

Transportation Policy & Finance Overview

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Highway Finance

Introduction

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Minnesota's system of streets and highways

- The state maintains the trunk highway system, including interstates and major highways
- Counties, cities, and townships each have jurisdiction over their respective road systems



Highway Finance

Introduction

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Minnesota's system of streets and highways (cont.)

- Local units of government receive state aid for part of their road systems
 - “ County state-aid highway (CSAH) system
 - “ Municipal state-aid street (MSAS) system
 - “ State-aid systems are part of local roads

Highway Finance

Introduction

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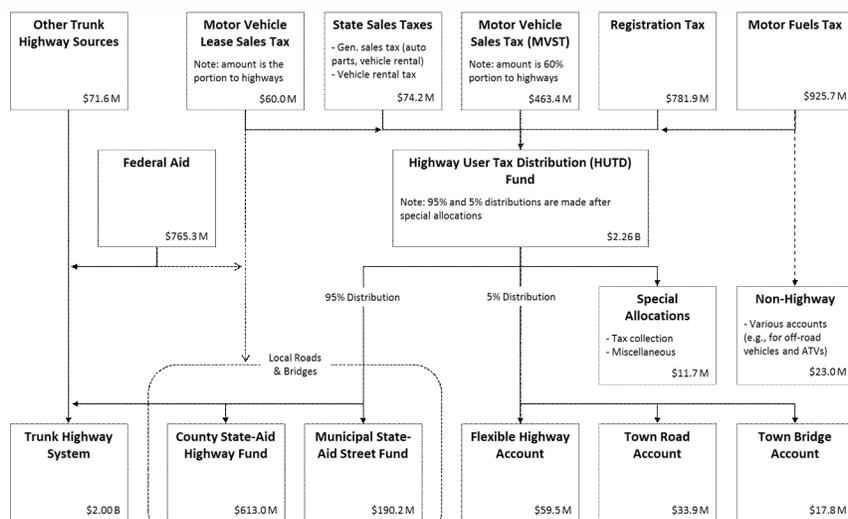
Highway system funding

- State funding based on a *constitutional & statutory* framework of dedicated revenues
- Most transportation-related general fund appropriations are not for highways
 - “ Transit
 - “ Dept. of Public Safety
- Local roads are funded through federal aid, state assistance, and property tax revenue

Highway Finance

Overview of Finance Flow, FY 2018

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Highway Finance Revenue Sources

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Major sources of highway funding

- Motor fuels tax
- Registration tax (tab fees)
- Motor vehicle sales tax

Highway Finance Revenue Sources

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Motor fuels tax

- State tax rate for gasoline and diesel is 28.5 cents per gallon
- Other types of fuel are taxed at a rate proportional to their energy content
- 100% constitutional dedication to roads
- Federal taxes are at 18.4 cents per gallon for gasoline and 24.4 cents per gallon for diesel

Highway Finance Revenue Sources

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Registration tax (tab fees)

- Annual tax on vehicles registered in MN
- Tax rate for autos is (1) \$10, plus (2) 1.25% of the manufacturer's base value, depreciated yearly based on a schedule
- The minimum is \$35
- Trucks are taxed based on weight and age
- 100% constitutional dedication to roads

Highway Finance Revenue Sources

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Motor vehicle sales tax (MVST)

- 6.5% tax on the sale of new and used vehicles, in lieu of general sales tax
- Constitutional amendment passed in 2006
 - “ 100% dedication of revenues to transportation
 - “ Phased in over fiscal years 2008-12
- Constitutional limitations
 - “ “Not more than 60%” for highways
 - “ “Not less than 40%” for transit

Highway Finance Revenue Sources

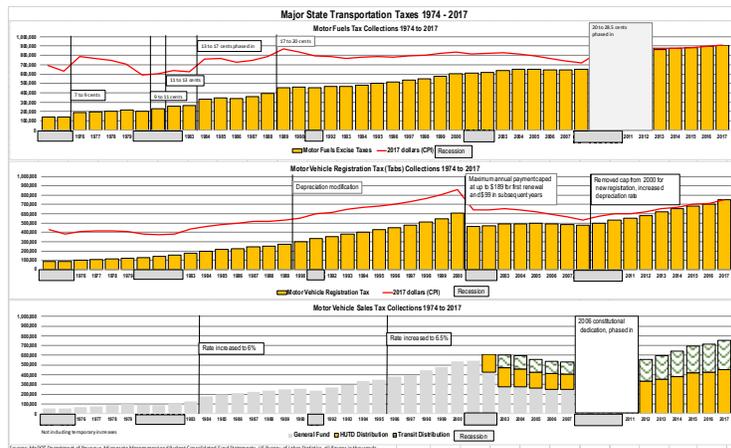
Motor vehicle sales tax (cont.)

- Allocation determined by statute
- Allocation formula for FY 2012+

Recipient	%
Highways (HUTD)	60%
Twin Cities metropolitan area transit	36%
Greater Minnesota transit	4%

Highway Finance Revenue Sources

Major revenue sources history ó see handout



Highway Finance Revenue Sources

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State sales taxes

- 2017 legislation reallocated General Fund revenue streams to transportation
- General sales tax ó auto parts (6.5% rate)
 - “ Attributed to automotive repair & replacement parts sales
 - “ Specified amounts in statute
 - “ Phase-in: \$31.5 million annually in FY 2018-19, \$145.6 million annually in FY 2020+

Highway Finance Revenue Sources

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State sales taxes (cont.)

- General sales tax ó vehicle rental (6.5% rate)
- Vehicle rental tax (9.2% rate)

Highway Finance

Revenue Sources

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Motor vehicle lease sales tax revenue

- General sales tax revenue from vehicle leases
- 2017 legislation changed the distribution, eliminating a share to the General Fund
- Allocation formula for FY 2018+

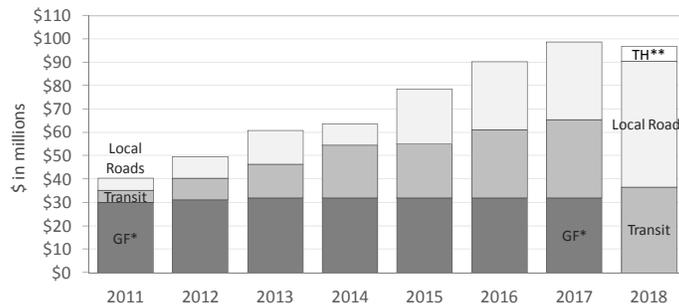
Recipient	%
5-county Twin Cities metropolitan roads	38%
Greater Minnesota transit	38%
Local bridge program	13%
Highways (HUTD)	11%

Highway Finance

Revenue Sources

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Motor Vehicle Lease Sales Tax History
FY 2011-18



* Includes portion to Legacy funds
** Trunk Highway system

Highway Finance Other Funding

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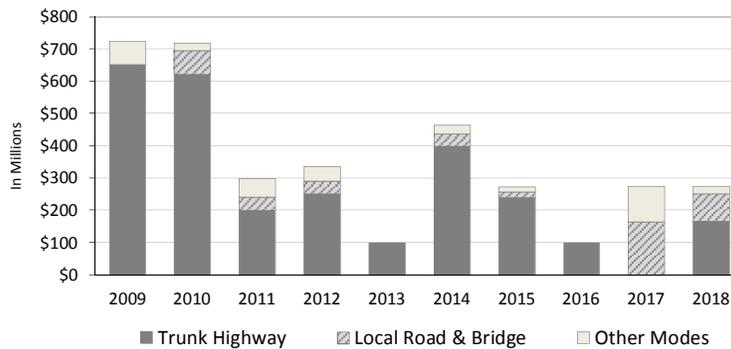
Transportation bonding

- Debt financing
- Project must be capital in nature
- Notable types
 - “ Trunk highway bonds ó trunk highway system
 - “ Other general obligation (G.O.) bonds ó local roads, transit, other modes

Highway Finance Other Funding

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Transportation-Related Bonding History
By Purpose, 2009-18



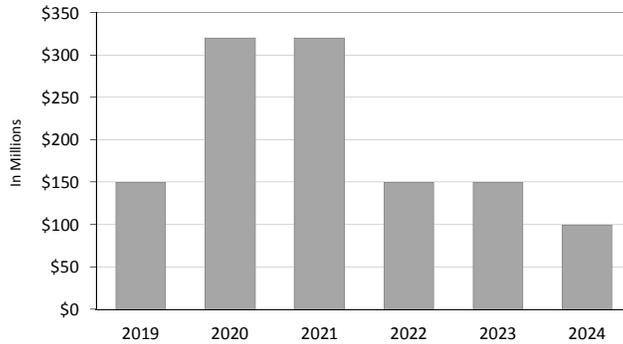
Note: year is fiscal year in which bonds are available (bond proceeds appropriations)

Highway Finance

Other Funding

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Authorized Trunk Highway Bonding
2019-2024



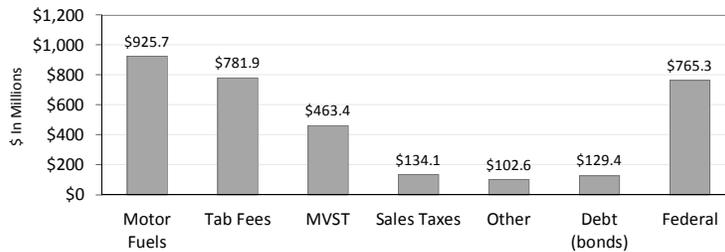
Note: year is fiscal year in which bonds are available (bond proceeds appropriations)

Highway Finance

Funding Sources, FY 2018

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State and Federal Highway Funding Sources
FY 2018 (\$3.30 billion), incl. bonding

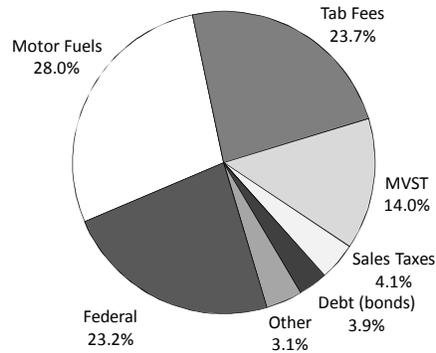


Highway Finance

Funding Sources, FY 2018

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Highway Funding Distribution
FY 2018 (\$3.30 billion), incl. bonding



Highway Finance

Highway Funds

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Highway User Tax Distribution (HUTD) fund

- Established under the Minnesota Constitution
- Contains dedicated highway revenue
 - “ Registration tax
 - “ Motor fuels tax
 - “ Motor vehicle sales tax
- Distributes funds to state and local highways

Highway Finance

Highway Funds

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Three core highway funds

- All established under the Minnesota Constitution
- Trunk Highway fund: for the state system of trunk highways and interstates
- County State-Aid Highway (CSAH) fund: for county systems
- Municipal State-Aid Street (MSAS) fund: for city systems

Highway Finance

Distribution

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Highway revenue distribution

- Framework is constitutional
- Revenue in HUTD fund is distributed to the three core highway funds
- HUTD fund distribution is split into two parts (after special allocations)
 - “ 95% distribution
 - “ 5% distribution set-aside

Highway Finance Distribution

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95% distribution from HUTD

- Into funds for state and local roads
- Constitutional formula

Fund	%
Trunk Highway fund	62%
County State-Aid Highway (CSAH) fund	29%
Municipal State-Aid Street (MSAS) fund	9%

Highway Finance Distribution

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5% set-aside from HUTD

- Set-aside can be allocated to Trunk Highway fund, CSAH, and/or MSAS
- Allocation formula can only be changed every 6 years (last changed in 2009)
- Statutory formula

Account	%
Town bridge account	16%
Town road account	30.5%
Flexible highway account	53.5%

Highway Finance Distribution

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Allocations to local units of government

- CSAH fund & MSAS fund
- Primarily direct aid, with some set-asides
- Distributions to each county and city are based on formulas set in statute
- Formulas have components that allocate aid proportionally (e.g., based on share of lane miles or registered vehicles)

Highway Finance Recap & Comments

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Highway finance characteristics

- Structure is both constitutional and statutory
- Core state revenue comes from three sources that are related to highway activities
 - “ MVST, gas tax, & registration tax
- Funding flows into three highway funds for the state, counties, and larger cities
- Funds are largely distributed via multiple formulas

Highway Finance Recap & Comments

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Highway finance characteristics (cont.)

- Limited use of General Fund dollars
- General Fund structural changes over time, including:
 - “ 2006 MVST constitutional amendment
 - “ 2008 motor vehicle lease sales tax revenue
 - “ 2017 motor vehicle lease sales tax revenue & state sales taxes

Highway Finance Recap & Comments

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Policymaking flexibility and limitations

- Core funding sources are constitutionally dedicated to transportation
 - “ Highways only: gas tax, registration tax
 - “ Highways & transit only: MVST
- Constitutional distribution formula
- The most flexible funding sources are a relatively small share of funding, e.g.:
 - “ General fund
 - “ State sales taxes

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 - “ Funding Sources
 - “ Greater Minnesota Transit
 - “ Twin Cities Metropolitan Area Transit
 - “ Multimodal
 - Part 3: Budgets
 - Part 4: Transportation Policy

Transit Finance

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Background

Transit provided by local units of government

- Twin Cities metro area
 - “ Metropolitan Council (Metro Transit, contracted)
 - “ Suburban providers (opt-outs)
 - “ Independent providers
- Variety in Greater Minnesota
 - “ 46 transit systems
 - “ Urban, small urban, rural, elderly & disabled
 - “ Various route & schedule structures

Transit Finance Background

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Operating vs. capital

- Operating
 - “ Transit service delivery
 - “ Operations planning
- Capital
 - “ Transitway development (expansion)
 - “ Bus and rail fleet maintenance & replacement
 - “ Transit service & support facilities
- Distinction among funding sources and in transit budgeting

Transit Finance Background

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Types of appropriations

- Direct
 - “ Specified amount & year
 - “ Generally part of budget or supplemental budget
- Statutory
 - “ Ongoing spending authority
 - “ In transportation, generally an openö amount as available

Transit Finance Background

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State role in transit finance and policy

- Statewide transportation taxes
- Local option taxes
- Greater Minnesota transit
 - “ The state is a funding partner through state appropriations
 - “ Funds are apportioned by MnDOT

Transit Finance Background

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State role in transit finance and policy (cont.)

- Twin Cities metropolitan area transit
 - “ The State directly appropriates to the Metropolitan Council and provides funding to the Suburban transit providers
 - “ The Metropolitan Council is both a political subdivision and creature of the state

Transit Finance

Greater Minnesota Transit

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Funding sources

- State
 - “ General Fund direct appropriations
 - “ MVST and MVLST statutory appropriations
- Local
 - “ Passenger fares
 - “ City or county property tax levy
 - “ Local option sales and use tax up to 0.5% rate
 - “ Can be used for road or transit spending

Transit Finance

Greater Minnesota Transit

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Funding sources (cont.)

- Federal
 - “ Formula grants for bus operations and repair

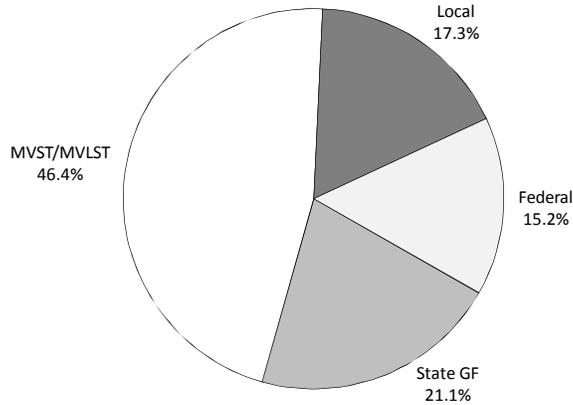
Transit Finance

Greater Minnesota Transit

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Greater Minnesota Transit Operating Funds

Operating Budgets, CY 2017 (\$91.0 million)



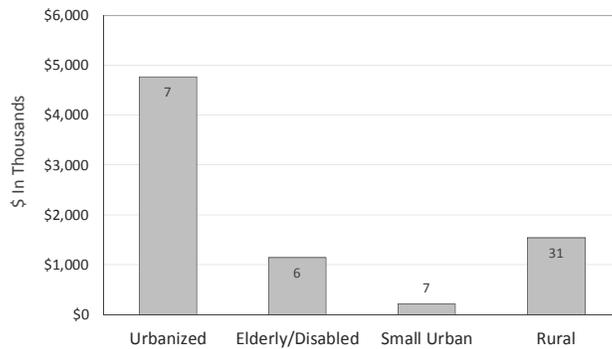
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Greater Minnesota Transit

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Greater Minnesota Transit Operating Funds

Average Budget by System Type, CY 2017



Transit Finance

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Twin Cities Metropolitan Area Transit

Transit history

- Transit system originally privately owned
 - “ Financed largely by housing developers and Passenger fares
 - “ Decline in ridership and profitability from 1920s to 1960s following national trends
- Public ownership of the transit system
 - “ Variety of governance and finance structures
 - “ Operating subsidy provided by a regional property tax levy until the late 1990s

Transit Finance

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Twin Cities Metropolitan Area Transit

Metropolitan Council allocation of state funding

- General fund and MVST available for transit operations
 - “ General Fund directly appropriated
 - “ MVST statutorily appropriated
- Allocation of state sources determined by Metropolitan Council in its budget
 - “ Recent state appropriations have not specified amounts by transit mode or purpose

Transit Finance

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Twin Cities Metropolitan Area Transit

Metropolitan Council allocation of state funding (cont.)

- Metropolitan Council transit operating budget includes:
 - “ Metro Transit regular route bus service
 - “ Metro Transit light rail and commuter rail
 - “ Contracted services including Metro Mobility, a federal and state mandated service
 - “ Transit planning
 - “ Suburban transit providers

Transit Finance

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Twin Cities Metropolitan Area Transit

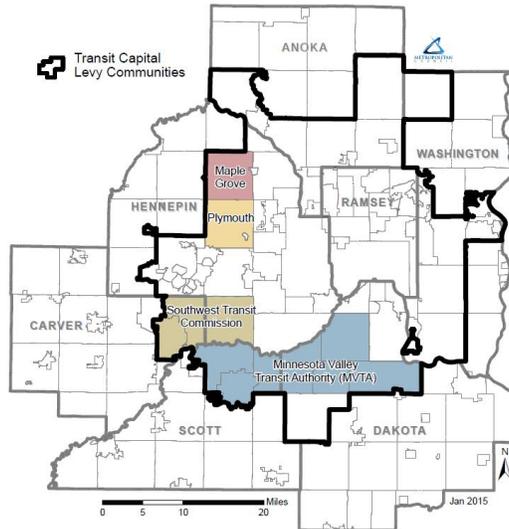
Suburban transit providers (opt-outs)

- Local circulator and express bus transit service
 - “ In some communities
 - “ Instead of Met Council service
- Aid from a portion of MVST
 - “ Formula-based statutory minimum allocation
 - “ Additional amount regionally allocated by Metropolitan Council
- CY 2019 Met Council budget: \$35.6 million allocated

Transit Finance

Twin Cities Metropolitan Area Transit

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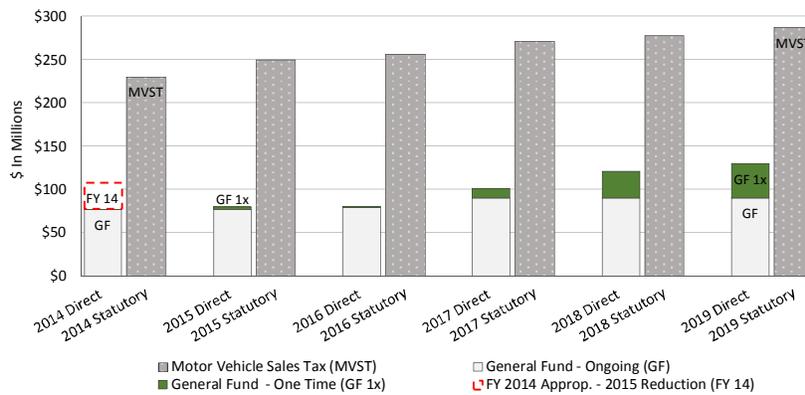


Transit Finance

Twin Cities Metropolitan Area Transit

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State Appropriations For Twin Cities Metropolitan Area Transit
FY 2014-19



*Does Not Include Capital Appropriations

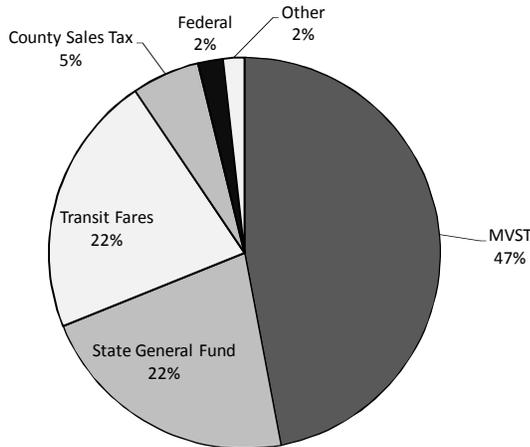
Sources: MnDOT Transportation Funds Forecasts, Legislative Tracking Sheet 2013-17

Transit Finance

Twin Cities Metropolitan Area Transit

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Metropolitan Council – Transit Operations Sources for CY 2018 (Budget)



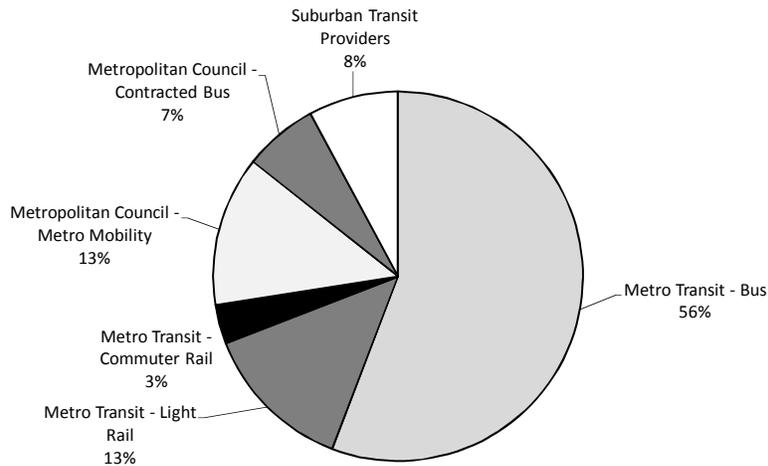
Source: Metropolitan Area Transit Finance Report October 2018

Transit Finance

Twin Cities Metropolitan Area Transit

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Metropolitan Council – Transit Operating Budget for CY 2018 (\$586 M)



Source: Metropolitan Area Transit Finance Report October 2018

Transit Finance

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Twin Cities Metropolitan Area Transit

Transit capital funding sources

- State
 - “ G.O. bonding appropriations
 - “ General Fund appropriations
- Local / regional
 - “ Metropolitan Council property tax levy
 - “ County local option sales and use taxes
 - “ County Regional Railroad Authorities property tax levy
- Federal

Transit Finance

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Twin Cities Metropolitan Area Transit

Other transit funding sources

- Counties Transit Improvement Board 2008-17
 - “ Joint powers board made up of five counties (Anoka, Dakota, Hennepin, Ramsey and Washington)
 - “ 0.25% sales and use tax, and \$20 vehicle excise tax
 - “ Used for transitway capital costs and half of Transitway operating costs
 - “ Dissolved in 2017 with individual counties imposing sales tax rates between 0.25%-0.5%

Transit Finance

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Twin Cities Metropolitan Area Transit

Other transit funding sources

- County local option sales and use taxes
 - “ Can be used for transit and road spending at the discretion of the county board
 - “ Rate of up to 0.5% and \$20 vehicle sales excise tax
 - “ Historical use for transitway capital costs and a share of transit operating costs
- County regional railroad property tax levy
 - “ Historical use for transitway capital costs and planning

Transportation Finance

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Multimodal

Aeronautics

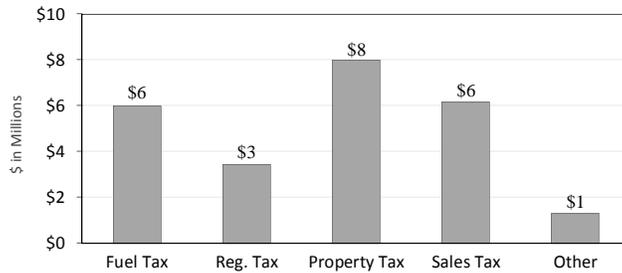
- State airports fund for aeronautics services and aid to airports
- Four core revenue sources
 - “ Aviation fuel tax: declining rate based on amount of fuel
 - “ Aircraft registration tax: based on list price
 - “ Airline flight property tax: on commercial aircraft equipment, rate based on state appropriations
 - “ General sales tax revenue from aircraft sales

Transportation Finance

Multimodal

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State Aviation Revenue FY 2018 (\$24.9 million)



Note: excludes fund balance in State Airports Fund

Transportation Finance

Multimodal

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Other modes

- Ports, freight rail, passenger rail, commercial motor vehicles
 - “ General fund appropriations
 - “ General obligation bonds
 - “ Federal aid
- Bicycle, pedestrian, ADA
 - “ Largely planned and financed by local units of government
 - “ General fund appropriations, Safe Routes to School, general obligation bonds
 - “ Trunk Highway reconstruction on main streets
 - “ Federal aid

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Transportation Finance Budgets

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Budgetary jurisdiction

- Department of Transportation
 - “ Trunk highway system (trunk highway fund)
 - “ Local roads (CSAH, MSAS, motor vehicle lease sales tax revenue, general fund)
 - “ Aeronautics (state airports fund)
 - “ Other modes and activity: transit, passenger rail, freight (general fund)
- Metropolitan Council
 - “ Transportation area of the agency (general fund, MVST)

Transportation Finance Budgets

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Budgetary jurisdiction (cont.)

- Department of Public Safety
 - “ State Patrol (trunk highway fund, general fund for Capitol Security)
 - “ Driver and Vehicle Services (DVS) (special revenue fund operating accounts)
 - “ Other divisions and activity: administrative, Traffic Safety, Pipeline Safety

Transportation Finance Budgets

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Budgetary jurisdiction (cont.)

- Department of Public Safety ó DVS
 - “ Fee-based structure
 - “ Three Special Revenue Fund accounts from various fees on driver and vehicle transactions
 - “ Driver Services account
 - “ Vehicle Services account
 - “ DVS Technology account (MNLARS)

Transportation Finance Budgets

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Budgetary jurisdiction (cont.)

- Department of Public Safety ó MNLARS
 - “ Funding for MNLARS from a technology fee from FY 2009 to 2016 and a continuing surcharge
 - “ Funding for MNLARS supplemented with appropriations from other DVS special revenue funds in FY 2013, FY 2018, and FY 2019

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 - “ Topic areas and themes
 - “ Jurisdiction

Transportation Policy Topic Areas & Themes

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Policy topics

- Brief & high-level introduction
- *Examples* of issue areas and past legislative activity
- General sense of the committee

Transportation Policy Topic Areas & Themes

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Agencies

- Department of Transportation (MnDOT)
- Department of Public Safety, including:
 - “ Driver & Vehicle Services (DVS)
 - “ State Patrol
- Metropolitan Council
- Local units of government, e.g.:
 - “ Road authorities (counties, cities, towns)
 - “ Transit operators
 - “ Airports

Transportation Policy Topic Areas & Themes

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Agency operations

- Various issues
 - “ Agency administration
 - “ Structure
 - “ Mission
 - “ Policies
 - “ Processes
- Program administration
- Transportation capital projects

Transportation Policy Topic Areas & Themes

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Programs

- Various statutory requirements: eligibility, procedures, evaluation criteria, formulas
- Trunk highway system
 - “ Corridors of Commerce
 - “ Transportation Economic Development (TED)
- Public Transit Participation program
- Safe Routes to School

Transportation Policy Topic Areas & Themes

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Programs (cont.)

- Minnesota Rail Service Improvement (MRSI)
- Local road systems
 - “ State-aid
 - “ Local road improvement program
 - “ Local bridge program
 - “ Small Cities Assistance program

Transportation Policy Topic Areas & Themes

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MnDOT capital project process

- Planning
 - “ Plans for different modes & areas of focus
 - “ Policy principles, objectives, performance measures
 - “ Spending levels by project category (e.g., bridges, pavement condition, safety)
- Funding analysis
 - “ Sources & amounts of funding
 - “ Internal allocations

Transportation Policy

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Topic Areas & Themes

MnDOT capital project process (cont.)

- Project selection & scheduling (programming)
 - “ Standard process ó MnDOT districts
 - “ Special programs
- Project development
 - “ Scoping, design, engineering, right-of-way, environmental analysis, public involvement
 - “ Overlaps with other activity
- Bids & contracts
- Construction

Transportation Policy

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Topic Areas & Themes

Motor vehicles

- Registration (tabs)
- Titles
- License plates & special plates
- Vehicle classifications & regulations, e.g.:
 - “ Autocycles (Laws 2016, ch. 114)
 - “ Electric-assisted bicycles (Laws 2012, ch. 287)
- Connected & autonomous vehicles
- Administration through DVS & deputy registrars

Transportation Policy

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Topic Areas & Themes

Driver licensing

- Classes for different vehicle types
- Graduated driver licensing (GDL) system
- Driverø education
- Administration through DVS & driverø license agents

Transportation Policy

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Topic Areas & Themes

REAL ID Act of 2005

- Federal standards for state-issued documents
- REAL ID-compliant identification, or an extension, in order to:
 - “ Board commercial aircraft
 - “ Access federally secured facilities
- State activity
 - “ 2009: prohibition (Laws 2009, ch. 92)
 - “ 2016: planning (Laws 2016, ch. 83)
 - “ 2017: conformity (Laws 2017, ch. 76)

Transportation Policy

Topic Areas & Themes

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REAL ID Act of 2005 (cont.)

- Driver's license/ID card options in Minnesota
 - “ Compliant (federally accepted)
 - “ Non-compliant (federally accepted for a limited time)
 - “ Enhanced (federally accepted)
- REAL ID-complaint issuance since Oct. 2018
- Possible federal extensions until Oct. 1, 2020

Transportation Policy

Topic Areas & Themes

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Traffic regulation & safety

- Driving rules, e.g.:
 - “ Speed limits (Minn. Stat. § 169.14)
 - “ “Move over” law (Minn. Stat. § 169.18)
 - “ Passing bicycles (Minn. Stat. § 169.18)
- Vehicle equipment
- Traffic enforcement & penalties

Transportation Policy

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Topic Areas & Themes

Traffic regulation & safety (cont.)

- Distracted driving
 - “ 2005: cell phone ban for young drivers (Minn. Stat. §§ 171.05, 171.055)
 - “ 2008: electronic messaging ban (Minn. Stat. § 169.475)
 - “ 2008: cell phone ban for school bus operators (Minn. Stat. § 169.443, subd. 9)
 - “ 2015: minimum fine increase for messaging ban 2nd+ offense (Laws 2015, ch. 75, art. 2, § 22)
 - “ 2015: reckless driving revision & penalty enhancement (Laws 2015, ch. 65, art. 6, § 3)

Transportation Policy

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Topic Areas & Themes

Pupil transportation

- Specific regulations
 - “ Driver qualifications
 - “ Licensing
 - “ Vehicles & equipment standards
 - “ Driving rules
 - “ Training, inspections, other regulations
- Enforcement by State Patrol

Transportation Policy

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Topic Areas & Themes

Commercial vehicle regulation

- Federal (interstate) & state (intrastate) regulatory structure
 - “ Registration, driver qualification & licensing, drug & alcohol testing, vehicle operations, inspections, hours of service, records, insurance
 - “ Some differences for intrastate
- Motor carrier administration by MnDOT
- Enforcement by law enforcement agencies

Transportation Policy

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Topic Areas & Themes

Commercial vehicle regulation (cont.)

- Truck size & weight
 - “ Dimension limits (height, length, width)
 - “ Core weight limits (gross weight, per axle, per axle group, per wheel)
 - “ Weight limit adjustments (seasonal load limits, route restrictions)
 - “ Special permits (commodities, additional axles, oversize items)

Transportation Policy

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Topic Areas & Themes

Railroad safety & preparedness

- Highway-rail crossings, grade separation
- Rail safety inspection
- Oil & other hazardous materials transportation
 - “ Preparedness & response (Laws 2014, ch. 312, art. 10)

Transportation Policy

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Committee Jurisdiction

Potential overlapping purview examples

- Administrative rules (government operations)
- Agency governance & structure (government operations)
- Information technology systems (government operations)
- Criminal law (public safety)
- Impaired driving/ignition interlock (public safety)
- Pupil transportation (education)

Conclusion

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Questions?