Date: March 14, 2019

To: The I-35W Solutions Alliance Board of Directors

From: Rob Vanasek

Re: Legislative Report

Tomorrow at midnight is the first committee deadline for policy bills. The Transportation Committees continue to meet hearing a small portion of the thousands of introduced bills so far this session. The omnibus transportation finance bills will be assembled in the next four to five weeks then a negotiation between the House and Senate could shape a final product. The House and Senate transportation omnibus bills may look starkly different and the governor's office could potentially get involved with the negotiations.

Bad news arrived at the Capitol on the last day of last month when the February Economic Forecast that sets the overall budget numbers showed significantly smaller surplus of $1.05 B than the November Forecast of $1.5 B. Half of the surplus is one time money and the other half is ongoing which is $538M. The bad news continues into the next biennium FY22-23 when a very slight budget deficit is projected of negative $11 M (not counting the estimated $2.7 B in inflation on the state's $50 billion budget).

Overall state spending is actually projected to be slightly reduced under current laws, driven by savings in HHS and E-12, but lower projected revenues and a slower national economic outlook were the main factors weakening the overall budget picture.

Governor Walz on Tuesday stated that he was getting frustrated by the Senate Majority saying no to his budget proposals: "There's a pattern here. The day I announced my transportation package, that was dead. The day I announced my education package, that was dead." When asked what his priority would be, he said his education package, which is more than the current surplus would be able to fund without the transportation budget proposal freeing up general fund dollars. See below for details.

Legislative targets are being discussed this week by the majority caucuses and are expected to announced publicly within two weeks.

Governor's Transportation and Transit Package

The governor's budget released on February 19 proposes to raise the gas tax and index it, raise tab fees and increase the motor vehicle sales tax:

> The Governor recommends the state commit to a major transportation investment plan to fund the estimated $6 billion dollar gap that exists between funding needs and available revenues over the next 10 years. The Governor proposes filling the $6 billion gap in road and bridge funding by:
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> - A 20 cent gas tax increase phased-in over two years in September and April in FY20 and FY21

- Indexing the gas tax to inflation (beginning in FY23)
- Increasing the registration tax, effective Jan. 1, 2020 increase tax rate from 1.25 percent to 1.5 percent and base tax fee from $10 to $45; change the depreciation schedule; amend base value calculation by removing destination charge and hold harmless provision
- Increasing the motor vehicle sales tax from 6.5 percent to 6.875 percent, Dec. 1, 2019
- Authorizing $2 billion in trunk highway bonds over 8 years starting in 2022

The gas tax, registration tax, and motor vehicle sales tax increases will fund roads and bridges for the state trunk highways, county state aid highways, and municipal state aid streets. In the FY22-23 biennium, when revenue changes are completely phased in, the increased revenue from the gas tax, motor vehicle sales tax, and registration fees are forecast to increase available resources for each transportation fund by 30 percent.

In addition to the new funding above, the Governor recommends:

- Returning the auto parts sales tax, 9.2 percent motor vehicle rental tax, and 6.5 percent sales tax on motor vehicle rentals currently deposited into the Highway User Tax Distribution (HUTD) Fund as of FY18 back to the General Fund beginning in FY20. This results in an increase to the General Fund of $396 million in FY20-21 and $405 million in FY22-23.
- Restoring the motor vehicle lease sales tax to the pre-2018 distribution levels. This results in $32 million returned to the General Fund, annually.

Results:

Currently, Minnesota's total state gasoline taxes are 28th highest in the country, including District of Columbia. Since 2013, Minnesota has dropped from 19th highest state gasoline taxes, as a result of other states increasing their gasoline tax rate. Over a 10-year period, the inflation-adjusted tax on gasoline is projected to add an additional 29 cents to the price of a gallon of gasoline.

These investments would provide additional long-term sustainable and dedicated funding. MnDOT would plan to rehabilitate the system for the 21st century by:

- Improving a significant portion of centerline miles of pavement and increase the number of bridges that can be repaired or replaced
- Accelerate progress toward the state goal of zero highway deaths with targeted installation of rumble strips, median barriers, lighting and other safety improvements. The Minnesota Toward Zero Death program has helped decrease injuries and deaths on the highway
- Keep roadside infrastructure in a state of good repair

In addition, MnDOT has operating performance measures that will be impacted by this proposal. All are anticipated to decline without additional funding; and this would reduce the decline. They include:

- Snow Plowing Performance – met clearance targets
- Smooth Roads – percent of pavement patching addressed
- Percent of projects let in the year scheduled

The governor proposes to increase the sales tax in the metro to fund transit via the Metropolitan Council:

The Governor recommends enactment of a 1/8 cent sales tax in the seven-county metropolitan area to maintain and expand the regional bus and transitway system. Revenues from the sales tax, along with the Minnesota Department of Transportation proposal to increase the motor vehicle sales tax rate from 6.5 percent to 6.875 percent and state general obligation bonds would:

- Eliminate a structural deficit in the regional bus system
- Build out 10 Bus Rapid Transit (BRT) lines
- Increase service in the region's busiest transit corridors by 40 percent
- Increase regional transit ridership by 30-40 percent
- Begin the electrification of the regional fleet by adding at least 150 electric buses
- Improve the transit customer experience through investments in safety, shelters and technology

Results:

- 10 new Bus Rapid Transit (BRT) lines
- 40 percent service increase in the region's busiest transit corridors
- 30-40 percent increase in regional transit ridership
- 150 electric buses
- Improved transit customer experience

HF 80, Mini-Bonding Bill, Enacted Into Law

HF 80, a bonding bill totaling just over $100 M passed both bodies and was signed into law the first couple days of last week. This significant deal was pushed by the Speaker and agreed to by the Senate Majority Leader and among other things made some changes to the Corridors of Commerce program generally and allowed several projects previously reported in limbo to move forward. The C of C program authority is changed to allow MnDOT to use up to 17% of C of C funding on program delivery, which includes property acquisition. The new law also allows MnDOT flexibility to switch the order in which projects are undertaken using the 2017 and 2018 funding and allows projects to be undertaken based on readiness. This would include the Phase I of 35W/494 interchange and the 494 additional MnPASS lanes (and possible Phase II 35W/494 interchange work).

SF 912, Would Cause Loss of $1 Million to 35W Transit Services

SF 912, Newman, would both change MnPASS lanes usage requirements and revenue distribution. First, the bill would require that in order to use MnPASS lanes without a fee, a vehicle must have three or more people in the vehicle. Second, all MnPASS lanes would be required to use the generated revenue in the same manner.

SF 912 repeals the I-35W HOV lane account (160.93, subd 2a). 35W is the only corridor that has this type of account, which requires all money from fees collected in the account to stay in the corridor and be used for administration of the collection system and much of the remaining amount is transferred to the Metropolitan Council for improvement of bus transit including capital expenses for use exclusively in the corridor. Any additional dollars are then used for transportation capital improvements in the corridor consistent with the goals of the urban partnership agreement. It was the urban partnership agreement that provided the money for the additional lane.

Under the bill the revenue from MnPASS lanes basically would supplant the existing funds used for maintaining the road instead of providing expansion and improvements of transit services in the corridor.

MnDOT testified in opposition:

> The goal of the MnPASS lanes is to move more people through the corridor, more efficiently, not generate more money. The other cities that have gone to an HOV 3+ minimum have much more congestion. The vast majority of carpools in MN are 2, often a couple commuting to work together or a mom taking a kid to school. If MN switched to a HOV 3+ then traffic shifts tot the general purpose lanes creating a significant increase in traffic congestion—this has been proven most recently in Atlanta where it took a couple years for commuters to utilize the HOV 3+ at the same rate as when HOV 2+. MnPASS transponders make up 25% of cars in the HOV lanes, but only 12% of the people. 35W has several more years of capacity at the HOV2+ level except for some peak a.m. times NB at 46th ST and Diamond Lake Road.

The Metropolitan Council also testified in opposition stating that the 35W corridor would lose about 1 M dollars annually in transit funding.

I have expressed strong concerns about the bill to Vice Chair Jasinski, Fairbault, who is a coauthor as well as to Senator Hall, Burnsville.