

## Trunk Highway Bonding Capacity, May 2020

**Date:** 05/12/2020

**To:** Stakeholders

**From:** Margaret Anderson Kelliher, MnDOT Commissioner

### **RE: Summary of Trunk Highway Fund, May Interim Budget Projection**

The May Interim Budget Projection update, which estimated the revenue impacts of the COVID-19 pandemic in the current FY 2020-21 biennium, projects a \$9 million deficit in the Trunk Highway fund by the end of FY 2021. This deficit is primarily driven by lower gas tax and Motor Vehicle Sales Tax (MVST) revenues compared to February forecast levels. In the past week, MnDOT has received numerous questions from stakeholders about actions needed to bring the fund back into balance as well as the ability to authorize additional Trunk Highway bonds in a 2020 capital investment bill.

#### **Trunk Highway Fund Debt Management Policy**

MnDOT's debt management policy is relevant to decisions about the use of Trunk Highway bonds in the 2020 capital investment bill. The debt management policy states that debt service should not exceed 20 percent of annual state revenues. Under current law, Trunk Highway debt is 16.6% of annual state revenues for FY 2021. Although the state could authorize an additional \$480 million before reaching the limit of 20%, MnDOT strongly discourages the legislature from borrowing at that level.

#### **Impact of Additional Bonding on Program Delivery**

The Governor's 2020 capital budget recommendation included \$172.5 million in Trunk Highway bonds for FY 2021. At this level, the Trunk Highway fund deficit would grow slightly compared to the interim budget projection, to \$10.9 million by the end of FY 2021. Specifically, the Governor's capital budget funded the Rail Grade Separation Program (\$110 million) that would fund high-priority grade crossings identified in a study MnDOT has already completed, and proposed a Facilities Capital Program (\$58.8 million), which would preserve and renew MnDOT buildings across the state.

Implementing these recommendations would not strain program delivery budgets, as these projects are already well-defined. Conversely, if additional Trunk Highway bonds were authorized for projects that are not already programmed, the planning effort required by MnDOT to move projects toward completion would compete with the large construction program being delivered this year.

## Supplemental Operating Budget Requests

In addition to the additional debt service costs detailed above, any supplemental budget appropriations enacted from the Trunk Highway fund will also impact the fund balance. In particular, the Governor's supplemental budget recommendation of \$7.8 million in FY 2020-21 and \$12.6 million in FY 2022-23 from the Trunk Highway fund will be a key consideration, as it addresses a deficiency in the State Patrol's budget at the Department of Public Safety.

## Recommendations

Given the need to address the projected deficit in the Trunk Highway fund, the need for capital improvements through Trunk Highway bonds, and operating investments, MnDOT recommends the following:

- \$172.5 million in Trunk Highway bonds to fund the Rail Grade Separation Program and a Facilities Capital Program.
- \$7.8 million in FY 2020-21 and \$12.6 million in FY 2022-23 from the Trunk Highway fund to respond to the budget deficiency for the State Patrol.
- No Trunk Highway project earmarks.

Additionally, MnDOT has analyzed operating budget pressures in the Trunk Highway fund, and identified specific budget activities spending can be reduced to the extent necessary to ensure balance in the fund:

- Agency Services: \$1.1M
- Operations and Maintenance: \$12.1M
- Program Planning and Delivery: \$7.2M
- Buildings: \$0.2M
- **Total: \$20.7M**

The Legislature should act to restore balance to the fund, taking into consideration any additional spending from the fund that is enacted this session.

MnDOT will continue to closely monitor the revenue situation while reviewing several alternatives to reduce spending. MnDOT will prioritize critical public services in considering alternatives to address the impacts of COVID-19 on transportation funding.

## General Obligation Bond Requirements

As a reminder, MnDOT oversees a variety of a programs funded by general obligation bonds, most notably the Local Bridge Replacement Program, the Local Road Improvement Program as well as other modes including airports, transit and ports. In general these areas are advancing programmatic goals with the investment recommendations. As capital investments beyond the Governor's recommendation are considered for funding, please keep in mind that projects that have a trunk highway component must be approved in MnDOT's State Transportation Investment Plan (STIP). For further details, please use the following link to [MnDOT STIP Information](#). In addition to the MnDOT STIP requirement, there are a number of other requirements that must be in place in order for capital projects to successfully advance, particularly full project funding requirements as described in the [State of MN Capital Grants Manual](#).