

## Appendix D.

### Regional Transportation Financial Plan

This financial plan describes the transportation investments that can be supported with transportation funding sources that can be reasonably expected during the planning period. It acknowledges that extrapolating current funding levels will not be sufficient to adequately serve the travel demand increases projected from significant regional population and economic growth. Under that revenue scenario, the movement of people and goods throughout the region will be severely constrained.

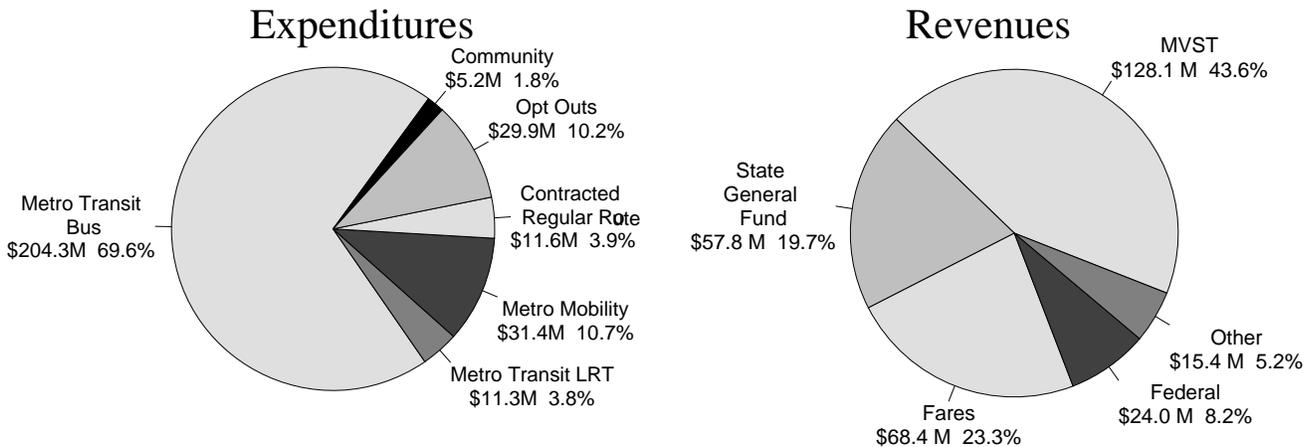
Highway funding levels resulting from extrapolating current revenue trends will result in significant highway congestion increases, reducing the region's competitiveness in the national and international markets. Without additional capital investments, regional accessibility to opportunities (such as work, business, education and recreation), as measured by travel time, will deteriorate significantly.

Transit service increases, which could mitigate the negative effects of unfunded highway needs, will not be possible at current funding levels. Meeting the Council's goal of doubling the base transit system by 2030 and building a network of transit corridors will require new revenues for both capital and operating needs from a new and yet unidentified revenue source.

#### Transit Operations

##### Current Sources of Funds/Expenditures

**Figure D-1**  
**2004 Budgeted Transit System Operating Costs**  
 (Total \$293.6 million)



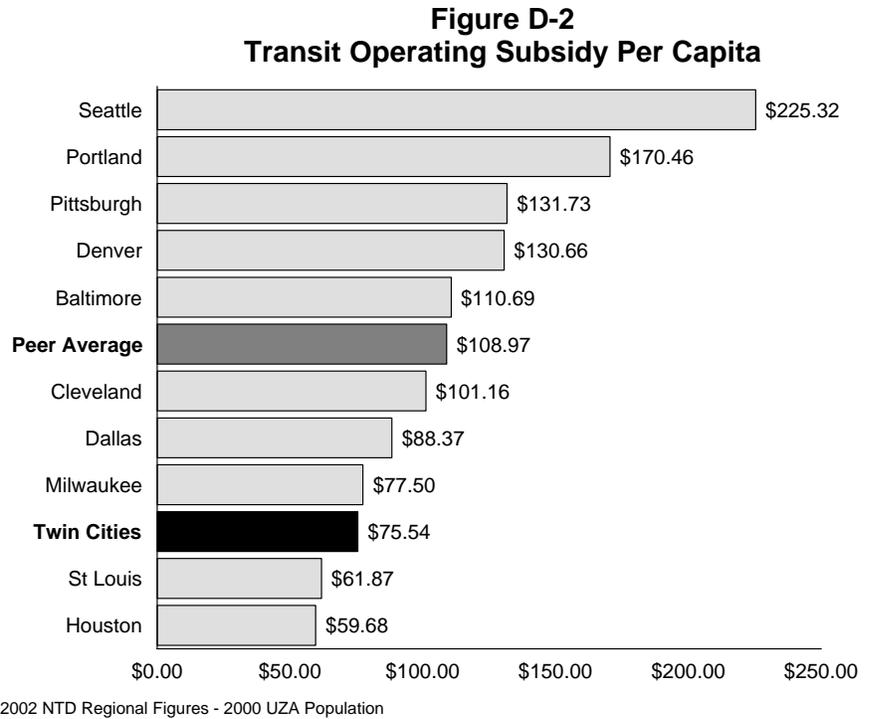
As shown in Figure D-1, there are currently three major funding sources for transit service operations in the Twin Cities metro area:

- State Motor Vehicle Sales Tax (MVST)
- State General Fund
- Fare revenues

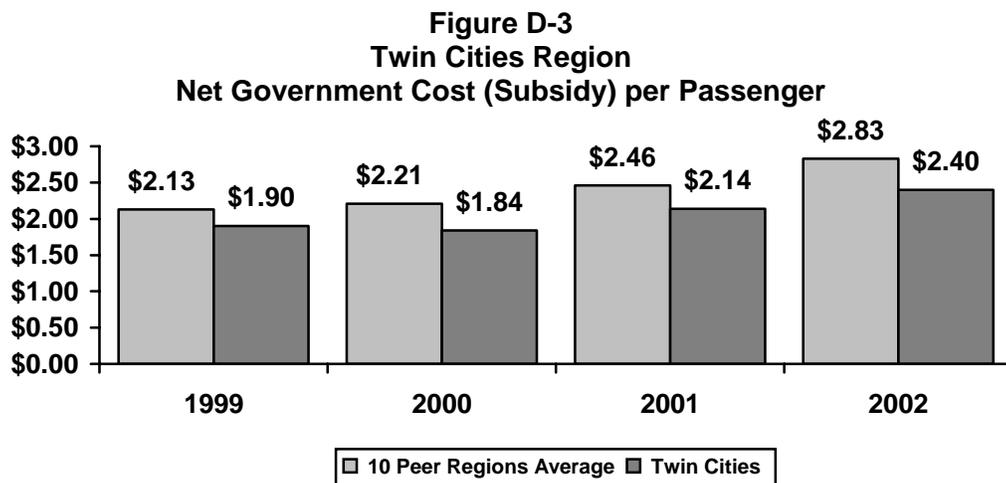
① (Taken from Chapter 5, 2000 Transportation Policy Plan)

Together these sources make up more than 85% of the current funding for transit operations. Federal funds (Congestion Mitigation/Air Quality and federal formula funds for capitalized maintenance) make up about 8% of funding while other sources such as advertising, interest and other revenues account for the rest.

Public funding for transit operations on a per capita basis is low compared to ten other major transit systems. Figure D-2 shows that the annual transit operating subsidy per capita (\$75.54 in 2002) ranks ninth of the 11 regions surveyed.



Similarly, as shown in Figure D-3, the subsidy per passenger, or the net cost per passenger after fare revenues are deducted, was about 15% less in the Twin Cities than in other peer regions in 2002. This gap has been growing since 1989 when the Twin Cities subsidy per passenger was 11 percent lower than the average for the peer regions.



## Future Funding Needs

Current funding sources will need at least to increase with inflation to maintain the current level of transit services in the future. This also will require keeping expenditure increases at or below inflationary trends. Key issues associated with current transit operating revenues include:

- Obtaining inflationary increases on State General Fund appropriation, particularly if state budget deficits persist in the future;
- The stability and long-term growth potential of the MVST funds.

Meeting the goal of increasing transit ridership by 50% will require a substantial increase in operating funds as outlined in Table D-1, even assuming that new services will have a 30% fare recovery rate. In addition, the region's ADA service levels will need to increase by 25% to meet growing demand. The incremental funding needs shown in Table D-1 are those over and above current funding levels (i.e. 2004).

**Table D-1**  
**Net Incremental Operational Funding Needs in 2020**  
(in 2003 millions of dollars unadjusted for inflation)

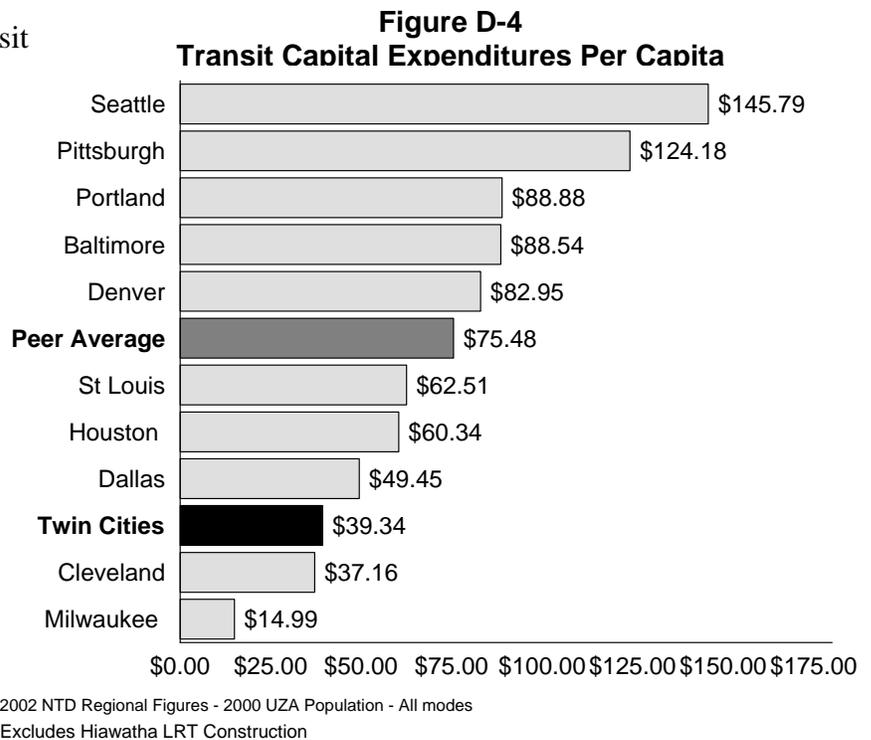
	<b>Expand Regular Route Bus System</b>	<b>Transitways</b>	<b>ADA Programs</b>	<b>TOTAL</b>
<b>2020 Operating Cost</b>	\$75 M	\$37 M	\$8	\$120 M

## Transit Capital Investments

### Current Sources of Funds

- Federal Grants
  - Federal Formula Funds - based on a portion of the federal gasoline tax
  - Congestion Mitigation/Air Quality grants (CMAQ) - competitively allocated grants
  - Discretionary Bus and Bus Facility Grants - grants awarded at the discretion of Congress
  - New Starts - grants awarded at the discretion of Congress for transitway projects only
- Regional Transit Capital Bonds - Bonds issued by the Metropolitan Council and repaid through a property tax levied within the transit taxing district. The maximum amount levied is controlled by the Legislature.
- State Funds - are state general obligation bond revenues, general funds, trunk highway bond revenues, or other state revenues granted for transit purposes.
- Local Revenues are primarily from local units of government such as Hennepin County Railroad Authority or the Metropolitan Airports Commission for the construction of transit facilities.
- Other Revenues include anything not listed above, primarily interest earnings

Current funding levels for transit capital are low compared to other comparable regions, as shown in Figure D-4. The Twin Cities annual per capita spending is \$39.34, or ninth of the 11 cities surveyed.



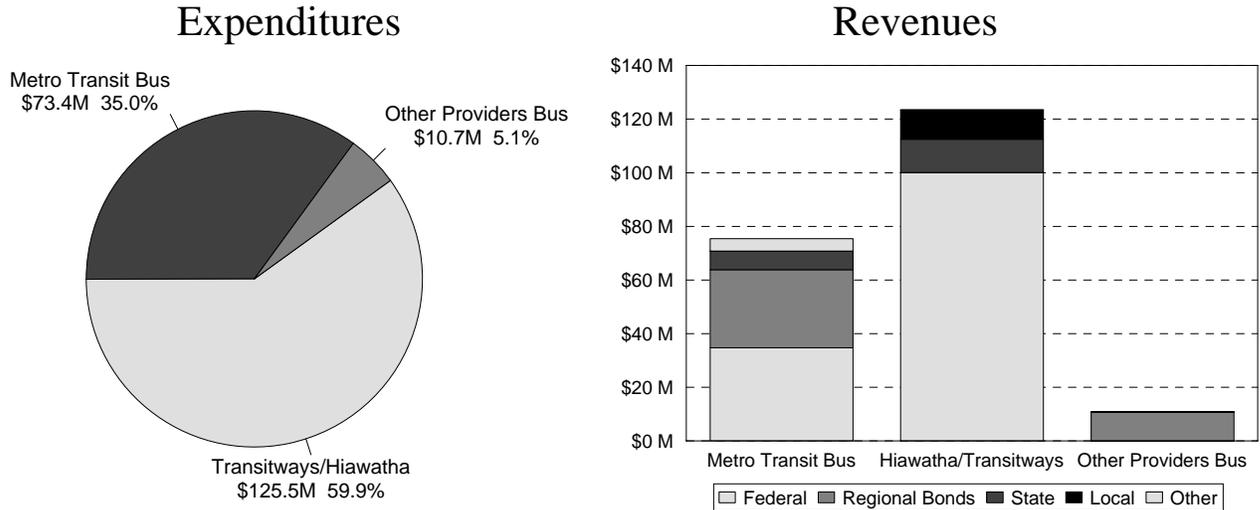
### Current Expenditures

There are three components to transit capital shown in Figure D-5:

- Metro Transit bus needs
- Other regional provider bus needs
- Capital costs of transitways

In 2004, the largest transit capital expenditure was for transitway development, primarily the construction of the Hiawatha Light Rail Transit line, with expenditures of \$109.3 million in 2004.

**Figure D-5**  
**2004 Budgeted Transit System Capital Costs**  
 (Total \$209 M)



2004 Adopted Capital Program - 2004 Expenditures Only

2004 Adopted Capital Program - 2004 Expenditures Only

## Future Capital Funding Needs

### *Maintain Existing Bus System*

Approximately \$75 M was needed to maintain the existing bus system in 2004. Of this, 51% of funding came from Regional Transit Capital Bonds, 45% from federal sources (primarily federal formula funds), and the balance of 4% from other sources. Funding to maintain the existing system would cost \$1.125 billion from 2005 to 2020 at this level. It is projected that 55% of the funds needed to maintain the existing system would come from regional transit capital funds and 45% would come from federal sources from 2005 to 2020.

One strategy that is being pursued to manage these costs is to use \$100 million from a new funding source to move from a bonding program to a pay-as-you-go program for regional transit capital. This would reduce interest expense, decreasing the cost of the regional capital program.

### *Bus System Expansion*

It is projected that approximately \$500 million is needed to expand the base bus system between 2005 and 2020. Of this, it is assumed that half of the funds will come from federal sources, including federal formula funds, discretionary funds and any new federal programs. The balance of funding of \$250 million would come from a new funding source discussed below.

***Transitway Development***

Three sources are projected to fund the system of transitways outlined in this plan. The first funding source is state revenues. Three projects requested state general obligation bonds in the 2004 Legislative session. It is assumed that these three projects will receive this funding. In addition, two projects are eligible for federal New Starts monies. It is assumed that half of the funding for these two projects will come from this source. The balance of needs for each project is assumed to come from a new funding source discussed below.

**Table D-2**  
**Projected Transitway Capital Funding Needed 2005 - 2020**  
(in 2003 millions of dollars)

	<b>Total</b>	<b>State Bonds</b>	<b>Federal</b>	<b>New Funding Source</b>
<b>Tier I</b>				
Northwest BRT	\$50	\$20	-	\$30
Cedar BRT	\$60	\$10	30	\$20
I-35W BRT	\$50	-	-	\$50
Northstar Commuter Rail	\$265	\$37.5	\$132.5	\$95
Central	\$240 - \$840	-	\$120 - \$420	\$120 - \$420
<b>Tier II</b>				
Additional transitways *	\$135	-	-	\$135
<b>Total Capital</b>	<b>\$800 - \$1,400</b>	<b>\$67.5</b>	<b>\$282.5 - \$552.5</b>	<b>\$450- \$780</b>
<b>Average Annual Cost</b>	<b>\$53-\$93</b>	<b>\$5</b>	<b>\$18 - \$37</b>	<b>\$31-\$52</b>

\*Rush Line, Southwest, Red Rock

***Funding Assumptions: Summary***

The total transit funding needs and sources are estimated as follows:

**Table D-3**  
**Projected Additional Annual Capital Subsidy Needed in 2020**  
(in 2003 millions of dollars)

	<b>Maintain Existing System</b>	<b>Expand Bus System</b>	<b>Add Transitways</b>	<b>Total</b>
<b>Regional Bonding</b>	\$520	-	-	\$520
<b>Federal</b>	\$505	\$250	\$282 - \$553	\$1037 - \$1,308
<b>State</b>	-	-	\$68	\$68
<b>New Funding Source</b>	\$100	\$250	\$450 - \$780	\$800 - \$1,130
<b>Total</b>	\$1,125	\$500	\$800 - \$1,400	\$2425 - \$3,025

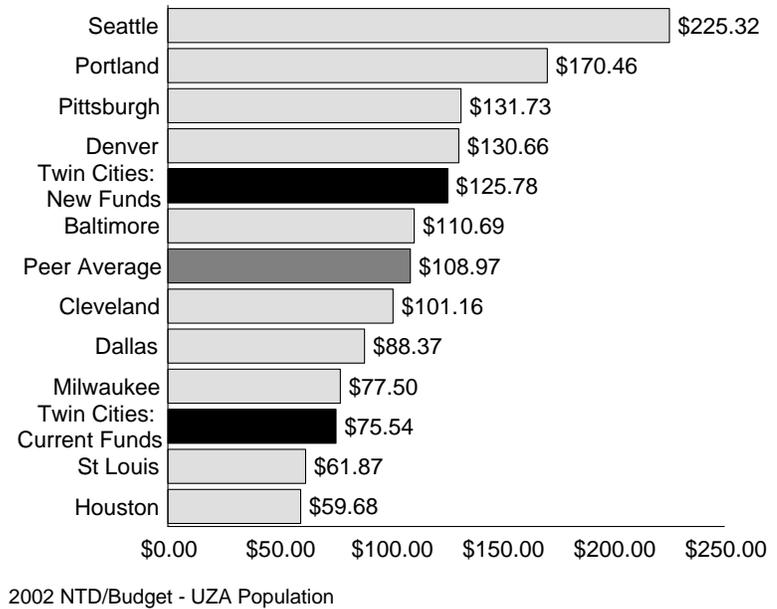
## Strategies for a New Transit Funding Source

Implementation of this transit plan would require between \$55 million to \$75 million per year between 2005 and 2020 for capital needs and \$120 million in additional operating funds in 2020.

Even securing this funding increase, the region would move from only ninth to fifth in terms of per capita operating subsidy levels when compared to its peers (Figure D-6).

A number of initiatives in search of additional transportation resources for both highways and transit are underway. It is expected that legislative proposals will be developed for the 2005 legislative session.

**Figure D-6  
Transit Operating Subsidy Per Capita  
with New Funds**



Ideally, a new funding source for transit would have the following characteristics:

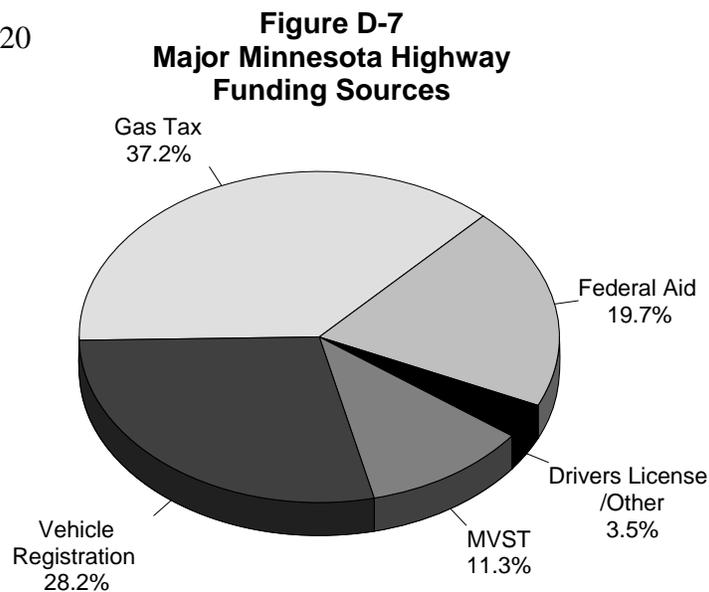
- Stable and reliable enough to allow long-range planning.
- Dedicated to transit.
- Able to grow both with the economy and with the population being served.
- Broad-based.
- Can be utilized for both operating and capital needs.
- Provide diversity in revenue sources.

## Highway System

### Current Funding Levels

Highway funding statewide comes primarily from two sources: federal highway grants and state funds. State funds come primarily from three sources:

- State Gasoline Tax: In Minnesota, there is a 20 cents per gallon tax on gasoline and diesel sales. In FY 2003, this tax was budgeted to bring in \$642 million. (Figure D-7)
- Motor Vehicle License Fees: The license fee varies by the age and value of the vehicle. In FY 2003, this tax was estimated at \$487 million.
- Motor Vehicle Sales Tax (MVST): MnDOT received 30% of the MVST funds generated by a 6.5% tax on the sale of motor vehicles. In FY 2003, the highway portion of this fund was estimated at \$195 million.

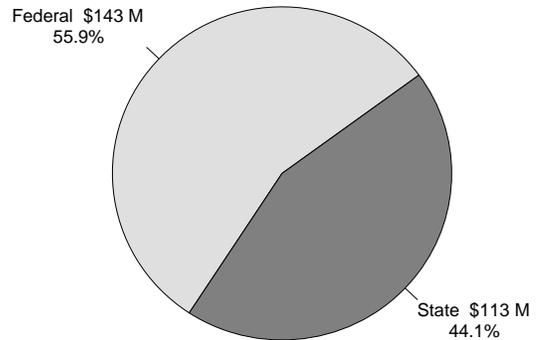


In FY 2003, these three revenue sources brought in \$1.324 billion statewide and 59% of these revenues, or \$780 million, were transferred to the Trunk Highway fund. In addition, \$340 million of federal grants and \$60 million from drivers license fees and other revenues were deposited in the Trunk Highway fund, generating \$1.18 billion. Of these funds, \$585 million was dedicated to trunk highway construction.

In 2003, the Legislature approved the Governor's proposed \$800 million statewide transportation financing package to accelerate construction of some key projects. Four major metro area construction projects were included in the package. The \$800 million was a combination of \$400 million in trunk highway bonds to be repaid from the trunk highway fund, and \$400 million in federal advance construction (AC) funds. These AC funds are to be repaid with future federal funds.

The MnDOT Metro District receives a portion of these funds for construction of highways in the Twin Cities region. In 2004, MnDOT's Metro District encumbered \$256 million for highway construction from the Trunk Highway fund. (Figure D-8)

**Figure D-8**  
**2004 MnDOT Metro District Highway Construction Program: \$256 M**



### **Future Funding Levels**

As discussed in Chapter 4 of the TPP, MnDOT's Metro District construction program is expected to grow to \$283.5 million per year as an average for the 2009-2030 period. This level of funding, which represents the Constrained Scenario, will allow all expansion projects in the 2001 Transportation Plan to be built by 2030 instead of 2025. Therefore, under this funding scenario, implementation of the overall plan will be delayed 5 years.

Under the Constrained +30% Scenario, total funds would grow by \$85 million per year and funds for expansion projects would grow from \$92 million per year to \$197 million per year. This more than doubling of the expansion capability would make it possible to build very badly needed projects much sooner and advance the implementation of the 2030 plan by almost seven years.

Higher funding levels would make it possible to accelerate the plan implementation even more.

In order to raise \$85 million per year, it would be necessary to increase significantly existing dedicated funding sources (i.e. gas tax, license fees and MVST) or to rely on a new funding source such as a portion of a regional sales tax.

### **Managing Projects, Scope, Cost and Revenue Sources**

Over the life of this plan and as it is periodically revised, major projects evolve and move toward implementation. Procedures are needed to ensure the region's priorities can and will be implemented. Three problems have arisen in accomplishing this objective; not using High-Priority Funds for regional priorities, not maintaining project scopes that address the problems that they were intended to address, and not living within the allocated resources of cost estimates. These are discussed in detail below.

#### **Use of HPP funds**

Federal HPP funds are earmarked by Congress and have not always been assigned to the regions' top priorities. Because HPP funds, in this plan, are included in the revenue projections they should not be used for projects that are either not in the plan or are regional priorities. The Council has adopted the following procedures to manage HPP funds that come to the region and recommends MnDOT help implement them.

For MnDOT trunk highway system projects:

- HPP funds will only be spent on projects if they are identified in the current TPP and TSP.
- The state share of HPP projects identified in the 10-year work plan will be funded by MnDOT in the scheduled TIP or work plan year.
- All other funds to match HPP funding will be from non-MnDOT funding sources.
- If an agency wishes to advance projects that are not within the work plan using HPP funds, the state share of the project will be reimbursed by MnDOT in a year(s) beyond the work plan, but within the timeframe of the TPP/TSP. Should funding shortfalls cause prioritized projects to be delayed, such repayments will also be subject to delay. The Council will work with MnDOT to ensure all jurisdiction, if they wish, can participate under this provision.
- MnDOT's share of the project will only be to the investment level identified in the constrained TPP/TSP. Investments beyond the identified constrained investment level will be 100% local.
- The state share will be determined in accordance with current MnDOT cost-share policies.
- The region supports the use of HPP funds for design work on projects that are in the 10-year Work Plan or that are priorities to move into the 10-year Work Plan.
- In emergencies such as natural disasters or where a critical fracture bridge needs to be replaced, these policies and the priorities in the plan may need to be superseded.

For non-MnDOT (county/city) system projects:

- HPP funds may only be spent on projects on local elements of the regional transportation system if they are consistent with the constrained funding scenarios of the TPP/TSP.
- HPP funds spent on other local projects must be consistent with this plan and the applicable city and county comprehensive plans.
- All matching funds for HPP projects on the local system shall be from non-MnDOT sources.

### Managing Project Scope and Cost

Federal rules require the TPP to be fiscally balanced. The Constrained Scenario is the adopted regional highway plan, which is fiscally balanced. The investment category and funding level for all metropolitan highways are recorded in Chapters 4 and 5 of the TPP. It is assumed that these investment levels will be respected as corridor studies are undertaken. Should the recommended investments for trunk highways exceed the cost estimate recorded in this plan by 20% or more, or if the recommended project scope does not reflect this plan, the project will need to be reviewed to determine whether the modified project should remain a regional priority.

The intent of the policy is to ensure the region is meeting federal rules but also to allow a regional discussion of the cost and benefits of these major projects as they move toward implementation. Projects evolve over time but they are generated from a regional needs analysis to address certain problems. This plan records a solution at a set cost and provides the appropriate allocation of state and regional resources relative to other regional needs. As the project moves from the later years of the plan to the 10-year Work Plan and finally to the TIP, the project scope and cost estimates change due to additional analyses. The following procedures recognize this evolution and provide opportunities to address these changes at various points in the project development process.

- As the TPP and TSP are revised on their regular schedules, each project scope and cost estimates are reviewed. Changes that occur in the project scope should reflect changing conditions in the region or the concept on which the project was based. A new expansion project added to the plan may go through a number of TPP and TSP revisions before it moves into MnDOT's 10-year Work Plan.
- A key decision point is when the project is ready to move into the 10-year highway work plan and the implementation work begins. At this time a check is required to determine whether this is an appropriate regional investment. The project scope must be examined to determine if it addresses the identified problem. Once the appropriate scope is determined, the cost estimate should be examined closely. With this information, the region should determine if this is an appropriate project to be a regional priority and move it into the 10-year Work Plan.
- From the time the project is included in the 10-year Work Plan, to the time it is included in the TIP, additional study takes place. A transportation corridor study is an example of such work. Alternative layouts for environmental evaluation are prepared. While many issues are examined, the emphasis is on project scope and impact versus cost. The affected jurisdiction should be aware that the region has certain expectations for the project, its cost, and its effectiveness. These need not be considered unchangeable but instead be viewed as part of the regional context in which the project functions. The regional perspective on the project may also change. Increasing scope and cost of the project may have a large impact on the ability of the region to implement other projects in the plan. The TSP and TPP revision process should be used to evaluate the consistency of the project scope and costs prior to being moved into the TIP.
- At the time the project (From Table 4-10 of the TPP) is ready to be put into the TIP, the project scope and cost will be closely reviewed. The TIP must be fiscally balanced as well as the plan. The project cost should be more accurate at this time. Right-of-way cost will be better defined. If the project exceeds 20% of the cost recorded in the plan (after being adjusted for inflation) or if the scope is inconsistent, the plan will need to be revised to reflect these changes or the project will need to be rescope or the cost reduced before it is added to the TIP. If the TIP revenue target is higher than the TPP for the same timeframe, no TPP revision is necessary.

### **Allocation of Capital Resources with Regional Capital Priorities**

The level of capital resources expected to be available for investments in the region's transit and highway system over the next 22 years are shown in Table D-4.

Highway funds, expected to grow over and above inflation at a modest 0.8 percent annually, are shown in constant 2003 dollars. The \$283.5 million amount shown in the table is an annual average for the 2009-2030 period. This forecast includes Federal High Priority Project (HPP) funds earmarked by Congress that have historically been used on trunk highway projects

**Table D-4  
Estimate of Revenues Available for Capital Investments, 2009-2030 (in millions)**

	Annual Allocation	2006 - 2020	2009-2030 Funding Level
<i>Historical Capital Funds for Highways</i>			
State Road Construction funds available to eight-county region according to Mn/DOT Office of Investment Management (OIM) (These include all federal and state funds spent by MnDOT or on MnDOT projects)	\$283.5		\$6237.0
Federal Funds allocated by the region for purposes other than Mn/DOT's projects according to Mn/DOT (OIM)	61.5		1353
Local funds to match federal funds based on \$50 federal funds (excluding TH funds)*	15.4		270.6
Reduction of funds to reflect seven-county region (reduction based on Mn/DOT formula for Chisago County)	(5.17)		(114)
<b>Highway Total</b>	<b>\$355.43</b>		<b>\$7753.9</b>
<i>Historical Capital Funds for Transit</i>			
<b>Federal Transit Funds (Title III)</b>			
Section 5307**Formula/Formular Fixed Guideway - Historic	33.0	505	740
Section 5309 Discretionary	10.0	150	220
CMAQ/STP	6.7	100	147
Section 5309 New Starts	17-35	252-553	369- 811
<b>State Funds</b>	4.5	68	100
<b>Regional bonding</b>	34.5	520	759
<b>New Funding Source</b>	55-75	830-1130	1217-1650
<b>Transit Total</b>	<b>\$161-179</b>	<b>\$2425-3025</b>	<b>\$3345-4151</b>
<b>Highway and Transit Total</b>	<b>\$531-\$551</b>		<b>\$11,624-\$12,054</b>
* STP Urban Guarantee, CMAQ, Enhancement, Bridge, Safety-Hazard Elimination, Rail Safety. ** Net grant amount being used for capital projects.			

Table D-5 shows the allocation of resources to major project and funding categories. These categories include funds specifically allocated to projects and funding levels that will be allocated through a variety of processes over the next 22 years.

The first category shows the funds committed to adequately meet the maintenance and life-cycle preservation of trunk highways in the metro region. The seven counties have a similar funding commitment for "A" minor arterials under their jurisdiction. Those improvements are

funded with county state aid and property tax levies.

The last funding category, “selected regional projects,” includes projects selected by a competitive regional process established by the TAB and the Council. This process semi-annually allocates the fund categories of Surface Transportation Program urban guarantee funds, Enhancement and Congestion Management/Air Quality funds. Project types include principal arterial/non-freeway, “A” minor arterials, transit, pedestrian, bicycle, transportation demand management, air quality, and historic and scenic enhancements to the transportation system. The TAB and the Council, in cooperation with MnDOT, select projects for safety-hazard elimination, rail safety and bridge safety.

MnDOT uses a number of methods to identify specific projects for funding. The bridge, pavement, safety and congestion management systems are the principal technical tools used for identifying preservation and management projects. (As noted above, specific projects have been identified for most of the management and expansion funds.) The region’s congestion management system plan is used as a tool to define criteria and projects in this process.

**Table D-5  
Transportation Policy Plan Financial Allocations, 2009-2030 (in millions)**

Trunk Highway System-wide Life-Cycle Preservation	\$2,244
Trunk Highway System-wide Management	\$1,320
Trunk Highway Expansion Projects *	\$2,024
Transit Improvements (Title III Funds)	\$4,151
Enhancements (federally defined category) Regionally Selected	\$134
Congestion Management/Air Quality, Regionally Selected (less Transit)	\$281
Set Asides (right-of-way, supplemental agreements, cooperative agreements)	\$649
Selected Regional Projects (Reduced by \$165M for Mn/DOT Projects)	\$792.5
<b>TOTAL:</b>	\$11,595.5
* Includes cost of needed right-of-way.	

The comparison of the annual revenues available for the 2009-2030 period (as shown in Table D-4) to the average capital requirements (from Table D-5) illustrates that the constrained plan is in fiscal balance with reasonable expected resources. Major capacity expansions of the highway system were restricted to achieve this balance, but this does not mean that additional capacity is not needed throughout the region.

Unmet needs include, among others, projects to accommodate growth forecasted in the *Regional Framework*, transitway improvements, and expansion of the county and trunk highway “A” minor arterials.

### ***Transportation Funding Issues***

While the adequacy of funding resources remains the most significant problem for the region, there are other issues this plan addresses that need to be recognized.

- A new six-year federal Surface Transportation Act is expected to be adopted in late 2004 or 2005, determining the federal requirements and resources.
- The suballocation of funds to the eight MnDOT districts is being reexamined. All MnDOT districts are required to prepare plans by the end of the year. These activities could change the level of funds and funding procedures affecting the Metro District.
- Proposals on the state level call for significant increases in revenues. This plan attempts to position the region to be ready for a quick response to these initiatives, but a plan revision may be needed to properly address the changes.
- IRC planning, funding and implementation, an important state priority, presents challenges for the region. In many cases, the region could be required to make significant investments

when most of the benefits are realized by someone other than regional residents. Therefore, a state-wide initiative for establishing the IRC priorities may be more appropriately managed from MnDOT's Central Office rather than by individual districts.

### ***Transportation Funding Principles***

The following transportation funding principles should guide the allocation of transportation funds in a manner consistent with regional development and transportation policies. These principles are fully explained in Appendix L, along with funding options and criteria to evaluate funding sources.

1. Federal funds should be used to the maximum extent feasible to advance regional policies and priorities.
2. A local unit of government may advance the implementation of a project consistent with this guide, but no arrangements for payback of such funds by the state or region should be made.
3. The private sector should participate in funding transportation services or facilities that are required to serve one development or a select group of developments. All private sector cost sharing should be arranged through a local unit of government or other governmental body, including cities, counties, the University of Minnesota or state agencies.
4. Should the region determine that additional transportation funding is required in this area and generate such funding through regional revenue sources, MnDOT must ensure the appropriate amount of existing and future statewide revenues continue to be available to the region.
5. Transportation funding for the regional highway and transit systems, whether from federal, state or regional sources, should be allocated to priority projects that meet regional transportation needs rather than on a formula basis. The priority setting and funding allocation processes should be reexamined on a regular basis and responsive to changing needs.
6. The region, state, and various associations are pursuing additional revenue sources for transportation. Some nontraditional sources such as tolls are tied to specific corridors and facilities. The region supports these efforts, but they must follow adopted policies as would other transportation investments. The Council will assist these efforts and will allocate regional funds to advance the use of these new funding techniques as long as the projects are recognized in this plan or are consistent with the adopted policies and procedures of the region.

### ***Criteria for Evaluating Revenue Sources***

- Transportation funding should support a multimodal transportation system .
- Whenever possible, transportation funds should be generated by both users and those who benefit directly from the service or facility. However, the general public should pay for transportation services meeting the needs of those unable to pay for transportation services or where the general public receives a benefit from the service.
- New revenue sources should be analyzed using the economic criterion of “efficiency.”
- The revenue source should support broad regional goals and policies.

- The revenue source should be predictable and not fluctuate significantly from year to year. Property taxes are predictable while sales tax is more subject to change.
- The revenue source should be adequate to address regional transportation needs.
- The cost and ease of administration should be considered in evaluated funding source. Funding sources should be evaluated on the amount and location of collection.