Funding Transit in Minnesota: Policy Brief

Smart Growth America has partnered with Reconnecting America to conduct a preliminary assessment of transit funding in Minnesota and to make recommendations on future funding mechanisms that could raise significant revenue for transit in the state. This report summarizes the results of that research, conducted over a three week period in December 2009. This report will: 1) provide an overview of present-day transit funding in Minnesota; 2) analyze transit funding and revenue needs for the three largest transit agencies in the state; 3) discuss the criteria/characteristics that a new funding mechanism would need to work well for Minnesota, and 4) recommend and discuss priority funding mechanisms that the state could pursue.

Overview of transit funding in Minnesota

There are over 60 public transit agencies serving Greater Minnesota (not including dedicated paratransit providers) that range from urban fixed route bus service to limited rural service, along with seven within the Twin Cities metro area. These agencies vary in size, service type, and organizational structure. State and local sources contribute the most funding for transit in Minnesota, with just over 25 percent coming from the federal government, as seen in Figure 2.

The state provides the majority of its share through the Greater Minnesota Transit Fund, which receives revenues from the state Motor Vehicle Sales Tax (MVST), along with other General Fund revenues. Prior to MVST revenues, the Fund had a dedicated stream of state property tax revenues, a less economically volatile source of funding. Because funding levels dipped dramatically during this transition, the state began to provide some supplemental funding, changed the MVST dedication ratio to provide more money to transit, and still does continue to dedicate about $2 million in property tax revenues towards transit.

In order for transit providers to be able to levy specific regional taxes, they need to be designated as a regional transit authority by the state legislature. Currently, there are only three of these – Metro Transit in the Twin Cities, and the Duluth Transit Authority and the St. Cloud Metropolitan Transit Commission in Greater Minnesota. Otherwise, the transit agency generally is an arm of the municipal government, and receives its local funding from a general fund pool along with other city services. These smaller scale transit agencies, which make up the majority of providers statewide, also receive the standard funding levels of the MVST and the Greater Minnesota Transit Fund generally. Most transit agencies outside of the Twin Cities are also eligible for limited federal operating assistance via either the Urbanized or Nonurbanized Area Formula Programs (Sections 5307 and 5311).

A recent report released by Minnesota 2020 details the funding challenges faced by Greater Minnesota transit providers, which include a large number of paratransit operators. The need lies far more in operating than capital funding. MNDOT predicts a 42 percent shortfall in funding needed to meet ridership demand, primarily due to declining revenues into the state General Fund. While there has been some effort to plug this gap via a change in MVST dedication favorable towards transit (further detail available in Section III) and some increasing dedication of local property tax revenues, these funding levels will only begin to preserve service rather than providing opportunities to expand to meet rising demand. This report will look in depth at transit in the Twin Cities Metro, the Duluth Transit Authority, the St. Cloud Metropolitan Transportation Commission, and the City of Moorhead transit operations.

Figures 1 + 2: Minnesota receives about the same federal share as the national average. Figure 2 shows the transition from property taxes to motor vehicle sales tax as the primary mode of state transit funding. Farebox revenues outside of the Twin Cities metro are a small piece of overall revenue, making stable statewide funding extremely important for Greater Minnesota.
<table>
<thead>
<tr>
<th>Agency/Region</th>
<th>Estimated Budget Shortfall</th>
<th>Ridership</th>
<th>Current or Potential Cuts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Twin Cities</td>
<td>$45 - $60 million (Capital needs are well beyond Metro Transit shortfall estimate)</td>
<td>95 million rides</td>
<td>Potential fare increases and service cuts to bus service</td>
</tr>
<tr>
<td>Duluth</td>
<td>About $2 million</td>
<td>3 million</td>
<td>Service not keeping pace with massive ridership increases.</td>
</tr>
<tr>
<td>St. Cloud</td>
<td></td>
<td>Ridership has increased over 30 percent in the past year.</td>
<td>Funding has decreased by 19 percent as ridership has increased, prohibiting service expansions to accommodate.</td>
</tr>
</tbody>
</table>
Twin Cities Metro

The Twin Cities metro area is home to seven transit agencies, with Metro Transit being the biggest. The region has a major capital expansion plan underway along with operations that span seven counties. The capital program is by far the largest in the state, both in real numbers and proportionally. Proposed projects like the Northstar Commuter rail reach outside of the immediate metro area to serve Greater Minnesota. Because the projects in the Twin Cities have a statewide impact, the state provides specific funding for Twin Cities projects, like operations funding for the recently completed Northstar corridor and capital funding for the Central Corridor, a light rail project that will connect the downtowns of Minneapolis and St. Paul.

Before 2008, the majority of the Metro’s transit funding came from the state MVST, state appropriations for specific projects (for instance, operations on the Hiawatha LRT are partially funded in this way, along with planning activities around the Central Corridor LRT), farebox revenues, and federal formula funding along with federal grant money for major fixed guideway capital investment. Local sources included property taxed levied by the region’s MPO and primary transit operator, the Metropolitan Council, and contributions from member jurisdictions. Property taxes are capped at 8% on the local level, which provides the basis for much the local contributions to the region’s transit budget.

Last year, a coalition of regional organizations and advocacy groups were successful in seeking a 0.25 cent sales tax increase within the Metro directed towards transit, along with changing the MVST ratio to direct more money towards transit statewide. This created an additional $85 million annually for the region, and $20 million more for transit in Greater Minnesota. Governance concerns surrounding the Metropolitan Council led to the creation of a special entity charged with the allocation of these new funds within the Metro -- the County Transportation Improvement Board (CTIB). In 2010 (See Figures 3 + 4), CTIB revenues are slated to be allocated to BRT planning, the local match for construction of the Central Corridor, and some operating and smaller capital expenses. The larger picture sees CTIB revenue making major contributions to the Regional Transitways plan, which includes two additional LRT corridors -- the Southwest Corridor and the Hiawatha Corridor -- with planning well underway, and nine bus rapid transit (BRT) corridors with extensive planning needs.

Despite this influx of new funding, Metro Transit still faces a budget deficit of between $45 million to $60 million over the next two years. In 2008, fares were raised to avoid extensive service cuts, and they may be raised again in 2010 to cover the burgeoning budget gap. The Twin Cities is home to the innovative Livable Communities program that provides assistance to communities in making connections between transportation, land use, and overall affordability, granting funds for gap financing in affordable housing and infrastructure. There has been some discussion in shifting funds from this program to general transit operations in an attempt to stave off future service cuts or fare increases. The budget gap itself can be attributed to declining state MVST revenues and the Metro’s aggressive capital expansion plan, which will require serious investment in order to realize the economic and community-building benefits of a comprehensive transportation network with coordinated land use planning.

Twin Cities Transit Funding Sources

<table>
<thead>
<tr>
<th>Operating</th>
<th>Capital</th>
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</thead>
<tbody>
<tr>
<td>Motor Vehicle Sales Tax</td>
<td>50.6%</td>
</tr>
<tr>
<td>State Appropriations</td>
<td>14.5%</td>
</tr>
<tr>
<td>Other State Sources</td>
<td>16.3%</td>
</tr>
<tr>
<td>Federal programs</td>
<td>10.3%</td>
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<tr>
<td>CTIB/Other local contributions</td>
<td>8.2%</td>
</tr>
<tr>
<td>Other</td>
<td>4.2%</td>
</tr>
<tr>
<td>Farebox revenues</td>
<td>20%</td>
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</table>

FIGURES 3 + 4 2010 Met Council Budgets: Operating funds include special state appropriations for the Northstar Commuter Rail and the Hiawatha LRT. Federal capital funding includes New Starts grant for the Central Corridor LRT. While the Twin Cities is able to cover more operations with farebox revenues than any other transit agency in Minnesota, it still is heavily reliant on the state MVST and other state appropriations from the General Fund.
Duluth Transit Authority

The Duluth Transit Authority (DTA) has seen ridership soar over the last two years, but overall revenue has not kept up with the increasing demand. By law, state funding should account for up to 80 percent of the DTA’s total cost on regular routes (not including paratransit), but the actual funding provided will be about 60 percent in the coming years. The state will subsidize the DTA an estimated $7.5 million this year and $7.55 million next year, when the DTA is eligible for up to $9.8 million.

While DTA does not have the major capital investment needs of the Twin Cities, it would like to expand service to meet ridership demands. The agency is looking at possible fare increases to accomplish this. Currently, the majority of its funding comes from the state, along with local property taxes. DTA is also eligible to use federal Section 5307 funding for operating expenses.

DTA provides over 3 million trips per year, and its service area covers Superior across the Minnesota-Wisconsin state line. They were able to use American Reinvestment and Recovery Act (ARRA) funding to assist in infrastructure upgrades like real time bus arrival information and the construction of a downtown transit center, which alleviated the pressure on the regular capital budget.

Duluth Transit Authority Funding Sources

FIGURE 5: DTA revenue from 2008. The agency receives payments from Superior, WI for services. Property tax replacement funds, meant to supplement the transition from state property taxes to MVST funding (seen in State Grants in this chart) will disappear over the coming years. Only about a third of total funding comes from local sources, almost half from the state, and the remainder from federal transit programs. Duluth’s small size makes it eligible for federal operating assistance, so any increase in federal transit spending will have a positive impact on operations revenue.
Section II: How to Choose Revenue Sources to Meet the Need

Reconnecting America conducted interviews with members of the transit community in Minnesota, along with reviewing documents from the local, state, and federal levels that detailed funding issues, regulatory context, and current funding. From this research, we identified the major needs in the state.

One of the key objectives of the research process was to identify universal characteristics or criteria that any funding mechanism would have to have in order to work well for the state. The criteria that Reconnecting America identified follow:

1. **The mechanism must provide money for transit operations AND capital investment.**
   While the Twin Cities Metro has major needs for both operating and capital funds, most transit providers in Greater Minnesota are finding their biggest revenue hardship in operating funding. There is no historical precedent for separating capital and operating revenue on the state level, which makes setting the context for a dual-purpose revenue stream easier than in other states.

2. **The mechanism must provide a significant amount of new money.**
   While a future more extensive analysis will be useful in making the final policy decision, this report estimates the transit funding needs in the state, and includes thumbnail revenue projections for several of the recommended funding mechanisms.

3. **The mechanism must be able to be dedicated to transit in perpetuity.**
   While there has been past success in guaranteeing a portion of state MVST revenues to transit, most transit agencies also rely heavily on General Fund revenues to ensure the maintenance of existing service and growth. Many of the budget shortfalls around the state are due to the state’s budget deficit, which was dealt with this year by reducing General Fund payments to local entities, including transit providers. While MVST revenues have declined slightly with the weakened national economy, transit still received the full dedication because it is in statute.

4. **The mechanism should have the potential to be implemented on a region-by-region or county-by-county basis.**
   Most of the budget shortfalls identified are due to declining statewide revenue. Local authorities may be better positioned to raise reliable revenue that is dedicated to transit service. Overall in Minnesota, there is not a lot of taxing authority granted to regions or localities beyond property taxes.

In addition to the criteria identified through the research, the following two criteria relate to the goals of the overall campaign:

5. **Does the mechanism have the potential to be legally adopted or approved in Minnesota by 2012?**
   While some funding mechanisms have great potential to be implemented in the future, it may be unlikely that they could be put approved within the next two years. The transit agencies need funding in the near-term, and the parameters of the Smart Growth America campaign require state teams to focus on a mechanism that could feasibly be adopted by 2012. Implementation of the mechanism might require some additional time as it is phased in, but the milestone of getting it adopted should be achievable in the next couple of years.

6. **Does the mechanism have potential to be applied beyond just one or two regions in Minnesota?**
   This report seeks to strategically identify a source of funding that works throughout Minnesota, as opposed to only one region or one transit system. While some of the proposed mechanisms would require different actions in different regions to be adopted and implemented, and many of them wouldn’t meet all of the transit needs in the entire state, it is critical that the selected mechanism work for many regions, not just (for example) the rural providers or just the largest transit agency.

Reconnecting America considered 18 different funding mechanisms against these six criteria to come up with the priority mechanisms discussed in the next section. The initial list of mechanisms considered was based on input from stakeholders and from Reconnecting America’s past experience working on transit issues in other states.
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<td>Gas Tax</td>
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<td>Payroll Tax</td>
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<td>Tolls</td>
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<tr>
<td><strong>Motor Vehicle Excise Tax</strong></td>
<td><strong>Blue</strong></td>
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<td><strong>Engine Displacement Tax</strong></td>
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<tr>
<td>Carbon Fee</td>
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<td><strong>Parking Fee/Tax</strong></td>
<td><strong>Red</strong></td>
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<td>Systems Development Charge</td>
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<tr>
<td>Carbon Fee (Development Impact Fee)</td>
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<tr>
<td>Congestion Pricing (area-wide, i.e... London)</td>
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<td>Bonds</td>
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<td>Congestion Pricing (HOT Lanes)</td>
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<td>Federal Flex Funds</td>
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<td>Hotel/Motel or Rental Car Tax</td>
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<td>Non-license State Identification Card Fee</td>
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<tr>
<td>Sales Tax (general)</td>
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<tr>
<td>Tax Increment Financing (Value Capture)</td>
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<tr>
<td>Income Tax</td>
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In this matrix, a yellow box indicates that it is possible that the funding mechanism does not meet the criteria and that more information is needed to make a determination. Red indicates that it is very unlikely that the mechanism would meet the criteria. Mechanisms with a blue background are first-tier recommendations; those in bold are second-tier recommendations. A brief explanation of why the other mechanisms received “maybe/unknown” or “unlikely” ratings will be amended to this report. This matrix/selection process will be discussed in detail at the state partners retreat on January 13th.

**Section III: Discussion of Priority Funding Mechanisms**

**Motor Vehicle Excise Tax (or, Motor Vehicle Sales Tax - MVST)**

**History and Process for Adoption**

- Minnesota relies on this as a primary source of funding for transit already, but there may be opportunity to increase this levy’s usefulness to transit capital and operations funding.

- MVST is a 6.5 percent tax applied to the sale of new and used motor vehicles. It is imposed instead of the general sales tax and is based on the purchase price of the motor vehicle. MVST is collected by dealers or upon registration.

- Portions of MVST were first directed to transportation uses in 1981. At that time, it was a supplement to other funding sources like property taxes. Over the next decade, the amount of MVST dedicated to transportation.
would change from year-to-year, and in 1991 it was eliminated.

- In 2000, use of MVST for transportation was reinstated due to changes in state tax policy. Registration taxes on automobiles were eliminated, leaving roads and highways without a major funding source and MVST revenues were rededicated to transportation to make up the difference.

- In 2001, property tax levies were prohibited from being used for metropolitan transit operations. It replaced property tax revenue with allocations from MVST for both metropolitan and greater Minnesota transit.

- These MVST allocations to highways and transit were intended to offset reductions in other taxes. One effect of this was that funding shifted from primarily a local endeavor to being the responsibility of the state.

- In 2003, the legislature increased the percentage of MVST revenue going to transit, but it was done without increasing the overall MVST allocation to transportation. The additional funding for transit was partially to make up for reductions in general fund appropriations for bus service throughout the state, and to reduce local responsibility for Hiawatha light rail transit operating costs.

- At the 2006 general election, the voters approved a constitutional amendment dedicating all MVST revenue to transportation purposes. The amendment specifies that 63.75 percent must be dedicated to transportation purposes in fiscal year 2008, with the transportation share growing by 10 percentage points per year until it reaches 100 percent in fiscal year 2012.

- The constitutional language also requires that “no more than 60 percent” of the revenue go to roads and highways, and “not less than 40 percent” go to public transit. Minn. Const. Within the distribution limits, the Constitution allows legislation to set the actual division between highways and transit.

- 2007 legislation established an MVST phase-in schedule. In FY 2012, revenues will be distributed 60 percent to highways and 40 percent to transit (with the transit portion consisting of 36 percent for the Twin Cities and 4 percent for Greater Minnesota).

Steps to Implementation

There are a number of different ways to think about providing more funding to transit via the MVST, some based on the local level and some on a statewide level:

- Raise the maximum funds allowed to be allocated towards transit to reach a 50/50 split with highways. This solution is revenue neutral, and would only require action on the state level.

- Raise the MVST rate overall, providing more funding for both transit and roads/highways.

- Allow regions with state-recognized metropolitan transit authorities to levy an additional local MVST dedicated to transit funding. This could be included under a general sales tax authority, or as a specific authorization. In regions outside of the Twin Cities metro, this may require a secondary ballot measure step for local implementation.

**PROS**

- MVST is already used for transit purposes.

- There is no criteria for how MVST can be used on the local level, so operations and transit could continue to be funded.

- May allow the state to reduce allocation for transit from the General Fund, freeing up money for other services.

- Raising the overall MVST rate would allow transit advocates to ally with highway/road supporters.

- Regulations governing use of MVST already in place.

- All state transit providers will benefit, particularly small and rural agencies who rely heavily on this fee already.

- Raising the ceiling on the proportion of existing MVST revenue that can be allocated to transit would be revenue neutral and not require an overall raise in rate.
While MVST revenues have declined somewhat in the struggling national economy, they have remained relatively stable compared to other states’ sales tax revenues.

In 2009, the phase-in plan was altered to accommodate operating deficits in transit agencies around the state, creating momentum around this type of policy change.

The MVST is already dedicated to transportation uses, precluding any issues surrounding opening up eligible uses to other programs.

**CONS**

- There may be a limited political appetite for raising the overall tax rate.
- Raising the ceiling on the transit proportion would pit transit against highway advocates.
- Creating local authority to levy an additional point (or other amount) of MVST on regional/local level would require enabling legislation on the state level, and in some cases would require creation of an entity to collect revenues where a Metropolitan Transportation Commission is not authorized by the state.
- Revenue source is somewhat subject to economic fluctuations.

**Engine Displacement Tax**

**History and Process for Adoption**

- Carbon tax is a type of tax on pollution – and has been considered as an alternative to the cap-and-trade programs currently under consideration at the federal level. It levies a fee on the production, distribution or use of fossil fuels based on emitted carbon.

- The government sets a price for each ton of carbon, then translates that into a tax. Because the tax makes using dirty fuel more expensive, it encourages utilities, businesses and individuals to reduce consumption and increase transit use and energy efficiency.

- Carbon tax also makes transit, location efficient living, and alternative fuels more cost-competitive with gas consumption (along with other energy sources like coal and natural gas).

- Per vehicle carbon fees are not currently used in the United States, though they were proposed in the Washington State legislature in 2008. This proposal did not receive a hearing due to significant public opposition. It was proposed as follows:

<table>
<thead>
<tr>
<th>Engine Size Rate Schedule</th>
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</thead>
<tbody>
<tr>
<td>Up to 1.9</td>
</tr>
<tr>
<td>2.0 - 2.9</td>
</tr>
<tr>
<td>3.0 - 3.9</td>
</tr>
<tr>
<td>4.0 - 4.9</td>
</tr>
<tr>
<td>5.0 - 5.9</td>
</tr>
<tr>
<td>6.0 - 7.9</td>
</tr>
</tbody>
</table>

- The argument for this type of fee is that the engine size correlates to the vehicle size and emissions. This same proposed legislation in Washington also included a vehicle emission fee, to be collected at Registration, based on the carbon dioxide emission per mile of the vehicle. These fees would have been collected according to the following schedule:
### Emissions Fee Schedule

<table>
<thead>
<tr>
<th>Emissions Level</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 161</td>
<td>$0</td>
</tr>
<tr>
<td>162 - 193</td>
<td>$70</td>
</tr>
<tr>
<td>194 - 241</td>
<td>$225</td>
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<tr>
<td>242 - 266</td>
<td>$275</td>
</tr>
<tr>
<td>267 - 298</td>
<td>$325</td>
</tr>
<tr>
<td>299 - 362</td>
<td>$400</td>
</tr>
<tr>
<td>Over 362</td>
<td>$600</td>
</tr>
</tbody>
</table>

- These two fees were designed to work together to address the varying greenhouse gas emission levels of different vehicle types. The revenue from both fees was proposed to be dedicated to the state’s multimodal transportation account.

- A similar system of charging vehicles based on their size and emissions is used in some European countries, in the United Kingdom and in Japan. Each of these systems varies in application but charge a different fee depending on the vehicle’s engine size (measured by displacement) or emissions. More research on this funding mechanism as it could apply to Minnesota is warranted.

- Please see Appendix II for information about British Columbia’s carbon tax, which is a broad-based fuel tax.

### Steps to Implementation

- Because this type of tax hasn’t been implemented anywhere in the United States, more research would be required to see how this type of fee would impact economic development and other issues within the state.

- There is a need for additional research on on-the-ground implementation.

### PROS

- Entirely new revenue source with the potential to generate a substantial amount of money.
- Makes an immediate connection between sustainable transportation choices and household expenditures.
- Emphasizes transit’s potential to “green” transportation networks.
- Would put Minnesota on the bleeding edge of climate policy in the United States

### CONS

- Never before implemented in the United States
- Will be significant political resistance, particularly in rural areas without substantial transit alternatives.
- Requires substantial infrastructure investment to determine individual’s rates for engine displacement and collection of the tax, likely prohibitive for implementation on the local or regional level.
- Opposition from freight trucking interests and road/highway advocates.
- Could be costly for school systems, transit agencies without plans to upgrade to “green” bus fleets.

### Parking Fees/Taxes

#### History and Process for Adoption

Parking can generate revenue for transit in two ways. The more commonly used method is charging the user per space (by the hour, using meters or in garages) and dedicating some of the revenue from these parking fees to transit service in the area. This method is used in many cities throughout the U.S., and currently San Francisco and Chicago are conducting pilot programs to test charging variable, market-based rates for parking, in order to generate revenue, reduce traffic (as people cruise around searching for spaces), and encourage mode shift. Parking space fees are typically decided at the
city-level, though state authority might be required to allow localities to charge for parking on public land.

Another way that parking can generate money for transit is through a tax on parking spaces. Many jurisdictions in the U.S. charge a sales tax on parking transactions, most commonly applied to commercial parking spaces. This sales tax applies to any commercial parking space, so would apply to parking fees charged by a private garage management company or any business (i.e. hotels or employers). This type of fee is currently used in San Francisco, Miami, Los Angeles, Chicago and New York City. While this tax has the potential to generate significant revenue that could be dedicated to any use, it can disadvantage urban areas (where there is more likely to be a charge for parking) compared to exurban or suburban sites where parking is likely to be free. It also might discourage the use of market-rate parking pricing, which can be an effective strategy to encourage carpooling or transit use.

<table>
<thead>
<tr>
<th>City</th>
<th>Parking Tax</th>
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<tbody>
<tr>
<td>Bainbridge Island, WA</td>
<td>12% of revenues on both public and private parking facilities.</td>
</tr>
<tr>
<td>Brentwood, WA</td>
<td>6% of commercial operator revenues.</td>
</tr>
<tr>
<td>Burien and SeaTac, WA</td>
<td>$1.00 per parking transaction. Exemptions for people with disabilities, government vehicles and carpools.</td>
</tr>
<tr>
<td>Baltimore, MD</td>
<td>$14 flat fee on monthly parking transactions, 11% on daily and weekly parking</td>
</tr>
<tr>
<td>Cleveland, OH</td>
<td>8% tax to fund a new football stadium.</td>
</tr>
<tr>
<td>Detroit, MI</td>
<td>10% tax on airport commercial parking.</td>
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<tr>
<td>Los Angeles, CA</td>
<td>10% of parking revenues.</td>
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<tr>
<td>Miami, FL</td>
<td>27.8% of revenues.</td>
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<tr>
<td>New York</td>
<td>18.5%, or 10.5% for Manhattan residents.</td>
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<tr>
<td>Oakland, CA</td>
<td>10% of revenues.</td>
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<tr>
<td>New Orleans, LA</td>
<td>12% of revenues.</td>
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<tr>
<td>Pittsburgh, PA</td>
<td>31% of revenues.</td>
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<tr>
<td>Santa Monica, CA</td>
<td>10% of revenues.</td>
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</table>

A variation on parking taxes is a per space tax or levy. This is a type of property tax, as it charges a flat fee either per space or by the square footage of parking provided. This model of taxation is applied in Australia, Vancouver (B.C.), Toronto and in some European cities, and has been attempted, with limited success, in Washington D.C. The benefit of this form of parking tax is that is discourages land owners or developers from providing an excess of parking, which can lead to greater transit ridership and to more efficient or diverse land use.

In the Twin Cities Metro, there has been some thought given to a per-space tax that would charge parking garage owners rather than levying the fee directly on the consumer.

Steps to Implementation

- A parking fee implemented only in the Twin Cities region would only require action by the region’s jurisdictions.
- Economic impact study would be needed.
- Because revenue from this source would be limited, it may be best implemented as a funding source for specific capital projects or operations in an individual corridor. For instance, commuter parking along the Northstar Commuter rail corridor could be taxed with revenue directed towards operations, freeing up the existing appropriation for other uses within the network.

**PROS**

- Could have immediate impact on commuting patterns. As the costs of the tax pass from provider to consumer, commuters could choose to take transit to downtown Minneapolis or St. Paul rather than drive.
- Employers who construct parking lots or garages may be encouraged to provide appealing commuter benefits in an attempt to reduce the number of spaces they must build.
- Could encourage reduced parking requirements in the region to allow developers to choose how to accommodate visitors.
- Because parking fees are only feasible in the Twin Cities, no opposition from more rural areas.
- Project-specific implementability.

**CONS**

- Downtown Minneapolis and downtown St. Paul are the only places in the state with a critical mass of paid
• Would not provide a substantial revenue stream.
• Would not provide revenue to small city and rural transit providers.
• Unclear what regional entity would be responsible for collection and distribution of revenue.
Appendix I: Revenue Estimates

Four funding mechanisms selected for initial evaluation of revenue potential:

- Motor vehicle excise/sales tax (MVST)
- Engine displacement
- Parking space fee/tax
- Drivers license fee

Motor vehicle excise tax: A sales tax based on the value of a vehicle when it is sold

Engine Displacement Tax: A tax on vehicles based on the size of the engine that imposes larger taxes on larger engines.

Parking space tax: An annual tax on each parking space in a parking facility

Drivers license fee: A fee assessed as part of the drivers license renewal process

Revenue Estimates – Context

- Estimates are a very rough first draft prepared at a generalized, broad-brush, level of detail for initial discussion and evaluation.
- If chosen for further analysis, the revenue estimates will be refined for detail and accuracy.
- The estimates are intended to illustrate two primary concepts:
  - order-of-magnitude revenue potential of a particular funding source
  - relative comparison with identified funding shortfalls and transit needs over time
- Revenue estimates do not include start-up or recurring implementation or management costs.

Policy Considerations

In addition the already identified criteria and other factors:

- Revenue sources for transit operations should be locally-based, predictable and stable, recurring, equitable, and broad-based. Revenue sources for capital expenditures can be more variable, but should still be predictable, and available when needed.
- Revenue sources and allocations should be as non-complex and as geographically broad-based within a region as possible.
- Funding mechanisms are either typically a fee or a tax. The former must demonstrate a legal “rational nexus” between the amount levied and the funding purpose/objective. The latter is more flexible in terms of levy amount vs. purpose.
- Revenue growth depends on several factors, depending on the funding source in question. These factors, such as population growth, VMT, economic activity, etc. may vary considerably over time.
- For this reason, transit is funded through a variety of sources. As with investing, diversification is key to buffer against economic and other cyclical factors. No single funding mechanism should carry the entire burden of funding transit, just as no particular mechanism should be excluded solely for not fully meeting funding shortfalls.

Revenue vs. Cost/Need Considerations

- Revenue growth rates over time have historically often kept pace with project cost/need inflation rates, even if actual revenues have not been sufficient. This is no longer true and should not be counted on for the future.
- Accordingly, even seemingly fast-growing revenue sources may not keep pace with funding shortfall, project costs, and other related rate increases.
• Transit funding needs and shortfalls are complex. Operating tends to be opportunistic – the scope of transit operations rise and fall with available revenues. Capital costs do not occur uniformly over time. Examining transit funding revenues and shortfalls over a long timeframe can mask significant annual fluctuations and conditions.

Methodology – All Mechanisms
• All mechanisms applied to major metropolitan regions in proportion to the population of the areas
• One mechanism is expressed in terms of rate (i.e. 0.5% increase in the sales tax on motor vehicles), while the drivers license fee, parking fee, and engine displacement fee are based on a unit charge. It is anticipated that in the case of engine displacement that the charge will vary according to the size of the engine, but that the average charge will be $50/vehicle.
• Revenues are calculated by year, compounded for a 10 year period, by region, according to the following annual growth rates: 0%, 1.5%, and 3%.

Motor Vehicle Sales Tax – Revenue Estimate Methodology
• Based on the estimated total number of vehicles in each metropolitan area as determined using the number of total vehicles registered statewide and proportioned according to the population of each area.
• Assessed at the time of sale based on the value of the vehicle
• Currently assessed at a rate of 6.5%, estimate is based on proposed increase to 7%
• Raises approximately $30 million per year initially statewide.
• Potential refinements: better correlation to pollution/emissions costs, stratification by vehicle type, biased against newer vehicles

Engine Displacement Tax – Revenue Estimate Methodology
• Based on the total number of vehicles registered in each metro area (apportioned by metro area population)
• Assessed on the size of the vehicle engines as determined by the manufacturer in accordance. As estimated, it is assumed that the average tax will be approximately $50/year but will vary based on the size of the vehicle engine (larger engines pay more)
• Raises $235 million per year initially statewide.
• Potential refinements: finer definition of engine displacements, potential transition to carbon-based charges, possibly different fee schedules for different areas recognizing urban/rural differences

Drivers License Fee – Revenue Estimate Methodology
• Based on numbers of registered drivers statewide (as reported to the Federal Highways Administration), apportioned by metro area population.
• Estimate based on additional $10 fee at drivers license renewal every 4 years
• Raises approximately $4 million per year initially statewide
• Potential refinements: Possibly adjust to ability to pay, possibly attach to vehicle registration instead on an annual basis

Parking Fee – Revenue Estimate Methodology
• Only estimated based on readily available data for the cities of Minneapolis and Saint Paul.
• Approximately 40,000 parking spaces are controlled by the cities in roughly 100 facilities
• There are approximately 1,000 total parking facilities in the Twin Cities downtown area, should the fee be extended to non-municipal facilities.
• Estimate based on $100/space annual fee assessed to the space owner.
• Raises approximately $4 million per year initially in Minneapolis and Saint Paul based on the limited sample size
• Potential refinements: better estimate of existing private parking structures/facilities, examine other metro areas (may not raise significant revenue outside the Twin Cities)

Major Conclusions
• The engine displacement tax generates a significant of revenues in excess of the other three options as initially characterized.
• The drivers license fee would likely generate the least overall as licenses are only renewed every four years
• The motor vehicle sales tax has the potential (depending on the increased assessment rate) to raise a fair amount of money statewide with a relatively low effort since it is already assessed.
• The parking space fee can selectively increase local revenue, especially if private facilities were included, but would require an initial collection infrastructure investment.
• For all mechanisms, varying assessment rates and growth rates will result in significant revenue ranges over time by region and statewide.
Appendix II: British Columbia Carbon Tax

British Columbia has implemented a carbon tax that is broader-based than what was proposed in 2008 in Washington based on fuel consumption rather than vehicle type – meaning that the fees also applied to products like heating oil, and that the costs begin at the wholesale level rather than a specific tax levied on consumers.

- As of July 1, 2008, residents of British Columbia now pay a tax on the purchase and use of fossil fuels including gasoline, diesel, heating fuel, propane, natural gas, and coal. The tax is revenue-neutral, meaning that the funds generated are returned to taxpayers through reductions in other taxes. These reductions include decreased rates for several different income taxes, as well as the introduction of a Low Income Climate Action Tax Credit. The tax is expected to generate between $100 million and $200 million annually, all of which is currently being returned to taxpayers. Some of the mayors in British Columbia have argued in favor of directing approximately $450 million of the tax’s revenues over the next ten years to the region’s transit system, Translink, which currently has an operating budget of $1 billion and is struggling to find stable sources of funding.

- The Carbon tax is a consumption tax similar to British Columbia’s motor fuel tax and provincial sales tax. All businesses and individuals who buy fossil fuels in British Columbia pay the tax at the point of purchase. Fuel producers and manufacturers who use their own fuel throughout the production process also pay the tax for each liter of fuel used.

- The tax rate for each fuel-type is based on the amount (in tons) of ‘carbon dioxide equivalent’ emissions released from combustion. From July 1, 2008 to July 1, 2009 rates for each fuel were based on a level of $10 per ton of carbon dioxide equivalent emitted. In July of 2009 this rate was raised to $15 per ton emitted, and it will continue to go up by $5 each year through 2012. Actual tax rates per liter vary by fuel type depending on emission levels. The rate for gasoline as of July 2009 is 3.62 cents per liter, while diesel is set at 4.14 cents per liter. These rates will rise in July of 2010.

- The collection process for the carbon tax has the following structure:
  - Fuel retailers collect the tax from consumers at the point of purchase.
  - When retailers buy fuel from wholesalers, they pay an amount equal to the tax paid by consumers as a security. They then collect the tax from consumers as a reimbursement for the security they’ve paid.
  - Wholesalers pay a security of the same amount to tax collectors and are then reimbursed through the security paid by retailers.
  - Finally, the security paid by wholesalers is passed on to the government.

- British Columbia’s carbon tax is the only true carbon tax which has been successfully implemented in North America. Though it survived its first electoral test in 2009 when voters reelected the Liberal Party candidate Premier Gordon Campbell (who had initially introduced the tax in 2008), it remains controversial, facing opposition both from British Columbia’s New Democratic Party in early 2009 and from environmentalists who argue that the tax is too lax. Despite this opposition, polls indicate that support has increased for carbon taxes in general in every Canadian province since July of 2008.