INFORMATION BRIEF
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2017 Transportation Finance Legislation

This brief reviews aspects of transportation legislation that was enacted in 2017, in Laws 2017, 1st spec. sess., chapter 3. It focuses on changes to the transportation finance structure and increases in transportation funding.

Finance Overview

2017 transportation finance legislation contains a 2018-19 budget as well as various policy and finance provisions, including structural changes to transportation finance. Laws 2017, 1st spec. sess., ch. 3. (There is also a wide range of policy provisions, which are not discussed in this brief.) Among its fiscal elements, the legislation:

- sets the transportation budget for fiscal years 2018-19;
- allocates multiple transportation-related sales tax revenue sources that had gone to the general fund;
- restructures the allocation formula for motor vehicle lease sales tax revenue;
- authorizes trunk highway bonds totaling $940 million over four years;
- institutes a $75 registration surcharge on electric vehicles; and
- modifies light rail transit funding limitations.

A notable legislative change involves increases in transportation funding from general fund sources. Allocation of state sales tax revenue along with onetime appropriations combine to $300.0 million in the 2018-19 biennium and $448.1 million in 2020-21, which are amounts above general fund base appropriations.[1] (Throughout this brief, "base appropriations" refers to the level of appropriations for fiscal years 2018-19 as identified during the 2017 session, prior to enactment of the biennial budget.)

Structural Changes

The legislation makes three substantive revisions to the transportation finance structure relating to state sales taxes, motor vehicle lease sales tax revenue, and the local bridge program.

State Sales Taxes

First, it allocates sales tax revenue streams that had gone to the general fund. The allocations are from (1) a portion of general sales tax revenue from auto parts sales, (2) the entirety of general sales tax revenue due to short-term vehicle rentals, (3) collections from a separate vehicle rental tax, and (4) a share of motor vehicle lease sales tax revenue (above what had already been distributed to transportation purposes). The bulk of the funding increase is directed to the highway user tax distribution (HUTD) fund, which provides for formula-based distribution of money across state and local road systems.

New Revenue Allocations from the General Fund

Source	FY 2018-19	FY 2020-21	Allocation
Gen. sales tax – auto parts	$63.1 M	$291.3 M	HUTD Fund
Gen. sales tax – vehicle rental	36.9	41.8	HUTD Fund
Vehicle rental tax	52.3	59.2	HUTD Fund
Motor vehicle lease sales tax	52.9	52.1	See below
Total	**$205.2 M**	**$444.4 M**	

Notes
Amounts are in millions.
Motor vehicle lease sales tax revenue amounts are only in addition to funds set to be distributed to transportation purposes prior to the 2017 changes.
Amounts exclude onetime appropriations from the general fund.
All revenue amounts are net of Legacy amendment funds.
Uses Feb. 2017 forecast.

Motor Vehicle Lease Sales Tax Revenue

The second structural change involves general sales tax revenue resulting from long-term vehicle leases, which is also known as the motor vehicle lease sales tax or MVLST. The law (1) eliminates the portion of revenue that had been retained in the general fund (with totals shown in the previous table), and (2) modifies a formula for revenue distribution among transit and state and local road systems. The change also clarifies handling of the share of revenue from constitutional dedication of sales taxes under the Legacy amendment, so that formula-based

[1] Amounts use the February 2017 forecast, and include a onetime general fund appropriations reduction.

allocations to transportation purposes do not include Legacy funds.[2] The following table outlines the distribution before and after the law changes.

Motor Vehicle Lease Sales Tax Revenue Distribution

Distribution	FY 2014-17 (Annual)	FY 2018 & After	FY 2018 Change vs. Forecast
General Fund	First $32 million	–	-$26.6 M
Metro area county roads	50% of remainder	38%	$1.96
Greater MN transit	50% of remainder	38%	$1.96
HUTD Fund	–	11%	$10.4
Local bridge program	–	13%	$12.3

Notes
Amounts are in millions.
FY 2014-17 distributions to the general fund include Legacy amendment funds.
FY 2018 Change vs. Forecast for the general fund is net of Legacy amendment funds (so that only the amount retained in the general fund is shown).
Uses Feb. 2017 forecast.

Local Bridge Program

The third structural finance change is to fund the local bridge program on an ongoing basis, using a formula-based percentage from motor vehicle lease sales tax revenue. This is expected to yield around $12.3 million to $13.6 million annually for the program.

Historically the program has been funded periodically through bonds and capital investment legislation. There has been considerable year-to-year variation, but authorized local bridge program bonding over 2008-17 has averaged $25.3 million annually, accounting for roughly 28 percent of nontrunk highway general obligation bonding for transportation activities. Of note, a sizeable portion of local bridge bonding has been project specific, whereas formula-based funds from motor vehicle lease sales tax revenue are for the program generally. The Minnesota Department of Transportation (MnDOT) has authority to select bridge projects following some statutory parameters. Minn. Stat. § 174.50.

Additional Funding Review

Appropriations

The 2017 legislation includes a biennial budget for transportation, covering MnDOT as well as components and divisions of the Department of Public Safety and the Metropolitan Council.

One of the budgetary appropriations is for Greater Minnesota transit; the general fund appropriation is reduced by $16.8 million from the base, which is only for fiscal year 2018. *See* Laws 2017, 1st spec. sess., ch. 3, art. 1, sec. 2, subd. 2 (b). A small portion of this amount is

[2] The Legacy amendment dedicates sales tax funds to outdoor heritage, clean water, parks and trails, and arts and cultural heritage.

offset by an increase in motor vehicle lease sales tax revenue over the forecasted amount (also, there is a fund balance in the transit account that could be utilized as a backfill).

Onetime general fund appropriations in the 2018-19 biennial budget include:

- $70 million over base appropriations to the Metropolitan Council for Twin Cities metropolitan area transit, with no ongoing increase;
- $10 million in additional funds for Twin Cities metro area county roads[3];
- $4 million for town roads, in addition to distributions from the HUTD fund;
- $16 million for the Small Cities Assistance program, with no ongoing funding; and
- $5.75 million for a State Patrol helicopter.

Bonding

The legislation authorizes a total of $940 million in trunk highway bonding, spread over a four-year period. $300 million is allocated to the Corridors of Commerce program, which does not have an ongoing funding source (and has primarily been funded through trunk highway bonds). The rest of the bond authorization, at $640 million, is for trunk highway construction identified through MnDOT's regular planning and project development process.

Trunk Highway Bonding Authorizations

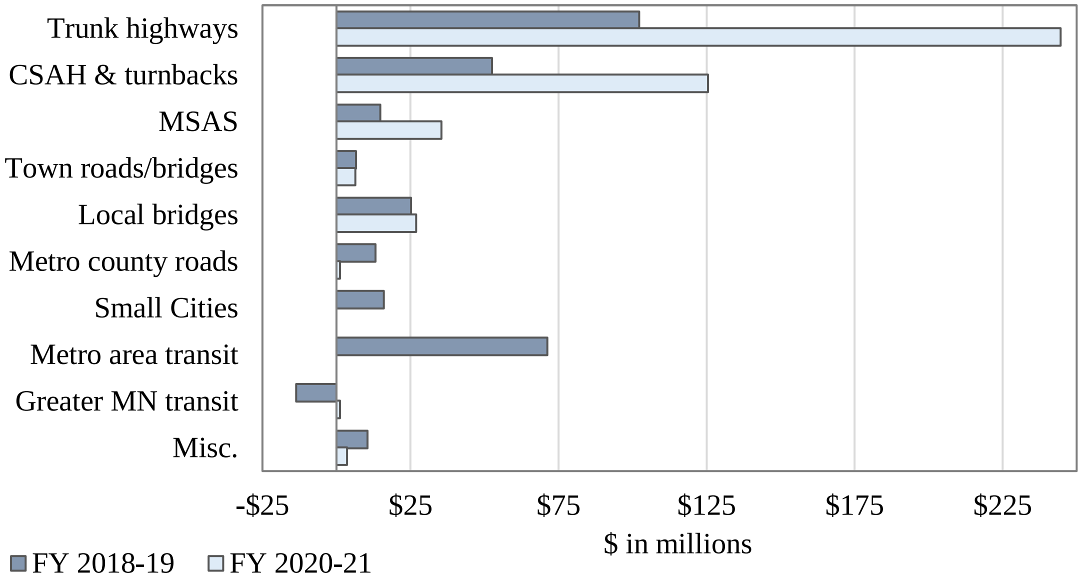
Use	FY 2018	FY 2019	FY 2020	FY 2021
Corridors of Commerce	$50 M	$50 M	$100 M	$100 M
State road construction	100	100	220	220
Note Amounts are in millions.				

Uses of Funds

Additional transportation funding is used for a mix of activities, as outlined in the following chart (which uses the February 2017 forecast). The chart only addresses new funding over base appropriations (accounting for the transit appropriation reduction), and does not include trunk highway bond proceeds.

[3] The funding, at $5 million per year, is in addition to county state-aid highway dollars as well as MVLST revenue. It is allocated among counties in the seven-county metropolitan area proportionally based on modified population, where only one-quarter of the Hennepin and Ramsey county populations are counted. The funds cannot be used in Minneapolis or St. Paul. Laws 2017, 1st spec. sess., ch. 3, art. 1, sec. 2, subd. 4 (a).

Uses of Additional Funding
FY 2018-19 ($300.0 M), FY 2020-21 ($448.1 M); excl. TH bonds

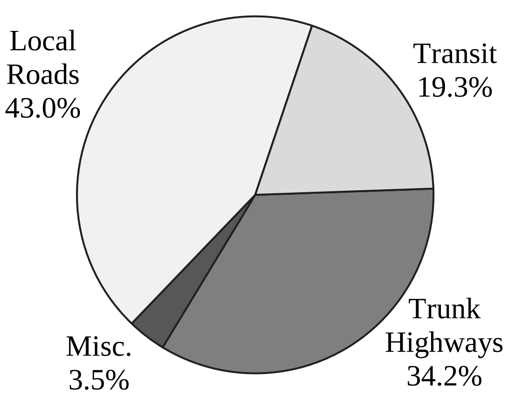


Notes: "CSAH" refers to county state-aid highways and "MSAS" refers to municipal state-aid streets. Aid for Twin Cities metropolitan area county highways is provided in both the CSAH and Metro county roads categories.

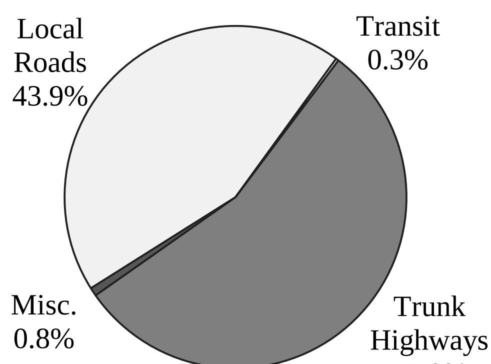
Distribution

The following charts summarize the distribution split by mode for the funding increase, excluding trunk highway bonding. Differences between the 2018-19 and 2020-21 biennia reside particularly in transit funding: after fiscal year 2019, additional funding goes almost entirely to state and local road systems.

Additional Funding Distribution
FY 2018-19 ($300.0 M)



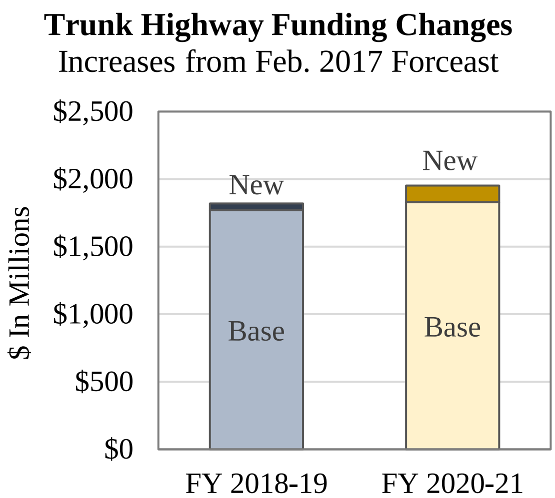
Additional Funding Distribution
FY 2020-21 ($448.1 M)

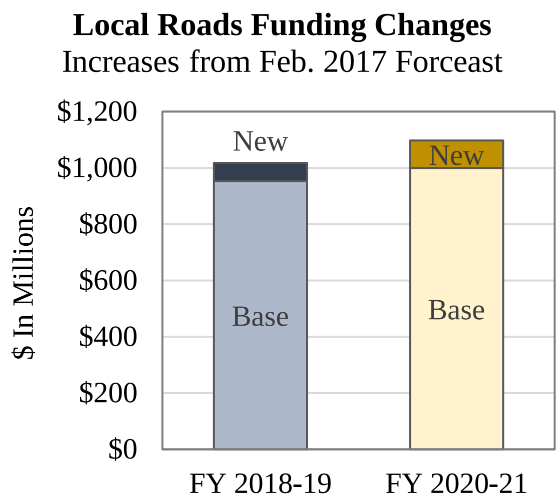


Impacts of the Finance Changes

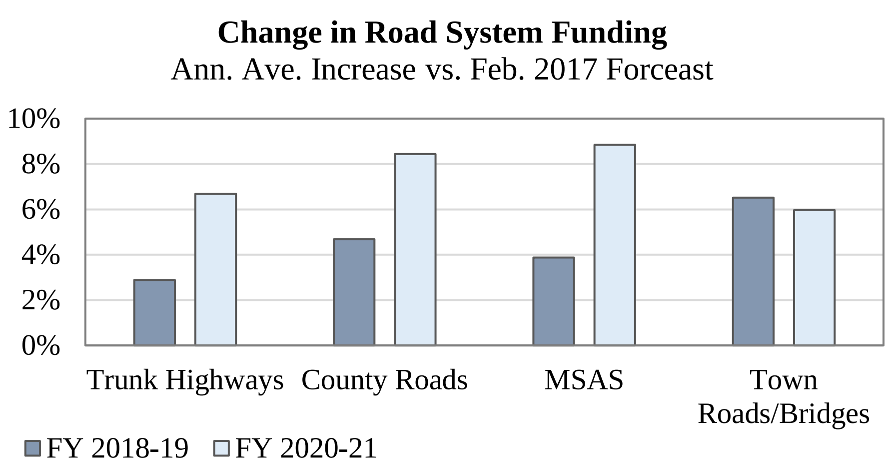
State and Local Roads

The legislation resulted in increased funding for both state and local road systems. The following charts summarize increases relative to forecasted revenue.





Finance changes can also be expressed through percentage increases in funding. Impacts from the legislation range from about 3 percent to 10 percent over the forecast for the different highway systems, as outlined below. The calculations cover funding from state sales taxes allocations as well as some onetime appropriations (such as an additional $4 million for town roads in the 2018-19 budget).



Notes: County Roads category includes MVLST revenue and appropriations for Twin Cities metropolitan area county roads. The chart does not show funding for programs that had no base appropriations in the February 2017 forecast (such as the Local Bridge Replacement program and the Small Cities Assistance program). Calculations exclude bonding.

General Fund

The scope of general fund impacts from the 2017 legislation can be viewed from a couple of vantage points.

- **The transportation increase reduces dollars available for other areas.** The increase in transportation funding carries a corresponding decrease in general fund money, which has the potential to affect other areas of the state budget that are funded from the general fund.

- **The share of the state funds for transportation increases significantly, but represents a small share of total general fund spending.** Looking at the general fund combined with state sales taxes revenue allocated in the 2017 legislation, the transportation share rises from about 0.5 percent to just over 1.4 percent. Arguably it represents a sizeable increase for transportation but a more modest influence on the general fund.

Transportation Funding Share (General Fund and Allocated State Sales Taxes)[4]

Scenario	FY 2018-19	FY 2020-21
Base appropriations	0.5%	0.5%
With 2017 legislation	1.2%	1.4%

- **The general fund allocation makes a significant jump.** The allocation grows considerably from the 2018-19 biennium to 2020-21. (Bear in mind, though, that the amount is forecasted far enough into the future that collections could vary quite a bit.) The rise is primarily the result of directing a greater amount of general sales tax revenue attributable to sales of motor vehicle repair parts. For context, a 2017 Department of Revenue analysis estimated total repair parts sales tax revenue as amounting to $288 million in fiscal year 2021; the legislative changes devotes $145.6 million (or about 51 percent) in that year to transportation.

- **The 2017 allocation for road systems might reflect a long-term trend.** A trend is evidenced by periodic allocation of motor vehicle sales tax (MSVT) revenue over previous decades, constitutional dedication of MVST in 2006, legislation in 2008 that began distributing part of motor vehicle lease sales tax revenue to some county roads, and a 2015 appropriation for the Small Cities Assistance program (which was first established that year and used the general fund as its only funding source).

For more information about transportation finance, visit the transportation area of our website, www.house.mn/hrd.

[4] All percentages use both general fund dollars appropriated for transportation and state sales taxes allocated to transportation purposes under the 2017 legislative changes. Amounts are based on the February 2017 forecast. General fund dollars are calculated as net of reserves, without accounting for debt service on transportation-related general obligation bonds. Under the February 2017 forecast, net general fund resources are estimated at $46.1 billion for the 2018-19 biennium and $48.8 billion for 2020-21.