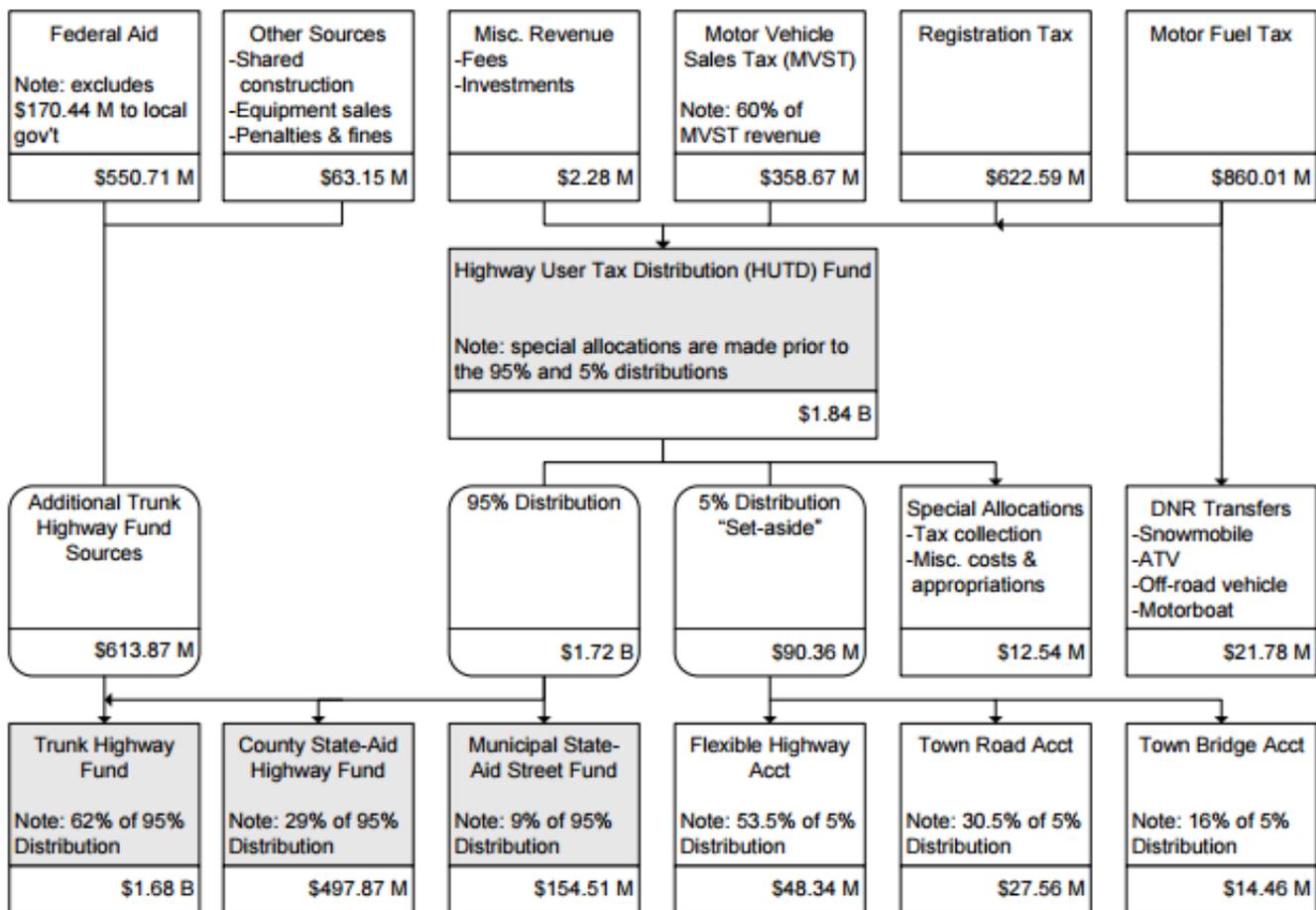


TRANSPORTATION FUNDING IN MINNESOTA A MYTH-BUSTING FACT SHEET

A Guide for MN Cities

The Big Picture: Under the Minnesota Constitution, revenues from the gas tax, vehicle registration, and motor vehicle sales tax must be used for specific transportation purposes. This fact sheet clarifies where Minnesota's transportation funding comes from, how it can be used (highways vs. streets vs. bridges vs. transit) and how it intersects with federal funding.



Note: excludes (1) proceeds from trunk highway and other general obligation bonds, and (2) \$14.4 million in motor vehicle lease sales tax revenue.

TRANSPORTATION FUNDING IN MINNESOTA A MYTH-BUSTING FACT SHEET

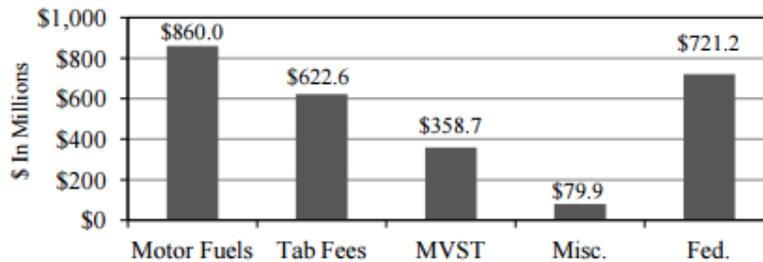
A Guide for MN Cities

Myth 1: Minnesota is not experiencing a major funding gap.

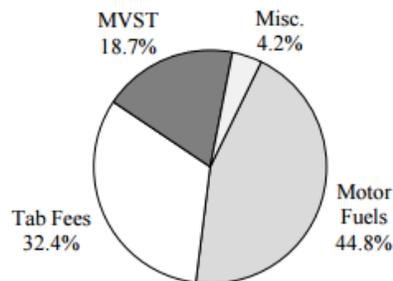
Minnesota has been experiencing a funding gap due to aging transportation infrastructure, rising costs for labor and road materials, and inflation. Costs have increased 55 percent over the last 20 years, but the federal gas tax (18.4 cents per gallon) has remained stagnant since 1993. The 28.5 cents per gallon Minnesota gas tax, last increased in 2012 as the final phase-in of legislation enacted in 2008, has not been indexed for inflation and is not keeping up with needs. Aging infrastructure is also a major factor. Maintenance costs increase as road systems age, and no city—large or small—is spending enough on roadway capital improvements to maintain a 50-year lifecycle.

The Minnesota Transportation Finance Advisory Committee (TFAC) convened by Governor Mark Dayton in 2012 concluded that the state has a \$21 billion **shortfall** in transportation funding over the next 20 years—and that is just to keep the transportation system at its **current** level of service. The report estimates the annual funding gap (AFG) for municipal state aid (MSA) system is conservatively estimated at \$100 million, while the non-MSA city street system AFG is between \$250 million to \$400 million. There is not adequate funding available and, even with MnDOT efforts to increase efficiencies, savings do not cover the funding deficit. Long-term, dedicated, and sustainable investments are needed.

**State and Federal Highway Funding
FY 2013 (\$2.64 billion)**



**Distribution of State Highway Funding
FY 2013 (\$1.92 billion)**



Notes: (1) "Motor fuels" category includes revenue for fuel attributed to nonhighway uses; (2) "MVST" category only contains highway funding; (3) "Misc." category is primarily trunk highway system revenue and includes motor vehicle lease sales tax revenue; and (4) charts exclude bond proceeds.

TRANSPORTATION FUNDING IN MINNESOTA A MYTH-BUSTING FACT SHEET

A Guide for MN Cities

Myth 2: Highways and transit compete for constitutionally dedicated transportation money.

The trunk highway system is funded through three constitutionally dedicated highway user taxes--gas tax, registration tax on motor vehicles, the motor vehicle sales tax (MVST). These make up the Highway User Tax Distribution Fund (HUDTF). Under the Minnesota Constitution, revenues generated from the state gas tax and vehicle registration can **only** be used for **roads and bridges**. Forty percent of the MVST, which is the smallest source of HUDTF revenues, is spent on Metro and Greater Minnesota transit. State dollars used for mass transit such as light rail are used to match federal funds for mass transit.

First, **95 percent** is distributed into dedicated highway funds, outlined in the following table.

Percent	Allocation	Use
62%	Trunk highway fund	Trunk highway construction, maintenance, and administration
29%	County state-aid highway (CSAH) fund	County roads in the state-aid system, apportioned to counties by two statutory formulas. Minn. Stat. § 162.07 .
9%	Municipal state-aid street (MSAS) fund	City streets in the state-aid system, apportioned to cities by statutory formula. Minn. Stat. § 162.13 .

Motor vehicle sales tax (MVST). Since fiscal year 2012, following a phase-in period, MVST revenue has been split among highways and transit, as follows. [Minn. Stat. § 297B.09](#).

Percent	Allocation	Use
60%	Highway user tax distribution (HUTD) fund	State and local highways; further allocated by constitutional formula (in the same manner as outlined above)
36%	Metropolitan area transit	Transit in Twin Cities metropolitan area
4%	Greater Minnesota transit	Transit in Greater Minnesota

Motor vehicle lease sales tax. Following recent shifts, motor vehicle lease sales tax revenue (excluding Legacy funds) for fiscal year 2015 and after is distributed as follows.

Portion	Allocation	Use
First \$32 million	General fund	Nondedicated state revenue
50% of remainder ⁴	County state-aid highway fund	Certain Twin Cities metropolitan area counties ⁵
50% of remainder	Greater Minnesota transit	Transit in Greater Minnesota

TRANSPORTATION FUNDING IN MINNESOTA A MYTH-BUSTING FACT SHEET

A Guide for MN Cities

Myth 3: The gas tax and vehicle registration tax pays for local roads.

Minnesota contains over 141,000 miles of roadway, and over 19,000 miles—or 13 percent—are owned and maintained by Minnesota's 853 cities. **84 percent** of municipal streets are **ineligible** for dedicated HUDTF dollars and are the responsibility of property taxpayers. The state gas tax (28.5 cents/gallon) and vehicle registration tax revenue is constitutionally dedicated strictly for highway purposes. Though city streets are essential to mobility and economic vitality in Minnesota communities, funding for those streets has remained largely unaddressed in transportation funding bills for over a decade. Some facts:

- Currently, the municipal state aid (MSA) system is limited to cities with populations over 5,000—only 147 of 853 cities in Minnesota—and cannot be applied to more than 20 percent of a city's lane miles. The Legislature did create the Small Cities Assistance Account in 2015, and funded it with \$12.5 million in one-time money distributed through a formula to the 704 Minnesota cities with populations under 5,000. This funding is not permanent and does not address the funding challenges for cities with populations over 5,000 for their maintenance costs of non-MSA roads.
- Existing MSA is not meeting the needs of MSA cities.
- Property taxes and special assessments have limited use, leaving cities under-equipped to address growing needs.
- For every \$1 spent on maintenance, a road authority saves \$7 in repairs, but funding challenges have made it difficult to perform timely maintenance for preservation purposes.

Myth 4: The federal government will take care of Minnesota's transportation funding needs.

The nation's transportation bill, MAP-21, and its predecessor, SAFETEA-LU, provide major sources of funds for state and local transportation projects, including highways, transit, and local enhancement projects. Minnesota annually receives close to \$1 billion. In the past, the law has been re-authorized every six years. Increasing vehicle fuel efficiency and the stationary federal gas tax rate is leading to serious underfunding of the Federal Highway User's Trust Fund. Congress has not enacted a long-term replacement and has resorted to short-term extensions 35 times over the past decade, leaving important state and local projects vulnerable to sudden cutoff.

Just before the August recess, the Senate did pass the "Developing a Reliable and Innovative Vision for the Economy (DRIVE) Act", a bill that authorizes over \$50 billion in federal funding annually for six years to support highway, bridge, and transit projects and programs. However, the House did not vote on the Senate bill and announced it would consider a House originated bill this fall. As a part of achieving a more robust and sustainable source of funds for transportation projects across our state, **Minnesota city officials are encouraged to contact their Congressional offices** to urge support for a new long-term federal transportation bill that authorizes at least six years of transportation programs & funding, enables more local control, supports innovative programs and finance, & helps fix the Highway Trust Fund.

*Tables & Charts Source: from MN House of Representatives Information Brief on "Highway Finance" (October 2014)
www.house.leg.state.mn.us/hrd/pubs/hwyfin.pdf*