

## 5. Funding the Ten-Year Action Plan

### *The Funding Challenge*

The city of Minneapolis is facing significant financial challenges. The city has experienced large reductions in Local Government Aid from the state, due to poor economic conditions and high state budget deficits. The city's tax policies limit annual property tax revenue increases to 8%. Current resources are not adequate to fund basic transportation operating and maintenance costs and the city's ability to do major maintenance, street reconstruction and bridge replacement is limited. The city recently allocated additional dollars to a street resurfacing program which will help to begin addressing the current backlog of deferred maintenance.

Each year, the city seeks to secure additional funding and/or authorization for additional local funding tools from the state Legislature. The city supports increased funding for transit and highways that includes stable and secure financial resources to meet both the capital and operational needs of the expanding regional transit systems. Minneapolis supports funding for all modes of transportation and puts a high priority on modal options that provide alternatives to the use of single occupancy vehicles and supports legislation that requires that all state funded transportation projects consider appropriate accommodations for all transportation modes.<sup>18</sup> Minneapolis' legislative priorities for transportation in 2009 include:



- Funding to complete development of the Central Corridor LRT line
- Funding for other regional transit projects including Southwest Corridor, Bottineau Boulevard, I-35W BRT and I-35W/Lake Street Transit Station
- Funding to mitigate traffic impacts around the University of Minnesota related to the at-grade Washington alignment of the Central LRT line
- Adequate funding for transit operations
- Legislation creating alternative sources of revenue for transportation improvements including local authority to create and make use of a street utility and authority for more extensive use of special assessments
- Legislation authorizing the city to issue a moving violation for blocking intersections (needed to implement "Don't Block the Box" strategies)
- Legislation authorizing red light cameras ("Stop on Red" program).

Transit service in the city is provided by Metro Transit and other transit providers and funded through transit fares, state grants and the regional transit taxing district (property tax). In recent years, Metro Transit has not been able to sustain an adequate level of transit operating funds and, as a result, has had to cut services and increase transit fares. Current funding conditions will make it extremely difficult to achieve the service levels desired for the primary transit network without additional funding sources. Thus, the city supports legislation that will provide adequate funding for transit operations.

Current funding levels will not sustain a well-maintained and efficiently operated multi-modal transportation system. This will significantly affect the city's livability and economic vitality. In addition, the city relies heavily on property assessments for street improvements as well as for sidewalk improvements and maintenance. There are very limited funding sources available for the maintenance and enhancement of pedestrian and bicycle facilities. It is important to seek new funding sources to address these problems in a timely manner and avoid the increased costs that will result if the city's infrastructure is neglected and alternative modes of transportation are not encouraged. Thus, the city supports legislation that will create alternative sources of revenue for transportation improvements.

<sup>18</sup> City of Minneapolis 2009 Legislative Agenda as amended on February 6, 2009.

## Existing Funding Sources

### Federal

Federal funding is sometimes available for specific capital projects. These funds are typically secured through a competitive application process and funds are managed by the Metropolitan Council and/or Mn/DOT. Most federal funding requires a local match – the amount of the required local match varies depending on the funding program. All federal funds are allocated through Metropolitan Council's Transportation Improvement Program (TIP) process<sup>19</sup>. The TIP process has established 22 different funding categories that address funding for streets and highways, bridges, transit (capital and operating), bicycles and pedestrians. Examples of federal grants that are included in the TIP process are:

- *Special purpose federal grants* such as the Urban Partnership Agreement (UPA) funds received to reconstruct Marquette and 2<sup>nd</sup> Avenue S in downtown (completed in 2009). The UPA funds are for specific projects (transit, technology, tolling and telecommuting) that are intended to better manage peak hour traffic congestion.
- *Surface Transportation Program (STP) block grants* for highway and transit projects that are part of the metropolitan Transportation Improvement Program (TIP). These funds are distributed through the Metropolitan Council as part of the Transportation Improvement Program.
- *Congestion Mitigation and Air Quality Improvement Program (CMAQ)* funds are directed toward transportation projects that contribute to meeting or maintaining national ambient air quality standards. These funds are distributed through the Metropolitan Council as part of the TIP process.
- The *Transportation Enhancement Activities Program* provides funding for twelve eligible activities related to surface transportation including pedestrian and bicycle infrastructure and safety programs, scenic and historic highway programs, landscaping, historic preservation and environmental mitigation. These funds are administered by the Metropolitan Council as part of the TIP process.
- The *Bridge Replacement and Rehabilitation Program*, also administered by Metropolitan Council, provides assistance for bridges on public roads.
- The *Hazard Elimination Safety Program* provides funds for improving safety at railroad crossings.
- *Transit Section 3018 Job Access/Reverse Commute Program* provides funding for local programs to provide job access and reverse commute services.
- *Transit Section 3019 New Freedom Program* aims to provide additional tools to overcome existing barriers facing Americans with Disabilities seeking integration into the work force and full participation in society. This source has been used by the city to fund accessible pedestrian signals.
- *Non-Motorized Transportation Pilot Program* provides funding for bicycle and pedestrian projects intended to increase walking and bicycling. These funds are allocated through a competitive application process administered by Transit for Livable Communities. Minneapolis has received funds for several projects through this funding source.

There are several other SAFETEA-LU highway and transit funding programs that are administered by the Metropolitan Council and/or Mn/DOT but typically do not provide funds to cities for city projects. There may also be other unique federal programs that might be available for specific needs.

### State

Most state transportation revenues are generated by gas tax, a motor vehicle registration tax and a motor vehicle sales tax. These revenues are deposited to the Highway User Tax Distribution Fund. The Minnesota Constitution requires that 95% of the Highway User Tax Distribution Fund be distributed 62% to state trunk highways, 29% to county state-aid highways, and 9% to municipal state-aid streets. The remaining 5% is allocated by the state Legislature to the various accounts in the Highway User Tax Distribution Fund.

- *Trunk Highway Funds* are used by Mn/DOT to fund construction, operation and maintenance of the state highway system. While these funds can be used on freeways and state roads in the city of Minneapolis, they are not available to the city for city projects.
- *Bridge Funds* are available for bridge construction and reconstruction on state, county and city systems.
- *Special Purpose Grants* are sometimes available from the state Legislature for specific projects.

<sup>19</sup> 2009-2012 Transportation Improvement Program for the Twin Cities Metropolitan Area, Metropolitan Council, September 10, 2009.

- *County State-Aid Funds* are allocated to all counties based on a statutorily defined apportionment formula. The County State Aid Highway (CSAH) Fund is allocated based on monetary needs (50%), lane miles (30%), motor vehicle registrations (10%), and an equal share to each county (10%) except that all new revenues after 2008 will be allocated based on monetary needs (50%) and motor vehicle registrations (50%). These funds must be used on designated county state-aid highways (CSAH) and are only available when the county is making improvements to a CSAH within city limits.
- *Municipal State-Aid Funds* are allocated to cities with populations over 5000 based on a statutorily defined apportionment formula. The Municipal State Aid Street (MSAS) Fund is allocated based on monetary construction needs (50%) and population (50%). The city's allocation of MSAS funds varies considerably from one year to the next. The expected total allocation to Minneapolis in 2009 is approximately \$8.5 million. State-aid rules are quite specific with regard to the conditions under which certain expenditures are and are not eligible. Special elements that have specific eligibility limitations include lighting, ornamental poles, signals, right-of-way, bike paths, sidewalks, storm sewers, and landscaping. These limits are detailed in Section 8820.3100 of the Minnesota Administrative Rules.<sup>20</sup>
- *Municipal Turn Back Funds* are only available when funds exist and the jurisdiction of a state highway is transferred (“turned back”) to the city.

### Regional and County

Most regional funds are actually federal and/or state funds that are distributed through the Metropolitan Council or another regional entity. Most of these sources are described above under federal funding. Two additional funds may be available for city capital projects:

- *Livable Communities Grants* are available for infrastructure improvements related to development or redevelopment projects that meet the fund's criteria. This is a competitive annual grant program administered by the Metropolitan Council. The city is typically successful in receiving one or more grants each year for these projects.
- *Transportation Sales Tax* is a new funding source passed by the Legislature in 2008. This is a ¼ cent metropolitan sales tax dedicated to new light rail, commuter rail and busways in the seven-county metropolitan area. These funds are allocated by a regional partnership made up of the eligible metropolitan counties. At this time, none of these funds are available directly to the city of Minneapolis but may fund transit projects that are within the city.
- *County Funds* are used by Hennepin County for construction, rehabilitation, resurfacing, operations and maintenance of county roads (not county state-aid highways). There are no county roads (only county state-aid highways) within Minneapolis. The allocation of these funds is solely at the discretion of Hennepin County.

### City

The majority of revenues for transportation facilities and programs in the city of Minneapolis come from local sources – about 98% of operating revenues and about 80-85% of capital dollars. The Department of Public Works Transportation Business Line budget for 2009 is approximately \$98 million. The Department is funded by the general fund, the capital projects fund, four internal service funds, and five enterprise funds. Local revenues for these funds are generated primarily from:

- *Property Taxes* – Tax policy limits the increase in total property tax revenues to 8%/year.
- *Street Special Assessments* – The City Council sets a uniform assessment each year that is applied to properties along streets that are being resurfaced or reconstructed.
- *Sidewalk Special Assessments* – The City assesses private property owners for sidewalk construction and repair.
- *Service District Assessments* – Special service districts are established to provide and maintain streetscaping, landscaping and special materials in commercial districts.
- *Parking Fees* (meters and ramps) – These are revenues generated from parking meters and municipal parking ramps. Parking revenues are primarily used for transportation.
- *Service Fees, Licenses and Permits* – A large percentage of operating and maintenance services provided by the Department of Public Works are paid for through service fees, licenses and permits.
- *Tax Increment Financing* – Tax Increment Financing (TIF) may be used to fund improvements related to specific redevelopment projects.
- *Tax Abatement* – Although rarely used, the city has the authority to abate future property taxes to repay bonds for infrastructure whose construction would benefit the impacted properties.
- *Net Debt Bonds* – Most transportation infrastructure construction projects are paid for, in part, through bonds. Bonds may be repaid from a variety of revenue sources but are primarily repaid through property taxes.

<sup>20</sup> *Minnesota Administrative Rules, Chapter 8820, Local, State-Aid Route Standards, Financing, Section 8820.3100, General State-Aid Limitations.*

### Public-Private Partnerships

There are a number of public-private partnership tools that may be used for transportation improvements, operation and maintenance. These may take a variety of forms and are subject to conditions unique to each program and/or agreement. Examples of public-private partnerships that the city has used in the past include:

- Special service districts are typically used to fund maintenance of streetscaping and other special needs in activity centers.
- Transit shelters and benches have been provided through a franchise agreement with a private vendor that is funded through paid advertising.
- Infrastructure improvements are often funded as part of development agreements.
- The bike rack program is an example of a cost-sharing program where the city pays a certain percentage of the cost and private property owners pay the remaining cost.
- Greening partnership agreements are used for the installation of trees and landscaping in the public right-of-way that are maintained by private partners.
- Private property owners are responsible for the day-to-day maintenance of sidewalks and snow removal on sidewalks.

### Opportunities for Increasing Return on Investment

There are a number of strategies that are employed to improve efficiency, avoid costs and otherwise reduce the need for increased revenues. Examples include improving traffic flow through improved signal timing and implementation of Intelligent Transportation Systems (ITS); reducing construction costs through the use of materials with improved durability and acquiring equipment that has greater fuel efficiency and/or capacity; optimizing the use of staff resources by providing improved computer and GIS resources; and extending the life of infrastructure through improved pavement management systems and other operations and maintenance programs. These strategies are extremely important for providing the most return on investment but cannot always be accomplished when there are funding shortfalls. This is a particularly serious issue with roadway pavement and traffic/light poles. The inability to fund adequate routine infrastructure maintenance will actually cause these facilities to deteriorate at a faster rate. This can also be an issue with reconstruction projects when certain elements of the project (for example, utility replacement) are postponed due to cost but will then cost more when the road has to be reconstructed again at a later date.

### Recommended Actions

Recommended strategies related to transportation funding include the following:

- 9.1. **Seek Additional Federal, State and Regional Funding** - The city will continue to work aggressively with its partner agencies, the state Legislature and Congress to seek additional federal, state and regional funding for transportation projects. The city will continue to work with the state Legislature to seek authorization to create a local transportation utility and authority for more extensive use of special assessments.
- 9.2. **Support CTIB Funding of Regional Transit Projects** – The city will continue to support the Counties Transit Improvements Board (CTIB) in the use of regional sales tax dollars for the funding of approved regional transit projects including:
  - Central Corridor LRT
  - Southwest Corridor LRT
  - I-35W and Cedar Avenue BRT
  - Bottineau Boulevard Transitway
- 9.3. **Optimize Return on Investment** - The city will continue to improve the efficiency and cost-effectiveness of transportation systems. The city will prioritize transportation projects to optimize the return on investment, maximizing benefits from available resources. The city will continue to work with Mn/DOT to address both design guidance and funding eligibility issues that would create greater flexibility in the use of Municipal State Aid (MSA) funds
- 9.4. **Continue Use of the Uniform Assessment** - The city will continue to use a Uniform Assessment for street projects. The city will explore options for providing some of the elements that are currently funded through additional streetscape assessments through the Uniform Assessment.

- 9.5. **Continue Use of Special Service Districts** - The city will continue to use special service districts and their assessments to pay for increased installation and maintenance costs in those circumstances where special or additional street furniture, lighting and/or landscaping is provided above the city standard. The city will continue to work with the state Legislature to seek authorization to expand the use of service districts, including residential areas, and special assessments to fund transportation improvements.