

Transportation In Minnesota

An Overview

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Transportation Funding Proposals 2021/2022 Legislative Sessions

2021

With a divided legislature, the House and Senate proposed very different transportation budget bills in the 2021 Legislative Session. The Senate bill would spend more general fund dollars on a range of transportation uses, providing a total of \$225 million in additional revenue in FY22-23 and \$107 million in FY24-25.

The Senate bill included a provision that would have changed the dedication of the sales tax on auto repair parts from a flat annual amount (\$145.6M) to 60% of the revenue collected, increasing that amount by \$75 million in FY22-23 and \$107 million in FY24-25, and providing ongoing increases in the future. Of the 60% dedicated to roads, 54% would be deposited in the Highway User Tax Distribution Fund, 3% deposited in the Small Cities Assistance account (\$18M in FY22-23, \$20M in FY24-25), 3% deposited in the township road account (\$18M in FY22-23, \$20M in FY24-25) with the remaining 40% deposited in the general fund.

The House bill included a provision to index the state fuel tax to the National Highway Construction Index, increase the license tab fee, and adjust the motor vehicle sales tax (MVST) from the current 6.5% to 6.875%. These revenue increases would provide net new resources for roads of \$216 million in FY22-23 and \$412 million in FY24-25.

The House proposal would implement a new ½ cent local sales tax in the Twin Cities metropolitan area but only within the transit taxing district. The revenue generated, about \$376 million in FY22-23 and \$540 million in FY24-25, would be dedicated to Metropolitan Area transit.

As the session progressed and the amount of federal dollars coming to the state became more apparent, the idea of raising taxes or fees was abandoned. Legislative leaders and the governor set spending targets for each of the committees in order to reach an overall deal on the state budget. For transportation, the target was ultimately set at about \$220 million in additional general fund dollars.

In addition, the transportation budget bill increased spending out of the trunk highway fund by \$317 million, including an increase of \$257 million in the state road construction program. The legislature also authorized \$413 million in trunk highway bonds with \$200 million of that amount set aside for the Corridors of Commerce program.

2022

The 2022 Legislative Session started with high expectations as the state enjoyed a historic \$9.25 billion surplus in the general fund and additional federal COVID funds available. The opportunity was there for major investments as well as tax cuts. In the end, the House and Senate were not able to compromise and reach a deal by the end of the regular session.

For transportation, the outcome is extremely frustrating. With passage of the IJA providing more federal transportation dollars, we expected action that would ensure the state can spend, match and compete for federal infrastructure funds. Without legislation, MnDOT will need to figure out a way to find additional matching funds and without an appropriation to increase spending from the trunk

highway fund for the state road construction budget, the department will not be able to spend the additional highway funds coming to Minnesota.

The governor, the House and the Senate all proposed an increase from the trunk highway fund of \$315,457,000 for FY22-23 to state road construction to accommodate increased federal funds as well as additional matching funds ranging from \$91.7 million to \$110 million for the biennium. Money in the trunk highway fund has to be appropriated in order to be spent.

There were also proposals from all sides to spend general fund dollars for transportation programs and priorities including funds to match formula funds and compete for federal discretionary grants.

At the end of the day, disagreement over the dedication of the revenue from the sales tax on auto repair parts became a major issue of contention. The Senate would not support dedicating a portion of the revenue to transit and the House and governor insisted that some portion of the revenue be dedicated to transit. This is a huge missed opportunity to finally have all of that revenue dedicated to transportation.

2022 - No Bonding Bill

Rather than a substitute for increasing dedicated fees, funding in the bonding bill allows local road and bridge improvements that otherwise would not be done or would be delayed. Because the Minnesota Constitution requires that 62% of all funds deposited into the Highway User Tax Distribution Fund (HUTDF) be used on state highways, local governments will only receive 38% of any increase in revenue into the HUTDF. **Bond funds help meet those needs that can't be met with state aid funds from the HUTDF.**

The bonding bill passed in October of 2020 provided a historic level of funding (\$1.8 billion) for projects overall, and a higher level of funding for transportation projects and programs. These are one-time funds for programs and projects.

- Local Road Improvement Program - \$170.4 million
- Local Bridge Replacement Program - \$82 million
- Local Road Wetland Mitigation Program - \$23 million
- Port Development Asst. Program - \$14 million
- State Airport Development Program - \$18.7 million
- Safe Routes to Schools - \$3 million
- Greater MN Transit Facilities - \$2 million
- MN Rail Service Improvement Program - \$4 million
- Metropolitan Area Bus Rapid Transitways - \$55 million
- Transportation Economic Development (TED) program - \$2.9 million
- Trunk Highway Bonds - \$300 million (\$110M Rail Grade Separation projects, \$58M MnDOT Facilities, \$25M Project Development, \$84M State Road Construction, \$23M Flood Mitigation District 7

The 2023 Legislative Session

The 2023 Session is a budget year. With a major surplus projected for the state's general fund, the 2023 Session provides an important opportunity to:

- Finally dedicate 100% of the revenue from the sales tax on auto repair parts to transportation.
- Provide Matching Funds for federal transportation funds provided under the Infrastructure Investment and Jobs Act (IIJA).
- Authorize additional spending out of the Trunk Highway Fund as well as additional trunk highway bonds.

A significant capital bonding bill should also be a priority for passage early in the 2023 Legislative Session due to the lack of action to pass a bonding bill in the 2022 Session which was the traditional bonding year.

In addition to providing increased funding from the general fund, ongoing, dedicated revenue for transportation should be generated through modest increases in dedicated transportation user fees. Some options include:

- Increase the annual electric vehicle fee
- Implement a fee on Transportation Network Companies with revenue dedicated to transit systems
- Implement a delivery fee on package deliveries
- Increase in the debt service surcharge and fuel taxes. Minnesota currently collects 28.5 cents per gallon. The US average for state taxes and fees on gasoline is 36.38 cents per gallon.
- Increase the motor vehicle registration tax by increasing the rate, slowing the depreciation schedule or increasing the base fee.
- Increase the metropolitan area sales tax for transit
- Increase the motor vehicle sales tax rate

Diversions (spending that may not be strictly for a highway purpose)

- Fund MnDOT and DPS Trunk Highway Fund expenditures not related to a Highway Purpose from the state general fund.
- Support early acquisition of rights-of-way for transportation projects. Adequately fund the Right of Way Acquisition Loan Fund (RALF).
- Eliminate payment of state sales tax on purchases for transportation projects for MnDOT, transit agencies and local units of government, including joint powers boards.
- Eliminate some of the exemptions to payment of the motor vehicle sales tax.

Why Transportation is Important

Minnesota's transportation system of roads, bridge, transit, rail, ports and waterways and air infrastructure forms the backbone of the state's economy and supports the everyday of lives of each Minnesotan.

Minnesota is home to 141,359 miles of state trunk highways, county state aid highways, county roads, municipal state aid streets, city streets and township roads. In addition, we have 19,964 state, county, city and township bridges. The Twin Cities Metropolitan Area hosts light rail lines, bus rapid transit routes, commuter rail service, regular-route bus service and Metro Mobility service for people with disabilities. In Greater Minnesota, 40 transit systems provide rides to people through regular-route service in regional centers and demand response service throughout the 80 counties outside of the Twin Cities.

Our state benefits from thousands of miles freight rail lines as well as ports and waterways that move products and commodities from all over the world.

- **Economic Benefits** – Every economy depends on the movement of products to markets and people to work and other destinations. Without transportation, economic activity would halt. This fact was recognized when the COVID-19 pandemic struck and transportation systems and services were considered essential. The deterioration of our transportation system has a damaging impact on state and local economies. When bridges are closed or posted, shipments take longer and cost more money. When roads wear out, safety and efficiency suffer. Investments in the transportation system create jobs, spur business expansion and increase spending and economic activity in local economies.
- **Safety** – The condition of the transportation system has a direct impact on people's lives. Too many people continue to die or suffer major injuries in traffic crashes. In Minnesota, fatal accidents jumped nearly 27% from 2020 to 2021. *In 2020, there was an estimated 394 fatal crashes; in 2021, there were 500.* The estimated economic cost to Minnesota: \$1,875,540,500. Of those deaths, 203 (58%) occurred in rural areas, which are defined as having a population of less than 5,000 people.

In addition, congestion and barriers to travel impact the time it takes for emergency response personnel to get people to hospitals and other health care facilities.

- **Access/Quality of Life** – People need access to institutions and services every day. People need to get to work, to school, to shopping, to health care, to church, to events and to spend time with family and friends. Without adequate transportation infrastructure and transit services, many people would be isolated, unable to access employment opportunities or needed medical services. The transportation system makes communities livable and attractive to both residents and businesses.

Minnesota's Transportation System is Aging and Inadequate

The majority of the transportation system we use today was built and paid for by previous generations. After World War II, the interstate system was created, development brought more roads and bridges and in recent decades, the need to address growing congestion led to the expansion of transit systems all across the state.

As the state continues to grow, adding more people and more business activity, the demands on the transportation system increase. Unfortunately, the state has underinvested in the transportation system – **much of which has reached the end of its design life** – and today it cannot keep up with the demand for heavier shipments, more mobility options for people and the need to replace aging infrastructure.

State leaders need to deal with

- Thousands of structurally deficient bridges,
- Thousands of miles of deteriorating roadways,
- Needed upgrades at ports and airports and
- An aging and growing population that needs better transit service.

Nearly 1 million new Minnesotans will move in by 2050; freight truck traffic is expected to increase 40% by 2040 and the growth in vehicle miles traveled is projected to increase 21.3% by 2040. Our current transportation system is not built to handle this growth.

Funding Needs to Increase

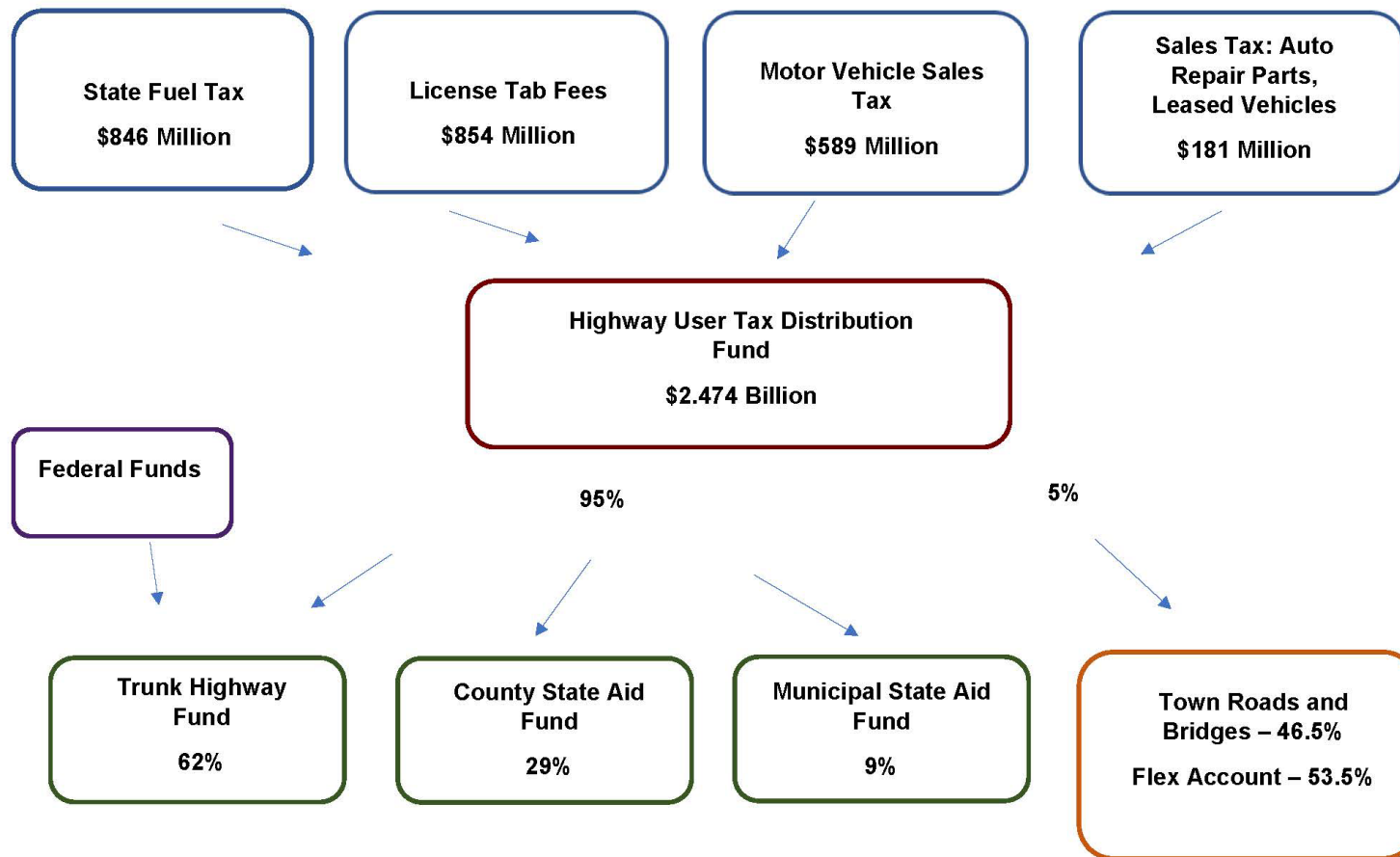
While updates are currently being made to long-range transportation plans developed by MnDOT, we know that there continues to be a huge gap between the funding needed and the funding available:

- \$900M per year State Trunk Highway System
- \$900M per year Local System
- \$300M per year Metropolitan Transit
- \$40M per year Greater MN Transit
- Over \$2 Billion per year!

How Transportation is Funded Today

State Funding - Minnesota's Constitution dedicates three revenue sources exclusively for transportation: the motor fuels tax, the motor vehicle registration tax (license tab fees), and the sales tax on motor vehicles (MVST). This constitutional dedication means that revenue from these sources is not deposited in the general fund and cannot be used for any other purposes by the legislature. In addition, the legislature statutorily dedicated some general fund revenue related to motor vehicles to the HUTDF.

Highway User Tax Distribution Fund Sources/Uses FY2021



All of the funds from the fuel tax and the motor vehicle registration tax must be deposited in the state's Highway User Tax Distribution Fund (HUTDF). For the motor vehicle sales tax, 60% is deposited in the HUTDF while 40% is dedicated to transit purposes and is deposited in the Transit Assistance Account.

Minnesota's Constitution states that money in the HUTDF is to be used solely for a highway purpose. Funds in the HUTDF are not used for transit or other state general purposes. Minnesota's Constitution further requires that HUTDF funds are to be distributed so that:

- 62% is used on state trunk highways,
- 29% on county state aid roadways and
- 9% on the municipal state aid system.

In 2017, the legislature passed a transportation funding bill that statutorily dedicates all of the revenue from the sales tax on leased motor vehicles to transportation with 38% to the county state-aid highway fund, 38% to the greater Minnesota transit account, 13% to the Minnesota state transportation fund (Local Bridge Fund) and 11% to the highway user tax distribution fund (HUTDF). In addition, the legislature statutorily dedicated the sales on rental vehicles to the HUTDF.

Another provision of the 2017 transportation funding legislation dedicated a portion of the sales tax on auto repair parts to the HUTDF. This sales tax on auto repair parts generates about \$230 million per year in revenue. The legislature dedicated a flat \$145.6 million per year of that revenue to the Highway Trust Fund. The remaining revenue from the sales tax on auto repair parts is deposited in the state's general fund.

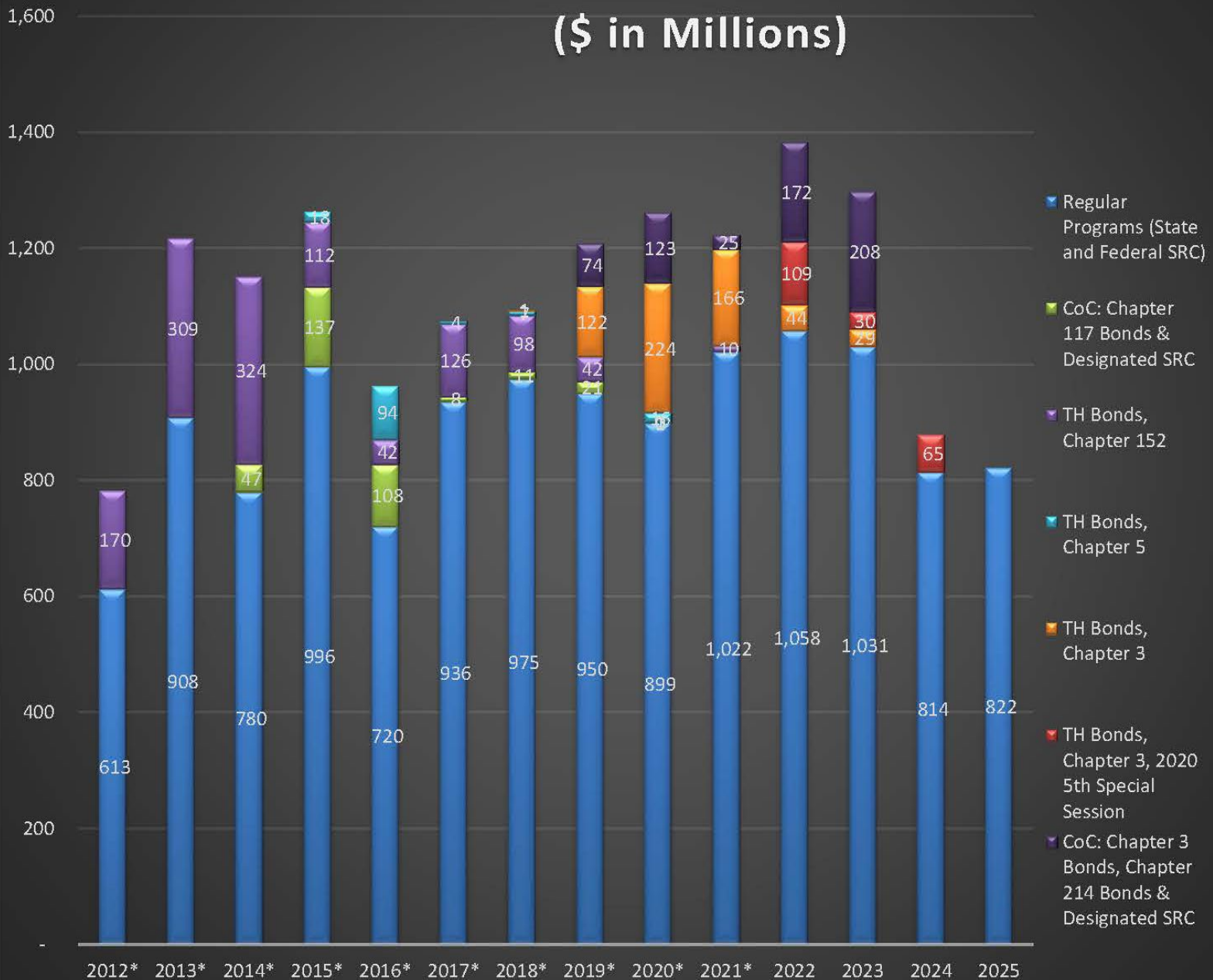
Local Funding

In addition to local property taxes, Minnesota law allows local governments to use a number of tools to raise funds locally including: *wheelage taxes, local option sales taxes, aggregate tax and motor vehicle excise tax*. The use of these revenue sources has increased significantly since the authority to use these tools was expanded starting in 2008.

For counties – 51 counties had enacted a local option sales tax that was in effective 2020, while 54 counties levied a wheelage tax, 13 counties charged a motor vehicle excise tax and 36 counties collected a county aggregate tax.

For cities – 48 cities currently impose a local sales tax under special law. Some of the revenue from the city local option sales tax has been used for transportation projects over the years. The growth in the use of this option has led to discussion at the legislature about the circumstances for using this tool. In 2019 legislation was passed to place more emphasis on using this revenue for projects of regional significance.

MNDOT Construction Outlook (\$ in Millions)



* Actual Expenditure

Transit Funding

Greater Minnesota Transit – Transit service in the 80 counties outside of the seven-county metro area are funded through a number of revenue sources:

- Federal Transit Funding (\$48M/yr formula funds)
- State General Fund appropriations (\$18.2M/yr)
- State Motor Vehicle Sales Tax (MVST) and State Motor Vehicle Lease Sales Tax (MVLST) (\$72M/yr)
- Local Share: farebox recovery, local tax levies, local contracts for service

State law distributes funds in the Transit Assistance Account so that 36% of the funds are used for transit in the Twin Cities Metropolitan Area and 4% of funds are used for Greater Minnesota transit.

In the Twin Cities Metropolitan area, transit service is funded through:

- Federal Transit Funding (\$116M/yr)
- State General Fund appropriations (\$65.3M/FY22-23)
- State Motor Vehicle Sales Tax (MVST) (\$290M/FY20)
- Farebox
- Metropolitan Area sales tax (\$328M/yr)

State law allows counties to levy up to ½ cent local option sales tax for highway or transit purposes. Counties in the seven-county metropolitan area dedicate a large share of the local sales tax revenue for transit.

The Future of Transportation Funds

The future of certain transportation funds has been a topic of discussion. In particular, the fuel tax – which is charged on a *per-gallon basis* – will see declining revenue as vehicles become more fuel efficient **if the rate of the tax remains unchanged**.

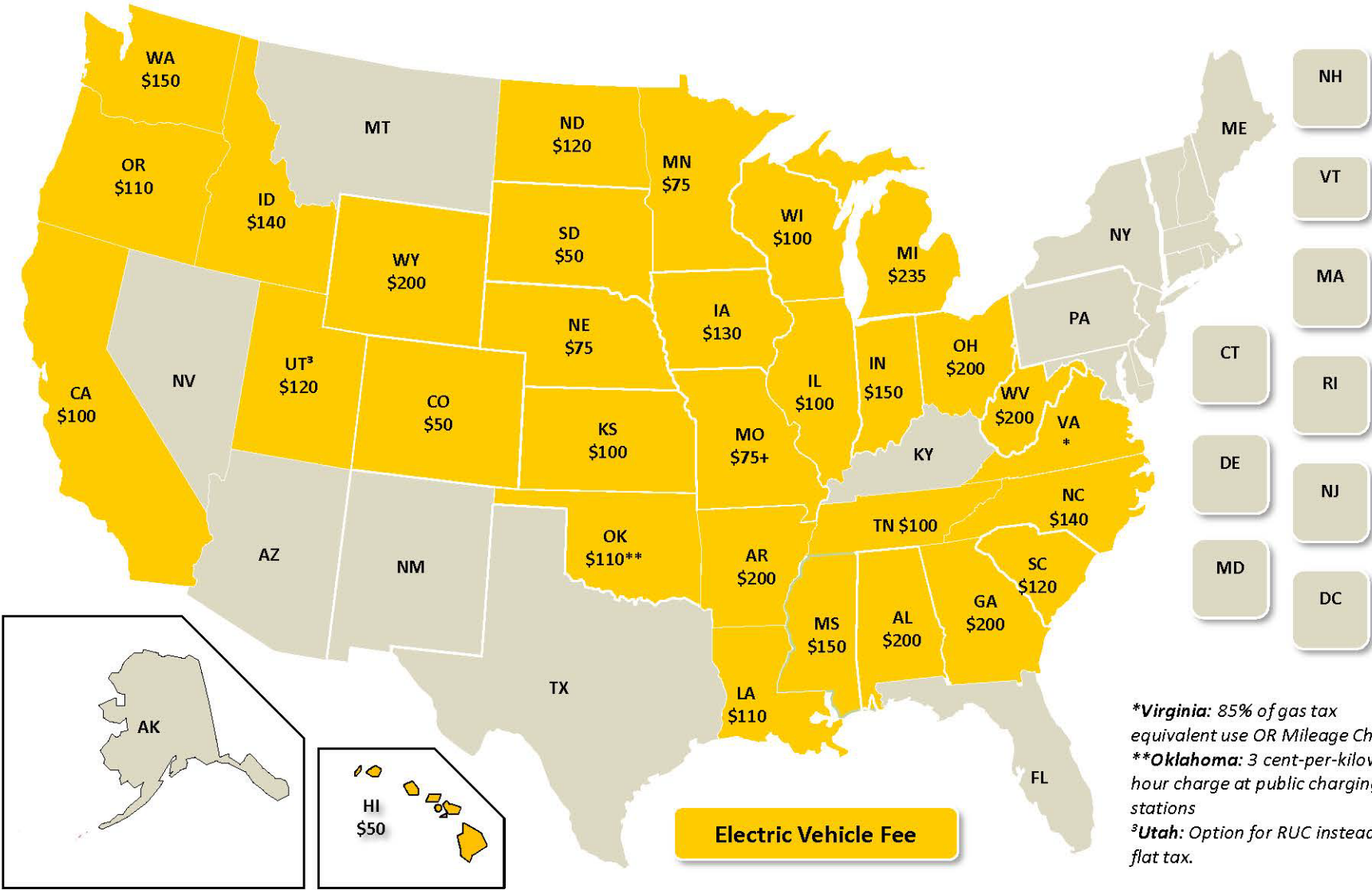
Alternative fuels (those other than gasoline and diesel fuel) are becoming more commonly used. These fuels can be, and are, also taxed just like gasoline. In Minnesota special fuels are taxed.

Special Fuel	Current Tax Rate	FY 2017 Gallons
Liquified petroleum (LPG)	18.75¢ per gallon	2,857,858
Compressed natural gas	25¢ per gallon	5,727,486
Liquified natural gas	15¢ per gallon	0
E-85	20.25¢ per gallon	13,879,123
M-85	14.25¢ per gallon	
Liquid Propane Gas	0.2135	2,857,858
Compressed Natural Gas	0.25	5,727,486

To compensate the Highway User Tax Distribution Fund for the loss of fuel tax revenue from all-electric vehicles, Minnesota passed legislation in 2017 creating an annual electric vehicle fee of \$75. According to MnDOT, the average driver in Minnesota pays \$214 per year in fuel taxes. Most states in the United States have enacted an Annual Electric Vehicle Fee to compensate for lost fuel tax revenue.

A number of states are also exploring new ways of collecting revenue including a mileage-based fee or road user charge that would charge vehicle owners based on the number of miles driven. In Minnesota, revenue from this type of fee would not be constitutionally dedicated and so could be diverted to purposes other than investing in highways and bridges.

31 States Have an Electric Vehicle Fee

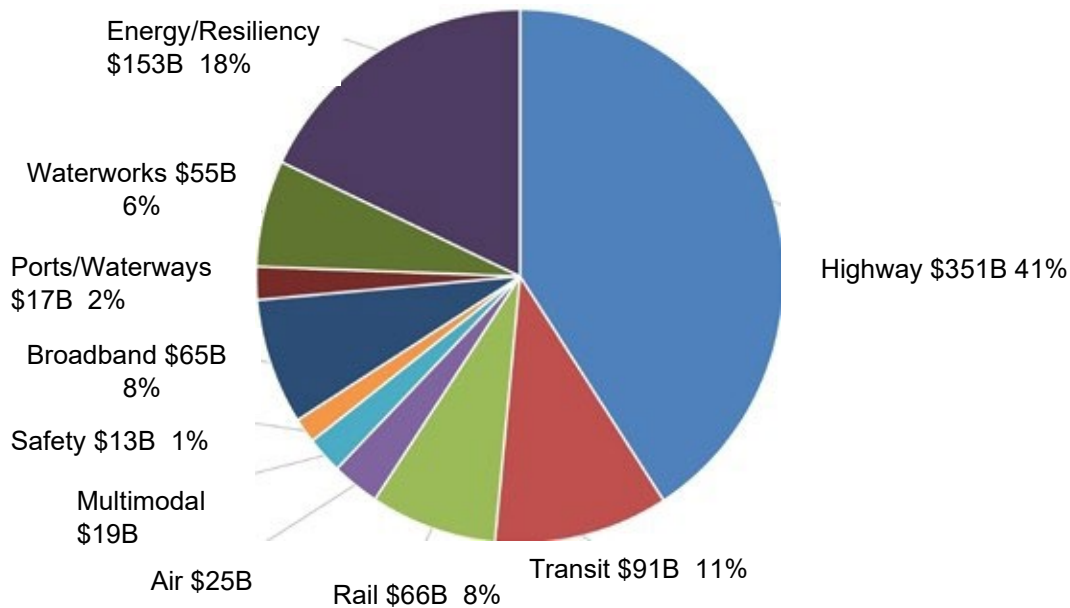


Source: TIAC, "State Electric Vehicle Fees", Feb. 2022

Infrastructure Investment and Jobs Act (IIJA)

In November of 2021 Congress passed the Infrastructure Investment and Jobs Act, legislation that included a five-year transportation authorization act to replace the previous authorization known as the FAST Act. The legislation includes new funding for many infrastructure categories including broadband, water infrastructure, power and the electric grid and addressing pollution clean-up.

Breakdown of \$852 Billion in Guaranteed Funding in the Infrastructure Investment & Jobs Act



For highways, the bill provides \$348 billion over five years with the bulk of the funding flowing through formula funds, some of which are new and some are existing.

Increase over Base - Minnesota Highway Apportionments IIJA

FY2021 Baseline	FY2022	FY2023	FY2024	FY2025	FY2026	TOTAL 5-Year
\$713,850,900	\$863,876,119	\$881,154,805	\$898,779,064	\$916,092,087	\$935,092,087	\$4,500,000,000
	\$150,025,219	\$167,303,905	\$184,928,164	\$202,241,187	\$221,241,187	\$925,739,662

Increase over Base – Minnesota Transit Funding - IIJA

FY2021 Baseline	FY2022	FY2023	FY2024	FY2025	FY2026	TOTAL
\$121,653,743	\$156,579,242	\$159,949,870	\$164,190,129	\$167,625,940	\$171,948,361	\$820,000,000
	\$ 34,925,499	\$ 38,296,127	\$ 42,536,386	\$ 45,972,197	\$ 50,294,618	\$212,024,827

During the 2022 Legislative Session, the governor, the House and the Senate all agreed on increased budget authority from the trunk highway fund for MnDOT's State Road Construction program of \$315,457,000. This would allow MnDOT to spend the additional federal highway formula funds appropriated thanks to the IIJA. In addition, both the House and Senate and governor supported additional general fund dollars to position Minnesota to both match increased federal funds and compete for discretionary grants offered through the IIJA.

Due to the lack of action in the 2022 Session, the increased budget authority and increased general fund appropriations were not passed leaving Minnesota struggling to compete with other states for federal transportation dollars.

2023

With increased federal infrastructure funds available and a historic state budget surplus as well as the need for a capital bonding to address important public assets, the 2023 Legislative Session provides major opportunities to invest all across the State of Minnesota, making our transportation system safer, more resilient and more effective at moving people and products and moving our state's economy forward.