% and 4.5% respectively.
- 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 mobility (expansion) projects, approximately $1.4 billion, or about $140 M annually. After 2026, MnDOT will have even less revenues available for mobility projects, approximately $30 to $50 million annually from 2027-2040. However, even in the later years, MnDOT is still well positioned to meet the asset preservation performance requirements of federal law.
- 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 National Highway System and less on the non-National Highway System.

Transit Spending

The high-level expectations for spending on transit through 2040 are as described below.

Bus and Support System Spending

- Funding needs for existing bus system operations are met. 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 transit spending.
- Funding needs for existing bus and support system capital preservation are estimated to be met, primarily relying on funds from the federal transit formula programs and regional transit property taxes, which are assumed to grow with inflation.
- 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 limited amount of funding will be available for bus system capital modernization and expansion, primarily using federal funding allocated through the Regional Solicitation, approximately $750 million. 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 projects that do not require new operations funding or can rely on reinvestment of existing

operating funds. Regional solicitation funding may also be used for transitway projects, such as portions of arterial BRT projects, additional stations, or expanded park-and-ride facilities.

Transitway Spending

- Funding needs for existing transitway operations and capital preservation (METRO Blue Line, Green Line, Red Line, Northstar commuter rail) are fully funded using fares, state general funds, county sales tax revenues for transitway operations, federal formula funds and regional property tax revenues for transitway capital preservation. (Operations costs for the A, C and D lines are included in the existing bus operations costs.)
- Funding for transitway capital and operations expansion is available from several sources including the county sales tax, regional railroad authority property taxes, state funds and federal CIG or other competitive program sources. The capital and operating expansion costs of the Green Line Extension (Southwest light rail), Blue Line Extension (Bottineau light rail), Orange Line (I-35W South BRT), Gold Line (Gateway dedicated BRT), Rush Line dedicated BRT, Riverview Modern Streetcar and two new arterial BRT projects (D line and a yet to be named arterial BRT project through the Regional Solicitation) can be fully funded. Two additional new arterial BRT projects have partial funding identified in the plan but are not fully funded (B and E lines). There is also some undesignated funding available in the later years of the plan from the county sales tax revenues and Regional Solicitation to develop additional transitway corridors.

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 primary local transportation revenue sources − highway user tax revenues and federal revenues − are estimated to grow at a rate less than the rate of operations and construction costs (2% and 2.2% respectively compared to expected operations and construction inflation of 3.2% and 4.5% 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 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 that receive federal funding through the Regional Solicitation are included in Appendix B Transportation Improvement Program and regionally significant projects are included in Appendix C Long Range Highway and Transit Project Lists as they become known and funded.

Table 4-3: Metropolitan Area Projected Transportation Spending, 2015-2040 (year of expenditure)

EXPENSES	2018 Annual	Current Revenue Scenario 2015-2040
State Highways Expenses		
Operations	88M	2.9B
Capital Asset Preservation	298M	10.5B
Capital Mobility /Expansion	52M	2.3B
Subtotal State Highways Expenses	**$439 M**	**$15.8 B**
Transit - Bus and Support System		
Operations	438M	17.9B
Capital	65M	3.75B
Regional Solicitation	24M	.75B
Subtotal Bus and Support System	**$527M**	**$22.4B**
Transit - Transitway System		
Operations	97M	6.3B
Capital	408M	7.2B
Locally designated to future projects	-	.4B
Subtotal Transitway System	$505M	$13.9B
Subtotal Transit Expenses	**$1.0B**	**$36.3B**
Local Transportation Expenses		
Operating	496M	15.6B
Capital	813M	25.6B
Subtotal Local Transportation Expenses	**$1.3B**	**$41.2 B**
TOTAL EXPENSES	**$2.8 B**	**$93.3 B**

Revenue in Table 4-1 and spending shown in Table 4-3 do not necessarily equal in 2018 due to bond financing and other financial tools used to balance revenues and spending on a year-to-year basis. Over the course of the plan, 2015-2040, revenues and spending are generally balanced.

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 in the TPP adopted in 2015 was 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. TFAC 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.

Since the TFAC work, no comprehensive analysis of metropolitan area transportation needs has been undertaken. However, MnDOT has completed an update to the Minnesota State Highway Investment Plan (MnSHIP). This looked at unfunded highway needs within each of its investment categories. The Metropolitan Council and MnDOT have also completed a number of investment prioritization studies that have identified high and medium priority investments that are not funded within the Current Revenue Scenario of this plan. In addition, several transit and highway corridor studies have been completed or are underway to identify a preferred alternative and the associated project costs within a corridor. The highway and transit projects prioritized by these studies are described in detail in Chapter 5, "Highway Investment Direction and Plan," and Chapter 6, "Transit Investment Direction and Plan."

State Highways Increased Revenue Scenario

The most recent comprehensive look at unfunded highway needs was through MnDOT's 2017 update to MnSHIP which indicated a statewide highway investment need of over $39 billion in its 14 highway investment categories. MnSHIP forecast that only $21 billion in identified revenues are available in the fiscally constrained plan, resulting in a statewide unfunded highway need of $18 billion (through 2037). One of the investment categories included in MnSHIP is the Twin Cities Mobility investment category. The unfunded need in this category alone is estimated at $4.5 billion. While MnSHIP's other investment categories did not specify a specific metro area need, if the metro area share of approximately 30% - 40% of total revenues as contained in the plan is applied to the remaining unfunded statewide need of

$13.5 billion, this would result in unfunded needs of approximately $4 to $5.5 billion for asset preservation and the other capital investment categories. In addition, in order to keep state highway operations spending on pace with inflation, additional funding in the range of $500 million to $1 billion from 2015 to 2040 would be required. MnDOT's funding gap in the region is further demonstrated by the increasing frequency of local agencies leading and contributing significant funds to trunk highway improvements.

The total increased funding need for metropolitan area state highways is estimated at approximately $9 to $11 billion over the time period of the plan. This level of funding would require approximately a 70% increase in the state highway funding in the metro area given that only $15.4 billion is estimated to be available for state highways under the Current Revenue Scenario. While this level of funding need is based upon a general high-level analysis, it likely represents a realistic funding gap and will require significant funding increases and policy changes to meet this level of need.

Transit Increased Revenue Scenario

In 2012, the TFAC work estimated that the increased funding need for metropolitan area transit was approximately $4.2 to $5.7 billion over a 20-year period or about $210 million to $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 goals of the TFAC plan continue to be carried forward in the region's vision for transit expansion that can be found in Chapter 6, "Transit Investment Direction and Plan." Both the Current Revenue and Increased Revenue scenarios are based on the overall goal of maintaining, modernizing, and expanding the bus and support system, and building and operating an expanded interconnected network of bus and rail transitways. The Increased Revenue Scenario in this plan continues to basically use the TFAC level of financial need as a starting point, but also includes consideration of changes in revenues, such as the new county sales tax, and project development work that has occurred since the TFAC analysis.

For the bus and support system, the region has a vision of expanding service by at least 1% per year or about a 25% increase in service from 2015 to 2040. This service increase would include new routes and facilities and increased frequency of service and improved facilities on existing routes. It would include growing service to better serve the current population and job base and also meet the needs of the growing population and job base within the region. From 2015 to 2040, growing the bus system by 1% annually could require an additional $1.8 to $2.2 billion. More details on the types of bus improvements and the processes used to develop bus expansion concepts can be found in the Transit Investment Direction and Plan.

Transitways in the Increased Revenue Scenario represent a vision of corridors throughout the region that could be explored with additional revenues. Because the details of each corridor are not known until a corridor planning process has been completed, the revenue needs for this scenario are not complete. However, as corridor planning progresses, the details in the TPP can be updated to illustrate a more comprehensive revenue vision. There are currently a number of potential projects in the Increased Revenue Scenario that have completed corridor planning but are not able to be funded with current revenues. A list of these projects can be found in Chapter 6, “Transit Investment Direction and Plan.”

Local Transportation Increased Revenue Needs

The increased revenue needs for local transportation have not been comprehensively 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.

Counties and cities own and operate 80% of the A-minor arterial system and a part of the principal arterial system. The A-minor arterials along with the principal arterials make up the regional highway system. Needs on the locally owned and operated part of the regional highway system include preservation, safety and mobility improvements not unlike MnDOT’s system. Competitive funding sources available to the region such as the Regional solicitation see applications that frequently total multiples of the available funding. These needs have been further demonstrated by counties who have recently raised their own sales and wheelage taxes to provide additional funding for the local transportation system and if they so choose, also to improve MnDOT’s system.

In 2018, the County Arterial Preservation study documented current pavement conditions on the A-minor arterial system as largely in good to fair condition. Pavement management is a complex undertaking that must consider current surface conditions, the varying structure of roads, estimates of future deterioration, a wide range of possible preservation strategies, agency priorities and fiscal constraints. Using some basic data and stylized representations of preservation cycles, this study estimated that absent inflation this region is well positioned to maintain its pavement condition. However, inflation has outpaced revenue growth in the past and is expected to do so in the future. Inflation could lead to a large unmet need based on current policies and funding levels. The study estimated a funding need in pavement preservation from 2018 to 2040 of between $800 million and $4 billion for the metro area A-minor system entirely due to expectations that inflation will exceed the growth in revenue. The study documented a number of ways that this need could be addressed including shifting more resources towards preservation and away from other needs, and continued improvement in preservation practices and technologies.

Additional revenue will need to be considered. The region will grow by more than 800,000 people between 2015 and 2040 and it is important that local transportation funding needs are considered as part of any transportation funding proposal that moves forward at the state legislature. Local funding needs go beyond pavement preservation and must also consider local bridge replacement, expansion needs and other infrastructure needs including the additional of intelligent transportation system technologies.