



March 15, 2021

TO: Members of the House Committee on Transportation Finance and Policy

RE: Legislation Providing Funding for Small Cities and Townships

On behalf of the members of the Minnesota Transportation Alliance representing local governments, the transportation industry, labor, businesses, transit systems and other modes, I am writing to urge you to find ways to assist small cities and townships in funding needed street and road repairs that provides new revenue rather than diverting existing revenue from the Highway User Tax Distribution Fund.

The members of the Minnesota Transportation Alliance are committed to improving the transportation system all across the state. We understand that townships and small cities struggle to pay for the road and bridge repair needs for facilities under their jurisdiction. We strongly support additional funding to assist small cities and townships in meeting these important needs.

The Alliance has worked to bring stakeholder groups together to discuss ideas for meeting the state's transportation needs. We developed a comprehensive, long-term funding plan that includes:

- Increasing the debt service surcharge (currently 3.5 cents per gallon)
- Adjusting the depreciation schedule for calculating license tab fees
- Raising the MVST rate to the general sales tax rate of 6.875%
- Increasing the metropolitan area sales tax by $\frac{1}{4}$ cent
- Changing the current statutory dedication of the sales tax on auto repair parts from a flat annual amount to at least 60% of the total revenue raised
- Increasing the electric vehicle fee
- Re-directing the sales tax on rental vehicles to small cities, Greater MN transit and townships
- Changing the distribution of the motor vehicle lease sales tax (MVLST) to include all seven metropolitan area counties
- Authorizing additional trunk highway bonds for the Corridors of Commerce program

This plan provides significant, ongoing, dedicated revenue for roads, bridges and transit that will grow into the future. Without additional revenue, dedicating the sales tax on rental vehicles to small cities and townships, simply robs Peter to pay Paul. Revenue that would fund state highways, county state aid highways, and municipal state aid streets will be diverted to small cities and townships.

Since 1893

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Due to reduced fuel tax revenue because of the pandemic, counties and cities with a population over 5,000 received a cut in state aid in 2021 of 9% on average. Local governments had already been struggling to meet road and bridge repair needs and the pandemic made that job harder. Shifting funds around does not solve the real problem.

According to MnDOT's February forecast, state sales taxes dedicated to the Highway User Tax Distribution fund will total \$179 million in FY2022 and \$188 million in FY2023 rising to \$190 million in FY2024 and \$192 in FY2025. Most of that revenue comes from the sales tax on auto repair parts (\$145.6 million per year). The portion of the revenue attributable to the sales tax on rental vehicles would be approximately \$75.8 million for the FY22-23 biennium and \$90.8 million for the FY24-25 biennium.

Without additional revenue, dedicating the sales taxes on rental vehicles to small cities and townships would mean that the trunk highway fund would lose \$44.64 million in the FY22-23 biennium and \$53.3 million in the following biennium, the CSAH fund would lose \$20.88 million in the FY22-23 biennium and \$25 million in the following biennium and the MSAS fund would lose \$6.48 million in the FY22-23 biennium and \$7.7 million in the following biennium.

We urge that the committee either provide additional general fund dollars for small cities and townships through a direct appropriation or by changing the dedication of the sales tax on auto repair parts to at least 60% of total revenues or by increasing dedicated transportation fees to ensure that funding for small city streets and township roads and bridges does not take away from needed repairs on other parts of the transportation system.

Thank you for your consideration of these points. We stand ready to assist in developing a transportation funding package that increases dedicated funds for Minnesota's multimodal, multi-jurisdictional transportation system.

Sincerely,

Margaret Donahoe

Margaret Donahoe
Executive Director