

MINNESOTA'S HIGHWAY FINANCES

Motor Fuel Tax

At current consumption levels, each one-cent increase in the gas tax would yield about \$32 million per year to the Highway User Tax Distribution Fund and generate \$19 million in revenues to the Trunk Highway Fund. The current tax of 20 cents per gallon yielded \$629 million in FY 2006 after refunds, collection costs, and transfers to Department of Natural Resources. The tax was last increased in 1988. In 1994, the Legislature enacted a phase-out of the ethanol tax credit over four years.

Eighty-two percent of motor fuel tax revenues are generated from gasoline sales. The remainder comes mostly from diesel and special fuel sales.

State law requires transfers of non-highway use (e.g., boats and snowmobiles) gas tax revenues to accounts managed by the Department of Natural Resources. About 3% of gasoline tax revenues, or approximately \$16 million, are termed "unrefunded" and transferred from the Highway User Tax Distribution Fund to the Department of Natural Resources accounts each year. The Governor has recommended increasing the percentage attributable to all terrain vehicles beginning in FY 2008, which would slightly increase the amount transferred annually to the Department of Natural Resources.

Based on information supplied by the American Petroleum Institute, twenty-three states have gasoline tax rates higher than Minnesota and three states have gas tax rates the same as Minnesota. Some states have local option gas taxes and/or levy a sales tax on gasoline sales. Taking statewide sales taxes into account would raise the number of states with higher gas tax rates than Minnesota to twenty-nine.

Motor Vehicle Registration Taxes

In FY 2006, motor vehicle registration taxes, after refunds, collections, and other costs, yielded \$484 million. Passenger class and pickup truck vehicles generated approximately 80% of total motor vehicle registration tax revenues.

Motor Vehicle Sales Tax

When passenger vehicle registration taxes, e.g., tab fees, were reduced in the 2000 legislative session, the Legislature provided replacement revenue for the Highway User Tax Distribution Fund (HUTDF). This consisted of a General Fund transfer (\$162 million) for FY 2001, and specified percentages of revenue from the motor vehicle sales tax (MVST) in subsequent years.

In FY 2002, the HUTDF received 30.86%, or \$189 million of MVST revenues. In FY 2003, the HUTDF received 32%, or approximately \$194 million of MVST revenues. The 2003 legislature changed the percentages of revenue from the MVST to the HUTDF to 30% for FYs 2004-07. The HUTDF received \$178 million in FY 2004, \$166 million in FY 2005, and \$161 million in FY 2006 from these transfers. New distributions were provided for the County State Aid Highway (0.65%) and Municipal State Aid Street (0.17%) Funds.

The 2005 legislature approved a constitutional amendment that would dedicate all MVST revenues to transportation, with a phase-in over 5 years. This amendment was passed by the voters in the November 2006 election. Therefore, the HUTDF will receive up to 38.25% in FY 2008, up to an additional 6% in each of FYs 2009-11, and up to 60% beginning in FY 2012.

Federal Highway Funds

The level of federal funding is a critical issue for Mn/DOT and for various local governments across the state, because federal funds make up a substantial portion of transportation spending.

As described earlier a new federal authorization bill, SAFETEA-LU, was approved in August 2005, which will stay in effect until September 30, 2009. Uncertainty remains concerning the level of “obligation (spending) authority” that will actually be appropriated. Prior to the passage of SAFETEA-LU, the percentage of obligation authority appropriated to the State of Minnesota had ranged from 90-95% of the amount authorized. In 2005-06, the amount of obligation authority appropriated to Minnesota fell to approximately 85% of authorized levels.

Recently, new concerns have arisen about federal highway funds. The 2006 Congress did not pass a budget for 2007, instead passing a “continuing resolution” through February 15, 2007, which keeps spending at 2006 levels. There is a strong possibility that the 2007 Congress will pass an additional continuing resolution that would keep spending at 2006 levels for the remainder of federal fiscal year 2007. This, combined with recent forecasts for the federal highway trust fund suggest that the fund will run out of money at the beginning of 2009. Because of these factors, the current forecast for federal funds may have to be reduced in the next official forecast of state revenues that will be released at the end of February 2007.

Highway User Tax Distributions

The Minnesota Constitution provides that 95% of Highway User Tax Distribution Fund revenues are distributed as follows: Trunk Highways - 62%; County State Aid Highways - 29%; and Municipal State Aid Streets - 9%. The remaining 5%, known as the five percent set-aside, is distributed in accordance with a formula established by the Legislature, but the formula may only be changed once every six years. The 1998 Legislature most recently changed this formula. Since July 1, 1999, all of the five percent set-aside revenues - approximately \$65 million per year - have been transferred to the County State Aid Highway Fund, where they have been further allocated to the Township Roads Account (30.5 %), Township Bridges Account (16 %), and Flexible Highway Account (53.5%). The most recent allocation of the set-aside revenues prior to July 1, 1999 distributed them to the Trunk Highway Fund (28%), the County State Aid Highway Fund (64%), and the Municipal State Aid Street Fund (8%). This formula could be changed by the 2007 legislature, as nine years have passed since it was last changed.

Flexible Highway Account

The Flexible Highway Account was created by the 1998 Legislature, essentially by combining money from the five percent set-aside that was previously allocated to the Trunk Highway Fund, the County Turnback Account in the County State Aid Highway Fund, and the Municipal Turnback Account in the Municipal State Aid Street Fund. The commissioner

of transportation must recommend allocation of money in the Flexible Highway Account among these funds and accounts for each upcoming two-year period, as part of the biennial budget proposal.

The following table describes the HUTDF five percent set-aside for FY 2006-09:

(In Millions of Dollars)

<u>HUTDF 5% Set-aside Distributions</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Town Road Account (30.5%):	19.4	19.2	19.9	20.6
Town Bridge Account (16.0%):	10.2	10.1	10.4	10.8
 Flexible Highway Account				
County Turn Back Account	18.0	24.8	16.0	18.0
Municipal Turn Back Account	5.7	1.5	6.0	2.8
<u>Trunk Highway Fund</u>	<u>10.4</u>	<u>7.4</u>	<u>12.9</u>	<u>15.3</u>
<u>Subtotal Flexible Highway (53.5%):</u>	<u>34.1</u>	<u>33.7</u>	<u>34.9</u>	<u>36.1</u>
 GRAND TOTAL 5% HUTDF Set-aside:	 63.7	 63.0	 65.2	 67.5

Since the distribution of money in the Flexible Highway Account is subject to decisions made in the biennial budget process, the relative amounts in the preceding table could be different in future bienniums. Also, the 2007 legislature could choose to change the distribution of the HUTDF five percent set-aside money, or the allocation of money in the Flexible Highway Account (a change to this provision was included in legislation considered in the 2006 legislative session).

County State Aid Highway Fund and Municipal State Aid Street Fund Spending

Money in these funds is allocated to counties and municipalities with populations greater than 5,000 based on statutorily defined apportionment formulas. For the County State Aid Highway (CSAH) Fund, the counties' respective shares are based on monetary needs (50%), relative shares of lane miles of roads (30%), relative shares of motor vehicle registrations (10%), and equal shares to each of the 87 counties (10%). For the Municipal State Aid Street (MSAS) Fund, the municipalities' respective shares are based on monetary needs (50%) and population (50%).

As a result of each decennial census, or as a result of the annual state demographer's estimate, additional municipalities may qualify for funding because their population grew beyond 5,000. At each census, some municipalities may stop qualifying for funding because their population fell below 5,000. As the decade progresses, additional municipalities may qualify for funding due to incorporation, consolidation, or by state demographer's estimate. Municipalities may also appeal their census counts.

The total number of municipalities qualifying for MSAS funds from 2002-06 is shown below:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Total Number of Municipalities Qualifying for MSAS Funds	130	133	136	138	138

Bonding

As of November 1, 2006 trunk highway bonds outstanding totaled approximately \$464.8 million. This outstanding balance was comprised of bond authorizations dating back to 2000, totaling \$620 million less bond principal repaid to date. The most recent bond authorization occurred when the 2003 Legislature approved \$400 million of trunk highway bonds to eliminate traffic bottlenecks and improve interregional corridors that were deemed “at risk”. The 2003 Legislature also approved a bond authorization of \$110 million that effectively transferred funding of projects originally appropriated out of the general fund. The 2002 Legislature approved \$10 million of trunk highway bonds used to transfer funding of projects from the general fund back to the trunk highway fund. This action freed up general fund dollars which were used for various flood relief projects in northwest Minnesota. The 2000 Legislature approved \$100 million of trunk highway bonds for projects in accordance with a \$459 million transportation funding initiative.

Advance Construction

The legislation authorizing \$400 million of trunk highway bonds, referenced above, also explicitly authorized Mn/DOT to spend federal funding using advance construction. In general, advance construction funding permits recognizing, in the current year, federal revenues scheduled to be received in future years. A number of benefits are realized using advance construction funding. It should be noted that this is borrowing from future federal revenues to be used in the current or at least earlier years than planned. Thus, careful management of the use of this funding is needed, and Mn/DOT has developed, and continues to refine, sound advance construction management techniques.