

Federal Funding and the City of Minneapolis:

Appropriations

The City of Minneapolis annually expends approximately \$65.0 million in federal funds. The federal resources are received through a direct entitlement, pass-through grants from a state or regional agency, or a competitive grant. Federal grants have been used to improve streets and bridges, provide bike trails, support the housing trust fund, and assist in delivering such services as child care and health care.

Over the past few years, the Congress has not been able to complete the appropriation process. In 2013 Congressional inaction resulted in a 16 day federal government shutdown. In the last five years the Congress has adopted Continuing Resolutions (CRs). CRs generally continue the current year funding levels into the next fiscal year for a specified time that can range from a one to six months. In some instances, CRs or sequestration has reduced appropriations for most federal agencies.

The federal fiscal year ends on September 30 of each year. Congress is attempting to complete the appropriation process prior to the start of the new fiscal year on October 1. Although most of the 13 appropriation bills have not been completed, the appropriation amounts do not include increased spending for programs utilized by the city. It is probable that the final FY2015 appropriations through a CR or legislation will maintain or reduce program levels.

Revenue: General Fund

The revenue raising side of the federal ledger is also under Congressional and Administration review. The President and Congress have proposed changes to most taxes that would modify rates, close loopholes, reduce the number of exemptions/credits and clarify provisions. The House Ways and Means chair has offered a bill that would in his opinion generate economic growth while reducing tax rates and eliminating credits and deductions. Assuming that there will be no tax reform in 2014, the Senate Finance Committee chair has offered a bill that would extend several tax provisions including credits and deductions for two years. It is envisioned that a tax reform bill would be passed by the Senate before the expiration of the extension.

Revenue: National Highway Trust Fund

The lack of new or increases in existing revenue sources could result in the insolvency of the National Highway Trust Fund's (NHTF) Highway Account prior to September 30, 2014. The Mass Transit Account of the NHTF is projected by the U.S. Department of Transportation to have approximately a \$1.0 billion balance by the end of FY2014. The NHTF could have become insolvent earlier except that \$9.0 billion was transferred during the year from the general fund to the NHTF. The NHTF is also a major funding source for many of the programs authorized by the transportation act-- Moving Ahead for Progress in the 21st Century (MAP-21)--that are utilized by the city and Metropolitan Council.

Approximately 72% of the NHTF comes from the 18-cent federal tax on gasoline and 24.2 cents on diesel motor fuels. The tax was last raised in 1993 and the revenues are not keeping pace with the costs of projects.

To prevent insolvency, two policy directions are being advocated. In the Senate there is legislation to increase the fuels tax by 12 cents a gallon and index it to inflation. If the tax increase will be considered it is probable that it will be after the November election. The Senate also has a proposal that would transfer \$9.0 billion to the NHTF so that it would be solvent through calendar 2014. The proposal would

Proposed New Policies for the Federal Agenda

modify five non-transportation taxes and increase a fee on heavy trucks to pay for the transfer. The House leadership has suggested that the savings from eliminating Saturday mail delivery could pay for the transfer.

Revenue: Sales tax on Internet Sales:

Several states have adopted legislation that extends its sales tax to internet sales. However, some state courts have overturned the laws. In some cases (Illinois) the courts have ruled that the federal government rather than the state have jurisdiction over internet taxation. New York's Supreme Court, however, in 2013 upheld the state's internet sales tax. The U.S. Supreme Court has refused to hear an internet sales tax case.

Federal legislation, the Main Street Fairness Act, has been introduced in 2011 and 2013 to authorize the imposition of sales taxes on internet sale. The Senate in May 2013 passed on a bipartisan basis the Act but it has not been moved in the House.

City Recommendation:

The city recommends that Congress:

- **Adopt annual appropriations rather than Continuing Resolutions and renew its efforts to conduct oversight of the programs funded.**
- **Fund programs to local governments at a level that provides resources to accomplish the program's goal.**
- **Revise the federal tax code to provide more equity and opportunity for economic growth.**
- **Prior to the close of the 2014 session prevent the potential insolvency of the National Highway Trust Fund (NHTF) by transferring revenue to the NHTF and adopt a long term funding package for the NHTF that includes an indexed motor fuels tax.**
- **Enact legislation that authorizes states to impose a sales tax on internet retail transactions.**

Reauthorization of the Transportation Act – MAP 21.

The Moving Ahead for Progress in the 21st Century Act for MAP 21 is scheduled to expire on September 30, 2014. Both the House and Senate are working on reauthorization bills but revenue sources are inadequate to fund the current or reauthorized MAP 21. It is probable that the reauthorization bills will not move until the National Highway Trust Fund is made solvent and revenue sources are found to close the revenue/expenditure gap in MAP 21 programs.

To address the pending NHTF insolvency the Senate Finance Committee chair has proposed a stop-gap funding package that includes modifications to several tax provisions and a transportation related fee increase. The proposal would sustain the NHTF until the end of 2014. The House leadership has suggested that the savings from eliminating Saturday mail service be used for the NHTF. Neither proposal has advanced to the respective floor. The NHTF could exhaust its available revenue by August 2014.

To reauthorize MAP 21 at the current program level, Congress will need to close the gap between revenues and expenditures. The Congressional Budget Office estimates that there is an annual revenue shortfall of approximately \$16.0 billion. Much of the gap can be attributed to the lack of growth in the primary revenue source for transportation – NHTF. The NHTF has not been raised since 1993 and is not indexed to inflation. Legislation has been proposed to increase the tax and index but a decision on the tax rate increase will not occur until later in the year if at all. Another proposal offered by House members is to gradually phase out the federal government's role in transportation and provide block

Proposed New Policies for the Federal Agenda

grants to the states. Referred to as “devolution” the proposal would reduce the gas tax to 3.8 cents which would be the basis for funding the block grants. It is likely that a bill that includes a revenue increase with some program reductions is possible. For example, the short term Senate funding solution for the NHTF was delayed due to objections raised by minority caucus Senators who argued that the proposed tax change should be offset by program reductions.

In addition to the funding issues, MAP 21 focuses planning and programming with the states. As a result, resources may not be available to address new or rehabilitated projects that are not on the state or federal aid system but carry high volumes of traffic.

City Recommendation:

The City recommends that Congress:

- **Enact a six year transportation reauthorization act.**
- **Fund the Act primarily with transportation related taxes and fees that are indexed and rely less on the motor fuels tax as a revenue source.**
- **Provide more program specific funding to local governments for the rehabilitation and construction of projects that may not be on the federal or state highway system.**
- **Maintain and increase funding for transit capital investment and operations.**