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CITIZENS LEAGUE STATEMENT TO THE GOVERNOR AND LEGISLATURE ON TRANSPORTATION FINANCING IN 1988

SUMMARY

The state's transportation finance problems can be solved without circumventing the state budget system. The state's general revenue fund can be made available for transportation in the normal budget-appropriations process. It is a poor idea and bad public policy to bypass that process and give one function, transportation, preferred access over every other function that needs state dollars.

The following steps should be taken:

I. The state general revenue fund should be made available for transportation in 1988, on condition that the dollars are appropriated in specific amounts. No portion of the state general revenue fund, including the revenues from the state sales tax on motor vehicles, should be exempted from the Legislature's appropriations process by being dedicated for transportation or any other purposes.

II. The state gasoline tax should be increased in 1988, on condition that the Legislature changes the distribution of that additional portion of the gasoline tax that would be made available to counties, as recommended by the Legislative Auditor.

III. To assure more equity among highway users, a new system of taxing trucks should be adopted, based on weight of the vehicles and distance traveled.

IV. To assure equitable distribution of construction dollars throughout the state, the trunk highway fund should be apportioned between the metropolitan area and the rest of the state according to legislatively-determined percentages.

V. To increase the possibility that limited state trunk highway dollars will be used for roads in greatest need of improvement, changes in highway jurisdiction should be adopted as recommended by district offices of the Minnesota Department of Transportation (MN/DOT).

Although these recommendations deal with the immediate situation, the Legislature should keep in mind the long-term need to hold down transportation expenditures. One likely way of achieving this is concentrating the limited dollars on the roads that are used most heavily. Simply generating new sources of revenue for highways is an unsatisfactory response to a system with perpetually increasing needs. We never will have enough money to satisfy all the desires for new and better roads. The Legislature must re-evaluate the way transportation financing priorities are established.

RECOMMENDATIONS

I. No portion of the state general revenue fund should be exempted from the legislative appropriations process, including the sales tax on motor vehicles. The 1988 Legislature is likely to receive a proposal that 30 percent of the motor vehicle excise tax (the official name for the sales tax on the sale of motor vehicles), popularly known as MVET, be dedicated to roads and transit.

A. Such a transfer would set a bad precedent. If the sales tax on the sale of motor vehicles is removed from the general fund, it is likely that other interest groups would seek similar benefits. The six percent sales tax on motor vehicles should no more be dedicated for transportation than should the sales tax on motor boats be dedicated for waterway management or the tax on fishing equipment be dedicated for restocking lakes or the tax on crayons be dedicated for child care.

To make the policy consistent, a five percent MVET transfer previously approved by the Legislature also should be made an appropriation.

B. Such a transfer would remove state revenues from legislative review. The legislative appropriations process is the one place in state government where elected representatives of the people set priorities among competing functions. Any chipping away of that process reduces the accountability of the Legislature for spending decisions.

C. Such a transfer would be wasteful. The main justification for the proposed transfer is to reduce a backlog of needs on the state trunk highway system. Yet only 62 percent of the MVET transfer would go to state highways. The balance would be dedicated automatically to county roads (29 percent) and city roads (9 percent). If, for example, the Legislature wants to make $50 million a year available for state highways, it would need to transfer $80 million from the state general revenue fund.

Counties and cities have needs, too, of course. But if state general revenues are to be made available to them, they should go through the appropriations process. It would be unconscionable for the Legislature to provide dollars for county and city roads, automatically, when no attempt has even been made to spell out needs for the dollars.

D. Such a transfer would be unnecessary. Precisely the same amount of money that an MVET transfer would produce, with precisely the same distribution among the state, counties and cities, and between highways and transit, can be obtained from the state general revenue fund if that is what the Legislature decides in the appropriation process. Moreover, the Legislature can be more responsive to real needs. If needs are concentrated on state trunk highways and transit, then it could appropriate the full amount to trunk highways and transit. It would not be bound by any formula that apportions dollars automatically to cities and counties, too.

A dedicated MVET might not fulfill the desires of its advocates. While it is true that the appropriations process does not guarantee a specific amount of money for roads, neither does the motor vehicle excise tax. As recent history indicates, the promised dollars from MVET can be very quickly transferred back to the general fund when demands on the state budget dictate. With an appropriation, both transit and road advocates would have to present specific, viable projects which compete for limited dollars.

MN/DOT's request for dollars is legitimate. It responds to very real needs. It is conservative, only a fraction of what MN/DOT really believes could be justified. The proposed program would enable roads to be replaced every 90 years, not 125 years as at present. An ideal program would reduce the replacement time to 50 years.

By the same token the needs are not so great--relative to other functions--to justify financing arrangements that would sidestep the normal budget-appropriations process.

--Minnesota ranked 154 percent of the national average in state-local expenditures per capita on highways in 1985, according to the U. S. Department of Commerce. In 1970 Minnesota ranked 138 percent of the national average. Thus during the 15-year period Minnesota increased its expenditures on highways relative to the rest of the nation.

--The overall condition of Minnesota state trunk highways, on the average, seem to be staying pretty much the same over the last several years, according to ratings developed by the Minnesota Department of Transportation. In 1986, 69 percent of state trunk highway mileage ranked good or excellent on "sufficiency", compared to 62 percent in 1975 and 62 percent in 1982. Another Mn/DOT statistical measure, "condition" ratings, indicated that 80 per cent of the mileage was good or excellent in 1986, the same percentage as 1975 and 1982.

--Mn/DOT data indicate that rural highways are in better shape than urban highways. Among urban roads 45 percent of the mileage received good or excellent "sufficiency" rankings, compared to 71 percent of the rural mileage, in 1986. In the "condition" rankings, 72 percent of the urban mileage was good or excellent, compared to 80 percent of the rural mileage.

II. <u>The state gasoline tax should be increased only if the Legislature reforms the distribution of the gas tax, as recommended by the Legislative Auditor, so that new revenues are not distributed to counties in the same manner as today.</u>

A. <u>The current formula for distributing road money to counties assumes all state-aid roads should be built to the same construction design standard.</u> Currently, half of the aid provided to a county for its state-aid roads is based on the amount needed to bring roads up to existing design standards. Not all state-aid roads are heavily traveled; nor do they all need to be built to the same standard.

The Legislative Auditor recommended three alternative funding mechanisms, any one of which would allow the Legislature to target state goals for the county state-aid system.

B. New revenues should not be distributed in the same manner. It would be difficult to change the formula for the current distribution. However, any incremental dollars generated by additional user taxes should be distributed through a revamped formula.

III. The Legislature ought to approve taxing trucks based on the weight of the vehicles and the distance they travel. A weight-mile tax for trucks would inject more equity among different classes of vehicles for their contribution to the wear and tear on roads.

A. Taxing trucks according to road usage could lessen reliance on gasoline tax. As a first step, the Legislature could instruct the Mn/DOT to develop a proposal for action in 1989 that illustrates how the weight-mile tax on trucks would work, and its effect on overall taxation in Minnesota. For instance, revenues generated by a weight-mile tax on trucks could conceivably offset increases in the gas tax. Increasing truck traffic will have a significant impact on Minnesota roads. Mn/DOT estimates that five-axle truck travel will double by 2005 in Minnesota. Eleven states now have some heavy-truck tax that varies by weight and distance.

To achieve equity and compliance with a weight-mile tax, care must be taken in designing the tax. A 1983 report of the Citizens League proposed arrangements to make a weight-mile tax as equitable as possible. At that time the proposal recommended: Trucks under 20,000 pounds should continue to be taxed under existing arrangements. Those over 20,000 pounds should pay the weight-mile tax, but pay minimal registration fees and no fuel taxes. Rebates should be offered for truckers returning with "dead hauls." Qualifying farm vehicles would be charged the weight-mile tax only for commerical hauling. Payment periods should be quarterly to spread the burden.

B. Other vehicles could also be charged based on their use. The idea of charging all vehicles (not only trucks) for use of the roads based on their mileage, weight, or time of use, should be explored as a way to generate revenues.

IV. The Legislature should prescribe an overall split of dollars to be expended for construction, resurfacing, and reconditioning of state trunk highways in the metropolitan area and the rest of the state. (We are not talking about a split of the money distributed to counties and townships, but rather only about revenues for state trunk highways. The split would not necessarily include revenues for maintenance.)

A. Ensure each area a share of the transportation dollars. Guaranteeing a split of the construction dollars would alleviate the suspicion that one area of the state receives significantly more transportation dollars than the other.

It may be possible to determine a split of revenues based on vehicle miles traveled (VMT) in each area. About 54 percent of the VMT are in the rural area, and 46 percent in the metropolitan area. This is surprisingly similar to the breakdown of road dollar expenditures over the past seven years. About 56 percent of state highway construction dollars from fiscal years 1980 through 1987 were spent in the rural area, and 44 percent in the metro area, according to Mn/DOT data. This includes money for both interstate construction and non-interstate construction of state highways.

If this metro/rural split is prescribed it may be useful to use a body similar to the Transportation Advisory Board to allocate the dollars in the rural area.

B. Guaranteeing a split of construction dollars would facilitate considering a metropolitan-only revenue source for transportation. As we look to the future it appears there may be increasing reluctance on the part of the Legislature to support work on metro area roads for fear that the rural area's needs will be left unmet. A legislatively guaranteed split of construction dollars would allay the rural area's possible fear over losing transportation dollars should the metro area decide an exclusively metropolitan source of road money is necessary.

V. To increase the possibility that limited state trunk highway dollars will be used for roads in greatest need of improvement, the Legislature should implement the Mn/DOT's recommendations on changing road jurisdictions around the state. The recommendations will be presented to the Legislature during the 1988 session. Although the number of miles to be turned back is substantially less than what we had proposed, the change is at least a step in the right direction. The draft report indicates about 330 miles would be transferred from the state to the counties, and 1,700 miles from the counties to the townships and municipalities.

Legislation passed in 1985 allowed counties and townships to designate minimum maintenance roads where lower traffic volumes allow reduced maintenance standards and spending. Another way of using limited state trunk highway dollars for those roads in greatest need of improvement could be done by designating two classes of maintenance for roads. This would allow the less-traveled roads to be maintained at a level required to serve only "occasional or intermittent" traffic, as statutorily defined for minimum maintenance roads.

This statement was prepared by the Community Information Committee of the Citizens League, as a follow-up to past research reports of the League.