

Transportation Finance Overview

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- Revenue Sources
- Distribution
- Recap

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Highway Finance | Introduction

Minnesota's system of streets and highways

- The state and local units of government have jurisdiction over their respective road systems
- Trunk highway system
 - Administered by MnDOT
 - Includes Interstates and U.S. highways
- Local units of government receive state aid for some local roads
 - County state-aid highway (CSAH)
 - Municipal state-aid street (MSAS)

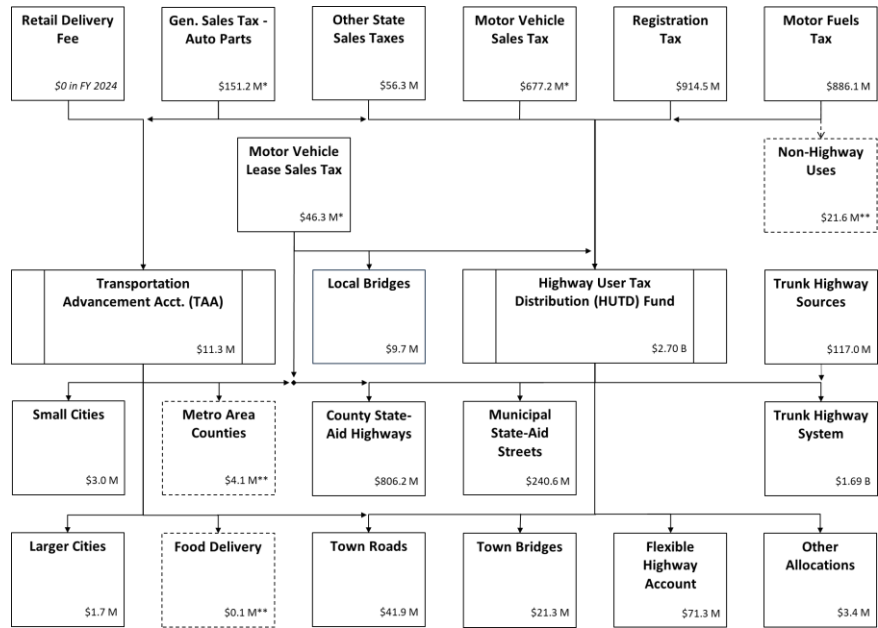


Highway Finance | Introduction

Highway system funding

- State funding is based on a framework of dedicated revenues
 - There is a combination of **constitutional** & **statutory** provisions
 - Much of the funding allocation is by formulas
- Most transportation-related General Fund appropriations are not for highways
 - Transit
 - Dept. of Public Safety

State Highway Funding Flow, FY 2024



* Amounts are only highway-related shares.
 ** Amounts include non-highway or flexible purposes.

Highway Finance | Introduction

Highway User Tax Distribution (HUDT) Fund

- Established under the Minnesota Constitution (Minn. Const. Art. XIV)
- Contains dedicated highway revenue
 - Registration tax
 - Motor fuels tax
 - Motor vehicle sales tax
- Also has revenue from other state taxes
- Distributes funds to state and local highways
 - Mainly a “passthrough” fund

Highway Finance | Introduction

Core highway funds

- Accounting funds of the state
- Each 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 | Revenue Sources

State sources of highway funding

- Three main transportation-related taxes
 - Motor fuels tax
 - Registration tax (tab fees)
 - Motor vehicle sales tax (MVST)
- Other state taxes

Highway Finance | Revenue Sources

Motor fuels tax

- 31.8 cents per gallon state tax rate for gasoline and diesel (Minn. Stat. §§ 296A.07, 296A.083)
- Other types of fuel are taxed at a rate proportional to their energy content
- Rate is indexed to highway construction costs
 - First indexing increase of 3.3 cents per gallon started Jan. 1, 2025
 - Indexing established in 2023 legislation
- 100% constitutional dedication to roads

Highway Finance | Revenue Sources

Registration tax

- Annual tax on vehicles registered in MN (Minn. Stat. § 168.013)
- Tax formula for passenger autos is (1) a flat \$10, plus (2) the amount calculated from:
 - 1.575% of the manufacturer's suggested retail price (MSRP)*, multiplied by
 - A declining percentage based on vehicle age
- Adjustment for older vehicles
 - The MSRP-based calculation shifts to a minimum \$20 for vehicles age 11+ (so the lowest total tax is \$30)

* This calculation is instead 1.54% of MSRP plus destination charge, for vehicles first registered prior to 11/16/2020

Highway Finance | Revenue Sources

Registration tax (cont.)

- Trucks and other vehicles are generally taxed based on weight and age
 - Various rates and schedules
- 100% constitutional dedication to roads
- Formula for passenger vehicles modified in 2023 legislation

Highway Finance | Revenue Sources

Motor vehicle sales tax (MVST)

- 6.875% tax on the sale of new and used vehicles
 - In lieu of state general sales tax
- Historical variation in allocation to transportation
 - Constitutional amendment in 2006
 - Rate increased and allocation modified in 2023 legislation
- Constitutional requirements (Minn. Const. art. XIV, sec. 13)
 - Revenue entirely dedicated to transportation
 - “Not more than 60%” for highways
 - “Not less than 40%” for transit

Highway Finance | Revenue Sources

State general sales tax – auto parts

- From revenue attributed to automotive repair & replacement parts sales
- Reallocations in 2017 and 2023 legislation
- Phase-in to transportation over FY 2024-33
 - Additional revenue to the Transportation Advancement Account (TAA)

Highway Finance | Revenue Sources

State general sales tax – auto parts (cont.)

- Overview of phase-in schedule (Minn. Stat. § 297A.94):

| Fiscal Year | TAA | HUTD Fund | General Fund |
|--------------|-------|-----------|--------------|
| 2024 | 3.5% | 43.5% | 53.0% |
| 2025 | 4.5% | 43.5% | 52.0% |
| 2026 | 5.5% | 43.5% | 51.0% |
| 2027 | 7.5% | 43.5% | 49.0% |
| 2028 | 14.5% | 43.5% | 42.0% |
| 2029 | 21.5% | 43.5% | 35.0% |
| ... | ... | ... | ... |
| 2033 & after | 56.5% | 43.5% | 0.0% |

Highway Finance | Revenue Sources

Other state sales taxes

- State general sales tax – vehicle rentals
 - From general sales tax imposed on short-term vehicle rentals
- Motor vehicle rental tax
 - Separate tax at 9.2% rate on short-term vehicle rentals
- Motor vehicle lease sales tax (MVLST)
 - From general sales tax imposed on vehicle leases
- Distributions modified in 2017 legislation

Highway Finance | Revenue Sources

Retail delivery fee

- \$0.50 charge on delivery of most tangible personal goods purchased from a retailer
- Imposition
 - Similar to the state general sales, with some additions and exceptions
 - Once per transaction
- Established in 2023 legislation
- Commenced July 1, 2024 (after FY 2024)

Highway Finance

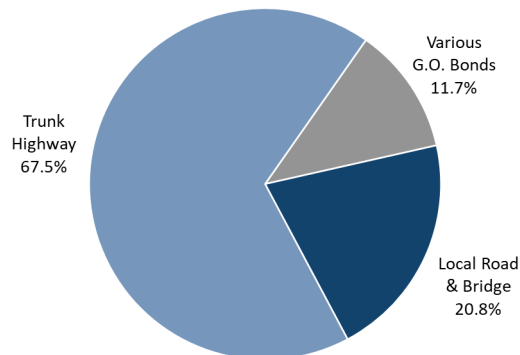
State bonding

- Debt financing for capital projects
- Various constitutional requirements & limitations
- Authorized in legislation
 - Year-to-year variability
 - No legislation in some years
- Key types
 - Trunk highway bonds – for trunk highway system
 - Other general obligation (G.O.) bonds – for local roads, transit, & other modes

Highway Finance

Transportation-Related Bonding by Type

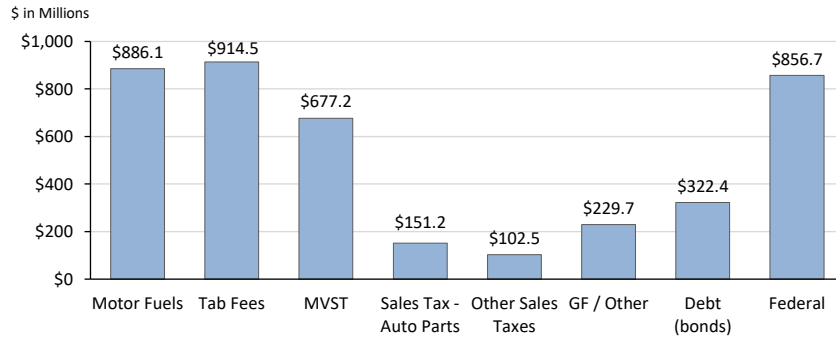
2014-23 (\$3.72 billion)



Highway Finance

State and Federal Highway Funding Sources

FY 2024 (\$4.14 billion), incl. bonding



Note: chart excludes onetime GF appropriations for specified projects and discretionary purposes.

Highway Finance | Distribution

Highway revenue distribution

- Framework is constitutional
- Revenue in HUTD Fund is distributed among 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

95% distribution from HUTD Fund

- Into funds for state and local roads
- Constitutional formula (Minn. Const. Art. XIV):

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

Highway Finance | Distribution

5% set-aside from HUTD Fund

- Can be allocated to Trunk Highway, CSAH, and/or MSAS funds
- Allocation formula can only be changed every 6 years
 - Last changed in 2009
- Statutory formula (Minn. Stat. § 161.081):

| Account | Share |
|--------------------------|-------|
| Town bridge account | 16% |
| Town road account | 30.5% |
| Flexible highway account | 53.5% |

Highway Finance | Distribution

HUTD Fund 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 state statute
- Formulas have components that allocate aid proportionally (e.g., based on share of lane miles or registered vehicles)

Highway Finance | Distribution

Motor vehicle sales tax

- Allocation specified in state statute (Minn. Stat. § 297B.09)
- Allocation formula:

| Recipient | Share | FY 2024 |
|--------------------------------|-------|-----------|
| Highways (HUTD Fund) | 60% | \$677.2 M |
| Twin Cities metro area transit | 34.3% | \$387.1M |
| Greater Minnesota transit | 5.7% | \$64.3 M |

Highway Finance | Distribution

State sales taxes

- Overview of revenue allocation (Minn. Stat. § 297A.94):

| Tax Revenue | Recipient | FY 2024 |
|----------------------------------------------|---------------------------|-----------|
| Gen. sales tax – auto parts (partial) | Highways (HUTD Fund); TAA | \$151.2 M |
| Gen. sales tax – vehicle rental (6.5% rate*) | Highways (HUTD Fund) | \$23.3 M |
| Vehicle rental tax (9.2% rate) | Highways (HUTD Fund) | \$33.0 M |
| Motor vehicle lease sales tax | Various | \$74.7 M |

* Net of Legacy amendment rate

Highway Finance | Distribution

Motor vehicle lease sales tax (MVLST) revenue

- Allocation formula (Minn. Stat. § 297A.815):

| Recipient | Share | FY 2024 |
|----------------------------------------|-------|----------|
| Greater Minnesota transit | 38% | \$28.4 M |
| 5-county Twin Cities area county roads | 38% | \$28.4 M |
| Local bridge program | 13% | \$9.7 M |
| Highways (HUTD Fund) | 11% | \$8.2 M |

Highway Finance | Recap

Highway finance characteristics

- Structure is both constitutional and statutory
- Main state revenue is from sources related to highway activities
- Funding flows into three highway funds for the state, counties, and larger cities
- Multiple sources are distributed via several formulas
- Limited but increased use of General Fund dollars

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Highway Finance

Transit Finance

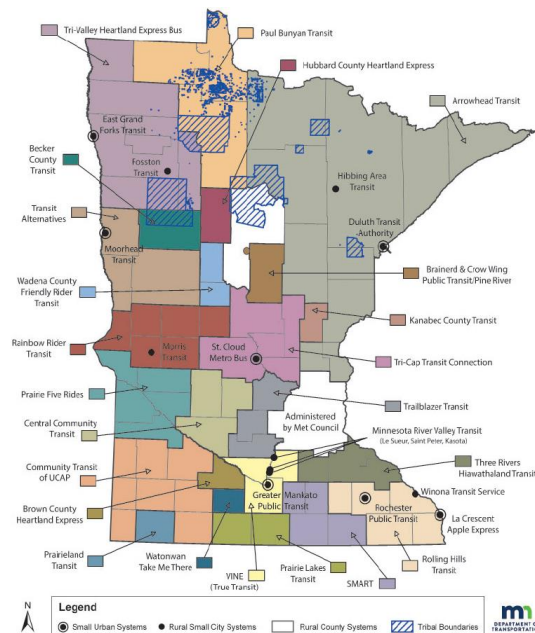
- Introduction
- Revenue Sources

Budgets

Transit Finance | Introduction

Transit service providers

- Provided by local units of government
 - Quasi enterprise function in some cases taken over from private operators in the 1960-70s
- Twin Cities metropolitan area
 - Metropolitan Council (Metro Transit, contracted service)
 - Suburban transit providers (“opt-outs”)
 - Other providers (e.g., University of Minnesota)
- Greater Minnesota
 - Roughly 35 transit systems
 - Variety of system types
 - Urbanized, small urban, rural, and ADA service
 - Various route and schedule structures



Transit Finance | Introduction

Types of appropriations

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

Transit Finance | Introduction

Forms of budgeting and spending

- Operating
 - Transit service delivery
 - Operations planning
- Capital
 - Transitway development (expansion)
 - Fleet maintenance & replacement
 - Transit service & support facilities

Transit Finance | Revenue Sources

Sources of funding

- Federal – multiple programs
- State
- Regional & local
 - Property taxes
 - Sales taxes
- Generated revenue – e.g., farebox, advertising

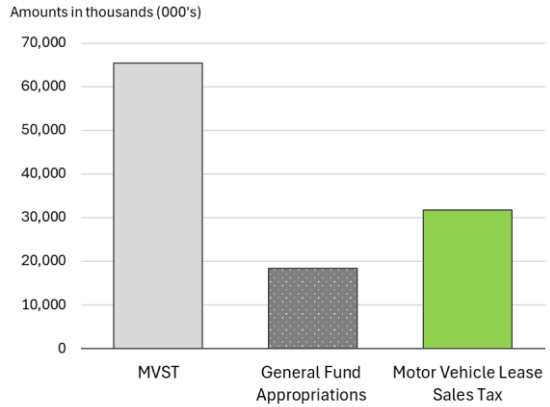
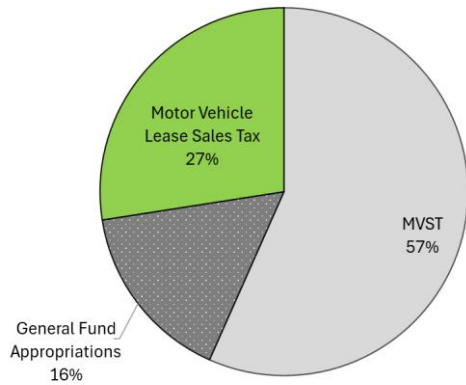
Transit Finance | Revenue Sources

State funding

- Motor vehicle sales tax (MVST)
 - MVST funds for transit are statutorily appropriated (Minn. Stat. § 16A.88)
 - 34.3% to Twin Cities metropolitan area transit
 - 5.7% to Greater Minnesota transit
- General Fund (GF)
 - GF appropriations for transit to Met Council and MnDOT in state biennial budgets
- Motor vehicle lease sales tax revenue
 - 38% to Greater Minnesota transit
- G.O. bond proceeds
 - Tends to be project or program specific / dependent on inclusion & passage of a bonding bill

Transit Finance | Revenue Sources

State Sources for Fiscal Year 2025 Greater Minnesota Transit Operating Aid



* Note: Does not include local transit operating sources, Federal Funds or Passenger Fares

Transit Finance | Revenue Sources

Regional transportation sales and use tax

- 0.75% sales tax imposed by the Metropolitan Council (Minn. Stat. § 297A.9915)
- Imposed in 7-county Twin Cities metropolitan area
- Established in 2023 legislation
- Allocation formula:

| Recipient | Share | FY 2024 |
|---------------------------------|-------|-----------|
| Metropolitan Council | 83% | \$264.3 M |
| Twin Cities metro area counties | 17% | \$54.1 M |

Transit Finance | Revenue Sources

Regional transportation sales and use tax (cont.)

- Funds to Metropolitan Council
 - 95% for transit operations, maintenance, and capital
 - Portions for specified purposes
 - 5% for active transportation

Transit Finance | Revenue Sources

Regional transportation sales and use tax (cont.)

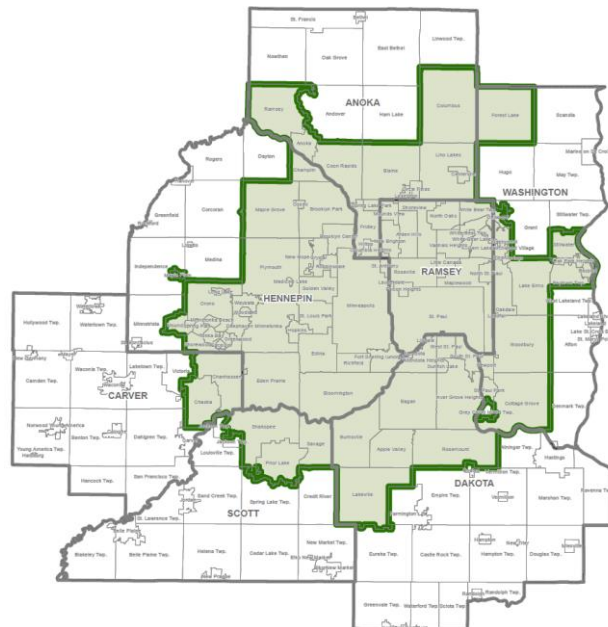
- Funds to Twin Cities metro area counties
 - Allocation & use requirements (Minn. Stat. § 174.49):

| Categories | Share |
|----------------------------------------------------------------------|-------|
| Active transportation; Safety studies | 41.5% |
| Transportation system repair & maintenance; Roadway replacement | 41.5% |
| Transit; Complete streets; Greenhouse gas emissions mitigation | 17% |

Transit Finance | Revenue Sources

Met Council property taxes

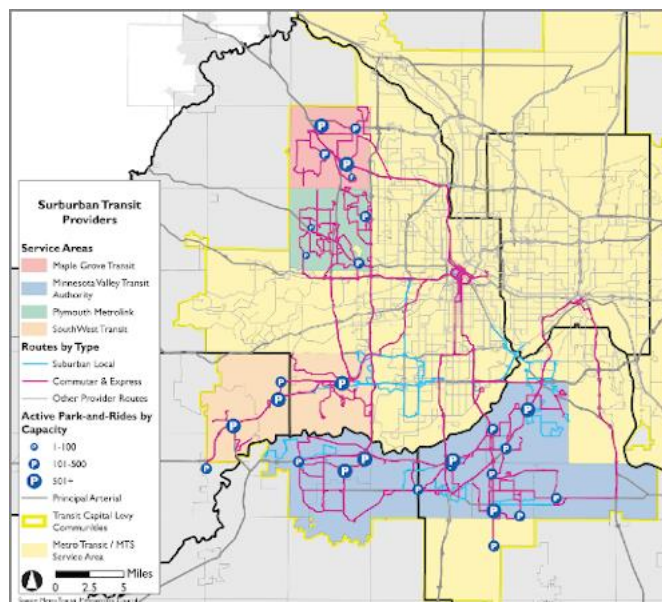
- Regional transit capital (RTC) levy
 - Imposed by the Metropolitan Council under state statute (Minn. Stat. § 473.446)
 - Separate from other Metropolitan Council levies
 - Once part of a regional property tax levy for operating costs
- RTC levy area
 - A geographic subset of the Met Council's 7-county jurisdiction
 - "Transit taxing district" is specified in state statute (Minn. Stat. § 473.446)
 - Can expand based on transit service agreements (Minn. Stat. § 473.4461)



Transit Finance | Revenue Sources

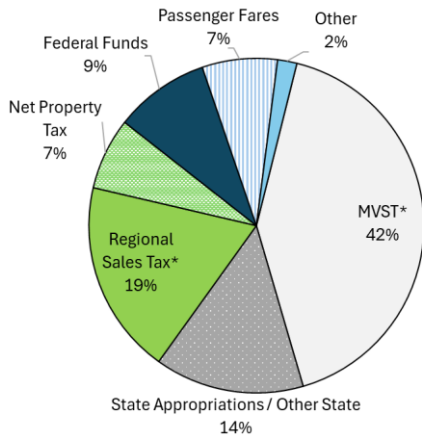
Met Council property taxes (cont.)

- RTC tax revenue goes to debt service on bonds
- RTC bonding
 - Bonds issued by the Metropolitan Council
 - Typically annual or biennial authorizations in state statute (Minn. Stat. § 473.39)
 - Proceeds primarily used for transit fleet maintenance and replacement, and some facilities
 - Proceeds also used as a match for federal aid

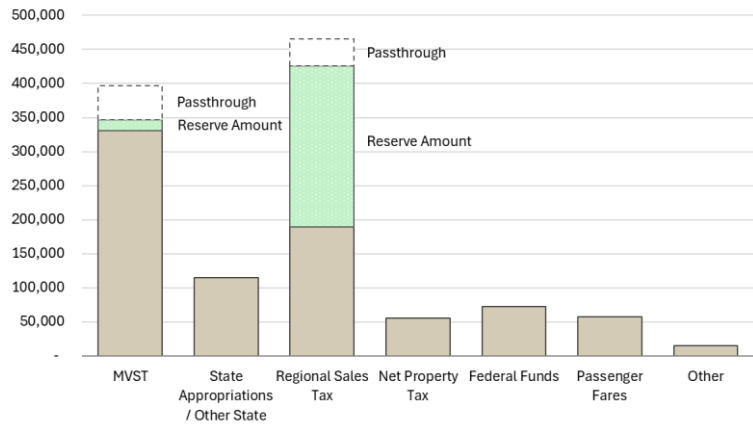


Transit Finance | Revenue Sources

Calendar Year 2025 Metropolitan Council Transit Operating Budget Sources



Amounts in thousands (000's)



* Does not include reserves or passthrough

Transit Finance | Revenue Sources

County transportation sales and use taxes

- Statewide local authority for each county (Minn. Stat. § 297A.993)
- Rate of up to 0.5% and \$20 vehicle sales excise tax
- Imposed by numerous counties
- Can be used for specified transit and road spending

Transit Finance | Revenue Sources

County regional railroad authorities (RRA)

- Tied to each county
 - Separate political subdivision
 - Board typically composed of the county commissioners
- Purpose: preserve and improve rail service and rail right-of-way
- Property tax levy
 - Historically used for transitway capital costs and some project development
- LRT and commuter rail funding limitations (Minn. Stat. § 398A.10)
 - Up to 10% of capital costs of new projects
 - No operating costs

Transit Finance | Revenue Sources

Major sources recap

| Entity / Source | Revenue Type | Geography |
|-------------------------------------------------|----------------------------------|------------------------------|
| Federal | Various (e.g., federal gas tax) | National |
| State – MVST | Sales tax | Statewide |
| State – GF | Various (e.g., state income tax) | Statewide |
| State – bond proceeds | Debt / state taxes | Statewide |
| Met Council – regional transportation sales tax | Sales tax | Regional (7-county area) |
| Met Council – RTC bonds & levy | Debt / property tax | Regional (RTC levy district) |
| Met Council – farebox | User fee | Regional |
| County | Sales taxes | County |
| County RRA | Property taxes | County |

Section Contents

Highway Finance

Transit Finance

Budgets

Budgets

Committee budgetary jurisdiction

- Department of Transportation
 - Trunk highway system (Trunk Highway Fund)
 - Local roads (CSAH, MSAS, motor vehicle lease sales tax revenue, General Fund)
 - Transit & active transportation (General Fund)
 - Aeronautics (State Airports Fund)
 - Other modes and activity: rail, freight (General Fund)
- Metropolitan Council
 - Transportation area of the agency (General Fund, MVST, regional transportation sales tax)

Budgets

Committee budgetary jurisdiction (cont.)

- Department of Public Safety
 - State Patrol (Trunk highway Fund, General Fund for Capitol Security)
 - Driver and Vehicle Services (DVS)
 - Fee-based structure
 - Special Revenue Fund accounts from various fees on driver and vehicle transactions
 - Other divisions and activity
 - Administrative
 - Office of Traffic Safety
 - Office of Pipeline Safety

Budgets

See handout on legislative budget tracking sheets

Questions?
