



Road Funding Gap Report

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Laws of 2023, Chapter 68

Sec. 127. LEGISLATIVE REPORT; ROAD FUNDING GAP.

(a) By November 1, 2024, the commissioners of transportation and management and budget must submit a report on road funding...

(b) At a minimum, the report must: analyze revenue options to address the funding gap... between projected revenue to the highway user tax distribution fund, and revenue required to meet performance targets...

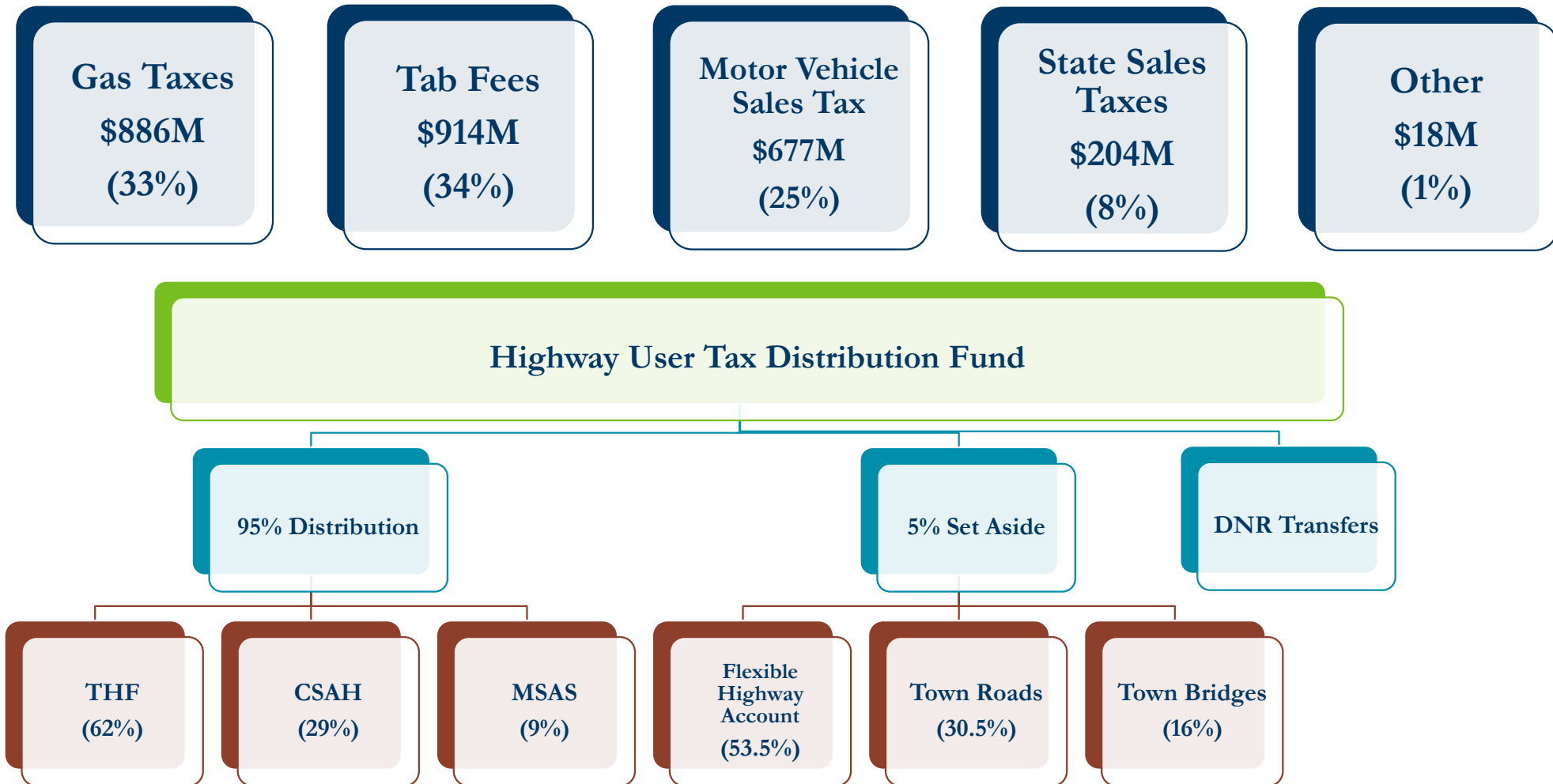
(c) In developing the report, the commissioners must evaluate a range of options that:

(1) analyze impacts across individuals and motor vehicles, accounting for factors that include but are not limited to vehicle class, power train, fuel or power type, vehicle age, vehicle weight, and annual miles traveled; and

(2) consider financial stability, social equity, user convenience, administrative efficiency, transparency, and other appropriate policy and finance principles.

Highway User Tax Distribution (HUTD) Fund Sources and Uses

FY 2024 Actuals = \$2.7B



Primary HUTD Revenues

- Gas taxes

- Currently 31.8 cents/gallon
 - 25 cent “normal” gas tax (last increased from 20 cents in 2008)
 - 3.5 cent debt service surcharge (dedicated to repaying \$1.78B of 2008 bonds)
 - 3.3 cent increase on 1/1/2025 due to indexing - Construction Cost Index (“CCI”)
 - Estimated to cumulatively increase additional 2.5 cents through FY 2029

The price for each gallon of gasoline includes the current state gasoline tax of 28.5 cents per gallon and federal gasoline tax of 18.4 cents per gallon. Revenue from the state fuel tax may be used only for roads and bridges, according to the Minnesota Constitution.

- Tab fees

- 1.575% of MSRP, depreciates over 10 years

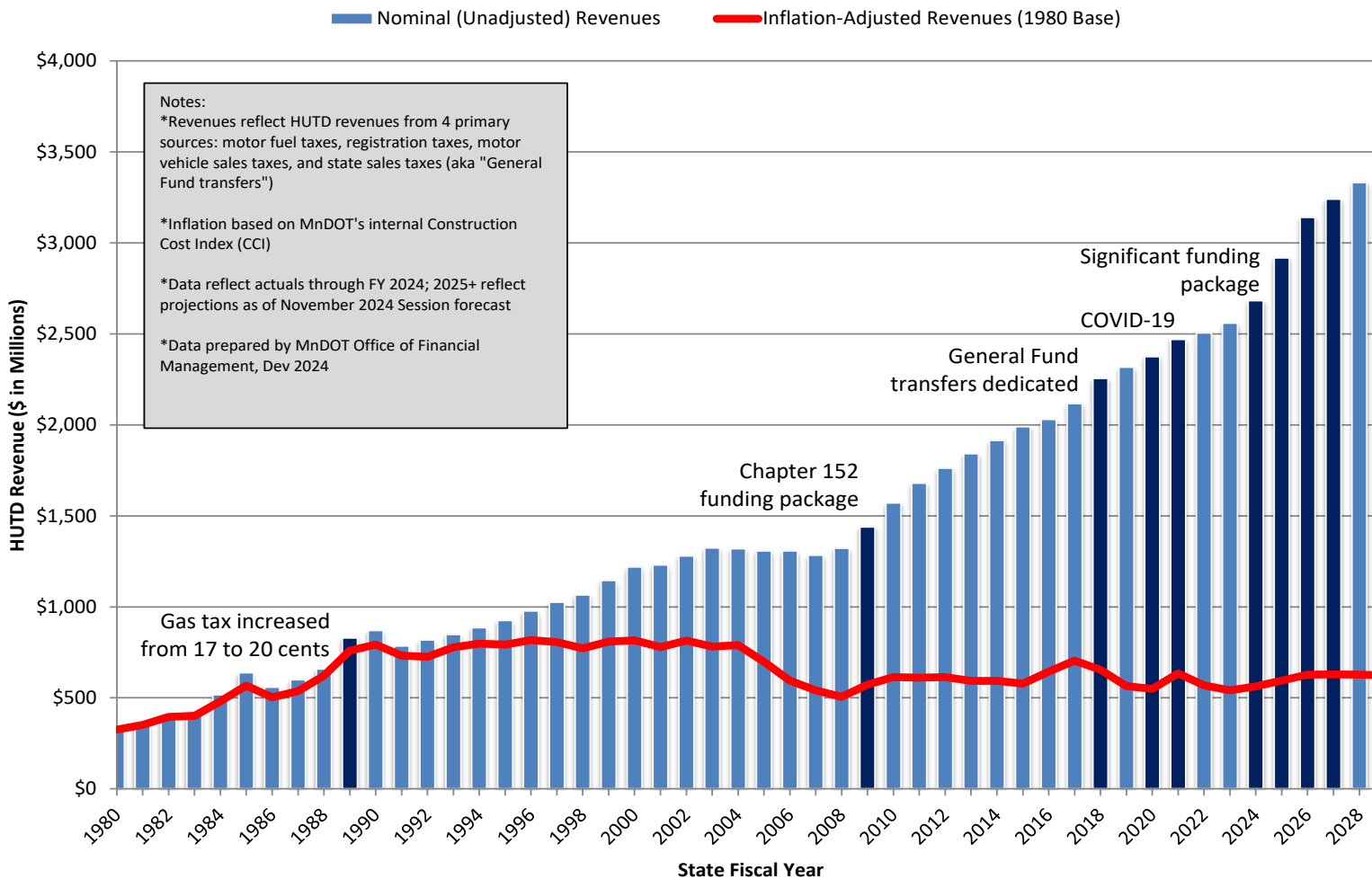


- Motor Vehicle Sales Tax

- 6.875% of purchase price (new and used)
- Split 60% HUTD, 40% transit (34.3% Met Council, 5.7% MnDOT for Greater MN)

Highway User Tax Revenue History

Highway User Tax Distribution (HUTD) Fund Revenues, FYs 1980-2029
Nominal vs. Real



- 1980-2029:
 - Nominal: +4.9%/year
 - Real: +1.3%/year
- 2019-2029:
 - Nominal: +4.0%/year
 - Real: +1.0%/year

Revenues have not kept up with needs due to:

- Inflation
- Aging infrastructure
- Growing demands

Trunk Highway – Estimate of Funding Gap

- 20-year MnSHIP estimate of funding gap for Trunk Highway system
 - 2013: \$12B (\$600M/year)
 - 2017: \$18B (\$900M/year)
 - 2023: \$19-\$27B (\$23B = ~\$1.15B/year)
 - **Impact of 2023 legislation covered ~\$5.2B of that gap**
- Remaining 20-year gap of ~\$17.8B (\$890M/year)



Estimated HUTD Funding Gap

Table 1: Gap for Each Fund

Fund	% of Total	20-Year Gap	10-Year Gap	Annual Gap
Trunk Highway	58.90%	\$17.8B	\$11.0 B	\$1.1 B
County State Aid Highway	32.55%		\$6.1 B	\$0.6 B
Municipal State Aid Streets	8.55%		\$1.6 B	\$0.2 B
HUTD			\$18.7 B	\$1.9 B

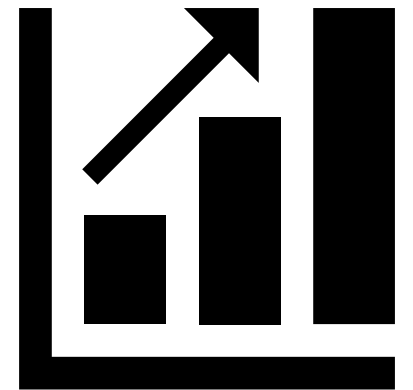
- 10-year Trunk Highway gap
 - Half the identified 20-year MnSHIP gap = \$8.9B
 - Plus additional \$2.1B identified through work following MnSHIP completion
 - Total gap = \$11.0 billion, or \$1.1 billion/year
- No comparable published long-range estimate for counties and cities
- For the report, assumed needs and corresponding gap would be proportional to the gap for Trunk Highways
- **Total HUTD gap = \$18.7 billion, or \$1.9 billion/year**

Potential Revenue Sources

- A variety of expanded and new options could narrow the funding gap
- 22 options were organized into three categories:
 1. (11) System-wide state options: gas tax, registration tax, road user charge, etc.
 2. (6) Local government options: county wheelage tax, local transit sales tax, etc.
 3. (5) Program/project specific options: expand E-ZPass, TIFIA loan, etc.
- Each option included an analysis of:
 - **Background/History** of the funding source, and current provisions governing the revenue source
 - An analysis of the **Revenue Raising Capacity** under hypothetical tax scenarios
 - An analysis of the **Tax Incidence** – who bears the burden of a tax? (usage, vehicle type, fuel source, other factors)

Assessment Tool

- Additionally, an assessment tool (using a simple high/medium/low matrix) was included of how each revenue option aligns with critical objectives from legislation:
 - **Efficiency:** High proportion of revenue collected goes to transportation projects
 - **Ease of Administration:** Simplicity of implementation and administration
 - **User Equity:** proportionate share of cost for construction and maintenance charged to those who use it most
 - **Social Equity:** The burdens of the tax are fair and just for Minnesotans across social, economic, and geographical areas
 - **Transparency:** Minnesotans know the tax exists and understand why and how it is charged to them



Recommendations

“...No one source is likely to close the revenue gap, but a combination of sources could make progress on closing the gap. Long term, continual funding decisions and updates will be necessary to narrow the gap...”

- System-wide State Options: gas tax, tab fees, motor vehicle sales tax, expand general sales tax and dedicate to HUTD, expand general fund transfer, increase taxes on leased vehicles, impose size and weight fees, increase annual EV registration fee, enact usage-based electric charging tax, implement road usage charge
- Local Government Options: local option sales tax, local option vehicle excise tax, expand county wheelage tax, increase metro transportation sales tax, expand small cities assistance program, adopt/expand aggregate materials tax
- Project/Program Specific Options: E-ZPass, new toll authority, Transportation Infrastructure Finance and Innovation Act (TIFIA) financing, local option transportation improvement districts, public-private partnerships

Current Performance

- Pavement % Poor (2025-34 CHIP):

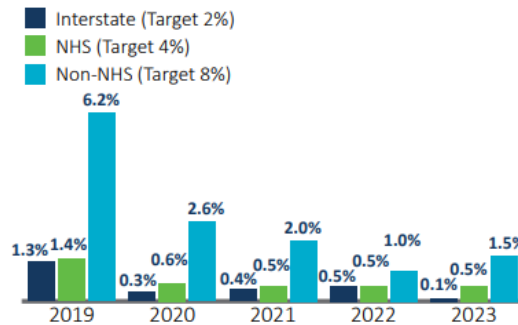


Figure 5: Historic Pavement Condition

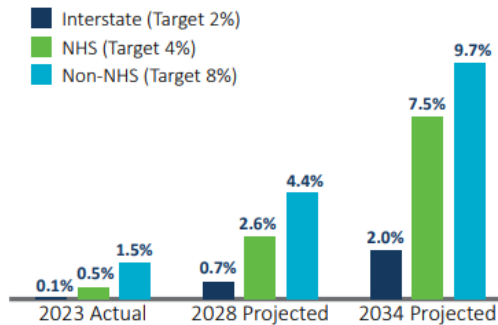


Figure 6: Projected Percent of Pavements in Poor Condition

- Bridge % Poor (2025-34 CHIP):

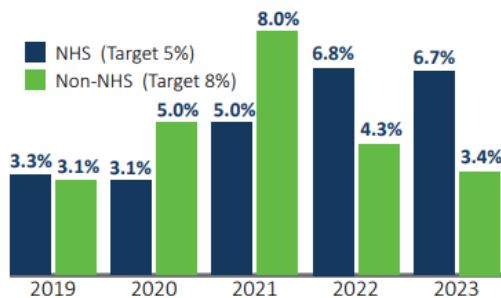


Figure 8: Historic Bridge Condition

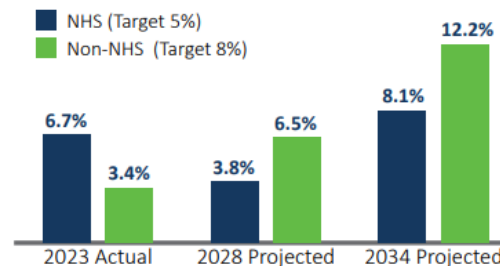


Figure 9: Projected Percent of Bridges in Poor Condition

- “Efficiencies”: annual Major Highway Projects Report (“MHPR”) includes estimate of efficiencies savings for both projects and admin/maintenance
- MS 174.53 (enacted in 2017) requires MnDOT to implement efficiencies savings of at least 15% of total appropriations above base from 2018/19
 - Calculated amount = ~\$344M over seven years
 - Identified efficiencies = ~\$592M
 - ~\$490M SRC projects
 - ~\$102M admin/ops and maintenance
 - “Excess” = ~\$248M

Thank You!

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