

CITIZENS LEAGUE REPORT

No. 62

**State of Minnesota Constitutional
Amendment #2**

Redistribution of Highway User Revenues

October 1956

CONSTITUTIONAL AMENDMENT NO. 2
RELATING TO REDISTRIBUTION OF
HIGHWAY USER REVENUES

Citizens League
601 Syndicate Bldg.
Minneapolis 2, Minn.

September 24, 1956

AMENDMENT TWO

SUPPLEMENTAL REPORT AND RECOMMENDATION OF HIGHWAY FINANCE
SUB-COMMITTEE OF THE TRANSPORTATION TRANSIT AND TRAFFIC
COMMITTEE OF THE CITIZENS LEAGUE

This report supplements our previous report dated August 1, 1956, which was approved by the full committee May 23, 1956.

Our previous report reviewed the historical background, provisions and ramifications of Amendment #2 including the Automotive Safety Foundation report on needs and the Public Administration Service report on fiscal policy.

Since then, the Legislative Interim Commission on highway taxes distribution was filed on September 1, 1956, by Representative Charles L. Halsted, Chairman. This report recommends to the Legislature that the 9 percent of highway user money to be allocated to the principal arterial streets in all cities and villages over 5,000 population be distributed on a formula based upon 50 percent population and 50 percent needs factors, and the 29 percent allocated to counties on a formula based on:

50% on the basis of money needs (what the county actually needs in the way of money for roads above and beyond what it can reasonably raise by local levy.)

30% on the basis of mileage

10% on the basis of motor vehicle registration.

10% as an equalization factor (this is a standard 10% for non-variable costs such as administration, etc.)

This
~~This~~ is in accordance with the recommendation made to the Halsted Interim Commission by the Minneapolis City Council, other interested Minneapolis groups and the County Highway Engineers' Association.

We therefore now recommend to the full committee that the Citizens League of Minneapolis and Hennepin County endorse, approve and recommend this adoption of Amendment #2.

In our opinion, based upon a full study of all of the issues involved including a complete survey of all affected organizations in the State, Amendment #2 should be adopted for the following reasons:

1. This is the first proposed amendment relative to highway taxes distribution which is based upon facts. The ASF and PAS studies have furnished statistical data concerning needs and finances which have enabled the Legislature to draw a proposed amendment based realistically upon the facts. Previous efforts have been based upon assumptions and guesses.

2. Amendment #2 has widespread support among organizations which have studied it. Among those endorsing the Amendment are Minnesota League of Municipalities, the Minnesota State Automobile Association and the Minneapolis Chamber of Commerce. It has support both in the urban and rural areas among groups which have been opposed to previous proposed amendments on this subject. There is no organized opposition.

3. Without reference to whether or not the Legislature adopts the Interim Commission distribution proposal, the Minneapolis area will receive more in highway user funds than it is presently receiving.

4. The proposed constitutional allocation and the Interim Commission proposal as to distribution within the allocated groups is fair.

5. Amendment #2 is needed to enable Minnesota to fully benefit from the Federal highway program. It is improbable that new taxes will have to be levied under Amendment #2 in view of passage of the Federal highway bill at the recent session of Congress.

6. The present Minnesota Constitution is antiquated and unduly restrictive in its provisions relating to highways. Amendment #2 is needed to improve our government structure.

Respectfully submitted,

Joseph Robbie, Chairman
Subcommittee of the Transportation
Transit and Traffic Committee

August 1, 1956

AMENDMENT TWO

REPORT OF HIGHWAY FINANCE SUB COMMITTEE OF THE TRANSPORTATION
TRANSIT AND TRAFFIC COMMITTEE OF THE CITIZENS LEAGUE

The charge to the Sub committee is as follows:

To investigate proposed Constitutional Amendment #2,
to be voted on in November, 1956, and make a preliminary
report thereon by June 15th and a final report within
10 days of the interim commission's report.

Members of the sub committee are: William Craig, John C. Hall,
George W. Ryan, Eugene C. Meyer, Robert Longyear, Harold Anderson,
and Joseph Robbie, Chairman.

Advisors to the Sub committee are Floyd Arms, A. P. Eberl,
L. P. Pederson, Hugo Erickson and George Matthews.

AMENDMENT #2 -- 1956 -- GOALS

Proposed Amendment #2 would amend the highway provisions of the Minnesota
Constitution to accomplish the following objectives:

1. The establishment of a single state highway fund to control the collection and disbursement of all highway user revenues;
2. The classification of the eligibility of municipalities for apportionments of highway user revenue;
3. Changing the Constitutional distribution of highway user revenue between the state and local jurisdictions, to increase city and county participation and to eliminate the 3% ceiling and $\frac{1}{2}\%$ minimum on any county's share;
4. The elimination of the non-significant trunk highway sinking fund;
5. The liberalization of the provisions relating to highway bond issues;
6. The granting of greater leeway in the administration of the highway program both as to constitutionally specified routes and other routes.

In providing for a single highway user fund, Amendment #2 eliminates the two existing funds and proposes that the apportionment of the total highway user funds among the various subdivisions of government be fixed by

Constitutional provision as follows:

- 62% to the trunk highway system
- 29% to improvement of primary county roads and to cities and villages under 5,000 population;
- 9% toward improvement of the principal arterial streets in all cities and villages over 5,000 population.

(Present allocations put all motor vehicle license fees and 2/3 of the gasoline tax receipts on the state trunk system. 1/3 of the gas tax receipts goes to counties for the secondary highway system).

AMENDMENT #5 -- 1952

An attempt was made in 1952 to change the highway user fund allocation by proposed Amendment #5 to the Minnesota State Constitution, which was voted on at the general election in November, 1952. This proposed amendment would have divided motor vehicle taxes received as follows:

- 65% to the trunk highway sinking fund;
- 25% to the county road and bridge fund;
- 10% to the cities, villages and burroughs.

This Amendment was defeated. It was opposed by urban areas on the grounds that it would take away too much from the trunk highway fund and result in a disproportionate share of the costs falling on the urban centers. It was argued that the trunk highway system already was far behind in new construction and maintenance. The Citizens League opposed Amendment #5.

INTERIM STUDY

The 1953 Legislature established an interim commission composed of 14 legislators and 14 public members to study state highway needs. The commission employed the Automotive Safety Foundation of Washington, D.C. to make an engineering study of state highway needs and the Public Administration Service of Chicago to study fiscal problems in supporting the highway system.

ASF REPORT ON NEEDS

ASF reported on needs in September, 1954, and PAS entered its fiscal report on October 1, 1954.

The ASF report is summarized in detail by George W. Ryan of the sub committee. This report found that Minnesota is the only state which establishes a trunk highway system by express Constitutional provisions. ASF found that the Minnesota highway problem results from lessened highway construction during the depression years, complete absence of highway construction during World War II, increase in automobile production following the war, and conditions of climate and maintenance. The post war increase in revenue was more than off-set by increased construction cost.

Minnesota's trunk highway system was created in 1921 when traffic was only one-twelfth of what it is now. There were 1,250,000 registrations in Minnesota in 1953. The state highway system now constitutes 11,850 miles of which 1,460 miles are urban extensions. There are 38,000 miles of rural routes which are of community interest and, of these, 7,500 are of state wide character, carrying 64% of all rural traffic. While these comprise 7% of the total mileage, they form a completely integrated network of roads leading traffic to the industrial, commercial and market areas. They connect substantially all communities of 1,000 or more population. ASF proposed that these be established as a RURAL STATE TRUNK HIGHWAY SYSTEM by Constitutional Amendment or legislation.

ASF found 30,500 miles of county wide community interest roads connecting smaller communities and, in general, servicing farming, mining and lumber areas. Composing 30% of the rural mileage they now carry 28% of all rural traffic, averaging 135 vehicles per day. ASF recommended these as a PRIMARY COUNTY ROAD SYSTEM replacing the present State-Aid and County-Aid systems. These, together with the proposed RURAL STATE TRUNK HIGHWAY SYSTEM connect every incorporated community in the state, serve all rural areas, and carry 92% of all rural travel. Included in the proposed PRIMARY COUNTY ROAD SYSTEM are approximately 3,000 miles of present, but lesser used rural state highways.

If they are transferred to the COUNTY ROAD SYSTEM they will receive higher construction and maintenance priority. The balance of the rural roads, 65,681 miles, are local interest roads which include about 10,000 miles of trail and infrequently travelled roads. Also included are some 4,500 miles not needed to serve farms or other establishments and 14,000 miles which have daily traffic of about 25 vehicles.

While relatively low in mileage, city streets carry over 44% of all traffic. Because of the heavy traffic, and resulting congestion and delay, and because of high cost of urban construction and right of way, proper grouping of city streets for maintenance and finance is extremely important. Urban extensions of the Rural State Trunk Highway System proposed by ASF total about 1,250 miles in the cities.

ASF found 39,592 miles of highways and streets below tolerable or acceptable standards and 2,800 bridges inadequate. Separate estimates of future needs were made for 5, 10, and 15 and 20 year periods based on estimates of facilities on the verge of replacement and new future needs. Estimated total cost of improvements needed now on all roads and streets is \$681 million of which two-thirds is rural and one-third is city. Future obsolescence of highways and routes and other factors, complicate long range planning.

ASF made more particular findings not germane here in reference to immediate needs in the various highway systems.

The ASF report has received scattered criticism based on its inclusion or exclusion of certain highways or streets in computing mileages in the several categories. The city of Duluth is an example.

PAS REPORT ON FISCAL POLICY

The ASF report concluded, as subsequently did PAS, by pointing to the rigidity of Minnesota Constitutional provisions relating to highways. This is the only state which has its highway system written into the Constitution, thus

requiring amendment or repeal of some of its provisions to change classification. It proposed Constitutional revision to accomplish the changes recommended in its report. For example, it recommended that the provision of the Constitution which establishes highway systems be repealed and that this be left to the Legislature in the future. If this is not done, then ASF proposed that financial policy and allocation of highway user funds also be provided in the Constitution. The vice of the present Minnesota situation is that the highway systems are fixed by Constitutional provisions but financial policy is left to the Legislature.

The PAS report underscored the same inflexibility under which the Minnesota Constitution fixes systems and Constitutional revision is required to change them. In 1920, a Constitutional Amendment was adopted providing for construction and maintenance by the state of a suitable primary highway system between major centers of population, and for the financial support of this system. Thus, Minnesota became the first state to dedicate all highway user revenues to highway purposes. This resulted in reasonably good roads for movement of passengers and cargo between principal municipal and rural points of occupation and interest. Unfortunately the Constitutional provisions which relate to highways in Minnesota have become obsolete. They are unduly restrictive and hamper the future development of an integrated highway and street system and they prevent an equitable distribution of highway user funds. The same is true of the highway statutes which complement the Constitutional provisions. PAS reported on fiscal arrangements to satisfy the ASF recommendation that there be a shift in emphasis from rural to municipal highway construction and that there be a general reclassification of the several road classifications in the state.

PAS estimated that "a 15 year program could be supported gradually by all of the authorized and expected increases in federal aid and anticipated increase in the existing levels of locally raised total revenues." In short,

Minnesota has enough money in a 15 year period to meet its needs during that period.

PAS joined ASF in suggesting the amendment of the Minnesota Constitution to remove restrictive sections and to permit the enactment of legislation at such times and on such occasions as necessary to fit changing highway conditions. They recommended that the best way to change the Constitution from a highway fiscal standpoint is to remove restrictive features and provide for highway revenue control and distribution by statute. Specifically, revisions were suggested in Section 5, Article IX; Section 16, Article IX; Section 2, Article XVI; and Section 4, Article XVI. At page 7 of its report, PAS spelled out in six recommendations the genesis of proposed Amendment #2. The report contains an excellent summary of Minnesota Constitutional and statutory provisions in reference to highways and of various possible fiscal methods relating thereto.

ALLOCATIONS BETWEEN CITIES AND COUNTIES

If Amendment #2 passes, the allocation of the 29% of county money to counties and of the 9% city money to cities is left to the Legislature. Suggested allocation formulas will be included in recommendations to the Legislature by a Highway Tax Distribution Committee, established by the 1955 Legislature, of which Representative Charles Halsted, Brainerd, is Chairman. This is the committee which is popularly called the Interim Committee. It has functions other than deciding the distribution formula for allocating county money among the counties and city money among the cities, but this is the function most pertinent to the issues at hand.

The Halsted Committee has not yet reported out its recommendations as to distribution formula, but it has held several meetings and invited suggestions particularly from the cities of the first class. The Minneapolis City Council

made its recommendation as to distribution on March 26, 1956 in a statement by Alderman Edward J. Egan before the Committee. Mr. Egan reported that the City Council had studied formulas based upon population, need, mileage, graduated per capita allocation, and one-half population, one-half need.

Mr. Egan said that no single formula provides the maximum benefit for each of the cities over 5,000 population. Minneapolis might benefit most by a formula based entirely on the need factor while Duluth might benefit most by a mileage formula, St. Paul by a graduated per capita allocation based on the PAS report and other cities on formulas based on other features. He concluded that in the interest of simple and efficient administration and enforcement the City Council of Minneapolis endorses a distribution formula based upon 50% population and 50% need. This, of course, relates to the distribution of the 9% of highway funds which would be distributed among cities with population of more than 5,000 under the proposed amendment.

Mr. Egan reported that the Minneapolis City Council has discussed the proposed allocation of city money with representatives of Minneapolis civic groups, members of the street and traffic committee of the League of Minnesota Municipalities and with engineers of representative municipalities throughout the state. Mr. Egan also made ten other specific recommendations in reference to implementing the amendment. These include, among others, establishment of an urban division of the State Highway Department, annual review of the highway needs in the city by the State Highway Department, setting up local reserves and department service charges by the city, establishment of standards in determining needs, and undertaking construction and maintenance work with city forces with costs to include all applicable local overhead charges.

The County Commissioners and County Engineers suggested to the Halsted Committee that the 29% county money be divided on a formula based as follows:

50% on the basis of total needs and ability to pay
30% on the basis of accredited rural mileage
10% on total car mileage
10% as an equalizing feature

The equalization feature is spread equally among all counties to provide for needs that do not vary with the other features such as administrative expenses

EFFECT ON STATE TRUNK SYSTEM

Under the apportionment contained in Amendment #2, the 62% for the State Highway System would mean \$13 million less per biennium than is received under the present distribution to the Trunk Highway System. While this has been a cause of concern to some, the Minnesota State Automobile Association has taken the position that other features more than compensate for such loss. C. L. Bowar, their director of public relations, said in a speech to the city and village Engineers Association that safeguards are provided by the last session of the Legislature either by statutory act or by incorporation into proposed Amendment #2 which mean that at least as much or more money will be provided for the State Trunk Highway System as is presently the case. These include the authority to issue \$20 million in highway bonds to catch up on construction of a backlog of urgently needed bridges, the authority to issue up to \$150 million in Trunk Highway bonds if needed to expedite improvements on main trunk routes (double the maximum under the present Constitutional provision), removal of the \$10 million limitation on the amount of bonds that can be issued in any one year, and provision for use by any subdivision of government, city or county, of any of the money allocated to them to assist the state in maintaining the Trunk Highway System within their jurisdiction if they consider that to be more critical than their other present needs. Mr. Bowar also pointed to the fact that road user revenues in Minnesota are now increasing at the rate of over \$4 million a year, of which the trunk system, under the new amendment, will get

62%. He also predicted substantial increases in federal aid in the years ahead with all present plans before Congress at least doubling the amount of federal aid to Minnesota. Mr. Bowar also predicts that the Legislature will be more willing to make adjustments as are necessary to see that the level of revenue is raised if the amendment is adopted and the highway user revenue is all placed in one fund.

CONCLUSION

The proposed amendment has already been considered by other organizations. The Minnesota Automobile Association, which opposed Amendment #5 in 1952, supports Amendment #2. The Governor has announced that he will campaign for it. The testimony of Alderman Edward J. Egan concerning the position of the Minneapolis City Council before the Halsted Committee implies that if the allocation of the 9% which under the amendment will go to the cities is based upon 50% need and 50% population, the Minneapolis City Council then supports the amendment. The League of Municipalities has given tentative approval.

The sub committee proposes to ascertain the views of other organizations interested in Amendment #2 before making the final report required of it in the charge to the sub committee ten days after the Halsted Committee reports. It is the sense of the sub committee that the position of such organizations should be determined not merely for the purpose of a nose count but to obtain the benefit of the logic and considerations which lead to such recommendation in each case.

Expressions of members of the sub committee at this point indicate that it is the consensus that our decision should be based upon two considerations:

1. The recommendations of the Halsted Committee to the next Legislature as to the distribution of highway user funds between and among the cities of the 9% allotted to them under the amendment if it should pass and the 29% to counties.

2. Estimates of the likelihood of the legislature following the recommendations of the Halsted Committee or a plan equally fair to the urban areas. Since we have to take a stand before the legislature meets, voting "yes" is to a great extent buying a "pig in a poke," but it seems generally agreed that the urban areas are likely to fare better than they do now. The possibility of a gubernatorial veto may be something of a safeguard.

These two considerations are the criteria of whether or not proposed Amendment #2 would be beneficial to Minneapolis and Hennepin County which the Citizens League serves.

As to safeguards present in the amendment, the Legislature will have little control over the allocation of money as between cities and counties. The 62% distribution to a State Trunk Highway System, the 29% to counties and the 9% to cities will be fixed by Constitutional provision and subject to alteration (1) by constitutional amendment, (2) by legislative action which is limited to adjust any inequities which may arise by taking up to 5% of the one fund (before any distribution is made) and distributing the amount of dollars involved in that 5% as they find is necessary to adjust the distribution of money to the needs. This can only be done once every six years. The principal power left to the Legislature by the amendment will be to determine the distribution of funds among the cities and counties from the percentages they will receive of the common fund into which all highway revenue will go.

Thus, if any Minneapolis citizen should ask the question, "Can the Legislature discriminate against the city and in favor of rural areas in the allotment of highway user funds should Amendment #2 be adopted", the answer is Yes, since the Legislature will have the authority to determine what percentages of the 9% left to the cities of more than 5,000 population under the amendment will go to the three largest cities and what percentage will go to the cities in the other population brackets above 5,000 population, and it will have authority to allocate the 29% among the counties so that urban counties

like Hennepin and Ramsey can be discriminated against. It can even "hamstring" the Highway Commissioner in the use of state trunk highway funds to prevent fair allocations to urban areas.

We have the assurances of the Public Administration Service and the Automotive Safety Foundation that Constitutional principles demand a revision of this kind. We know that the amount which will go to cities of more than 5,000 population is fixed by the proposed amendment and cannot be tampered with by the Legislature. We know that such allotment is greater than that now received by cities of this population group. It is nevertheless the consensus of the group, fortified by the inference contained in the charge to the subcommittee asking for a final report ten days after the Halsted Committee report, that recommendation as to action should be withheld until the Halsted Committee has reported and we know the proposed distributions to Minneapolis and Hennepin County. When we have this report and more knowledge as to what other groups are doing, we will recommend a course of action for the Citizens League.

Respectfully submitted,

Joseph Robbie, Chairman
Subcommittee of the Transportation
Transit and Traffic Committee

Approved by the
Transportation, Transit & Traffic Committee
May 23, 1956

Estimates of Minneapolis, suburban and Hennepin County participation in 1958 in State Highway Funds if Amendment #2 passes and presently proposed formulas* are adopted.**

Minneapolis	\$2,500,000	
St. Louis Park	173,000	
Richfield	118,000	
Bloomington	103,000	
Hopkins	87,000	
Edina	65,700	
Crystal	34,000	
Robbinsdale	33,000	
Golden Valley	32,500	
Hennepin County	<u>1,100,000</u>	
TOTAL	\$4,246,200	out of \$29,830,000

allocated to cities and counties or slightly over 14%.

- * 9% to cities to be apportioned 50% by population 50% by need
- 29% to counties to be apportioned 50% on needs and ability to pay.
- 30% on accredited rural mileage
- 10% on total car mileage and 10% equalizing

** Figures from Minneapolis Sunday Tribune. July 29, 1956