

**The following article was published in the Stillwater Gazette on February 4, 2017, relating to small cities transportation funding:**

“Transportation funding has been a hot topic at the state Capitol in recent years, and lawmakers will focus on it again this session. Highways and mass transit projects often hijack the spotlight, but much of the state’s infrastructure comprises local streets maintained by cities.

“What we know is that 84 percent of the city street system is solely reliant on the property tax [or special assessments to property owners],” said Anne Finn, an assistant director and lobbyist for the League of Minnesota Cities.

This year, cities are asking the state to share more of the burden.

A proposal supported by the League of Minnesota Cities and other city advocacy groups suggests adding a \$10 surcharge on license tab fees and a \$10 surcharge on motor vehicle title transfers.

According to the league, the additional fees would raise about \$57 million a year. Half of that would be divided among cities with populations under 5,000. The other half would go to cities over 5,000 to spend on roads that don’t already qualify for state aid.

“We really want dedicated revenues so it’s a reliable source of funds for cities,” Finn said.

Citing U.S. Department of Transportation research, Finn says the money would be well-invested, because for every \$1 invested in maintenance spending, a road authority can save \$7 in repairs.

The budget put forward by Gov. Mark Dayton’s includes a plan similar to the League of Minnesota Cities proposal. Dayton would add surcharges on registration fees and title transfers, and provide \$19 million a year to a small cities fund and \$19 million to be divided among larger cities. The governor’s plan also includes funding for tribal roads and for assisting small cities with Americans with Disabilities Act projects.

Stillwater area legislators seem open to the idea of state assistance for city streets, but don’t support imposing additional fees.

**What do cities get already?**

Most of the money generated by state gas taxes, automobile sales taxes and vehicle license tab renewals is distributed to state, county and municipal agencies for road work, based on a formula in the Minnesota Constitution. Of the funds being distributed, the state gets 62 percent, counties split 29 percent and cities with populations greater than 5,000 split 9 percent.

Cities and counties that receive aid can only spend it on projects related to specific streets that have been designated state-aid streets — typically those are larger collector streets with heavier traffic.

Small cities are left out of the equation entirely.

That's why in 2015 the Legislature created a small cities assistance account to support road construction and maintenance in cities with populations under 5,000. But the account was only funded with a one-time allocation of \$12.5 million for 2016. The small cities assistance fund won't be replenished without legislative action.

The state also has a Local Road Improvement Program administered by MnDOT, which provides funds for local projects through a competitive process. The funds focus on paying for three types of projects: (1) the local share of trunk highway projects, (2) routes of regional significance and (3) rural projects aimed at reducing crashes and fatalities.

Cities over 5,000 population and counties can apply for the funds. Cities under 5,000 people and townships need the sponsorship of a county to apply.

According to MnDOT, in 2015 the program awarded a total of \$8.9 million for nine projects. In 2014 it provided \$54.4 million for 43 projects.

### **Cities: It's hard to keep up**

Jill Sletten, executive director of the Minnesota Association of Small Cities, says the burden on small cities is too great to continue funding road improvements solely through property taxes and special assessments.

"They keep rising every year, and our city streets are in bad shape, just as the roads across Minnesota are in bad shape," Sletten said. "Our cities can't keep supporting that with property tax increases every year."

She pointed out that the majority of cities in the state fall into the small city category — out of 852 cities, 707 have a population of 5,000 or less, according to the association's website.

"I don't know that people realize that there's that many cities under 5,000 in the state of Minnesota and they are kind of the backbone to Minnesota, so it's important that we keep them growing," Sletten said. "The city streets in our small cities are essential to the mobility and the vitality of our small communities, so it's really important that we get money into that account that will support maintaining our streets."

Sletten also said the property taxpayers in small cities aren't the only ones who use the streets there, so she believes it's unfair for them to shoulder the entire cost of street maintenance.

Mary McComber is vice president of the Minnesota Association of Small Cities and mayor of Oak Park Heights. According to the last census, her city had a population of 4,445. In recent years the city went as far as considering a special census in hopes that it had reached the 5,000-resident mark to qualify for state road aid. It never carried out the special census, however.

“Fortunately we [Oak Park Heights] did a good road plan a few years ago, and we kept on top of it, so our city’s roads aren’t going into bad repair, but we still have needs,” McComber said. “I would like to see sustainable funding.”

Oak Park Heights northern neighbor, Stillwater, has a population near 20,000 and does receive funds for state-aid streets, but it’s behind on regular road maintenance, according to City Administrator Tom McCarty.

From about 2008 to 2015, when budgets were tight and the economy poor, the city largely avoided street projects except on state-aid roads.

“The reason for that was there was no money,” McCarty said.

In 2016 the city once again began a regular schedule of street maintenance for the city’s street system, but the city now charges property owners along the construction routes a larger percentage of project costs.

McCarty said city staff supports the idea of state aid for streets. He’ll present the League of Minnesota Cities’ proposal to the city council next week when the council considers its legislative priorities.

“I think it’s fair to say that any kind of assistance from the state for non-state-aid streets is positive,” McCarty said.

But the city has moderate expectations. Although he doesn’t know exactly how the funds would be divided, McCarty knows Stillwater wouldn’t get enough to cover the entire costs of the city’s projects, which are expected to cost upwards of \$1.5 million a year.

Anne Finn with the League of Minnesota Cities says cities aren’t asking the state to pay for all local roads.

“No matter what happens at the state level, the cities are still going to be taxing their property taxpayers for streets,” she said. “We’re not asking the state to pay for every street in every community. What we’re seeing is that communities have fallen behind, and in addition, the cost to this infrastructure has increased dramatically. A lot of it has aged at the same time, so cities are looking at having to replace a lot more of their systems at the same time than they’ve had to in the past. There’s just this bottleneck that we think it would be really helpful if the cities had some way to get started on repairing and replacing some city infrastructure.”

### **State lawmakers weigh in**

Both Sen. Karin Housley, R-St. Mary’s Point, and Rep. Kathy Lohmer, R-Stillwater, believe the state should fund the small cities assistance account, but neither supports the proposed fees on vehicle license tabs and title transfers.

“I do recognize the need of our small cities that they currently have of street maintenance and construction,” Housley said. “It gets to be a lot for property owners.”

Housley also prefers to see a long-term solution with dedicated revenues that small cities can count on. But with December projections showing a \$1.4 billion state budget surplus for the next biennium, she says the state already has enough money.

"I'm not a big fan of creating a new fee," Housley said. "I would much rather try and find the money in what we already have."

Housley prefers a Republican idea to dedicate the existing 9.2 percent tax on motor vehicle rentals to fund the small cities assistance account. Lohmer agrees with this approach, saying the rental car tax would generate an estimated \$26 million a year for the small cities fund and has the potential to keep up with inflation as rental prices increase.

At this point in the session, neither Housley nor Lohmer seemed to have strong opinions on whether the state should provide additional street aid to cities with populations greater than 5,000.

"I wouldn't rule it out," Housley said.

Asked for comment on the League of Minnesota Cities proposal, Rep. Bob Dettmer, R-Forest Lake, said in an email, "Fortunately, there is a funding source that already exists through the Department of Transportation; the Local Road Improvement Program."

He also said the Legislature tried to provide local road funding last year and he's open to similar proposals this year.

"In last year's tax bill, there was significant funding for local roads and bridges through re-appropriating revenue from existing sales tax on car parts, in addition to funding transportation projects through state bonds as well," he wrote. "Unfortunately, the tax bill was left unsigned by Governor Dayton, and agreements were not reached on bonding or transportation proposals. I look forward to seeing what tax provisions pass this session in terms of transportation funding, and to discussing other funding streams similar to what was discussed last session."