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ITASCA project

One Minnesota Conference

Discussion document

January 7, 2015

Itasca Project introduction

What is Itasca?

An employer-led civic alliance focused on:

- Building a thriving economy and quality of life in the Minneapolis-Saint Paul metropolitan region
- Reducing and eliminating socioeconomic disparities

Who is Itasca?

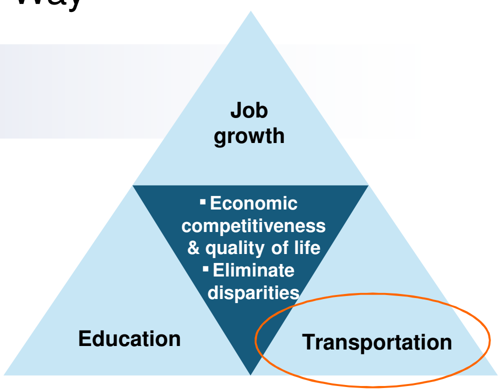
50-plus cross-sector community leaders from the greater MSP metro

- Private sector CEOs
- Public sector leaders include: the Governor, the mayors of Minneapolis and Saint Paul, Met Council Chair, MnDOT commissioner, higher education leaders, county commissioners, etc.
- Leaders of major foundations (e.g., McKnight Foundation) and United Way

With whom are we working on transportation?

Itasca is working with a set of business groups on transportation

- Minnesota Chamber of Commerce
- Minnesota Business Partnership
- GREATER MSP



Itasca Project Priorities

Executive summary (1 of 2)

Transportation is a key asset for Minnesota; an integrated and aligned transportation system is critical to economic competitiveness.

- **While not itself a "top 3" issue, transportation is closely related to top issues** such as economic competitiveness, job growth, workforce, and cost of doing business.
- **Transportation investment**
  - **Has a positive return on investment (ROI):** Itasca's Transit ROI report found a 2.4x ROI; a similar study of state highway investment found a 2.5x ROI.
  - **Keeps freight costs in check**: Minnesota companies spent $232M extra in freight costs due to congestion.
  - **Helps retain and attract talent**: GREATER MSP's survey found of talented young professionals' top 5 reasons to move to a region, 2 are directly related to transportation.

- **Current levels of transportation funding do not keep pace with projected demand increases; system performance will deteriorate if the state simply maintains current funding levels.**
  - **Increased user demands**: in the next 10 years, population will increase with 430,000 more people in the state (+8% increase) and 390,000 (+14%) in the metro; freight traffic will increase at least 30% on our roads and bridges.
  - **Decrease in nominal funds available**: Funding will be eroded by 5% annual inflation for construction costs.
  - **System usage is changing**: Millennials – Minnesota's largest population group– are driving less and using transit and shared services more, as are Baby Boomers.
  - **Unmanaged outcome is deterioration:** Congestion will worsen, pavements will get rougher, and people and companies will spend more time and money on transportation.

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Executive summary (2 of 2)

- **We have a choice on the pace and level of investment.**
  - Debating and reaching consensus on our investment priorities for the next decade is our most pressing and challenging task.
  - In 2012, the governor's Transportation Finance Advisory Committee calculated the additional cost to maintain, or improve, the performance of our current system in light of increasing population and reduced purchasing power. While these figures remain the estimate of record, business representatives will gather in mid-January with representatives from MnDOT and the Met Council to further understand and refine the TFAC estimates, as well as to discuss investment priorities for the next decade.
  - Our approach is to agree on the level and pace of investment needed and *then* discuss how to fund it.

- **Business groups have come together to create a constructive dialogue on transportation funding this session in the hopes of financing a positive investment agenda for the next ten years**
  - Efficiencies can meet some of the need (~15%), but keeping pace with investment priorities will require additional funding;
  - The state has a range of options to fund transportation investment;
  - Simply raising taxes is not acceptable to the statewide business community; and,
  - The business community is seeking consensus on a funding strategy.

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Why does transportation matter to Minnesota's economy?

The quality and scope of a transportation system is a key factor in determining the economic competitiveness of a region and state

A reliable, efficient transportation system lowers cost of doing business

Minnesota businesses are currently paying extra costs for gaps in the transportation system

- Minnesota businesses pay $232 million a year in extra freight transportation costs due to congestion
- I-35W at I-494 is the 17th worst freight bottleneck in the US – ahead of corridors in Houston and Atlanta

The transportation system moves employees to their jobs

People have less economic opportunity when transportation systems are slow and inefficient

- The typical job is accessible to only 25% of the metro workforce by transit in 90 minutes or less (41st ranked metro)

A good transportation system attracts people and businesses

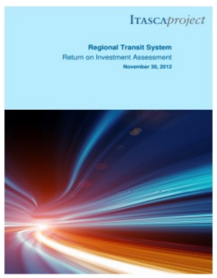
Availability of workforce is a key driver of business' decisions to move to, expand or stay in the region

- Of talented young professionals' top 5 reasons to move to a region, 2 are directly related to transportation
- Businesses looking to move here think of transportation as a significant issue in cost of doing business

SOURCE: MnDOT, Met Council, GREATER MSP "Big Ask" survey, American Society of Civil Engineers, Texas A&M Transportation Institute, Brookings Institute.

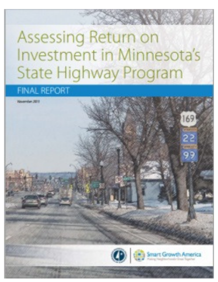
Transportation investment has a positive return

Two studies, one conducted by Itasca Project, and another conducted by MnDOT and Smart Growth America, quantified the benefit of transportation investment.



2.4x

Return on investment[1] for investment in transit: Found benefit of $10-16 billion from investing in full metro transit buildout



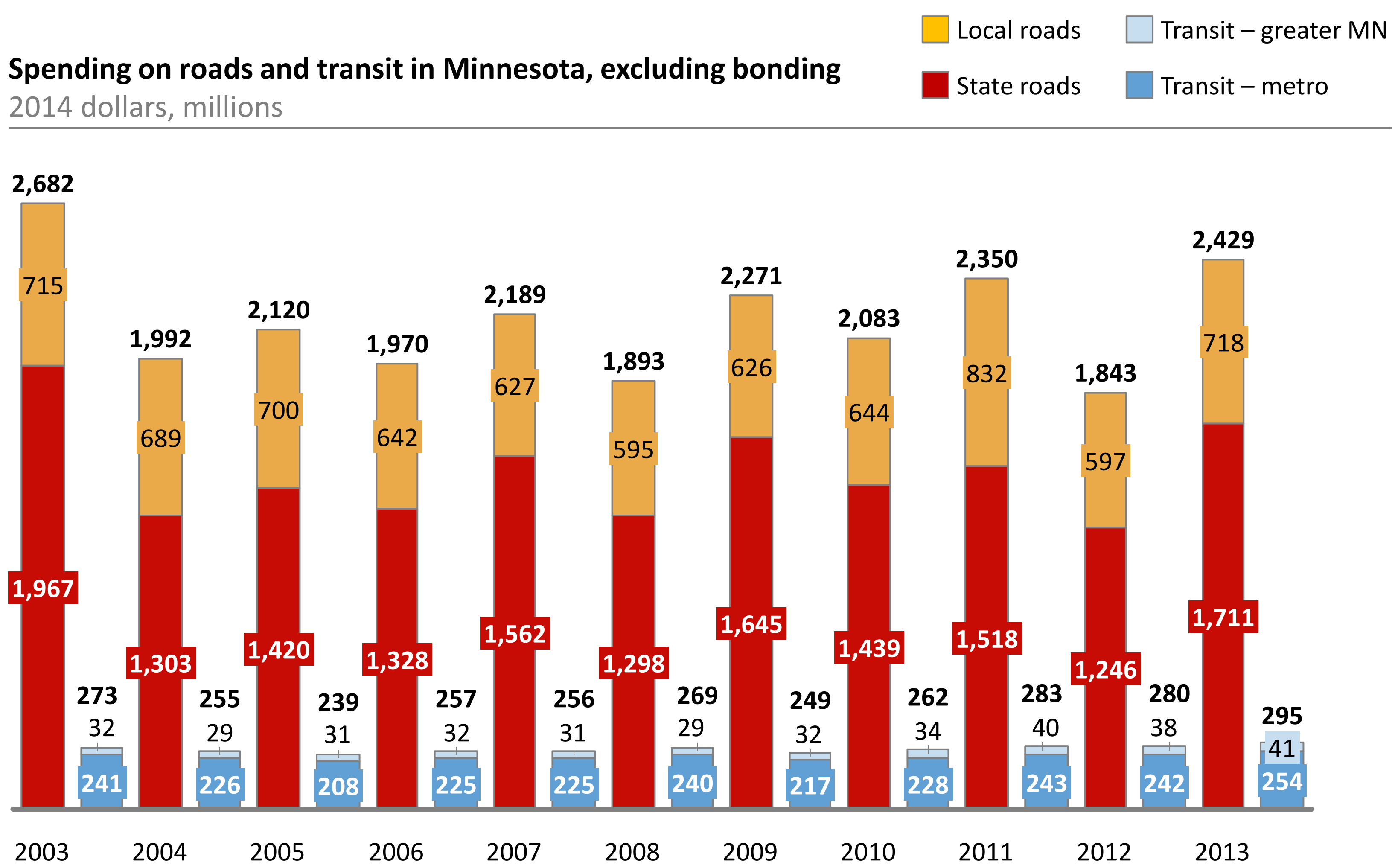
2.5x

Return on investment for investment in state highways: Report examined return at two investment levels; return on the first ~$5 billion invested is higher (3.1x) than the next ~$7 billion (2.1x)

1 The calculations above do not include benefits such as employment from construction or real estate value increases.

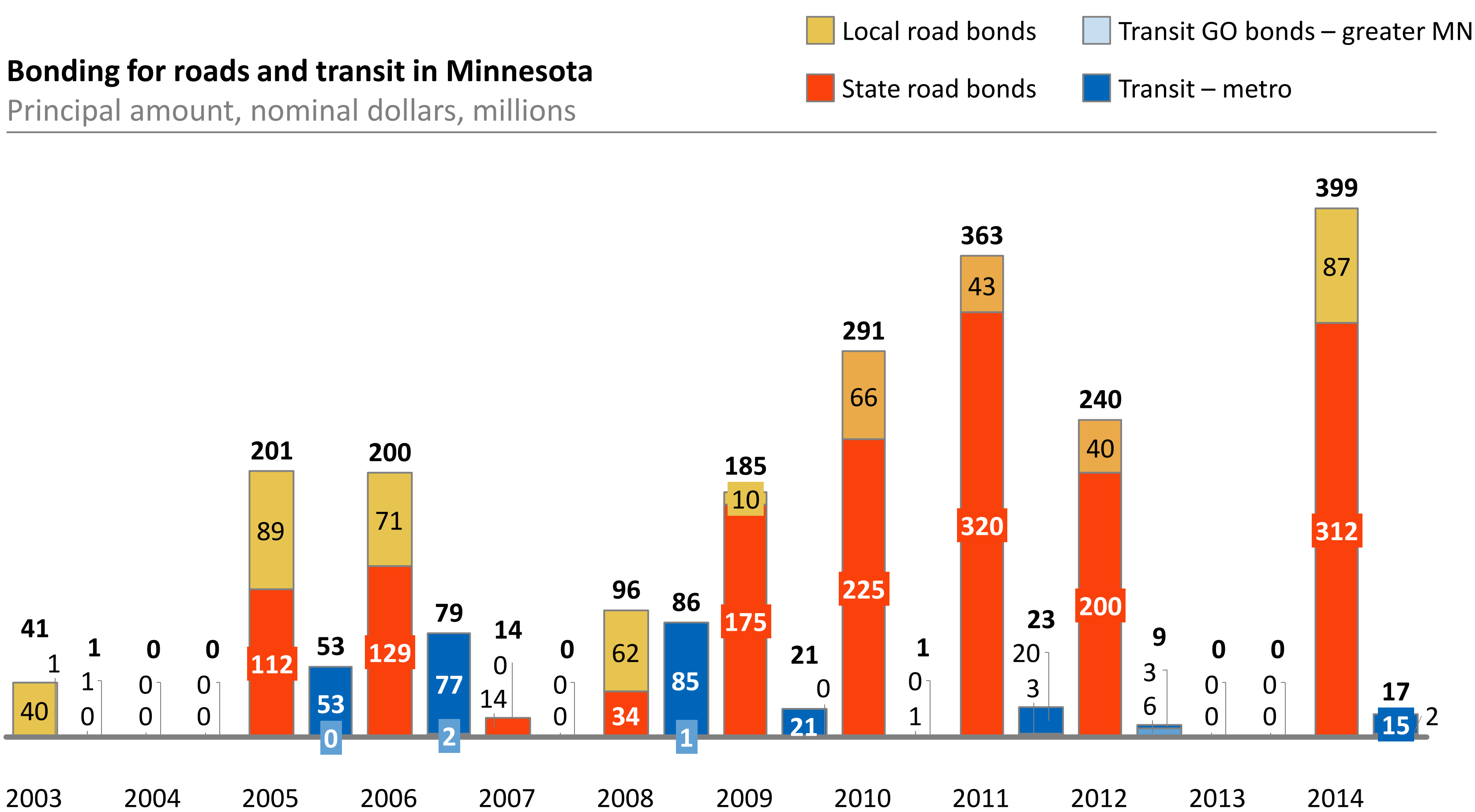
SOURCE: Itasca Transit ROI report, November 2012, available at http://www.theitascaproject.com/Transit%20ROI%20exec%20summary%20Nov%202012_FINAL.pdf; MnDOT , "Assessing Return on Investment in Minnesota's State Highway Program" December 2013, available at http://www.dot.state.mn.us/minnesotago/pdf/2013/MnDOTFinalReport.pdf.

Spending on roads and transit in Minnesota, 2003-2013



SOURCE: House Fiscal Analysis

Bonds issued for roads and transit in Minnesota, 2003-2014



SOURCE: House Fiscal analysis; no transportation bonds issued in 2013

Challenges ahead: Minnesota is growing and changing – will our transportation system change with it?

By 2025…

More people
- 430,000 more people in the state (8% increase)
- Tourism is expected to increase (e.g., MoA expansion)

Older infra-structure
- 65 % of our roads will be over 50 years old (if no investment)
- 40% of our bridges will be over 50 years old (if no investment)

Older people
- The youngest baby boomers will be 60
- Nearly 20% of MN's population will be over 65

More freight
- >30% increase in freight via truck

Fewer drivers
- Millennials have the lowest levels of holding drivers' licenses in 50 years

With no additional investment…
- **Congestion**
- **Crowded transit**
- **Rough roads**
- **Bottlenecks**
- **Increase in disruptions** (e.g., due to snow, accidents, road / bridge restrictions)

SOURCE: Metropolitan Council, MN State Demographic Center, MnDOT

Next steps

1

- Refine and deepen understanding of what type and pace of investment is needed for different outcomes
- Seek consensus on a preferred investment level

2

- Develop, and seek consensus on, a funding strategy to support the preferred investment types identified above

What Are Our Road & Bridge Investment Priorities: 2015 – 2025?

Debating and reaching consensus on our investment priorities for the next decade is our most pressing and challenging task.

- What will it is cost per year to maintain our current road and bridge system?
- What are our top 10 system improvements needed over the next decade?
- What will these improvements cost?

What Are Our Transit Investment Priorities: 2015 – 2025?

Debating and reaching consensus on our investment priorities for the next decade is our most pressing and challenging task.

- What is the cost per year to maintain our current transit systems? Could current revenue be adequate?
- What are the highest priority strategic expansion opportunities?
- What will be the most cost effective technology for getting Minnesotans from home to work or where they could work: In the metro area? In Greater MN?
- What will it cost over the next decade to incorporate this technology into our current transit systems?

State transportation can be funded in a number of ways, all with various tradeoffs (1 of 2)

☑Current source of funding

	Description	Annual revenue generated
1 Efficiencies	• Using existing resources more efficiently • Strategically building to minimize future maintenance costs	• 10-15% of new need
2 Fuel taxes	☑ **Fuel excise tax:** Increase current per gallon tax 28.5cents – All states currently use • **Wholesale fuel tax**: Sales tax on gasoline. paid by distributor – 15 states impose a sales tax of some sort on gasoline	• $0.01 tax yields $18M[1] • Varies with price of gas; 1% tax yields ~$70M
3 Vehicle taxes	☑ **Registration**: Increase in fees paid for license tabs – 49 states charge registration fees ☑ **Leased vehicles:** Minnesota currently collects a special tax on leased vehicles; the first $32M goes to the general fund, the rest is dedicated to transportation	• 10% increase in reg fee yields $65M • Could generate add'l $32M if statue changed
4 Other user fees	• **Value capture:** Additional property taxes paid by businesses and homes adjacent to major improvements ☑ **Tolls**: Can apply to specific lanes (MNPass) or new capacity (lanes, bridges) or to existing general lanes – 28 other states use tolls to pay for state roads – MnPASS generates $2.5M annually	• TBD – varies by application • 10% increase in MnPASS fees yields $0.2M
5 General fund	☑ **Revenues from the general fund** – 33 states, including MN, use general fund dollars to support transportation[2] – Revenue would have to be allocated every 2 years	• Would be determined by legislature

1 A $0.01 generates $30m; roughly $18M of which goes to state roads (the rest goes to local governments)
2 The general funds spent on transportation in Minnesota are spent on transit
SOURCE: TFAC, MN Association of Counties, Center for Transportation Studies, Nat'l Conference of State Legislatures

Sales taxes can fund both state and local transportation needs (2 of 2)

☑Current source of funding

	Description	Annual revenue generated
6 Sales taxes	☑**Sales tax**: – 10 states dedicate a portion of state-wide sales taxes for transit; 5 dedicate state sales tax funds for road purposes. Minnesota does not use any of the statewide sales tax for transportation – In 2008, 5 counties [2] joined the Metropolitan Transportation Area and now levy a ¼ cent sales tax to fund transit projects; these revenues are administered by the Country Transportation Improvement Board (CTIB) – In Minnesota, counties may impose an additional sales tax of ½ cent, to fund transportation or transit projects; currently 9 counties do so, collecting nearly $30M annually – Nationwide, it is becoming more common for local regions to levy transportation (typically transit)-dedicated sales taxes	• The current +¼ cent metro tax yields $100M • If the remaining 78 counties added a transit/transportation sales tax, nearly $250M could be raised[1]
7 Other taxes	☑**Wheelage**: Levied by county on vehicles registered in that county – Currently levied by 47 of 87 counties; yields $32M a year – Counties can only impose $10 fee; in 2015, can levy any amount between 0 and $20 – **These revenues support local, not state, roads**	• If the other 40 counties added a wheelage tax, ~$12M would be generated • If all counties imposed the maximum $20 fee, an additional ~$60M could be generated

1 Since counties have discretion over where these monies are spent, they would likely fund local, rather that state, roads. Counties in the metro use these tax revenues to fund transit projects.

2 Anoka, Dakota, Hennepin, Ramsey, and Washington counties

SOURCE: TFAC, Association of Minnesota Counties, Minnesota House of Representatives

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Questions?

For more information…

Bentley Graves	Minnesota Chamber of Commerce	Phone: (651) 292-4682 Email: bgraves@ mnchamber.com
Michael Langley	GREATER MSP	Phone: (651) 287-1300 Email: michael.langley@greatermsp.org
Jill Larson	Minnesota Business Partnership	Phone: (612) 370-0840 Email: jill.larson@mnbp.com
Julia Silvis	The Itasca Project	Phone: (612) 371-3173 Email: julia_silvis@mckinsey.com