3 FUNDING AND FINANCING GUIDELINES

Detailed background information can be found in Section B of the Appendix

This section discusses potential opportunities for sharing commuter rail system costs among federal, state and local levels of government. This section also summarizes the most promising funding sources and financing techniques to pay for the capital and operating costs of commuter rail service, including the "Moving Minnesota" transportation investment strategy recently announced by the Governor.

3.1 Cost Sharing

The successful funding of commuter rail projects in Minnesota will require effective partnering of the agencies and entities which will benefit from its implementation. Commuter rail capital costs are typically shared among federal, state, local units of government, and the railroads. The major share of debt service would likely be assigned to the State of Minnesota with any railroad cost sharing or federal funding reducing the portion of the capital costs funded by the State. Operating costs are typically satisfied through user fees (farebox recovery) and state and local government operating subsidies.

"Moving Minnesota," a ten year state transportation investment strategy recently announced by the Governor, provides for a dedicated and flexible transportation funding source for projects such as commuter rail.

The Moving Minnesota investment strategy would provide a new state funding source that has the potential to satisfy both the capital and operating needs of a commuter rail system in Minnesota.

3.2 Sources of Funding

Applicable sources of funding were identified for both operating costs and capital costs.

<u>Operating Funding</u>

Potential sources of commuter rail operating funding include the following:

- Fare and advertising revenues – Fare and advertising revenues will serve to partially offset operating costs,
- The Moving Minnesota investment strategy - This funding strategy would provide a dedicated funding source through the transfer of a portion of the Motor Vehicle Excise Tax (MVET) to a multimodal transportation fund,

- Regional sales tax - State enactment of a prospective regional sales tax could be considered,
- State sales tax – existing tax that yielded $3.1 billion in 1998 and that has produced revenue growth of 6.5% over the past three years. Each 0.1% increase in the State sales tax would yield $48 million annually, and
- Property tax levies – Existing property taxing authority granted by the State to the counties could be utilized to offset operating costs.

Capital Funding

Potential sources of commuter rail capital funding include the following:

- The Moving Minnesota investment strategy - This funding strategy would provide a dedicated funding source through the transfer of a portion of the Motor Vehicle Excise Tax (MVET) to a multimodal transportation fund,
- Sales tax - A prospective regional sales tax could be considered that could generate $332 in annual revenues for each 1% sales tax imposed. As is the case with property tax levies, sales tax revenues could be utilized to offset capital and/or operating costs,
- Property tax levies – Existing property taxing authority granted by the State to the counties could be utilized to offset capital costs,
- Section 5309 New Starts Program - Part of FTA's Capital Program that funds new fixed guideway systems (heavy rail, light rail, commuter rail, busways, etc.) and extensions in metropolitan areas. In FY 1999, $896 million was appropriated nationwide,
- Surface Transportation Program (STP) - A formula program through which funds are allocated to states and metropolitan areas for highways, transit capital, and bus terminals and facilities. Minnesota received $114.8 million in FY 1999,
- National Highway System (NHS) - An FHWA formula program that provides funding for improvements to rural and urban roads that are part of the

National Highway System (NHS). Under certain circumstances, funds can be used for transit. Minnesota's apportionment in FY 1999 was $89.2 million, and

- Interstate Maintenance – An FHWA formula program for resurfacing, restoring, rehabilitating, and reconstructing most routes on the Interstate System. Up to 50% of a State's apportionment may be transferred to NHS, STP, CMAQ, and/or Bridge. Minnesota's 1999 apportionment was $74.7 million.

3.3 Financing Techniques

Capital obligations borne by the State of Minnesota are best met through the issuance of general obligation bonds that would pledge the State's "full faith and credit." The issuance of general obligation bonds is envisioned to be the most effective commuter rail capital financing technique available, net of any available local, regional and/or federal contribution(s).

Other financing techniques that could be considered include the following:

- Transportation Revolving Loan Fund - The federal government established a State Infrastructure Bank (SIB) program in 1995 through the National Highway System Designation Act. A SIB is a state or multi-state fund that can be used by eligible borrowers to finance transportation projects.
- The federal government established a State Infrastructure Bank (SIB) program in 1995 through the National Highway System Designation Act. A SIB is a state or multi-state fund that can be used by eligible borrowers to finance Title 23 (highway) or Title 49 (transit) eligible projects, and
- GARVEE bond financing – Any financing instrument for which principal and/or interest is repayable with future federal-aid highway and transit funds. The debt is issued in anticipation of the receipt of federal-aid grant reimbursements in subsequent years. State legislation is required to obtain GARVEE bond financing.