



Summary of Meeting with John Gunyou

Civic Caucus, 8301 Creekside Circle #920, Bloomington, MN 55437

Friday, June 23, 2006

Guest speaker: John Gunyou, city manager, city of Minnetonka, and former Minnesota state commissioner of finance

Attendance: Verne Johnson, chair; Chuck Clay, Paul Gilje, and Jim Olson

A. Welcome and introduction — Verne welcomed John Gunyou to our meeting. Verne explained that the Civic Caucus, with its small core group and large group of electronic participants, might be a prototype for other organizations. It's much more difficult today, Verne said, for people to attend meetings in person. Moreover, some persons with a long history of involvement in public affairs can use the Caucus approach to continue their involvement. Paul introduced Gunyou. Gunyou has an unusual background, having served in the for-profit sector (running an internet company and also as a consultant), the non-profit sector (with Minnesota Public Radio), large city government (Minneapolis), state government (Minnesota), and suburban government (Minnetonka). Gunyou is back for a second time with the Caucus. Today he's been asked to address the issues in a proposed amendment to Minnesota's constitution.

B. Background on the amendment—

1. Dedication — The amendment would dedicate the state's motor vehicle sales tax (MVST) to transit and highways. Currently, revenue from the tax is part of the state's general fund and subject to biennial appropriations by the Legislature. The Legislature now dedicates by law slightly more than one-half of the tax to transit and highways, with the balance appropriated for other state purposes. If voters approve the amendment in November, the entire revenue from the tax would be constitutionally dedicated to transit and highways, after a five-year phase-in period. When the phase-in is complete, about \$600 million annually is expected to be dedicated to transit and highways.

2. Transit guarantee — The amendment guarantees at least 40 percent of MVST revenues for transit. The Legislature would decide each biennium how to divide the remaining 60 percent between transit and highways.

3. Apportionment of the funds — The Legislature would divide the transit share between metropolitan and non-metropolitan areas. The highway share—as determined by the Legislature—would be deposited in a constitutionally-provided highway user tax distribution fund and apportioned among state trunk highways (62 percent), county state aid highways (29 percent) and municipal state

aid highways (9 percent). The 62-29-9 formula now is used for apportioning state gasoline tax and motor vehicle license revenue.

4. Current distribution — The motor vehicle sales tax (MVST) is estimated to yield about \$540 million in the fiscal year ending June 30, 2006. Of that amount, 46.25 percent, or \$250 million, was appropriated by the Legislature to the general fund for non-transportation purposes. The balance, \$290 million, was divided as follows: metro transit, \$116 million; greater Minnesota transit, \$7.7 million; state trunk highways, \$95 million; county highways, \$48.1 million, municipal highways, \$14.8 million, and miscellaneous, \$8.1 million.

5. Impact of the amendment on transit, state trunk highways, county highways, and municipal highways — Should the amendment pass, and if the Legislature limits transit to its minimum guarantee of 40 percent, and distributes 60 percent to highways, and if the yield from MVST is about \$600 million a year, annual results would be as follows:

Transit: \$240 million total; \$124 million currently; \$116 million increase (after five-year phase-in)

State trunk highways: \$223 million total; \$95 million currently; \$128 million increase (after five-year phase-in)

County state aid highways: \$104 million total; \$48 million currently; \$56 million increase (after five-year phase-in)

Municipal state aid highways: \$32 million total; \$15 million currently; \$17 million increase (after five-year phase in)

6. Extent to which a MVST increase would fund unmet needs for state trunk highways — A forecast by the Minnesota Department of Transportation (MnDOT) on December 6, 2004, revealed annual unmet needs for state trunk highways of about \$1 billion each year between 2008 and 2030. Based on figures listed above, state trunk highways would receive an increase of about \$128 million annually from MVST, or about 13 percent of unmet needs.

C. Comments by Gunyou — In Gunyou's comments and in discussion with the group the following points were made:

1. City of Minnetonka's road needs — Currently, the city of Minnetonka's annual budget for roads is about \$5.5 million - \$1.5 million from their share of MSA funding (municipal state aid) and \$4 million from local property taxes. Minnetonka's share of state aid from the gas tax has remained constant over the past decade - even though the total MSA pot is growing, more cities qualify for the funding, so that limits Minnetonka's allocation. Plus their entire \$1.5 formula allotment has been needed (and will be needed for the next decade) to fund local match requirements for county and state road projects in Minnetonka. That means no state aid is available to maintain local streets.

Property taxes for roads were recently doubled from \$2 million to \$4 million annually to address deteriorating local streets. The city tries to maintain a road quality index of 80 percent, which means that 20 percent of its roads would always be in need of repair - a rating below 70 is considered

unacceptable. To maintain an 80 percent level of quality over the next 10 years, the city estimates it would need to double property taxes again to reach an annual road investment of \$8 million a year - that is not considered politically possible. Should the MVST amendment pass, the city of Minnetonka would only receive an additional \$200,000 each year when it is fully phased in. Gunyou noted that growing cities face an even greater funding challenge.

2. Crisis in transportation funding in the state — By most estimates, the state needs at least \$1 billion more each year to meet its transportation needs - or at least \$10 billion over the next 10 years. Last year, the legislature passed a bipartisan bill that would have funded about three-fourths of the total need. Because it phased in a 10 cent per gallon increase in the gas tax (the first increase in 18 years), the governor vetoed the bill. As an alternative, he proposed a \$2.5 billion bonding program that would be paid off over 30 years. The Pawlenty program is far less than what is needed; moreover, bonding doesn't make new money available; it simply borrows against the future.

3. Urgent need for leadership — Solving the transportation problem must start with the Governor, but more leadership is also needed from business and civic groups. Gunyou commended the Minnesota Chamber of Commerce for its willingness to step forward and support an increase in the gas tax, when other business groups, like the Minnesota Business Partnership and the Itasca Group, did not do so. He noted the overwhelming public support for an increase in the gas tax. Verne reminded the group that the Civic Caucus issued a 19-page report three years ago that recommended a gasoline tax increase.

4. Position on the amendment — Gunyou supports the proposed constitutional amendment as a stopgap measure. He's generally opposed to dedicated funding in principle, because of the lack of flexibility to meet changing priorities. He also thinks it provides a false sense of security, since it can be used to rationalize diverting undedicated funding to other services, thereby reducing net support. But the idea makes some sense for transportation, because user-related funds for highways are already dedicated in the constitution, along with a distribution formula.

The amendment is broad-based, benefiting state and local government, highways and transit. Transportation is directly related to the economic vitality of the state. Transportation is a core function of government. There shouldn't be a debate about its critical importance. It is disappointing that state leaders have not been more responsive in meeting Minnesota's transportation needs.

Gunyou discussed the unusual set of circumstances that brought the amendment to the voters. It was included in a comprehensive transportation bill that was vetoed by the governor. But the veto didn't apply to the constitutional amendment provision, because proposed constitutional amendments go directly from the Legislature to the voters without the governor's approval. Gunyou said some people suspect the Pawlenty administration wasn't even aware at the time that the amendment was veto-proof. As a result, we are now left with only one component of what was originally a comprehensive funding package. He noted that the amendment wording is confusing and the distribution of the funds is controversial, because the explanatory portion of the bill was vetoed.

5. Competitive position of Minnesota — The group discussed with Gunyou the issue of Minnesota's competitive position relative to other states. The Governor and some business groups are fearful that the state's tax system would be out of line. However, it was noted that the Wisconsin gasoline tax is about 10 cents higher than Minnesota's, yet the price-at-the-pump doesn't seem that much different between the two states. A gas tax increase would be unnoticeable in the weekly pump price fluctuations. According to the Tax Foundation, Wisconsin is 5th among the states in motor fuel taxes per capita, and Minnesota is 29th. The Tax Foundation also reports (<http://www.taxfoundation.org/research/show/241.html>) that Minnesota's motor fuel tax revenues are 4.1 percent of all Minnesota's state tax revenues. By comparison, the national average for all states is 5.3 percent, and in Wisconsin, 7.1 percent.

6. Opposition to the amendment — Gunyou said there is some local government opposition to the amendment in greater Minnesota. Some outstate officials are concerned that the amendment will fund metropolitan transit at the expense of greater Minnesota. Some question was raised why people in outstate Minnesota would be opposing the amendment because rural counties do quite well in the formula distribution of funds for county highways. Gunyou noted that the distribution formula has not been changed for years, and that the added needs of growing areas are not considered.

Gunyou doesn't expect widespread opposition, but thinks the confusing ballot language will be problematic. In addition, any under-votes are counted as no votes on the amendment - under-votes occur when people vote for individuals on the ballot, but do not vote on the amendment, which will be listed at the end of the ballot.

7. Structural problems in government — Gunyou commented on a Civic Caucus memo that outlined several questions, including whether presenting the constitutional amendment to the voters is a reflection of widespread polarization and paralysis in government. Gunyou agreed it was a failure of leadership to present controversial issues to voters. In a representative democracy, we elect leaders to consider the complex issues of governance and make informed decisions - not to shirk their responsibility by ducking the tough issues. He would very much like to get at the question of gerrymandering. If districts were more competitive, he believes that officeholders would be more responsive. He noted that his city of Minnetonka is represented by both Democrats and Republicans in the Legislature. When it comes to the interests of his community, they often vote their district, rather than how to the party line.

8. Likely impact if the amendment passes — Gunyou and the group discussed whether other functions, such as natural resources, would be successful in getting similar amendments approved, should the transportation amendment pass. Some people think that advocates for other functions will have more success in promoting their amendments because they will be able to point to a precedent in transportation.

Gunyou said it is unfortunate that the amendment before the voters only funds a fraction of the real need. A successful vote could signal the governor and Legislature that transportation now has

received its share and doesn't need more help. Or a negative vote could signal the governor and Legislature that the people don't want more support for transportation.

9. Other possible funding sources — Gunyou said he's never been a big supporter of toll roads, because they are often viewed as panaceas, but more realistically have very limited application. As a consultant, he worked on a toll road to serve the new Denver airport—in that case there were captive users, so tolls made sense. For other locations in a metro area, drivers have alternatives to paying tolls so the economics might not work. Gunyou does support the demand pricing program in effect on I-394. He suggested a transportation utility fee as an additional option for funding local roads—the property tax is their only current funding source.

10. Use of transit funds — Gunyou said that more funding is clearly needed for transit, and noted that Minnetonka has a transit-dependent population which has been impacted by reductions in bus service. To many advocates, transit only means light rail. He said that buses are more flexible than fixed rail, and can often serve a diverse metropolitan area with low density development more cost-effectively.

11. Thanks — Verne thanked Gunyou for meeting with us this morning.

***The Civic Caucus* is a non-partisan, tax-exempt educational organization. Core participants include persons of varying political persuasions, reflecting years of leadership in politics and business.**

A working group meets face-to-face to provide leadership. They are Verne C. Johnson, chair; Lee Canning, Charles Clay, Bill Frenzel, Paul Gilje, Jim Hetland, John Mooty, Jim Olson, Wayne Popham and John Rollwagen.