



THE 2008 MINNESOTA TRANSPORTATION FUNDING BILL



NATIONAL
CONFERENCE
of
STATE
LEGISLATURES

By Nicholas Farber

April 2008

BACKGROUND

In 2007, Minnesota legislators confronted a problem common in most states: the lack of funds to keep their roads in an adequate state of repair. Although the Legislature passed a transportation funding bill that included a gasoline tax, Governor Tim Pawlenty vetoed it on March 15, 2007, saying it would impose an “unnecessary and onerous burden on Minnesotans that could weaken the state’s economy.”¹ Several months’ later, however, events changed the debate. On Aug. 1, 2007, the I-35W Bridge over the Mississippi River collapsed, tragically killing 13 people and injuring approximately 100 others. The collapse put a spotlight on the country’s deteriorating transportation infrastructure and raised questions about finance for its repair and upkeep. As the 2008 Legislature convened, the issue of transportation funding was at the forefront. In January, Governor Pawlenty introduced his transportation plan, which would have raised \$965 million through general obligation bonds and an additional amount through another bond, bringing the total to \$1.09 billion.² The plan would have allowed replacement of more than 600 deteriorating bridges, allocated \$30 million to local roads, and provided \$55 million for an I-35W toll lane and congestion relief and another \$70 million to the Central Corridor (the 11-mile stretch between downtown Minneapolis and St. Paul).³ The Legislature took another approach, which ultimately prevailed.

THE TRANSPORTATION BILL

Minnesota House File 2800 passed the House by a vote of 89 to 44⁴ and the Senate by a vote of 47 to 20.⁵ Governor Pawlenty vetoed the bill on February 22, and both houses voted to override the veto on February 25.

Key provisions of the enacted legislation are summarized below. These include a gas tax increase, a sales tax increase in the seven metropolitan counties, an optional sales tax increase outside the seven county metropolitan area, changes to funds allocation, restrictions on tolling and public-private partnerships, a bridge improvement program, and creation of an efficiency task force.

SUMMARY OF THE BILL

■ APPROPRIATION OVERVIEW

- The bill appropriates \$284 million for FY 2008 and FY 2009.
- \$2.45 million will go to rail, transit and other port developments.
- State roads will receive the most support: \$41.4 million will go to operations and maintenance; \$34 million will go to infrastructure investment support; and \$7.2 million will go to debt service bonds.
- Local roads will receive \$50.2 million in 2009 for the county state-aid highway system, and \$13.2 million for the municipal state-aid street system.

- \$55 million is provided in 2008 and \$77 million in 2009 for federal grants and aid related to the I-35W bridge collapse repair.
- \$375,000 goes to the Center for Transportation Studies to study the public policy implications of financing new and/or improved transportation infrastructure in the state.
- Forty State Patrol troopers will be added, starting in 2009.

■ GASOLINE TAX

The bill raises the gasoline tax from 20 cents per gallon to 25 cents per gallon.⁶ In addition to the gasoline tax increase on July 1, 2009 an additional surcharge will be added to the price of gasoline. It will be set at 0.5 cents, at 2.1 cents on July 1, 2010, at 2.5 cents on July 1, 2011, and at 3 cents on July 1, 2012.⁷ In 2013 and after the commissioner of revenue must set the surcharge to the lesser of 3.5 cents, or the amount calculated so that the proceeds received would equal the total amount of debt from 2009 to 2039.⁸ The Legislature provided a tax credit for those in the lowest income bracket. Income tax filers who are at least age 18 are not a dependent on another taxpayer's return, are either a U.S. citizen or lawfully present in the United States, and are in the lowest income bracket for the filer will receive a \$25 tax credit from the state.⁹

■ SALES TAX INCREASE

The bill authorizes seven counties in the metropolitan transportation area (Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington) to increase (without referenda) their sales and use tax by one-quarter of 1 percent and to raise the excise tax by \$20 on the sale of motor vehicles from those who are authorized to sell them.¹⁰ The proceeds from these taxes will be used to fund transportation improvements and to pay the debt on previous financed transportation improvements.¹¹

Before the seven counties can impose this tax, they must enter into a joint powers agreement with the other counties that will oversee how the sales tax proceeds will be spent.¹² To properly distribute the funds, the board must establish a grant evaluation and ranking system committee (GEARS).¹³ This committee must establish requirements for the grant application and award process, which includes establishing a timeline and procedures for awarding grants, establishing criteria and procedures awarding of grants, establishing criteria for grant awards, and creating a grant evaluation committee.¹⁴ The GEARS committee can distribute funds to state and political subdivisions for transit purposes only, such as capital improvements to transit ways, cost for park-and-ride facilities, feasibility studies, and operating assistance for transit ways.¹⁵

Counties outside the seven-county metropolitan area also can impose a transportation sales tax at a rate of one-half of 1 percent and a \$20 excise tax on the sale of motor vehicles by those who are in the business of doing if the taxes are approved by a majority of county voters.¹⁶ The proceeds can be used for a specific transportation project or improvement, and the taxes must terminate after the project or the improvement has been completed.¹⁷

■ AUTOMOBILE REGISTRATION FEES

The bill changes registration fees on all passenger automobiles from the current cap of \$189 for the first registration and \$99 for each renewal¹⁸ to a flat fee of \$10 and an additional tax of 1.25 percent of the base value (the manufacturer's suggested retail price, MSRP) of the automobile.¹⁹ On the other hand, the bill decreases the percentage of base value depreciation so the vehicle's original value declines faster, thereby lessening the amount what each automobile owner pays annually to register a vehicle.²⁰

■ COUNTY AND STATE HIGHWAY FUND DISTRIBUTION

This provision amends the current apportionment of the fund by allocating 2 percent of the proceeds received from the gasoline tax and registration fees to administrative costs incurred by the state Department of Transportation to carry out the county state-aid highway system; 1 percent for a disaster account; one-half of 1 percent for a research

account; three-quarters of 1 percent to a state park road account; and a revolving county state-aid highway loan account.²¹

Disaster account funds are to be used "...to provide aid to any county encountering disasters or unforeseen events affecting its county state-aid system, and resulting in an undue and burdensome financial hardship." This provision, a direct reflection of the lack of available state funds when the I-35W bridge collapsed, is an effort by the state to more quickly make financial aid available to affected communities.

Funds in the research account are to be used to conduct research on improving highway design, maintenance, construction and environmental compatibility; construct research elements or reconstruct ones that fail; and conduct programs that implement and monitor research results.²² Any funds that remain in the research account at the end of the year will be transferred to the county state-aid highway fund.²³

Funds in the state park roads account are to be used to construct, reconstruct, relocate, or improve county roads in the county state-aid highway system and other county roads that provide access to lakes, rivers, state parks and campgrounds.

The revolving county state-aid highway loan account can be used for loans to counties to construct, maintain or improve county state-aid highways; however, the funds cannot be used to create any toll facilities or any congestion pricing projects.²⁴

▪ OTHER TRANSPORTATION FINANCE PROVISIONS

The bill also restricts imposition of toll facilities and prohibits privatization of roads and bridges.²⁵ A road authority, city or private operator cannot "...convert, transfer, or utilize any portion of a highway" for tolls or for a toll facility, nor can they compel commercial vehicles to use toll facilities or a tolled portion of a highway.²⁶ This does not apply to any toll facility or high occupancy toll lane established before Sept. 1, 2007, or any additional lanes on a highway, including a priced dynamic shoulder lane, a high-occupancy lane, or a HOT lane added to a highway after Sept. 1, 2007.²⁷ The provision further states that a road authority cannot sell, lease, enter into an agreement for a build-operate-transfer or build-transfer-operate facility, or transfer highway management to a private party.²⁸ The prohibition against PPP agreements was included to ensure that the trucking industry supported the bill.

This bill amends the state's flexible highway account 5 percent set-aside from the highway user tax distribution by stipulating that the funds be used to restoring former trunk highways that have been given to counties or home rule cities; trunk highways given to the DOT by counties or home rule cities; safety improvements on local roads; and routes of regional significance.²⁹

The bill also creates a trunk highway bridge improvement program that requires the DOT to inventory all bridges in the state, including bridges that have been designated as fracture-critical, structurally deficient or a priority project.³⁰ The bridge inventory then must be categorized as into either a tier 1, tier 2, or tier 3 (with 1 highest), and construction on tier 1 and tier 2 bridges must begin by June 30, 2018.³¹ The tier classifications are:

- Tier 1: Bridges with an average daily traffic count above 1,000 and a sufficiency rating at or below 50; or a priority project;
- Tier 2: Bridges that have sufficiency rating at or below 80 or a fracture-critical bridge not classified as tier 1; and
- Tier 3: All other bridges.³²

Under the trunk bridge repair program, the DOT must provide the Legislature with a report every six years that explains the criteria used to prioritize the bridge projects; an analysis of whether which all the bridges meet their performance targets; a summary of the bridge projects completed in the previous six years and those currently under construction; a summary of bridges on which construction will begin in the next four years; a prediction of needs over

the next 20 years; a calculation of the funding needed to meet the June 30, 2018, deadline; and an explanation of why a tier 1 bridge was repaired but not replaced.³³

The bill also amends the fine for a driver's license revocation. Under existing law, when a driver's license is revoked, the person must pay a \$30 fine to have it reinstated. The bill raises the fee to \$250 plus a \$430 surcharge, which can be paid in two installments.³⁴ Revenue from \$50 of the surcharge goes toward treating and assisting those with traumatic brain and spinal cord injuries at qualified community-based organizations.³⁵

To speed up development of transit rail projects in the Minneapolis/St. Paul metropolitan area, the Metropolitan Council is authorized to start negotiations with the Federal Transit Administration to facilitate the acquisition of federal funds.³⁶ The funds, if received, are to be used to develop the Rush Line, the Red Rock Line, the Southwest Corridor line, and an extension to the NorthStar commuter rail to St. Cloud, which currently are being studied.³⁷

Finally, the bill creates a Transportation Strategic Management and Operations Advisory Task Force that will advise the governor and the Legislature on management and operations strategies to improve transportation efficiency in the state. "The group is to take into consideration "best practices in business and construction management" as well as "efficiency concepts in academic, business or other environments."³⁸ It also must consider how provisions under the law affect efficient implementation of transportation policies.³⁹ Members will include transportation officials, construction officials, private sector representatives who have expertise in management or corporate efficiency, and people appointed by the Legislature.⁴⁰ The Minnesota Chamber of Commerce, among the key groups that ensured the bill's passage, supported the bill only if it contained this provision.⁴¹ The Chamber wanted to ensure that Minnesotans got their money's worth on state projects funded by taxpayers.⁴²

NOTES

1. Patricia Lopez, "Pawlenty vetoes gas tax, income tax bills: The governor called the gas tax increase an "onerous burden" and the income tax bill a "shell game," *Star Tribune*, May 16, 2007.
2. Patricia Lopez, "Pawlenty's plan borrows big for bridges, roads: The governor calls it historic step, but DFLers are calling it irresponsible," *Star Tribune*, Jan. 15, 2008.
3. *Ibid.*
4. "Recorded Roll Call Floor Votes for H.F. No. 2800," www.house.leg.state.mn.us/votes/votesbynumber.asp?billnum=HF2800&ls_year=85&session_number=0&year=2008.
5. State of Minnesota, "Journal of the Senate," 38, www.senate.leg.state.mn.us/journals/2007-2008/20080221081.pdf#Page38. The override in itself was historic. In the past 70 years, only two Minnesota governors have made as many vetoes as Pawlenty and, since 1939, only 14 of 447 gubernatorial vetoes have been overridden, 12 of which were in regard to Governor Jesse Ventura's vetoes.
6. H.F. 2800, 85th Leg., Reg. Sess. (Minn. 2008) art. III, § 3.
7. *Ibid.*, art. II, §1, subd. 3(b).
8. *Ibid.*, art. II, §1, subd. 3(c).
9. *Ibid.*, art. III §2, subd. 34.
10. *Ibid.*, art. IV §2, subd. 1.
11. *Ibid.*, art. IV §2, subd. 2.
12. *Ibid.*, art. IV §2, subd. 3.
13. *Ibid.*, art. IV §2, subd. 5(a).
14. *Ibid.*, art. IV §2, subd. 5(b).
15. *Ibid.*, art. IV §2, subd. 6(a).
16. *Ibid.*, art. IV §3.
17. *Ibid.*, art. IV §3, subd. 2.
18. Matt Burress, "House Research Bill Summary, HF 2800" (St. Paul: Minnesota House of Representatives), Feb. 27, 2008.
19. H.F. 2800, art. III, §1, subd. 1a.
20. *Ibid.*, art. III §1, subd. 1(h).
21. *Ibid.*, art. V §1, subd. 2; art. V §1, subd. 3.
22. *Ibid.*, art. V §1, subd. 5.
23. *Ibid.*

24. Ibid., art. V §1, subd. 6.
25. Ibid., art. VI § 2(a).
26. Ibid.
27. Ibid., art. VI §2(b).
28. Ibid., art. VI §3.
29. H.F. 2800, art. VI, §5, subd. 3(a).
30. Ibid., art. VI, §5, subd. 3(b).
31. Ibid., art. VI, §5, subd. 4(b)(3)(c).
32. Ibid., art. VI, §5, subd. 4(a).
33. Ibid., art. VI, §5, subd. 5.
34. Ibid., art. VI, §6, subd. 2
35. Ibid., art. VI, §6, subd. 2(c).
36. Ibid., art. VI, §7, subd. 2.
37. Ibid., art. VI, §8.
38. Ibid., art. VI, §9, subd. 1.
39. Ibid.
40. Ibid., art. VI, §9, subd. 2.
41. Editorial, "Transportation: More Road for the Buck," *St. Paul Pioneer Press*, Feb. 27, 2008.
42. Ibid.

For more information, contact Nicholas Farber, (303) 364-7700, nicholas.farber@ncsl.org



NATIONAL CONFERENCE
of STATE LEGISLATURES
The Forum for America's Ideas

National Conference of State Legislatures
William T. Pound, Executive Director

7700 East First Place
Denver, Colorado 80230
(303) 364-7700

444 North Capitol Street, N.W., #515
Washington, D.C. 20001
(202) 624-5400

www.ncsl.org

© 2008 by the National Conference of State Legislatures. All rights reserved.