Approved Minutes
Citizens League Transit Study Committee
Thursday October 13th 7:30am-10:30am
St. Mary's Greek Orthodox Church
3450 Irving Ave S, Minneapolis, MN 55408

Committee Members Present: Vice-Chair Ms. Ann Lenczewski, Mr. Abou Amara, Mr. Bill Blazar, Mr. James Erkel, Ms. Elizabeth Glidden, Mr. Jason Grev, Ms. Mary Liz Holberg, Mr. Scott McBride, Ms. Kenya McKnight Ahad, Mr. Andrew Richter, Mr. William Schreiber, Ms. Nancy Tyra-Lukens, Mr. Vayong Moua, and Ms. Patty Thorsen

Members not present: Chair Peter Bell, Mr. Patrick Born, Mr. Ethan Fawley, Ms. Mary Giuliani Stephens, Mr. Jim McDonough, Mr. Michael Beard, and Mr. Peter McLaughlin.

Staff and staff support present: Pahoua Hoffman, Sean Kershaw, Consultant Katie Hatt, Policy Fellow Matt Byrne, Intern Caroline da Silva Barbosa.

Citizens League members: Bill Dooley, Bob Carney, Peter Wagenius, Matt Burress, Patty Nauman, and Andy Lee.

Proposed outcomes for this meeting

- State study committee charge and proposed goals.
- Approve minutes from previous meeting.
- Hear from presenter on major statewide aids and taxes, and state financial participation in transit.
- Have discussion on new and previous information.
- Agree on next steps.

Minutes

Vice-Chair Lenczewski started the meeting at 7:32 a.m.

Welcome

Vice-Chair Lenczewski began by reminding the committee of its charge:

- *Understand the current transit capital and operating funding systems.*
- *Review and consider different funding and governance models, including current models.*
- *Make recommendations based on these findings and conclusions.*

Vice-Chair Lenczewski asked for a motion to approve the minutes of last week's meeting, which was moved by Jim Erkel and seconded by Jason Grev. Vice-Chair Lenczewski asked if there was any discussion. There was no discussion. A unanimous aye vote passed the motion to approve the minutes with no changes.

Vice-Chair Lenczewski asked if there were comments or thoughts about the previous meeting. She went on to review the proposed outcomes for the meeting (listed above).

There was a brief discussion about a *Star Tribune* article discussing polling about paying an increased regional sales tax for light rail. The discussion highlighted the popularity of the option but pointed out that many who were polled would not actually be paying the increase. Vice-Chair Lenczewski commented that the real question was whether or not the metropolitan area can have the rest of the state pay more towards transit, and that it was primarily going to be decided by leverage.

A committee member asked if there is a way of analyzing the benefit of transit by factoring in community members who do not have other options than mass transit and paratransit to meet their daily needs, and considering their impact in terms of jobs and volunteering opportunities. They mentioned that that factor should not be overlooked or dismissed. Vice-Chair Lenczewski responded she was not aware of analysis done regarding the value of volunteerism but that various organizations have done the work of estimating the impact. Another committee member commented that the Minnesota Council of Nonprofits does estimate value created through volunteering, but it is not broken down by transit riders.

A committee member mentioned that they have seen studies showing an impressive return in investment (ROI). The member noted however, that the businesses that would benefit from transit seem to be resistant to paying for it through a special assessment. The committee member asked if Ecolab, for example, would be interested in paying for part of the Green Line from which it benefits. A committee member responded that it would be a tough sell.

A committee member argued that in terms of public give and take - every expansion on a highway should be paid the same way. Another committee member responded that to some extent we do that now, though not as much as we should. They mentioned that, for example, when Minneapolis fixed their street they got the bill.

A committee member commented that there are studies by the Federal Transit Administration (FTA) which look at the economic functions that transit provides. The research shows decent ROI for the money invested in transit in terms of location efficiency, development, congestion relief, and basic mobility. When broken down that way – location efficiency is the highest ROI, then mobility, and the least comes from congestion relief.

A committee member said there is a societal benefit and a private benefit, and the current funding system does not do a good job of parceling out cost to all parties.

A committee member mentioned that as part of the 2008 funding package one of the items the Chamber of Commerce asked for and received was a substantive study from the University of Minnesota for value capture of transportation.

Vice-Chair Lenczewski introduced the presenters Nina Manzi, Legislative Analyst from Minnesota House Research Department, and Andrew Lee, Fiscal Analyst from the Minnesota House Fiscal Analysis Department. She mentioned that they are excellent nonpartisan folks, and that the committee is free to ask questions as they present.

Presentation on Major State Aids and Taxes

Manzi provided an overview of the presentation [See corresponding PowerPoint presentation, *Attachment A*]. She noted she would be covering why this report exists, what is in the report, which state aids and taxes are included, what the shortcomings of the data are, what the geography is, where the aid goes, and where the taxes come from.

Manzi said that the report exists because there is legislative interest in knowing: where the taxes that fund the state budget comes from, where state aids go, how much comes from the major taxes relative to each other, how much goes to the major aids relative to each other, how much of the taxes come from the various regions of the state, and how much of those taxes are returned in the form of aids.

Manzi mentioned that another reason the report is important is because no other state agency or legislative office complies this data. The House Fiscal Analysis Department regularly prepares pie charts of state expenditures for all funds and the House Research Department's *Minnesota Government in Brief* (prepared every two years) includes graphs for all state spending and all state revenues. However, neither publication shows aids or taxes by geography.

Manzi referred to the back of the handout packet, table 2-1 [*See Attachment B*] showing a statewide summary of all aids. Manzi broke down the major aids and credits that are a part of the report including: aids paid to local governments, property tax credits, and property tax refunds.

A committee member asked whether tax expenditures are included in the property tax refunds category. Manzi responded that tax expenditures are separate, and not considered state spending in this analysis.

A committee member asked if the homestead exclusion is a tax expenditure. Manzi responded that she thinks it is a function of the property tax, but she is not sure. She mentions that she is not an expert of all of the various taxes and aids included in the report.

Manzi commented that state spending of federal funds and direct state spending on employees and facilities are not included in the report.

Manzi described the criteria for aids being included. She said that geographic data must be available, and that the mix of aids and taxes must fit on a single page. She noted there is no minimum dollar amount for inclusion.

Manzi discussed how much of the state spending is covered in the report. The 2012 update covered about 62 percent of total state spending, excluding federal funds, nearly all of the aids are aids paid to local governments ($13.1 billion), about half of the total is for education aid, and another 35% is for human services.

Manzi showed slide 11 to demonstrate the relative size of aids and credits. One chart showed the share of state spending included in the report and which are not included. The other chart showed shares of aids and credits included in the report.

Manzi then discussed what taxes are included in the report. The 2012 update included $15 billion of taxes paid by Minnesota residents, and $1.2 billion paid by nonresidents via income tax, and sales tax. This is not limited to general fund taxes and includes motor vehicle taxes. She noted that taxes that are not included are relatively small, dedicated to specific uses, or taxes for which no geographic data is available.

Manzi stressed several limitations of the data in the report. Some of the geographic data may not reflect the actual source of the data. Secondly, the county data for sales tax shows here the tax is collected, not where the people who pay for it live

Manzi explained that the report includes about 75 percent of state revenues, excluding federal grants, and about 88 percent of all taxes paid. Almost half of the revenue is from individual income tax ($7 billion), and another 27% from sales tax – 32% if the Motor Vehicle Sales Tax is included. She notes that all other taxes are between $500 million and $1 billion, which is relatively small.

Manzi showed slide 15, a pie chart, which illustrated the relative size of taxes included and not included in the report, as well as the breakdown between types of taxes included in the report.

Manzi discussed where the aid goes in terms of geography. She referred to tables 2-3 and 2-4 in the handout packet [*Attachment B*] showing the breakdown between metropolitan area and the outstate region aid by type of aid and population. She noted that in 2012, 54.2% of Minnesota's population was in the seven-county metropolitan area. The metropolitan area received larger shares of education aid (56.1%), human services aid (55.6%), and property tax refunds (68.3%). The metropolitan area received smaller shares of local government aid (31.3%), county program aid (41.6%), community corrections funding (48.7%), and property tax credits (4.8%).

Vice-Chair Lenczewski referred to the table demonstrating metropolitan area versus outstate region taxes and aids, and noted that, with all the caveats, the bottom line is for transit discussions is that the metropolitan area may not be getting the best deal. She stressed that there are some in the committee who are for more revenue, or not more revenue, but that we should be thinking about the mix.

A committee member asked what definition of “metropolitan area” was being used. Manzi responded that it was the seven-county metropolitan area. Vice-Chair Lenczewski thought it was a good point to make.

Staff asked what a rural Senate majority leader would say to this data. Vice-Chair Lenczewski responded that Greater Minnesota may have a policy issue that wealth and revenue is taxed where it is and that income is higher in the metropolitan area. Vice-Chair Lenczewski said the issue is where you are taxing and where are you spending elsewhere.

A committee member commented that if you ran the component of need versus money received, the range of percentage paid vary a great deal from about 24 percent for Hennepin County to nearly 150 percent for some other counties who may have a minimum guarantee from decades ago. In fairness, it is not just expansion or maintenance of roads, the formula for redistribution is based on more than just population. The member noted that everybody recognized that the formula ideal and that historically there is an impression that the metropolitan area is the ATM and everybody gets to spend it.

A committee member noted that table 2-3 shows $41 dollars per person in the metropolitan area and in Greater Minnesota it is $107 per person. The member said they have mapped how much each county puts into the constitutional funds and how much they get out, the last one showed that the seven-county metropolitan area put in $135 million more than they got back, not including the trunk highway fund

A committee member commented that it is important to acknowledge cultural differences between Greater Minnesota and the metropolitan area in terms of expectations for legislators to bring something home. The committee member argued that in the metropolitan area there was not an expectation that you bring something home, there was more interest in issues like the school formula, for example.

Vice-Chair Lenczewski commented that this is a place where differing political ideologies can agree. Whether or not you increase revenue, or believe in more or less need-based aid and redistribution, the metropolitan area may just be getting a bad deal. A committee member responded that to what extent the metropolitan area is getting a bad deal is key, and that there is a statewide dimension to this discussion. Vice-Chair Lenczewski said that she agreed. She noted that the percentage to what the metropolitan area gets back matters.

A committee member commented that there is a benefit to the state to keeping Greater Minnesota as healthy as possible because we do not want a bunch of those towns without jobs. There are purposes for why these things happen. They responded to a previous point about what a rural senator thinks noting they always want something and that if we want transit money there is an opportunity for the metropolitan area to leverage in the area. The member stressed that if we are one state, the metropolitan area should be able to make the case for more transit funding, because the metropolitan area pays the majority of most things. If we want other things we tax ourselves to pay for it.

A committee member referred to a section on table 2-4 of the handout packet to discuss what percentage of the taxes from transportation are coming from the metropolitan area as opposed to rural area of our state. The member noted this to show that the outstate region actually drives more. In fact, over 90 percent of the highways are in outstate Minnesota, and Minnesota has the fifth largest highway system in the nation.

A committee member mentioned that the road-based taxes allocation was set by a 1956 constitutional amendment and there were a lot of hidden subsidies. This was a time when the rural area dominated the legislature. The question is whether that allocation is still preferred.

Manzi noted that when you look to the consequences of the extreme conclusion from this discussion, it might be: why not let everyone buy their own stuff. She stressed that you are never going to get to everything matching up perfectly because there are other needs to consider and that it is part of the role of government. Manzi explained that many aids reflect where people live.

A committee member argued that the aid needs to be broken down by people as opposed to basic operation and function. Manzi responded to that question by showing slide 18, which demonstrates aids and credits relative to population comparing metropolitan and outstate numbers.

Manzi showed slide 19, which demonstrates the breakdown of various aids, which the metropolitan area gets the larger share of, and slide 20 demonstrating which aids Greater Minnesota gets the larger share of.

Manzi explained that some aids reflect other factors than population. For example highway aid goes where the roads are, Local Government Aid (LGA) and County Program Aid (CPA) aid reflects the ability of local governments to raise revenue relative to formula-determined “need,” and the homestead credit refund (HCSR) and property tax refund (PTR) for renters provide property tax relief to homeowners and renters whose property taxes are high relative to their incomes – generally where property tax rates are higher and/or home values are higher.

A committee member asked why Minnesota has the fifth largest highway system in the country. Vice-Chair Lenczewski responded that she heard that it was because grids were laid out by county commissioners at one time when they wanted roads for counties. Another committee member referred to the 1787 Northwest Ordinance, which expanded townships and their grids for small towns and lead to many connections between towns. Lee added that a lot of large states have few roads because of mountains. A committee member reiterated the point by noting that while the whole state is the fifth largest – rural is the third largest and urban is the 21st largest highway system in the county.

A committee member mentioned that there are studies about how to downsize MnDOT, but there are a variety of problems because those systems still need improvements. Another committee member added that MnDOT also has a constitutional limit.

A committee member asked about the meaning of the acronyms ADT, CPA and HCSR. Vice-Chair Lenczewski responded that “ADT” refers to “average daily trips”, and “CPA” refers to “county programming aid”. Manzi added that “HCSR” refers to the “homestead credit refund”, and “LGA” refers to “local government aid”. Manzi added more details to the history and size of Minnesota relative to its peers.

Manzi explained that many taxes reflect the distribution of income or economic activity more than population. In 2012, 61.4% of Minnesota’s total personal income was in the seven-county metropolitan area. Table 2-4 shows 63.6% of taxes come from the metropolitan area, because metropolitan households have higher incomes and consequently can buy more taxable goods. The metropolitan area provided larger shares of Income tax (66.4%), Sales tax (64.1%), corporate franchise tax (68.3%), and state general levy (64.3%). Manzi added that the metropolitan area provided smaller shares of the Motor Vehicle Sales Tax (52.3%), the Motor Vehicle Registration Tax (54.0%), and the Motor Fuels Tax (47.3%).

A committee member asked if the tax increases changed the ratio of taxes coming from the metropolitan area as opposed to outstate Minnesota. Manzi responded that it does not move much from year to year.

Manzi showed slides 23-25 demonstrating taxes relative to personal income and a breakdown of other taxes comparing the metropolitan area to outstate Minnesota.

A committee member asked other than the gas tax, what other taxes does Greater Minnesota pay more for, because they only see the one. Manzi responded that the numbers were relative to population.

Manzi Slide said that some taxes reflect other factors. For example, income tax has a progressive rate structure so higher income filers pay a larger share of income as tax, and incomes are higher on average in the metropolitan area. Additionally, sales tax is reported by where it is collected, not by who pays. She mentioned that there are probably more outstate residents who buy things in the metropolitan area than vice versa, but there is no data to show that.

Vice-Chair Lenczewski commented that her bias is that the impact from outstate residents buying in the metro is much less than people think. She said that Greater Minnesota friends will emphasize this point. She mentioned that when the Twins stadium was being debated she asked nonpartisan staff to drill down on this question and the data showed about 88 percent are paid for those who live there.

A committee member added that the tourism in Greater Minnesota is largely supported by metropolitan area residents, and they think that non-resident purchasing influence on the sales tax is relatively even between metro and nonmetro.

A committee member asked if there were sales trends in the metropolitan area and in Greater Minnesota based on internet sales, and what that does for sales tax collection. Vice-Chair Lenczewski responded that online sales and shipping is particularly attractive to Greater Minnesota, but the metropolitan area has higher wealth and makes more purchases. Manzi responded that she can get that data and send it to staff. She also added that there is a section in the report which shows no great changes in the ratio between the metropolitan areas and outstate sales taxes.

A committee member commented that there is a common perception that “urban” means people of color and “Greater Minnesota” refers to white. There is a narrative that people of color are the beneficiaries of entitlements paid for by Greater Minnesota. This data helps debunk that narrative. The member asked if there is a breakout that shows geography of where percentages of the taxes coming in. The member stressed that racial equity should stay front and center of these issues, in particular because some narratives about metro being wealthier is not true for people of color. Manzi responded there are a number of taxes that are statewide, and that the lowest level geography that aids and taxes can be easily broken down by is by county. For example, zip code and city data that is available from the census bureau will not include state data.

Manzi commented that there is an expectation on part of the public that the government knows everything about where money comes from and where it goes, but the truth is there have been fewer resources devoted to data maintenance and gathering. Manzi explained that the reason she is showing 2012 data is due to an unnamed agency struggling through a transition. She said that there is not a lot of value placed on the data, even though as a researcher she thinks there should be. The value is spent on building roads or paying the teachers more. She noted that if this report did not exist the data would be worse because agencies know she will be asking and putting pressure on them to provide information. However, Manzi found that after talking to other states she feels better about living in Minnesota. She said that there are maps that show at the county level and region maps for major aids and taxes that breakout aids and taxes into three categories based on averages, that report is available online. Staff said they will send the link.

Lee added that there was some data in 2008 that might have been useful but it has not been done since due to privacy concerns. He also said that there are issues with income data from census because it is voluntary.

A committee member asked if the challenge was not having data or not having human resources to synthesize the data.

Manzi responded that it is both a data and human resources issue. Additionally, there is the basic issue of determining what the unit of analysis is and what the assumptions are for any given methodology. For example, school aid goes to school districts, over half of districts are in more than one county, so the state knows how much it pays to each school district, which is not the same as counties.

Vice-Chair Lenczewski noted that both Manzi and Lee work for the state and that they are very responsive to questions. She also asked for no further questions until after Lee's presentation.

Presentation on State Financial Participation in Public Transit

[See corresponding PowerPoint presentation, *Attachment C*]

Lee discussed the three types of state appropriations for transit: direct appropriations from the state general fund, statutory appropriations (Motor Vehicle and Lease Sale Taxes), and state general obligation bonds and general fund capital appropriations.

Lee referred to the FY 2016-17 Transportation Budget spreadsheet in the handout [see *Attachment D*] and pointed out that the legislature gives far more discretion to the Met Council for spending on specific projects than they do for MnDOT.

A committee member added that the rationale for the latitude given to the Met Council was to ensure a regional framework and that if individual local representatives were too involved it would cut against the logic of regional governance.

Lee showed slides three and four, which demonstrate the composition of financing between Greater Minnesota transit and metropolitan area transit.

A committee member asked if the local share was a transit tax. Lee responded that the local share in the metropolitan area for operations is mostly sales tax from Counties Transit Improvement Board (CTIB) or fare box revenue.

Lee noted that there is a lot more money available from the federal government for operations spending in Greater Minnesota.

Lee showed slide 5 to demonstrate a breakdown of urban Greater Minnesota transit systems funding including Duluth, St. Cloud, and Rochester.

Lee showed slide 6, which looks at Met Council 2016 operating budget for transit and how each of the modes of transit are funded.

Lee showed slide 7 illustrating Met Council's 2016 operating budget by function and percentages funded by various sources.

Lee then discussed Met Council budget allocation. He explained that the Met Council allocates funds from state appropriations that are made after the state budget process, or in anticipation of funding levels. The Met Council funding is done on a calendar-year basis, rather than on the state fiscal year basis. He noted that most of the state general fund is put toward Metro Mobility and Light Rail Transit (LRT) operations and that a decrease in state general fund appropriations or shortfall in motor vehicle sales tax (MVST) revenue would result in potential decrease in regular route bus service. Lee said that an increase in spending for transitways (LRT, Commuter Rail, Bus Rapid Transit (BRT) or Metro Mobility without funding increases would result in potential decreases in regular route bus service. Lee commented that it is difficult to reduce substantially service for transitways or Metro Mobility as a result of FTA funding commitments / relationship and the Americans with Disabilities Act.

Lee described the major state transportation taxes and used slide 10 to illustrate state forecasts as opposed to actual state MVST totals. Lee commented that these forecasts demonstrate the volatility of the taxes and highlight recessions.

A committee member asked who makes those projections. Lee responded that MnDOT makes the projections.

A committee member commented that this chart is really important it demonstrates the importance of mixing funding to reduce volatility. The member added that when Minnesota swapped MVST for property taxes it represented a cut to the budgets and it’s remained that way.

Vice-Chair Lenczewski noted that at the next meeting Lee will present what other regions are doing for transit funding.

A committee member commented that it is important to look at fare box recovery and policy and that our peer groups would be interesting to compare to.

A committee member noted that when looking at payment for travel, it is important to pay attention to the payment per mile.

A committee member said that it is important to consider the income level of riders and their ability to pay. Vice-Chair Lenczewski asked for evaluations: 3.5, 4, 4, 4, 4, 4, 4, 4, 3.5, 3.5, 4, 3.5, and 4 for an average of 3.84.

The meeting adjourned at 9:16 a.m.