



Summary of Meeting with Rick Krueger

Civic Caucus, 8301 Creekside Circle, Bloomington, MN

Friday, July 21, 2006

Guest speaker: Rick Krueger, executive director, Minnesota Transportation Alliance

Present: Verne Johnson, chair; Chuck Clay, Paul Gilje, Jim Hetland (by phone), John Mooty, and Jim Olson (by phone)

A. Context of today's meeting: Today is the final in a series of meetings with thought leaders on the question of a proposed amendment to the Minnesota constitution. The Civic Caucus is reviewing the amendment, which would constitutionally dedicate all revenue from the state motor vehicle sales tax (MVST) to highways and transit. Now the Legislature dedicates by law slightly more than one-half of MVST revenues to highways and transit, with the balance deposited in the state's general fund for other purposes.

In our meetings on the amendment to date our thought leaders have been Bill Blazar, Minnesota Chamber of Commerce; Mary Jane Morrison, professor of law, Hamline University; State Rep. Mary Liz Holberg; State Rep. Ron Erhardt; State Sen. Ann Rest; Jack Davies, former state senator and former state appeals court judge; Dan McElroy, office of Governor Tim Pawlenty; David Zentner, environmentalist; Peter Bell, chair, Metropolitan Council, and Tim Flaherty and Holly Biron, Coalition of Greater Minnesota Cities. Summaries of these meetings are available by email from civiccaucus@comcast.net

After today's meeting the Civic Caucus, utilizing input from these meetings and from its electronic participants, will develop a report on the amendment.

B. Introduction— Today's speaker, Rick Krueger, executive director of the Minnesota Transportation Alliance, was introduced. The Alliance represents a broad spectrum of transportation interests in the state, including building trades, contractors, engineers, architects, truckers, and officials of county and city governments. The Alliance represents Minnesota transportation interests in Congress and in the State Legislature. Currently the Alliance is working for voter approval of the MVST amendment. The Alliance was founded 112 years ago.

Krueger has been executive director of the Alliance since December 2004. Previously he had served president of high tech companies and of the Minnesota High Tech Association. He also had been vice president of development for a real estate development company. First elected in 1982, he served six terms in the Minnesota Legislature. Krueger has a Master's in public administration from Harvard University, and a PhD in educational administration from the University of Minnesota.

C. Comments and discussion— In Krueger's comments and in discussion with the Civic Caucus the following points were made:

1. Eighteen years without a gasoline tax increase— Krueger said it has been 18 years since the Minnesota Legislature last provided a new revenue source for transportation. That was a three-cent increase in the state gasoline tax, which Krueger himself, as a member of the Legislature, recalls supporting. That increase brought us to 20 cents a gallon, comparable to Wisconsin at that time. However, Wisconsin had indexed its gasoline tax. So today Wisconsin's is 32 cents, having been indexed to inflation. Wisconsin removed the indexing provision this year.

A one-cent increase in the Minnesota gasoline tax raises about \$32 million a year, Krueger said.

The gasoline tax is the steadiest of revenue sources for transportation. It's not as susceptible to peaks and valleys as is the motor vehicle sales tax (MVST).

2. A projected \$300 million reduction in highway construction in 2008— Without new revenue and because existing bonding amounts will be exhausted—which have enabled a higher-than-normal construction level—Minnesota's highway construction will decrease by \$300 million in fiscal 2008.

3. Over-estimated federal revenue— Part of Minnesota's problem is that revenues from the federal government for highways were grossly over-estimated. Moreover, projections of federal revenues for the next six years represent a lower-than-inflation increase over the previous six years.

4. Earmarking has helped— Minnesota's Congressional delegation, particularly Oberstar, Ramstad, Sabo and Kennedy, have done an excellent job of earmarking federal dollars for specific transportation projects in Minnesota.

5. New data reveal greater needs than estimated before— Krueger distributed charts prepared by the Minnesota Department of Transportation (MnDOT) indicating that the gap between current revenues and transportation needs in Minnesota will be about \$2.4 billion a year between 2008 and 2014. It was noted in discussion that previous data distributed by MnDOT were projecting a \$1.7 billion annual gap. Krueger said the smaller number reflected the fact that the earlier gap spread the needs out over a longer number of years.

6. Faster-than-inflation cost increases for transportation— The increase in the price of steel, cement, and aggregate (gravel) is going up very fast, heavily driven by demand in China and India. The price of construction inflation is projected to be 15 percent higher in Minnesota this year than last.

7. Comprehensive proposals have been made— Krueger reviewed the content of a bill, vetoed by the Governor in 2005, that would have added \$700 million a year in transportation spending. That bill also contained the MVST amendment, which remains on the ballot this fall, because proposals by the Legislature for constitutional amendments are immune to a Governor's veto.

The vetoed bill included a 10 cent gas tax (worth \$320 million a year), an increase in license tabs and local option taxes, including county wheelage taxes and a dedication of $\frac{1}{4}$ cent of the metro sales tax for transit and transportation.

8. Validity of \$2.4 billion in annual unmet needs —Some questions were raised over how critical the unmet needs are. Krueger replied by citing the fact that several bridges in the state are below engineering standards and in danger of collapsing. The needs are critical in construction and maintenance, he said. Krueger said that MnDOT employees analyze the condition of 12,000 miles of trunk highways and find that we're falling behind Minnesota standards on those roads. To illustrate the need for maintenance, Krueger cited fading white lines on major highways that make lanes more difficult to distinguish at night and during rainstorms.

The question was raised whether conditions in Minnesota are out of line with other metropolitan areas and states. The answer is that although there are national problems with inadequate investment in maintaining existing infrastructure, Minnesota is more rapidly falling behind in addressing our transportation needs.

9. Potential momentum-building impact of MVST amendment — Passage of the amendment will be enormously beneficial for transportation in upcoming legislative sessions, Krueger said. The impact will be far beyond provisions of the amendment itself, he said. He said it will be a "bell-weather" vote. It will send a message that the people of Minnesota support more investment in transportation. That will stimulate the Legislature to provide more funding for transportation. A no vote, however, will seriously impair the future.

10. Legislature won't let transit won't short-change highways — Krueger said he strongly disagrees with non-metropolitan opponents of the amendment who contend that the Legislature will give transit more than its minimum 40 percent share of MVST. In his wildest dreams he can't come up with more than 20 of the 134 members of the House who would support such action. He disagreed strongly with comments attributed to Tim Flaherty in last week's summary that the conference committee failed to reach agreement because pro-transit Senate members were unyielding. Krueger said the conference committee failed because of a seat belt controversy. As evidence he said that the Conference Committee tentatively agreed to a hard 60% split for highways and 40% for transit.

11. Proposal from the Minnesota Transportation Alliance — Krueger said the Minnesota Transportation Alliance had put a bill together for the last session for \$1.2 billion in new money for transportation. The Alliance will be preparing another bill for the upcoming session. It will be a combination of increased revenue for current-dollar construction as well as increased revenue for bonding. He said the proposal will likely include bonding, backed by additional revenue specifically for bonding; a gas tax increase, a wheelage tax, and local option taxes. The Alliance almost certainly won't support additional bonding that isn't backed by new revenue sources.

12. Sales tax for transit will be included in next proposal — As one of the local option taxes, the Alliance will likely favor is a metropolitan area sales tax for transportation (including transit), an approach that has been followed in other metropolitan areas. He thinks the base of the sales tax will be expanded to include clothing thereby expanding the base and making it possible to lower the rate. Continuing his support for transit, Krueger said a study by Donald Shoup, Professor of Urban Planning at UCLA revealed that a roads-only approach would require 37 square miles of parking for new residents and 14,000 new lane miles of roads in the Twin Cities metropolitan area over the next

25 years. In discussion with Caucus members it was noted that the transit needs go far beyond suburb-to-downtown, particularly when it is recognized that so many job-related destinations are in suburbs.

Krueger went on to say that rural transit needs are increasing. These needs are particularly urgent when you consider that the retail and medical trips now are concentrated in trade centers 50 miles apart. Small towns need service to get to those centers. Service now is inconsistent, he said. The city of Staples is in two counties, Wadena and Todd Counties. However, transit service exists only in Wadena County. Thus the Staples residents who live in Todd County get no such service.

13. Surprising opposition in non-metropolitan area— It was noted in discussion with Krueger that county governments automatically receive 29 percent of MVST revenue. Many believe that the formula for distribution among county governments is favorable to non-metropolitan counties. County highways serve non-metropolitan cities, so it is surprising that opposition to the amendment would arise in the non-metropolitan area.

14. Need for governor-appointed commission— Asked about a possible governor-appointed commission to come up with a comprehensive transportation proposal, Krueger said we've had an abundance of blue-ribbon proposals, the most recent coming from the business-supported Itasca group. All of them conclude the issue is a critical shortage of funds.

15. Question of stressing "needs" too much— In discussion with Krueger it was noted that too much emphasis on "needs" in a campaign for the amendment might cause people to conclude—incorrectly—that transportation needs will be appreciably satisfied by the amendment. Krueger said barely one-eighth of the needs will be satisfied by the amendment.

16. Does MVST divert money from other state functions— Krueger said any alleged hole in the general fund as a result of MVST would be mitigated when fully implemented by growth in the General Fund Budget.. He said MVST will be phased in over five years and that MVST will be only one percent of the biennial budget.

17. Question of other functions seeking favorable treatment in the constitution— Krueger was asked whether a yes vote for MVST will encourage other functions to seek revenue guarantees in the constitution. Such a move could be similar to efforts in other states to bypass the legislative process with referendums. The question was raised whether such revenue guarantees would exacerbate an already seriously polarized and paralyzed political process.

Krueger said he agrees that certain functions like natural resources would attract significant voter approval. On the matter of favored treatment for transportation and not other functions, Krueger said such treatment can be justified because transportation percolates the other parts of the economy. Further, we have considerable precedent in Minnesota's constitution with transportation, because already the gasoline tax and vehicle license fees are constitutionally-guaranteed to highways. He cited difficulty the Legislature has had in giving MVST to transportation by law, rather than by constitution. In 1981 the Legislature dedicated all of MVST to transportation. In 1983 the Legislature began to renege on the commitment and put some of MVST back in the general fund.

18. Making dedication more palatable— A suggestion was made that perhaps the MVST controversy would not have existed if the Legislature would dedicate only an additional tax—say an addition to the sales tax on motor vehicles—to transportation.

D. Thanks— On behalf of the Civic Caucus, Verne thanked Krueger for meeting with us today.

***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.