

### **What is the Trunk Highway System?**

In general, any Interstate Highway, U.S. Highway, or Minnesota state highway route is part of the state Trunk Highway system. The state is responsible for operating and maintaining these roads, including bridges and associated infrastructure, and the Minnesota Department of Transportation (MnDOT) is the state agency with jurisdiction over the system. [Article 14](#) of the State Constitution authorizes and prescribes requirements for the Trunk Highway system, aid for local road systems, as well as taxes to pay for each. The Trunk Highway Fund is dedicated to operating and maintaining the state highway system and is supported by a portion of funds from the Motor Fuels (Gas) Tax, Registration Tax (Tabs), Motor Vehicle Sales Tax (MVST), and transportation related sales taxes, as well as funding from other revenues. These tax streams also support local road aid.

### **What are Trunk Highway Bonds?**

Trunk Highway bonds are a type of state General Obligation (GO) debt. GO debt is backed by a pledge of the taxing authority of a unit of government, in this case the State. Only the legislature can authorize the executive branch to sell Trunk Highway bonds. Trunk Highway bonds are backed by the revenues to the Trunk Highway Fund. The bonds mature within 20 year and principal and interest payments are made every year.

Trunk Highway bond proceeds can only be used on Trunk Highway capital projects, such as constructing or replacing roadway and bridge infrastructure, or support facilities related to the Trunk Highway system (e.g., truck stations, rest areas, and district offices).

### **Why use Trunk Highway bonds?**

The Legislature appropriates close to \$1 billion in Trunk Highway Fund 'cash' a year for MnDOT to construct or reconstruct Trunk Highways. Trunk Highway bonds are a way to front load additional projects and complement capital spending in the near term. During low interest periods, the interest rate on bonds can be lower than construction inflation, making Trunk Highway bonding advantageous. However in higher interest environments or after a period of heavy borrowing, a significant amount of Trunk Highway spending could be directed to making principal and interest payments for bonds, rather than maintaining the roadways. Debt service has the 'first call' on Trunk Highway spending, so the more debt service the less flexibility the legislature has to direct Trunk Highway spending.

### **What is the limit on Trunk Highway bonds?**

By [Minnesota Statute, section 167.60](#), MnDOT is required to develop a [debt management policy](#) that prescribes limits on the amount of Trunk Highway bonding. The MnDOT policy sets a recommendation to the state to limit debt service on Trunk Highway bonding to no more than 20% of annual Trunk Highway Fund revenues from state sources (excluding Federal Funds). This payment based or affordability limit can be raised by increasing revenues to the Trunk Highway Fund or by waiting for Trunk Highway debt to be retired.

### **What is the current Trunk Highway bonding Capacity?**

[As of the November 2020 Transportation Funds Forecast](#), Trunk Highway debt service is about 12.1% of state resources for FY 2021 (the current fiscal year). However, the legislature has previously authorized, and MnDOT is planning on selling, about \$1.3 billion in Trunk Highway bonds over FY 2022-27. With this soon to be issued Trunk Highway debt, MnDOT estimates that **debt service will peak at 17.1% of state resources in FY 2024, which allows for about \$46.2 million in additional debt service to reach the 20% limit**. After FY 2024 the percentage is estimated to decrease slowly to 16.8% in FY 2027.

Assuming no change in Trunk Highway Fund revenue, and that new bonds would be sold within four years, MnDOT estimates that **\$462 million is the maximum additional Trunk Highway bonding** to stay within the 20% limit (roughly 10 times the debt service variance for FY 2024).