Minnesota Transportation Revenue Program Case Study

Determination from legislative leaders and industry-led sponsors overcame staunch opposition from the state’s Governor to pass this historic tax-driven funding increase

Background

Initiative Description

During the 2008 session of the Minnesota legislature, a comprehensive transportation funding package (Chapter 152 Funding Bill), anchored by a 25 percent increase in the state motor fuel tax, was passed by legislative override, despite the Governor’s veto. For the first time since 1988, the motor fuel tax was increased by 5 cents, from 20 cents to 25 cents, in two steps. On April 1, 2008, the motor fuel tax was increased to 22 cents, and on October 1, 2008, it was increased by another 3 cents. Several other components of the funding package included:

- $1.8 billion in bonding authority from FY 2009 through FY 2018 for trunk highways, which comprise Minnesota’s state highway system and include interstates
- 3.5-cent surcharge on the motor fuel tax for trunk highway bond debt service according to following schedule:
  - FY 2009 0.5 cent
  - FY 2010 2.1 cents
  - FY 2011 2.5 cents
  - FY 2012 3.0 cents
  - FY 2013 3.5 cents
- $50 million in general obligation (GO) bonds for local bridges and $10 million in GO bonds for local roads
- Modification to vehicle licensing laws including eliminating the cap on license tab fees (annual vehicle registration fees)
- Dedication of the sales tax on leased vehicles to Greater Minnesota and local roads (see the following section a definition of Greater Minnesota)
- Authorization for seven counties in the metropolitan region to impose a ¼ percent sales tax for transit
- Authorization for counties in Greater Minnesota to impose a sales tax of up to ½ percent for transportation
- Modifications to transportation funding distribution formulas among regions and programs
This funding package is estimated to generate nearly an additional $6.5 billion over 10 years. This increase represents an annual funding increase of about 50 percent over current levels, from about $1.3 billion to nearly $2 billion annually, one of the largest percentage increases in recent national history.

**Minnesota’s Transportation Background**

Minnesota is geographically divided into two regions—the Twin Cities (Minneapolis and St. Paul) metropolitan region and Greater Minnesota. Its transportation system includes roadways, bridges, transit systems, freight rail, and air and water facilities. Its roadways consist of:

- Trunk Highways – 29,227 lane miles, including interstates
- County Highways – 91,072 lane miles
- City Streets – 44,855 lane miles
- Township roads – 112,973 lane miles

Within these four categories, Minnesota has 19,155 bridges and culverts crossing its many lakes and waterways.

Constitutionally mandated funding for state roads and bridges dates back to the end of the 19th century. Currently all state funding originates from the Highway User Tax Distribution Fund, which receives collections from the motor fuel tax, sales tax on motor vehicles, and license tab fees (see Figure 1). Monies from the fund are divided 62 percent to Mn/DOT for trunk highways (which is also funded through federal aid), 29 percent for county state aid (covering a subset of county highways), and 9 percent for municipal state aid (covering a subset of city streets).
Demonstrated Need

Like many metropolitan regions in the U.S. over the past 40 years, the Twin Cities metropolitan area has experienced marked population and workforce growth (especially among women), significant increases in auto ownership, and increased suburbanization and decentralization. These trends have culminated in greater vehicle miles traveled on a roadway system that has seen comparatively little expansion, often inadequate maintenance, and a funding system compromised primarily of the motor fuel tax’s decreasing purchasing power due to inflation. To an extent, these trends also apply to the less urbanized and rural areas of the state. Additionally, across the entire state, its vast system of bridge infrastructure has felt the demands of underfunded maintenance and rehabilitation needs.

Within the metropolitan region in 2000, 60 percent of the region’s highways were found to be congested, and a 2003 Metropolitan Council survey of area residents found traffic congestion to be the number one concern, ahead of crime, education, and housing. About the same time in 2004, Mn/DOT produced a needs study identifying a significant gap
between existing resources and those required to bring the performance of the trunk highway system to the level of established criteria. The most recent Mn/DOT estimates of unfunded transportation needs across the state examine the period from 2008 through 2020. These estimates cover the costs of maintaining the existing system in good condition and meeting some new demand, and do not take into account the funding increases of the 2008 package:

- Trunk Highway – $23.6 billion
- County Highways – $6.3 billion
- City Streets – $4.6 billion
- County/City/Township Bridges – $2.5 billion

In 2003, Governor Pawlenty had supported $400 million in advanced federal funding and $400 million in bonding for highways through 2006, but by the end of that period, the encumbered federal funds left little funding for counties. Essentially, no significant increase in funding for transportation had occurred since 1988 when the motor fuel tax was raised from 17 cents per gallon to 20 cents per gallon.

**Initiative Development**

Significant development of the 2008 funding package dates back to 2005. During that year’s legislative session, in the face of the state’s growing needs and the advancement of congestion and road condition as the primary concern among its citizens, a comprehensive package was proposed in the Republican-controlled Minnesota House. The proposal included a two-phase 10-cent increase in the motor fuel tax, $1 billion in trunk highway bonds over 10 years, and authorization for a ¼ percent sales tax for transit in the metropolitan region, among other provisions. The proposal was eventually vetoed by Governor Tim Pawlenty, who had been disinclined to increase taxes. However, the phasing in of the full dedication of the motor vehicle sales tax (MVST) on vehicles to transportation (previously it had been about 58 percent) was also a provision of the 2005 funding package. Because it was included in that bill as a constitutional amendment, it was not affected by the Governor’s veto and was approved by the voters in November 2006. The expected increase to highways and transit when the dedicated sales tax is fully phased in by FY 2012 is nearly $300 million per year.

During the 2007 legislative session, another comprehensive bill originated, this time in the DFL-controlled Senate. (The Democratic-Farmer-Labor [DFL] Party in Minnesota is a major political party affiliated with the national Democratic Party—in 2006, the Minnesota House also was majority-controlled by DFLers.)

In March of the 2007 legislative session, the Senate and the House passed a transportation funding bill that included a 10-cent increase in the state motor fuel tax and a ½ percent sales tax authorization for Greater Minnesota, among other provisions. The Governor and
many Republicans voiced their opposition to the tax increase, with the Governor preferring to generate new funding through increased borrowing. During a May 2007 Senate-House panel session, the tax increase was reduced to 5 cents and $1.5 billion in bonding backed by up to a 2.5-cent fuel surcharge was added to the bill in attempt to attract greater legislative support to override a likely veto by the Governor. The amended bill was vetoed by the Governor who called it an “unnecessary and onerous burden on Minnesotans that would weaken [the] state’s economy.” A subsequent veto override failed by seven votes in the House.

Following the finalization of the FY 2008 budget, only three months later, on August 1, 2007, the collapse of the I-35W Bridge over the Mississippi River in Minneapolis captured state and national headlines and brought transportation funding back to the forefront of public debate. Three days later, it was reported that Pawlenty considered the bridge collapse an indication that increased funding for transportation was clearly needed, that he would consider an increase in the motor fuel tax, and that all options for funding were on the table. Pawlenty later clarified he could support a motor fuel tax increase of 5 cents if it were temporary or offset by cuts in other taxes. Also in the immediate aftermath, there was discussion of holding a special legislative session in the fall to consider a funding bill, but a lack of consensus on an agenda ahead of time derailed the effort.

DFLers rapidly reintroduced a comprehensive funding plan similar to the failed 2007 package when the 2008 legislative session opened on February 12, 2008, ignoring the Governor’s January proposal of about $416 million in bonds for accelerated road and bridge projects. The bill was quickly passed and again vetoed on February 21. However four days later, the override succeeded, this time with one vote to spare in the House.

**Sponsors and Stakeholders**

**Legislative Leadership**

Strong leadership from the Minnesota House and Senate contributed to the success of the 2008 funding initiative. Notable champions included Representative Bernie Lieder (DFL-Crookston), chairman of the House Finance Subcommittee: Transportation Finance Division, and Senator Steve Murphy (DFL-Red Wing), chairman of the Senate Transportation Committee.

Additionally Representative Ron Erhardt (R-Edina) played a critical role. As former chairman of the House Transportation Policy Committee in 2003-2004 and House Transportation Committee in 2005-2006 (prior to the change from a Republican to DFL majority caused by that year’s election), Erhardt authored transportation funding bills in 2003 and 2005. The former failed to advance out of committee, but the latter became the first motor fuel tax increase to pass the House since 1988. By meeting with transportation
interests outside the capital, Representative Erhardt began to employ the consensus building strategy that ultimately prevailed in 2008. As discussed previously, the funding increases in the 2005 bill set the stage for the 2007 bill and, ultimately, the successful 2008 legislation. Erhardt was a key Republican supporter of the two later measures as well, one of six Republican House members in 2008 who voted to override the Governor’s veto.

Transportation committee leaders in the Senate and House also championed the funding increases in 2007 and 2008. Going into the 2008 legislative session, Senator Murphy was determined to push a motor fuel tax bill through the Legislature, following the narrow failure of the proposal in 2007 and the aftermath of the I-35W Bridge collapse. Reporting on an interview with Murphy before the start of the session, the St. Paul Pioneer Press noted that Murphy did not want a funding increase proposal whittled down by the Governor and was confident in overriding a likely veto. Murphy’s intentions, after the passage of a funding bill, also included voting on removing Lt. Governor Carol Molnau from her post as commissioner of Mn/DOT because of perceived mismanagement and her opposition to funding increases.\(^\text{12}\)

Perhaps more significantly, Representative Lieder helped lead the charge in the House where the critical override vote lay—DFLers held a two-thirds majority in the Senate, enough to override a veto without Republican participation. Formerly a chief highway engineer, Representative Lieder has been in the Legislature since 1984. His concern over Mn/DOT reducing its responsibilities and not asking for increased budget was reported in the Pioneer Press prior to the 2008 legislative session. He felt the privatization of services, such as pavement restriping, and reduction in staff was not cost-effective. He expressed concern that top management personnel were inexperienced political appointees, including its commissioner, Lt. Governor Molnau.\(^\text{13}\)

Finally, the Speaker of the House, Margaret Anderson Kelliher, also galvanized support for the bill in the House by bringing up the issue of transportation funding early in the 2008 legislative session and setting the tone for legislative agenda. Near the time of the override vote, she also succeeded in earning the support of the Chamber of Commerce who had sided with the Governor in opposing a motor fuel tax increase after it had supported the dedication of the MVST in 2005.\(^\text{14}\)

**Mn/DOT**

An auditor’s report released in February 2008, between the passage of the 2008 transportation funding bill and the Governor’s veto, concluded that Mn/DOT had not met its “preservation first” policy, with over half of trunk highway construction spending having gone toward system expansion since 2002. Additionally, Mn/DOT had been consistently scheduling more projects than it could afford and often relied too heavily on financing new construction with bonds. Since 2002, the report found that Mn/DOT had not
met its goal for maintaining roads in good condition, with planned spending on road and bridge upkeep only half of what was required.\(^3\)\(^,\)\(^5\)

Much of this criticism for Mn/DOT’s performance was directed at its commissioner. Formerly a member of the House and a Transportation Committee chair, Lt. Governor Carol Molnau was appointed Commissioner of Mn/DOT by Governor Pawlenty but ended up caught between running Mn/DOT on a tight budget and being supportive of the Governor’s anti-tax position. She was criticized over the use of existing funding—while not supporting increases for her own department—and over the I-35W Bridge collapse.\(^1\)\(^6\) Her refusal to meet with contractors eager to press upon her the need to increase transportation funding engendered a poor relationship within the industry.

To an extent, she had been successful at deflecting criticism, but Senate DFL leaders had promised to remove her from her post following the passage of a funding bill in 2008.\(^1\)\(^6\) The Senate Transportation Committee followed through and voted to remove her three days after the veto override at the end of February 2008.

Despite a lack of faith in Mn/DOT’s leadership during the Pawlenty administration, Mn/DOT’s reputation did not unduly derail the effort to pass the 2008 funding package and entrust the Department with significant new resources. Politically, the promise to remove Molnau from her post helped alleviate concern over Mn/DOT’s leadership if the funding increase was approved. Perhaps more significantly, the positive reputation of its rank-and-file members as solid engineers and planners helped buoy the Department despite the turmoil at the top. When interviewed, Representative Lieder and former Representative Erhardt confirmed the Legislature’s confidence in the abilities of Mn/DOT’s staff.

**Stakeholders**

**Minnesota Transportation Alliance**

The Minnesota Transportation Alliance was an active proponent of the 2008 transportation funding package through lobbying efforts, public education, and advertising. The Alliance is a public interest group that acts as an advocate, partner, and information source for transportation issues within the state. Its members, who include businesses, labor organizations, the transportation industry and local governments, work with industry, elected officials, advocates, and government entities. They lobby St. Paul and Washington DC for increased investments in transportation, organize community groups to gain specific improvements’ programming and financing, and gather and disseminate relevant legislative information among its constituents and the public.

**Progress in Motion**

A specific public relations effort led by the Transportation Alliance called Progress in Motion (PIM) helped advocate for a permanent increase in funding for transportation.
Following the 2006 passage of the constitutional amendment dedicating all MVST to transportation, PIM evolved from a group called Minnesotans for Better Roads and Transit and began to advocate for a comprehensive package like the one proposed in 2005 that accompanied the amendment. Notable members of PIM included representatives of the road building and other related industries, including members of the Associated General Contractors (AGC) of Minnesota. PIM also hired lobbyist and consultant Jim Wafler who was instrumental in successfully spreading the message about the proposed funding package and working between the Legislature and the public in building its support. His activities are discussed further under Marketing Tools.

**Grassroots Efforts**

Grassroots support for the funding package came in large part from the nonprofit Transit for Livable Communities (TLC). Since 1996, TLC has advocated and organized support for a “balanced transportation system that encourages transit, walking, bicycling, and thoughtful development.” Compared with well funded industry groups and lobbyists, such as members of Progress in Motion, TLC worked within a small budget, using its action network to meet with legislators to support the bill and to secure dedicated funding for transit and strong community support for the Hiawatha light rail line in Minneapolis.

**Media**

The major metropolitan newspapers, the *Star Tribune* (Minneapolis), and the *St. Paul Pioneer Press* ran editorials in favor of the funding package. Editorial boards of the 12 daily newspapers outside the metro area, which also were generally Republican, uniformly published positive editorials as well.

**Opponents**

Governor Tim Pawlenty has been a staunch anti-tax leader, vetoing all three major motor fuel tax proposals in 2005, 2007, and 2008. While acknowledging the need for addressing transportation funding inadequacies over this period, his position typically leaned toward a more measured approach centered on raising funds through bonding. For the 2008 legislative session, it was reported that Pawlenty’s strategy was to be passive when it came to transportation, thinking that in the past competing proposals from the Governor’s office and the Legislature have clashed without results. The Governor was expected to let the Legislature make their proposal and then negotiate a deal from there. A motor fuel tax increase would be under consideration if offset with other tax cuts.

The Chamber of Commerce, representing numerous state businesses, sided with the Governor and opposed increasing taxes, but was persuaded by the Speaker of the House to support the initiative very close to its eventual passage. Other opponents that did not factor as significantly as the Governor’s Office included Senate and House Republicans that supported the Governor and voted to support his veto. Additionally, the Taxpayers League
of Minnesota, led by former Republican House member Phil Krinkie, opposed the funding measure on budgetary grounds, but did not have significant funding to mount a serious challenge.

**Communications/Marketing**

**Package Considerations**

**Equity**

Several equity considerations factored into the formulation of Minnesota’s 2008 transportation funding package. The measure contained considerations to help bridge the divide across traditionally problematic equity concerns in the state. Specific to transportation, these concerns included geographic equity among rural and urban residents and modal equity among users of transit and highways. A “strategic industry perspective” held by members of PIM was that they felt that rather than parse out a funding package and pit factions against one another, it was instead preferable to increase the size of the overall package and accommodate all concerned parties to build broad-based support. In this manner, transit received a dedicated funding source (the option for the seven-county metro area to enact ¼-percent sales taxes) to balance funding for highways. This provision built on the 2006 dedication of the MVST to transportation, which had contained a provision directing not less that 40 percent of receipts to transit. Directing greater funding to transit also helped ease the battle between rural and urban areas, as the former tended to prefer funding highways, while the latter sought greater transit funding. A distribution formula for state aid to highways was also altered by the funding measure to better favor growing rural counties.

**Earmarking**

Earmarking, the widely used and oft-criticized means of legislatively directing funding to specific projects, historically has not had great prevalence in Minnesota, especially with transportation. Traditionally in Minnesota, this fiscal strategy has been eschewed in favor of reliance on a structured planning process and allowing Mn/DOT, counties, and municipalities to direct their allotted budgets the best ways they see fit. Constitutionally protected funding sources and formulas have guaranteed well understood and relatively predictable funding streams, even if overall budget levels had been lacking. As Representative Lieder described it, legislators prefer to avoid the “political arm” from raking over the budgetary process. This phenomenon certainly aided in the approval of significant increases in taxes and fees without relying on a prescribed menu of projects to be funded with new revenues.

One minor exception to this policy approach became part of the negotiation over the 2008 legislation. To help secure the vote of one particular House Republican, particular language was used in the bill to narrowly restrict certain highway funding. In this manner,
essentially only one route meeting this criterion would be eligible to receive the funding. This particular route was located in the key Republican’s district, and effectively its funding acted as an earmark. According to Representative Lieder, this stipulation was insisted upon by House leadership as a part of the effort to guarantee enough Republican votes for the expected veto override.20

**Election Year**
The Minnesota House of Representatives, which is elected biennially, was up for reelection in 2008. This factor may have been a disadvantage for proponents seeking to override the Governor’s promised veto. Republican representatives from conservative districts in the state may have been resistant to side with DFLers and oppose the Governor during a reelection campaign. In retrospect, it is not clear that Republicans who voted for the override harmed their reelection chances with that decision. Of the six Republicans who voted with all DFLers for the override, two did not seek reelection, two were reelected, and two lost their seats. (All but three DFLers who ran for reelection held their seats.) One of the two defeated was Representative Erhardt, who having supported the measure, drew competition from a fellow Republican and ran unsuccessfully as a “moderate independent”. On the other hand, there is some belief that voting against the bill and the override contributed to the defeat of at least one House Republican, because contractors in his district eager for increased business opportunity in their industry opted to support his opponent.14

**Federal Funding**
Federal funding was not generally a consideration in formulating the transportation funding package. There was some expectation that Representative James Oberstar’s appointment as chairman of the U.S. House Transportation and Infrastructure Committee in 2007 would result in increased federal funding to the state and his district. Some concern arose over the potential need to direct state funding to provide supplemental funding for projects with federal earmarks. Proponents of the state transportation funding package also worried that Republicans would be disinclined to support the measure thinking that Oberstar would facilitate increased federal assistance to Minnesota, diminishing the need to implement increased state funding. Nonetheless, these concerns did not materialize into actual stumbling blocks to the success of the funding initiative.

**Marketing Tools**
**Progress in Motion**
PIM evolved from an earlier campaign orchestrated by a coalition called Minnesotans for Better Roads and Transit (MBRT) that had successfully passed the full dedication of the MVST to transportation during the 2006 General Election. MBRT was assembled and led by the AGC of Minnesota and was the largest coalition formed for a public policy issue in the history of the state, comprising over 1,200 businesses and organizations. After the approval
of the MVST ballot measure, MBRT evolved into Progress in Motion to continue its transportation funding advocacy and promote a comprehensive funding package like the one vetoed by the Governor in 2005. PIM’s members had the experience of running a successful campaign, where it had raised $3.5 million over 20 months, and as the AGC describes it, took a “complex pubic policy issue and cleverly package[d] it around a marketing icon (the state license plate) and a straightforward message.”

Beginning early in 2007, PIM began a public relations campaign to inform voters of the necessity of new transportation investments, and in turn, to press upon their state representatives to support such an initiative. Members of PIM met with legislators on a weekly or biweekly basis, which helped form a continuous dialogue between lawmakers and proponents for transportation funding. Other key PIM activities included research, advertising, and polling. PIM lobbyist Jim Wafler was instrumental in managing its interaction with legislators, including meeting with key Republicans whom they targeted as likely supporters to override the Governor’s veto. Mr. Wafler, a former chief of staff to three Speakers of the House, was in charge of the “hard count” in the House, determining precisely the number of legislators that could be relied upon to vote to override the veto. His other duties included numerous community-level speaking engagements, helping to draft letters to the editor, and promoting company activism and interaction among members of the Legislature.

Importantly, PIM’s efforts extended beyond traditional transportation circles. Non-transportation interest groups across the state were brought on board to support the package. Among them were agricultural commodity groups who rely on county roads and state highways to ship their goods to markets. Other groups included religious organizations with particular interest in transit, as well as environmental groups seeking system efficiencies and modes and technologies to reduce pollution. Overall, PIM was successful at creating a broad coalition among various interest groups, including contractors, unions, producers, businesses, and local governments. These participants in turn generated local support for the measure.

Overall, PIM raised and spent about $5 million on the marketing campaign for the funding package. Most of the money came from contractors, but from suppliers, the engineering community, unions, and individual businesses as well. It had hired a Virginia-based marketing firm, which Jim Wafler credited with a successful marketing effort. The campaign budget was largely spent on targeted radio advertisements, but included other media such as strategically placed billboards along the detour route for the I-35W Bridge.

**Lessons Learned**

Determination from legislative leaders and industry-led sponsors overcame staunch opposition from the state’s Governor to pass this historic tax-driven funding increase.
Those interviewed for this funding initiative uniformly agreed they would not have done very much differently. They felt the measure, its development, and campaign were very successful. Credit was attributed to the strong leadership in the House and DFL caucus that built on the groundwork laid in 2005 by Ron Erhardt and other supporters of that year’s attempt at passing a funding bill. The 2005 passage of the constitutional amendment dedicating 100 percent of the MVST to transportation galvanized the efforts of Progress in Motion and the DFL caucus to attempt to pass a comprehensive funding package again in 2007 and 2008.

It should be noted that the collapse of the I-35W Bridge between the unsuccessful 2007 bill and the ultimately successful 2008 bill certainly did contribute to its passage. However, the event was less of a necessary turning point than an unfortunate coincidence, having occurred during a period of newly heightened awareness of adequate bridge maintenance. Mn/DOT’s ongoing bridge inspection process, in accordance with federal National Bridge Inspection Standards, was being undertaken on one or two year intervals, depending upon the bridges’ condition. A March 2007 inspection report revealed 70 fracture critical bridges throughout the state—those bridges that are at risk for collapse if one of their load carrying components fails. Several bridges had been closed on an emergency basis for repairs prior to the I-35W Bridge collapse. However, the final National Transportation Safety Board report on the collapse indicated the cause as a design flaw—an undersized gusset plate—and that maintenance was not a factor.

Regarding the public campaign, Mr. Wafler felt that the budget was well spent and the message was clear and focused. In retrospect, he would not have invested in polling, as the results proved not to be particularly helpful, especially given the relatively high cost. Focus groups, on the other hand, were successful in formulating the campaign message for the funding initiative. Additionally, he would seek broader-based support beyond the participation in PIM, engaging other entities such as transit interests and local big businesses (e.g. Target and Medtronic), even if their contributions would have been comparatively small.

**Additional References**


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