INFORMATION BRIEF
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2008 Transportation Finance Legislation: Laws 2008, Chapter 152

The 2008 Legislature enacted transportation finance legislation that substantively increases transportation funding. This information brief outlines the basic elements of the legislation.

Table of Contents

Summary of Legislation

The 2008 Legislature enacted transportation finance legislation that substantially increases transportation funding. Laws 2008, ch. 152. The key changes, as described below, are in the areas of appropriations, authorizations, taxes, fees, policies, and programs.

Appropriations and Authorizations

The law appropriates and authorizes the following for transporation expenditures:

- Appropriates $284.4 million for the 2008-2009 biennium to the Department of Transportation (MnDOT) and the Department of Public Safety for transportation
- Authorizes $1.8 billion in trunk highway bonds over a ten-year period and $60.1 million in general fund-supported bonds for local roads and bridges

Tax and Fee Changes

The law implements the following changes to transportation-related taxes and fees:

- Phases in a five-cent gas tax increase (by two cents on April 1, 2008, and three cents on October 1, 2008) and raises the tax on other motor fuels proportionally
- Establishes a gas tax debt service surcharge phased in to 3.5 cents starting July 1, 2012, based on the amount needed to repay trunk highway bonds
- Amends the motor vehicle registration tax to (1) eliminate the tax caps, and (2) accelerate the yearly decrease in a vehicle's taxable value
- Creates a $25-motor fuels tax credit, starting with calendar year 2009 tax returns
- Authorizes metropolitan counties to impose a metropolitan transit sales tax of 0.25 percent and a motor vehicle sales excise tax of $20 under a joint powers agreement, and specifies powers, duties, and revenue allocation
- Authorizes counties in greater Minnesota to impose a 0.5-percent local transportation sales tax by referendum and a motor vehicle sales excise tax of $20

Policy and Program Changes

The law makes the following changes to transportation policy and programs:

- Allocates motor vehicle lease sales tax revenue starting in fiscal year 2011 with full phase-in by fiscal year 2013, so the revenue will first go to the motor fuels tax credit, with the remainder allocated 50 percent to greater Minnesota transit and 50 percent to certain metropolitan counties based on population
- Amends county state-aid highway fund allocation by adding a new formula for distributing new transportation revenue

- Amends the allocation requirements for funds in the flexible highway account starting July 1, 2009 to (1) eliminate funding for trunk highways, (2) provide some funds to metropolitan counties for their local roads, and (3) identify new uses for the funds
- Establishes a new trunk highway bridge improvement program for repair and replacement of state bridges, which is funded through trunk highway bonds

Fiscal Impacts

Summary of State Transportation Revenue Changes

The legislation will have an effect on state revenues and expenditures primarily due to the motor fuels tax increase, registration tax changes, and trunk highway bond authorizations. The changes impact the trunk highway fund, county state-aid highway fund, and municipal state-aid street fund as well as a number of nontransportation-related funds.

Allocation of the new revenue between state and local roads is largely determined through a constitutional formula that dedicates certain revenue streams to transportation and distributes the funds between state and local road systems. The legislature has flexibility in appropriating funds for state roads for different budgetary activities (e.g., dividing funds between maintenance and planning activities). However, the relative amounts allocated to the trunk highway, county state-aid highway (CSAH), and municipal state-aid street (MSAS) systems are constitutionally determined; further allocation of CSAH and MSAS funds among local units of government is largely based on formulas in state statute and MnDOT policies. (For more information see Appendix 1, which provides a summary of the transportation funding structure.)

The following table shows a summary of state expenditure and revenue changes for transportation-related purposes (e.g., roads and bridges); additional information on both state and local revenue changes is included in Appendix 2. A number of fiscal items in the legislation are not included in the table below. A motor fuels tax credit (discussed on page 14) is not included since the funds are being redirected for a nontransportation-related item. In addition, local option sales taxes, such as the 0.25-percent metro sales tax increase, are not included in the table. Although local taxes impact transportation resources, the amount available will depend on decisions made at the local level.

State Transportation Fiscal Impacts Summary ($ in thousands)

	FY 2008	FY 2009	FY 2008-09	FY 2010	FY 2011	FY 2010-11
State Revenue Changes by Source						
Motor Vehicle Fuels Tax	$10,500	$136,000	$146,500	$218,900	$230,800	$449,700
Motor Vehicle Registration Tax	0	17,000	17,000	63,900	114,100	178,000
Motor Vehicle Lease Sales Tax (Newly Used for Transportation)	0	0	0	0	8,140	8,140
Rental Car Fee Increase (3% to 5%)	0	400	400	2,100	2,300	4,400
Total State Revenue Changes	**10,500**	**153,400**	**163,900**	**284,900**	**355,340**	**640,240**
Direct Appropriation Changes by Fund						
General Fund	0	2,775	2,775	0	0	0
Trunk Highway Fund	55,000	163,250	218,250	117,602	173,358	290,960
County State-Aid Highway Fund	0	50,173	50,173	50,173	50,173	100,346
Municipal State-Aid Street Fund	0	13,179	13,179	13,179	13,179	26,358
Total Direct Appropriation Changes	**55,000**	**229,377**	**284,377**	**180,954**	**236,710**	**417,664**
Bonding Resources						
Trunk Highway Bonds	0	500,000	500,000	500,000	100,000	600,000
Local Roads and Bridges Bonds	0	60,000	60,000	0	0	0
Total Bonding Resources	**0**	**560,000**	**560,000**	**500,000**	**100,000**	**600,000**

Notes: The table excludes local option sales taxes and nontransportation fund activity. Trunk highway fund direct appropriations include federal funds related to the I-35W Bridge collapse. Revenue estimates are based on the Minnesota Department of Finance, End of 2008 Legislative Session, Consolidated Fund Statement.

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A few points are worth noting on the chart. The first regards the accuracy of the estimates. All revenue estimates are based on the Minnesota Department of Finance's End of 2008 Legislative Session, Consolidated Fund Statement, dated June 24, 2008. According to MnDOT, total actual motor fuels tax revenues generated for fiscal year 2008, in comparison to the end-of-session estimates, are down by approximately $5.3 million. Registration tax revenues are down as well. As with any forecast, the projections and estimates are guaranteed to be different from the actuals. The question is the magnitude and direction in which actual numbers will differ from projections. With volatile oil prices and a decrease in motor vehicle sales in the late summer and early fall, the estimates are likely to be revised downwards. Updated forecast estimates will be available in December 2008.

Second, the dedication of the sales tax on motor vehicle leases is not new revenue for the state, but rather reflects existing revenue newly used for transportation purposes. It is included in the chart above since it reflects “new” revenue for transportation. However, this does not represent a change in tax or fee rates for motor vehicle leases.

Another note on the sales tax on motor vehicle leases is that lease revenue may decrease in the future. As of August 1, 2008, Chrysler no longer offers vehicle leases through Chrysler Financial. Dealers can still offer customers leases through other financial institutions. If other motor vehicle manufacturers follow Chrysler’s lead, it could have a significant impact on the revenues generated by the motor vehicle lease sales tax. If the revenue stream does not perform as expected, it will impact funding for metropolitan area roads as well as greater Minnesota transit. In addition, sales tax revenue on leased vehicles is intended to cover the cost of the gas tax credit. If that revenue is lower than the cost of the credit other, general fund revenue will have to cover the cost.

Appropriations

The legislation contains several direct appropriations for fiscal years 2008 and 2009. Most funds are made available through new revenue generated in the act, mainly from a motor fuels tax increase and changes to the motor vehicle registration tax or through federal funding made available for the I-35W Bridge. Direct appropriations include:

- $132.0 million in federal funds for transportation emergency relief related to the I-35W Bridge collapse;
- $41.4 million for MnDOT operations and maintenance;
- $34.0 million for MnDOT investment support;
- $50.2 million for county state-aid highways (CSAH);
- $13.2 million for municipal state-aid streets (MSAS);
- $7.2 million for debt service on trunk highway bonds authorized in the act;
- $3.7 million for new State Patrol troopers;
- $2.5 million for multimodal systems, including greater Minnesota transit, rail, and ports; and
- $300,000 for a value capture study (reduced from the original appropriation of $325,000).

Laws 2008, ch. 152, art. 1; Laws 2008, ch. 363, art. 11, § 11.

A few points about the appropriations are worth noting. First, the legislation also includes a $1.8-billion authorization for trunk highway bonds, much of which is available to MnDOT for state road construction.[1] While the investment support appropriation includes project planning and certain preliminary design elements for various trunk highway projects, the actual highway construction contracts are paid for through bond proceeds. MnDOT may use a portion of the bonding dollars allocated to state road construction for other initial planning and design steps. This is discussed in the Trunk Highway Bonds section (starting on page 9).

[1] By convention, the state road construction (SRC) budget activity covers the actual cost of contracts for road work awarded by MnDOT to private contractors. SRC therefore works in conjunction with some of the agency’s investment support activities, which include the design and engineering steps in the construction process.

Second, revenue from both the motor fuels tax increase and registration tax changes will phase in and increase over time, so the amount appropriated in fiscal year 2009 does not reflect the new revenue annually available in future years. Appendix 2 contains estimates of the new revenue from tax changes made in the act.

Finally, the act makes new statutory appropriations and changes existing statutory appropriations. Examples of statutory appropriations include: appropriations of revenue from the sales tax on leased vehicles; changes to the CSAH formula; and changes to the flexible highway account formula. Changes to statutory appropriations are discussed throughout this information brief.

Funding for Trunk Highways

Revenue generated by the gas and registration tax changes will be used to fund operations, maintenance, and planning activities for trunk highways as well as to provide debt service on trunk highway bonds. An additional $41.4-million appropriation in fiscal year 2009 for operations and maintenance will be an ongoing increase in the base funding for those activities.[2] MnDOT estimates that $31.5 million of the $41.4-million appropriation will be programmed for district maintenance activities. MnDOT also estimates that 67 percent of the funding for districts will go to greater Minnesota districts and 33 percent will go to the metro district. The remaining portion of the appropriation, at $9.9 million, will be used for statewide activities and to address any issues that emerge over the fiscal year.

The legislation also provides a $34.0-million increase for investment support, of which $33.8 million is an ongoing increase specifically for MnDOT.[3] MnDOT estimates it will provide $16.2 million of the $33.8 million to the districts, of which 36 percent will go to the metro district and 64 percent will go to greater Minnesota districts. The remaining portion ($17.6 million) will be used for statewide activities, such as engineering services and issues that emerge over the course of the year.

Additional funding for trunk highway construction projects will come solely in the form of trunk highway bonds, much of which will be used to implement a new Trunk Highway Bridge Improvement Program (discussed in a separate section of this brief, starting on page 27). The appropriation for debt service, which is $7.2 million for fiscal year 2009, will continue to increase over the next few years as more bonds are sold. Of the accelerated trunk highway road and bridge projects, approximately 56 percent of the funding for calendar years 2008 to 2010

[2] The operations and maintenance budget activity is for "the personnel, equipment, and materials necessary to maintain, operate, and preserves the state's Trunk Highway and Interstate Highway System on a daily basis" (State of Minnesota, 2008-09 Biennial Budget, Transportation Department, p. 39). The funding goes towards smaller road maintenance and repair projects, clearing roadways and maintaining roadsides, traffic management, bridge inspections, commercial vehicle regulation, and associated building and equipment maintenance.

[3] The investment support budget activity refers to strategic planning, development of state road construction timelines and plans, initial planning and engineering steps in the road construction process, and construction project management (Ibid., p. 32).

will go towards projects in the metropolitan area and 44 percent will be used for projects in greater Minnesota.

The table below shows estimates of the additional funding for trunk highways for fiscal years 2008 to 2011 from the act.

Additional Resources for Trunk Highways ($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011
Additional Revenue	$6.2	$89.0	$164.9	$200.8
Trunk Highway Bonding (Less Debt Service)	0	497.0	478.4	(10.5)
Total	**$6.2**	**$586.0**	**$643.3**	**$190.3**

Notes: Amounts are based on the Department of Finance, End of 2008 Legislative Session, Consolidated Fund Statement.

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Funding for Local Roads

County state-aid highways. For fiscal year 2009, the county state-aid highway (CSAH) program will receive approximately $50.2 million above its 2008 appropriation. This appropriation is ongoing and will likely increase further as the revenue changes are phased in; however, this is dependent on how total revenue performs.

A portion of the increased revenue generated by recent legislation and the motor vehicle sales tax dollars will be allocated to counties under a new formula (also discussed in the Transportation Funding Reallocations section starting on page 24). Under the new formula, the metro area will receive a higher percentage of CSAH funds. Based on 2008 apportionment data, the added revenue will be apportioned with approximately 31 percent of the funding going to the metro area counties and approximately 69 percent of the funding going to greater Minnesota counties. For funds distributed under the old formula, metro counties will receive approximately 18 percent and greater Minnesota counties will receive approximately 82 percent.

The revenue included in the new formula only represents a portion of the total revenue for the county state-aid program, so looking solely at distributions under the new formula can overestimate the impact of the formula change. Because of the formula change, the percentage of CSAH funds going to greater Minnesota is estimated to decrease from about 82 percent in past years to about 80 percent for fiscal year 2009. The percentage of total CSAH funds going to greater Minnesota will continue to decrease beyond 80 percent over the next few years as the gas tax, motor vehicle sales tax, and registration tax changes are phased in. Based on current revenue estimates and 2008 apportionment data, greater Minnesota would have received approximately $7 million in additional funding in fiscal year 2009 if the formula had not changed. It would have received approximately $12 million in additional resources in fiscal year 2010 and $16 million in fiscal year 2011.

Municipal state-aid streets. The appropriation for municipal state-aid streets will increase by $13.2 million annually, and this amount may also increase as the revenue changes are phased in over the next few years. Unlike the formula for the county state-aid highway system, the municipal state-aid street formula did not change. Based on calendar 2008 apportionment amounts to each municipality, 69 percent of the additional funds will go to metro municipalities and 31 percent will go to greater Minnesota municipalities.

Additional sources of local road funding. There are other sources of additional funding for local highway systems. First, counties outside of the metropolitan area are authorized to impose a local option sales tax of up to 0.5 percent if the tax is approved by voters. The sales tax, discussed later (on page 24), can be used for transit or road projects. Since it is an optional sales tax increase, it is difficult to determine the amount of resources that will be generated. Moreover, the funds could go towards either roadway or transit projects. Secondly, the legislation provides $60 million in general obligation bonds for local roads and bridges. MnDOT will provide grants for specific projects using the bond funds, and the funds do not fall into the constitutional distribution framework.

The table below shows additional revenue flowing into the CSAH and MSAS funds over the next few fiscal years. It also depicts the bonds for local roads and bridges as well as additional revenue dedicated to transportation from the sales tax on motor vehicle leases. These two items are included in the "Nonformula Local Funding" line item.

Additional State Funding for Local Roads and Bridges ($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011
County State-Aid Highway Fund	$3.4	$49.2	$91.1	$111.0
Municipal State-Aid Street Fund	0.9	12.9	23.9	29.2
Nonformula Local Funding	0	60.0	0	4.1
Total Local Roads and Bridges	**$4.3**	**$122.1**	**$115.0**	**$144.2**
Notes: The table excludes potential highway funding from local option sales taxes.				

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Funding for Transit

A number of pieces of the 2008 legislation impact transit funding. This includes: a one-time $1.7-million direct appropriation to greater Minnesota transit; an ongoing statutory appropriation to greater Minnesota transit, which is from the motor vehicle lease sales tax and is scheduled to be phased in over fiscal years 2011 and 2012; and a 0.25-percent local option metropolitan transit sales tax, of which $30.8 million was statutory dedicated to the Metropolitan Council. As noted, greater Minnesota counties will also have the option of imposing a local option sales tax of 0.5 percent for either road or transit purposes.

The following table outlines the estimated increase in funding for transit. These estimates are based on information from the Department of Finance and the Department of Revenue.

Estimates for the metropolitan area include a sales tax increase for Anoka, Dakota, Hennepin, Ramsey, and Washington counties since they have implemented the tax at this time. Carver and Scott counties may also impose this tax to fund transit.

Additional Estimated Funding for Transit ($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011
Greater Minnesota (State Funding)	$0	$1.7	$0	$4.1
Metropolitan Area (Local Funding)	0	96.0	107.4	110.8
Total Transit	**$0**	**$97.7**	**$107.4**	**$114.9**
Notes: The table excludes potential transit funding from local option sales taxes.				

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Additional Funding for Other Programs

Chapter 152 also provides funding for a variety of other activities, some of which are transportation related. The table below provides a summary.

Additional Funding for Other Programs and Services ($ in millions)

	FY 2008	FY 2009	FY 2010	FY 2011
0.5% Local Option (Maximum Possible)	$0	$89.9	$138.4	$142.9
DNR and Other Funds (HUTD Transfers)	0	2.4	5	6.2
Rail and Ports	0	0.8	0	0
Value Capture Study	0	0.3	0	0
Subtotal - Potential Increased Funding	$0.0	$93.4	$143.4	$149.1
Subtotal - Various General Fund Purposes	$0.0	($3.2)	($35.7)	($45.8)
Total	**$0.0**	**$90.2**	**$107.7**	**$103.3**

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Trunk Highway Bonds

A central feature of the legislation is authorization for $1.8 billion in trunk highway bonds. Although the bonds are a form of general obligation bonds of the state, they have a unique status due to constitutional limitations. Trunk highway bonds can only be used for trunk highway purposes, and other general obligation bonds cannot be used for trunk highway projects.

State Road Construction

The bulk of the bonds, at about $1.7 billion, are for construction contracts on the state highway system, which could range from smaller construction and maintenance projects to highway reconstruction or building a new roadway. The bonds are authorized over a ten-year period, and the legislation specifies uses for part of the highway construction dollars. The following table summarizes road construction bonding authority.

State Road Construction Bonds Breakdown ($ in thousands)

Fiscal Year	Unspecified	Bridge Program	Interchanges	Transit Facilities	Total Authority
2009	$77,694	$300,000	$40,000		$417,694
2010	200,000	300,000			500,000
2011	50,000			$50,000	100,000
2012	100,000				100,000
2013	100,000				100,000
2014	100,000				100,000
2015	100,000				100,000
2016	100,000				100,000
2017	100,000				100,000
2018	100,000				100,000
Totals	$1,027,694	$600,000	$40,000	$50,000	$1,717,694

Notes: The $40-million interchanges appropriation must go towards projects that will promote economic development, increase employment, or improve congestion or traffic safety. These funds must be allocated 50 percent to the metropolitan area and 50 percent to greater Minnesota.

The $50-million transit facilities appropriation is for accelerating transit facility improvements on trunk highways and is not assigned for a specific fiscal year. MnDOT has indicated in its initial planning that the funds will be used in fiscal year 2011.

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The bonds allow up to 17 percent of the appropriation in each fiscal year to be used for “program delivery.” This refers to planning and design steps necessary to prepare a highway construction project. It includes initial project planning, design, preliminary engineering, environmental work, and right-of-way acquisition. The remainder of the bond proceeds must be used for the actual contract for construction work.

Other Bonding Projects

While the bonding in the act is primarily for trunk highway construction, it funds other projects as well, including MnDOT facilities and the trunk highway bond portion of the Urban

Partnership Agreement (UPA).[4] The legislation also includes other general obligation bonding authority for local roads and bridges.

Bond Appropriations ($ in thousands)

Appropriation	Agency	Fund	Amount
State road construction			
Unallocated	MnDOT	THB	$1,027,694
Bridge improvement program	MnDOT	THB	600,000
Interchanges	MnDOT	THB	40,000
Transit facilities on trunk highways	MnDOT	THB	50,000
Great River Road	MnDOT	THB	4,299
Mankato district headquarters	MnDOT	THB	23,983
Chaska truck station	MnDOT	THB	8,649
Rochester and Maple Grove truck stations	MnDOT	THB	2,000
Local bridge replacement and rehabilitation	MnDOT	GO	50,000
Local road improvement program	MnDOT	GO	10,000
Urban Partnership Agreement			
HOT, shoulder lanes, bus transit	MnDOT	THB	24,778
I-35W park and ride	Met Council	THB	400
Transportation building exterior	Admin	THB	18,197
Bond sale expenses			
Trunk highway bonds	Finance	THB	1,800
Other G.O. bonds	Finance	GO	60
Totals		THB	$1,801,800
		GO	$60,060

Notes: THB refers to trunk highway bonds. GO refers to other general obligation bonds. Laws 2008, ch. 152, art. 2.

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[4] UPA is a competitive federal grant program designed to facilitate congestion management; the Twin Cities was one of the grant recipients. MnDOT in conjunction with local units of government is working on highway and transit projects involving adding high-occupancy toll lanes and expanding transit services. The federal grant agreement included a required match of state/local dollars, part of which was funded through trunk highway bonds.

Motor Fuels Tax

One of the key changes to transportation finance is an increase in the gas tax, amounting to 8.5 cents in fiscal year 2013, after it is fully phased in. This raises the rate for gasoline from 20 cents to 28.5 cents per gallon. The increase is achieved through two mechanisms: (1) raising motor fuels tax rates by five cents, and (2) imposing a new debt service surcharge that can go as high as 3.5 cents. Both mechanisms increase motor fuels taxes and both use a phase-in for the increases. However, there are differences in underlying intent and timing. This section provides some background information on motor fuel taxes and discusses the tax rate changes.

Background on Motor Fuels

Minnesota Statutes classify motor fuels into a number of different categories based on the type of fuel. The classifications include regular gasoline, blends of gasoline with other fuel sources like ethanol, and special fuels such as compressed natural gas and liquefied petroleum gas (or propane).

Ethanol blends (excluding E85) as well as diesel fuel are taxed at the same rate as other types of regular gasoline. Minn. Stat. § 296A.07, subd. 3. Other fuel types are identified and taxed at different rates. They consist of E85, M85, and special fuels.[5] Each fuel tax rate is proportional to the rate of the tax on gasoline, based on the energy content of that fuel. Under this taxation method, the amount of tax per gallon (or equivalent) is not the same across the fuel types; however, the amount of tax is the same per unit of distance that can be traveled using the fuel.

Increases in Motor Fuels Taxes

The motor fuels tax rate increase is phased in at two points. The first was a two-cent increase starting April 1, 2008, which raised the rate from 20 cents to 22 cents per gallon for gasoline and diesel (and proportionally for other fuel types). The second increase is an additional three cents starting October 1, 2008.

Debt Service Surcharge

The motor fuels tax rates are also increased through a new debt service surcharge. The surcharge is tied to the trunk highway bonds authorized in the act. Bonds do not add revenue but instead act as a type of loan that allows current use of future funds, and they must be repaid (with interest). The design behind the debt service surcharge is to establish a revenue stream sufficient to cover total debt service repayment (principal and interest due) on the bonds over time. The surcharge only exists for a period of time sufficient to repay total principal and interest on the

[5] For purposes of the motor fuel taxes, E85 is defined as a petroleum product that contains a blend of agriculturally derived ethanol and gasoline, which is typically a ratio of 85 percent ethanol, but must be at least 60 percent ethanol. Minn. Stat. § 296A.01, subd. 19.

bonds, which is paid out of the trunk highway fund and anticipated to take until fiscal year 2050. Appendix 3 contains a table outlining estimated debt service amounts and surcharge revenue over time.

A new statute lays out administrative requirements associated with the surcharge. Using forecast and debt service repayment information from the Department of Finance, the Department of Revenue must annually impose the surcharge on motor fuels. Minn. Stat. § 296A.083. The surcharge initially went into effect August 1, 2008, and will be updated annually with the change going into effect each July 1. The statute creates a schedule of increasing surcharge amounts for fiscal years 2009 to 2012. Then, beginning in fiscal year 2013, the surcharge is capped at the lower of 3.5 cents or an amount necessary to pay off the total debt service on the trunk highway bonds. The schedule is as follows:

Debt Service Surcharge Amounts
($ in cents)

Fiscal Year	Amount
2009	0.5
2010	2.1
2011	2.5
2012	3.0
2013 & After	3.5

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Two additional aspects of the surcharge are noteworthy. First, the total amount of trunk highway fund revenue collected through the surcharge will match the principal and interest on the bonds, but it will not match on a yearly basis. In fiscal years 2009 and 2010, surcharge revenue is expected to outpace debt service owed. After that, it is expected that there will be more debt service than surcharge revenue until fiscal year 2031, when annual revenue is greater than annual debt service and total revenue starts to catch up to total debt service. Although the bonds will be repaid in fiscal year 2039, the surcharge is expected to continue until fiscal year 2050.

Second, not all revenue from the surcharge will go to debt service. Minnesota’s constitutional framework for distributing highway user tax revenue (motor fuel tax, registration tax, and motor vehicle sales tax) includes a formula for allocation to county and city roads. In addition, a portion of the gas tax is specifically identified as fuel for nonhighway uses. The revenue from those uses (totaling about 3.1 percent of gas tax revenue) is statutorily dedicated to the Department of Natural Resources for programs relating to motorboats, snowmobiles, all-terrain vehicles, off-road vehicles, off-road motorcycles, and forest roads.

The portion allocated to the trunk highway fund is what covers debt service. Although the surcharge is intended for debt service repayment, it remains a motor fuels tax increase subject to constitutional and statutory requirements. Therefore, the total amount of revenue raised from the debt service surcharge will surpass the amount needed for bond repayment, with the difference going to county state-aid highways, municipal state-aid streets, and the Department of Natural Resources. Minn. Stat. § 296A.18.

Phase-In of Motor Fuel Tax Increases

The following table outlines the phase-in schedule of motor fuel tax rates, taking into account both the tax rate increases and the debt service surcharge.

Motor Fuel Tax Phase-In ($ in cents)

Type of Fuel	Thru 3/31/08	4/1/08 – 7/31/08	8/1/08 – 9/30/08	10/1/08 – 6/30/09	7/1/09 – 6/30/10	7/1/10 – 6/30/11	7/1/11 – 6/30/12	7/1/12 & After
Gasoline	20.0	22.00	22.50	25.50	27.10	27.50	28.00	28.50
E85	14.2	15.62	15.98	18.11	19.24	19.53	19.88	20.24
M85	11.4	12.54	12.83	14.54	15.45	15.68	15.96	16.25
Diesel	20.0	22.00	22.50	25.50	27.10	27.50	28.00	28.50
Liquefied petroleum gas (LPG)	15.0	16.50	16.88	19.13	20.33	20.63	21.00	21.38
Liquefied natural gas (LNG)	12.0	13.20	13.50	15.30	16.26	16.50	16.80	17.10
Compressed natural gas (CNG)	1.739	1.1913[1]	1.235[1]	2.217	2.356	2.391	2.435	2.478
Other special fuel	20.0	22.00	22.50	25.50	27.10	27.50	28.00	28.50

[1]Rate change is not proportional due to a drafting error.

Notes: Amounts include tax rate increases and debt service surcharge. Amounts for CNG are per 1,000 cubic feet.

Laws 2008, ch. 152, art. 2, § 1; art. 3, §§ 3-6.

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Motor Fuels Tax Credit

Along with an increase in the rate of the motor fuels taxes, the act establishes a refundable income tax credit.[6] Individuals who meet certain criteria may claim this credit by filing a Minnesota income tax return. The gas tax credit, which will first be available on tax year 2009 returns (filed in 2010) is $25 for married couples filing joint returns, single filers, and head of household filers (single parents) and $12.50 for married couples filing separately. An expressed intent of the credit was to provide a method for offsetting some of the financial impact from the legislation's gas tax increase, which puts a proportionally greater burden on low-income households.

[6] The tax credit is funded from the general fund, but is indirectly included with transportation funding through another revenue stream. The 2008 legislation contains a reallocation of motor vehicle lease sales tax revenue from the general fund to transportation, but is structured so that an amount equaling the total tax credit stays in the general fund, and the remainder goes to transportation purposes.

The credit does not require demonstrating proof of motor fuel use, and it is available to filers who:

- are at least 18 by the end of the taxable year;
- cannot be claimed as a dependent on another person's return;
- are U.S. citizens or are lawfully present in the United States; and
- whose Minnesota taxable income is below the maximum for the lowest income tax bracket.

Nonresidents and part-year residents must apportion the credit based on the share of their income that is from a Minnesota source. For example, a person who lives in Minnesota for part of the year and derives 50 percent of his or her income from Minnesota sources and 50 percent from non-Minnesota sources would have the credit reduced by half.

A notable aspect of the motor fuels tax credit, which sets it apart from other state tax credits for lower income filers, regards how eligibility is determined. The income measure used for eligibility is Minnesota taxable income, which is income after federal deductions and exemptions and after Minnesota additions and subtractions. The table below contains the maximum taxable incomes for the lowest income tax bracket for tax year 2009 (which is at a 5.35-percent income tax rate).

Motor Fuels Tax Maximum Income Eligibility

Household Type	MN Taxable Income
Married filing jointly, including surviving spouses	$33,220
Married filing separately	16,610
Head of household	27,980
Single filer	22,730

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Because the eligibility threshold applies after any itemized deductions (which are used less frequently by lower income filers), it does not necessarily reflect what is traditionally thought of as a household's income. For example, a married couple filing jointly with two dependents and claiming the standard deduction could have federal adjusted gross income (FAGI)[7] of $59,220 and still be eligible for the gas tax credit. A person filing as a head of household with one dependent and claiming the standard deduction could have an FAGI of $43,630. Minnesota's other low-income credits base eligibility on either FAGI (such as the working family credit) or household income[8] (the property tax refunds for homeowners and renters, the dependent care credit, and the K-12 education credit).

[7] Federal adjusted gross income, or FAGI, is income after what are called "above-the-line deductions," but before the itemized deductions (or the standard deduction) and before personal and dependent exemptions.

[8] Household income equals FAGI plus various forms of nontaxable income, such as nontaxable Social Security benefits and pensions, and welfare benefits.

Registration Tax (Tab Fees)

The state imposes a registration tax on motor vehicles registered in Minnesota. The tax is annual and applies to passenger vehicles as well as trucks and other types of vehicles. For passenger vehicles, the amount owed depends on a combination of the vehicle's original value and its age. The act restructures the registration tax for passenger vehicles in a few ways:

- it eliminates the tax caps of $189 in the first registration renewal and $99 in subsequent renewals
- it amends the vehicle depreciation schedule, which is the basis for a vehicle's valuation in calculating the tax (it is a decreasing percentage of the vehicle's original value as the vehicle gets older)
- it restricts the tax changes, so the amount owed for vehicles previously registered in Minnesota does not increase from the amount paid in past years regardless of whether vehicle ownership changes

The remainder of this section discusses each change in detail.

Taxation Caps

The registration tax is calculated based on a vehicle depreciation schedule. Caps were put in place by the 2000 Legislature and were an upper limit on the registration tax amount to be paid. Laws 2000, ch. 490, art. 7, § 1. The caps were (1) $189 in the first registration renewal, which is the second year of vehicle life, as well as $189 for vehicles in their second year of life that were first being registered in Minnesota; and (2) $99 for the second and subsequent renewal periods (for both renewals and vehicles first being registered in Minnesota in their third or later year of life). The 2008 legislation eliminates caps on the amount of registration tax being paid. Laws 2008, ch. 152, art. 3, § 1.

Vehicle Depreciation

The tax rate for passenger autos is set at $10 plus an additional amount based on the result of a formula using vehicle value and age. The formula amount equals 1.25 percent of the manufacturer's base value for the vehicle, multiplied by a depreciation factor. The base value is the original manufacturer's suggested retail price (without options but including destination charge) when the vehicle was new. The depreciation factor is a yearly reduction in base value using a set schedule. As the vehicle gets older, the tax is calculated as an increasingly smaller percentage of the original vehicle value. To some extent, this formula represents an approximate calculation of the vehicle's actual current value. Note that for vehicles in their eleventh or greater year of life, the amount is a flat $25 instead of following the formula.

The tax calculation for vehicles in their first year of life is 1.25 percent of the entire base value, which is the same both before and after the 2008 registration tax changes. After the first year, the 2008 changes depreciate the vehicle's base value more rapidly. The change in yearly depreciation is outlined in the table below.

Vehicle Depreciation Schedule

Vehicle Year	Depreciation From Base Value		
	Previous Law	2008 Changes	Difference
1st	100%	100%	0%
2nd	100	90	-10
3rd	90	80	-10
4th	90	70	-20
5th	75	60	-15
6th	75	50	-25
7th	60	40	-20
8th	40	30	-10
9th	30	20	-10
10th	10	10	0
11th+	$25	$25	$0

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For example, if a person purchases a new vehicle with a manufacturer's base value of $20,000 after September 1, 2008, the tax associated with that vehicle would be as follows.

Example: Vehicle Purchased New in Fall 2008 for $20,000

Vehicle Year	Depreciation From Base Value	Depreciated Value	1.25% of Depreciated Value	$10 Flat Fee	Total Tax
1st	100%	$20,000	$250	$10	$260
2nd	90	18,000	225	10	235
3rd	80	16,000	200	10	210
4th	70	14,000	175	10	185
5th	60	12,000	150	10	160
6th	50	10,000	125	10	135
7th	40	8,000	100	10	110
8th	30	6,000	75	10	85
9th	20	4,000	50	10	60

Example: Vehicle Purchased New in Fall 2008 for $20,000

Vehicle Year	Depreciation From Base Value	Depreciated Value	1.25% of Depreciated Value	$10 Flat Fee	Total Tax
10th	10	2,000	25	10	35
11th+	Flat Rate	Flat Rate	25	10	35

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Hold Harmless Provision

The 2008 legislation also includes a "hold harmless" provision governing the amount of tax owed. Although the removed caps and new depreciation schedule apply to all passenger vehicles, the tax paid on a vehicle previously registered in Minnesota cannot increase. The provision does not extend to vehicles first being registered in Minnesota, regardless of the vehicle's age; the amount of any tax previously paid in another state is not taken into account. The provision affects vehicles differently depending on their age:

- if the next registration is the vehicle's first renewal (the vehicle is in its second year of life), the hold harmless provision has no effect since the old caps did not apply to the vehicle's first year
- if it is the second renewal (the vehicle is in its third year of life), the maximum amount owed would be $10 plus $189 since the vehicle had reached that cap in the previous year
- if it is the third or subsequent renewal (the vehicle is in its fourth or later year of life), the maximum amount owed would be $10 plus the lesser of $99 or the amount calculated with the registration tax formula since the vehicle had reached that cap in a previous year

Effective Date

The registration tax changes go into effect for any registration that is due on or after September 1, 2008. That date applies in the same manner for initial registration of a new vehicle, first-time registration of a vehicle from out of state (whether new or used), and for renewals. If an initial registration or a renewal occurs before September 1, 2008, the caps are still in place and the old depreciation schedule applies. However, the effective date is designed so that vehicle owners cannot renew their registration in advance to avoid paying more. For instance, if a renewal will be due in October, paying the taxes before September 1 does not change the amount owed.

General Impacts

The combined effect of removing the caps, accelerating the base value depreciation, and preventing tax increases on previously registered vehicles raises the overall amount of registration tax collected by the state. However, the interaction among these changes yields differing impacts depending on the age, value, and previous registration of a given vehicle. In general, the registration tax (relative to what would have been paid in upcoming registrations were the 2008 changes not made) will likely increase for new vehicles in their first or second year, likely stay the same for vehicles in their middle years, and could decrease for older vehicles.

Registration of vehicles coming from outside of Minnesota works the same as for vehicles initially registered or renewed in Minnesota, except that the cap will not apply to out-of-state vehicles. The depreciation schedule applies in the same manner as with vehicles previously registered in the state. As an example, a five-year-old vehicle being registered for the first time in Minnesota will follow the same depreciation schedule as a five-year-old vehicle previously registered in the state.

Because of the hold harmless provision, the bulk of the increased revenue is from registration of new vehicles. Therefore, the annual impact of the 2008 legislative changes increases over the first few fiscal years, reflecting a type of phase-in as more new cars are purchased that do not have a cap.

Below are example scenarios depicting how the new registration tax structure will impact motor vehicle owners differently depending on when the person purchased the vehicle. As shown in the first two tables, a person who had purchased a new vehicle a year before the registration tax change (in October 2007) would pay the same fees as someone purchasing a new vehicle after the change took effect.

Scenario I: Vehicle Purchased New in October 2008 for $20,000

Vehicle Year	Previous Fee	Current Fee	Additional Fees - Current Formula
1st	$260	$260	$0
2nd	199	235	36
3rd	109	210	101
4th	109	185	76
5th	109	160	51
6th	109	135	26
7th	109	110	1
8th	109	85	(24)
9th	85	60	(25)
10th	35	35	0
11th+	35	35	0
Total	**$1,268**	**$1,510**	**$242**

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Scenario II: Vehicle Purchased New in October 2007 for $20,000

Vehicle Year	Previous Fee	Current Fee	Additional Fees - Current Formula
1st	$260	$–	$–
2nd	199	235	36
3rd	109	210	101
4th	109	185	76
5th	109	160	51
6th	109	135	26
7th	109	110	1
8th	109	85	(24)
9th	85	60	(25)
10th	35	35	0
11th+	35	35	0
Total	**$1,268**	**$1,510**	**$242**
Notes: Highlighted years represent fees paid before changes took effect. Totals reflect years 1 through 11.			

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If a person purchased a new vehicle two years earlier, in October 2006, the vehicle's registration fees would fall below the $189-cap (note that total fee is $189 plus the $10 flat fee) during the second year. In the third year the $189-cap continues to apply, whereas, under the old formula a $99-cap would have gone into effect. An example of this is shown in the following table.

Scenario III: Vehicle Purchased New in October 2006 for $20,000

Vehicle Year	Previous Fee	Current Fee	Additional Fees - Current Formula
1st	$260	$–	$–
2nd	199	–	–
3rd	109	199	90
4th	109	185	76
5th	109	160	51
6th	109	135	26
7th	109	110	1

Scenario III: Vehicle Purchased New in October 2006 for $20,000

Vehicle Year	Previous Fee	Current Fee	Additional Fees - Current Formula
8th	109	85	(24)
9th	85	60	(25)
10th	35	35	0
11th	35	35	0
Total	**$1,268**	**$1,463**	**$195**

Notes: Highlighted years represent fees paid before changes took effect. Totals reflect years 1 through 11.

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Similarly, if the owner had purchased the vehicle in October 2005, the $99-cap would apply. The cap would also apply to a three-year-old used vehicle purchased in October 2008 that had an original value of $20,000 if the car was previously registered in Minnesota. Under this scenario, it is possible for a person to pay less with the formula change. This is due to the change in the depreciation schedule discussed above. As noted earlier in this section, the caps would not apply to vehicles not previously registered in Minnesota. This example follows.

Scenario IV: Vehicle Purchased Used in October 2008 for $14,000, Vehicle Was Previously Registered in Minnesota for Three Years, and Had an Original Value of $20,000

Vehicle Year	Previous Fee	Current Fee	Additional Fees - Current Formula
1st	$260	$–	$–
2nd	199	–	–
3rd	109	–	–
4th	109	109	0
5th	109	109	0
6th	109	109	0
7th	109	109	0
8th	109	85	(24)
9th	85	60	(25)
10th	35	35	0
11th	35	35	0
Total	**$1,268**	**$1,219**	**$(49)**

Scenario IV: Vehicle Purchased Used in October 2008 for $14,000, Vehicle Was Previously Registered in Minnesota for Three Years, and Had an Original Value of $20,000

Vehicle Year	Previous Fee	Current Fee	Additional Fees - Current Formula
Notes: Highlighted years represent fees paid before changes took effect. Totals reflect years 1 through 11.			

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Metropolitan Transit Sales Tax

Another significant component of the legislation is new authority to impose a 0.25-percent sales tax increase within the seven-county metropolitan area dedicated to certain transit purposes. Laws 2008, ch. 152, art. 4, § 2. Having met the requirements of the provision, the tax first went into effect July 1, 2008.[9] It is being imposed within Anoka, Dakota, Hennepin, Ramsey, and Washington counties. This section summarizes the sales tax provision.

Governance Structure

The sales tax may be imposed within the seven-county metropolitan area (in the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington), but participation is optional at the discretion of each county board. Although the legislature contemplated other arrangements, the enacted legislation does not allow any county beyond those seven to opt in.[10] In order to take part, a county must enter into an agreement that forms a joint powers board. The agreement is largely crafted by the participating counties, but it must allow any eligible county that is not participating to be able to join.

The joint powers board is known as the Counties Transit Improvement Board (CTIB). It was established in March 2008 by Hennepin, Ramsey, Dakota, Washington, and Anoka counties; Scott and Carver counties chose not to participate. The CTIB consists of two commissioners from each member county plus the chair of the Metropolitan Council. The board sets up the application procedures, decision-making process, timeline, and deadlines for awarding transit grants funded by the sales taxes.

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[9] The legislation includes a set of effective dates that function as deadlines for instituting the tax. The provision authorizing the tax expires October 2, 2008, if the tax has not been imposed. However, the tax itself can only be imposed on the first day of a calendar quarter (July 1 or October 1), and the Department of Revenue must be notified at least 90 days in advance of the date of imposition. In March of 2008, metropolitan counties accordingly decided whether to join the required joint powers board and impose the tax.

[10] One version of the legislative proposal would have allowed any county that is adjacent to a participating member county to also join in, thereby allowing for (1) potential creation of taxation corridors that could follow transit lines, and (2) potential expansion of the taxation area beyond the seven- or eleven-county metropolitan area. H.F. 2800, first engrossment, art. 4, § 2.

A grant evaluation and ranking system (GEARS) committee is established under the board to evaluate grant applications. The committee must utilize grant criteria established by the CTIB and provide a ranked project selection for board approval. Membership on the committee consists of:

- one county commissioner from each member county;
- one elected city representative for every 400,000 in population of that county, with at least one representative from each county; and
- the chair of the Metropolitan Council transportation committee.

Revenue Sources

The sales tax is imposed at a rate of 0.25 percent on the same goods and services that are subject to the general sales tax. A flat $20-excise tax is also imposed on retail motor vehicle sales; it is in lieu of the 0.25-percent sales tax.

While the board of each participating county imposes the tax, actual collection and enforcement is handled by the Department of Revenue. After deducting for administrative costs, the department must allocate the revenue as directed by the counties. The tax may only go into effect on the first day of a calendar quarter and can only be repealed on the last day of a quarter. The county must notify the Department of Revenue at least 90 days before starting tax imposition. Minn. Stat. §§ 297A.99, subd. 12; 297A.992, subd. 9.

The joint powers board or any county in the agreement may issue bonds backed by the sales tax revenue. Counties may opt out of the joint powers agreement after joining; however, the local sales tax in a county does not expire until the revenues raised in that county are sufficient to meet all obligations entered into while the county was a member of the agreement.

Use of Funds

Revenue from the sales tax and any bonds is primarily distributed in the form of grants following the application process established by the CTIB. Grants can only be used for:

- capital improvements to transitways;
- operating assistance for transitways;
- capital costs for park-and-ride facilities;
- pedestrian and bicycle programs and pathways; and
- other transitway purposes, including planning and studies, engineering costs, environmental analysis, property acquisition, and construction.

The legislation places various additional requirements on use of the funds, as follows:

- for fiscal year 2009, the first $30.783 million collected must go to the Metropolitan Council as transit operating assistance

- grant awards that fund metropolitan area transit projects require review by the Metropolitan Council and sign-off for consistency with its policy plan[11]
- the CTIB can use no more than 0.75 percent of the tax proceeds towards ordinary administrative expenses
- the CTIB can allocate up to 1.25 percent of grant awards for pedestrian and bicycle programs
- for each county that participates in the CTIB and whose contribution is no more than 3 percent of the total sales tax revenue, the joint powers board must allocate an amount to the county that is at least equal to the amount raised in that county (this is known as the minimum guarantee provision)[12]

Greater Minnesota Transportation Sales Tax

The legislation authorizes any county outside of the seven-county metropolitan area, or two or more counties working under a joint powers agreement, to impose a 0.5-percent sales tax and $20 excise tax on motor vehicles sold at retail. Laws 2008, ch. 152, art. 4, § 3. The administration and collection of the sales tax works the same way as other local sales taxes.

Imposition of the tax is only allowed if it is approved by the majority of voters who vote on that ballot question in a general election. The tax revenue has to go to "a specific transportation project or improvement" designated by the county board (or a joint powers board), and the tax terminates upon completion of the project. Minn. Stat. § 297A.993, subd. 2. Following termination, nothing in the law prevents the tax from being imposed again for a different transportation project following another referendum vote.

Transportation Funding Reallocations

Motor Vehicle Lease Sales Tax

Minnesota imposes a sales tax on motor vehicle leases at the rate of 6.5 percent, which is the same as the statewide sales tax for other goods and services. The 2008 legislation utilizes lease sales tax revenue from the general fund for three purposes, and the change is phased in over a couple of years. Laws 2008, ch. 152, art. 3, § 8. First, starting in fiscal year 2010 (for taxable year 2009), there is an allocation to the lower income motor fuels tax credit created in the act.

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[11] In addition to Metropolitan Council review, a grant award may only be made if one of the following requirements are met: (1) a finding of consistency by the Metropolitan Council, (2) agreement by the Metropolitan Council that the project can be funded despite an inconsistency, or (3) a finding from a special review panel (made subsequent to the Metropolitan Council's finding of inconsistency). The review panel consists of one person appointed by the chair of the Metropolitan Council, one member appointed by CTIB, and one mutually agreed-upon member.

[12] Since the smallest counties, Carver and Scott, are not participating, it appears that the minimum guarantee provision will not currently be activated for any member county.

The amount allocated is as necessary to cover the tax credit, which accounts for about two-thirds of available lease sales tax revenue. Additional information on the motor fuels tax credit is provided in the Motor Fuels Tax section earlier in this brief (on page 11). Second, after the phase-in, the remainder of the allocation is divided 50 percent to the county state-aid highway fund for roads in the metropolitan area and 50 percent to greater Minnesota transit. Minn. Stat. § 297A.815, subd. 3.

The funds distributed to metropolitan counties via the county state-aid highway fund are allocated separately from most state-aid dollars. The revenue does not go to Hennepin or Ramsey counties and must be distributed proportionally based on the population of each of the other five metropolitan counties. The revenues allocated to the greater Minnesota transit account are for financial assistance to transit systems throughout greater Minnesota. There is a standing statutory appropriation to MnDOT associated with funding transit systems as well as covering agency program administration costs. Minn. Stat. § 16A.88, subd. 1a.

The provision is effective July 1, 2009, but transfers out of the general fund will not start until fiscal year 2010. The following table provides the estimated percentage breakdown.

Estimated Motor Vehicle Lease Sales Tax Allocation

Fund	FY 2010	FY 2011	FY 2012	FY 2013+
Motor fuels tax credit	65.8%	66.5%	67.1%	67.8%
Greater Minnesota transit account	0.0	8.8	13.4	16.1
County state-aid highway fund	0.0	8.8	13.4	16.1
General fund	34.2	15.9	6.1	0.0
Total	100.0%	100.0%	100.0%	100.0%

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Flexible Highway Account

Minnesota's constitutional framework for transportation finance includes a 5-percent "set-aside" from the highway user tax distribution fund (HUTD), which is the main fund for collection and allocation of transportation revenue (primarily the motor fuels tax, registration tax, and motor vehicle sales tax). Of the set-aside, 53.5 percent is allocated by statute to a flexible highway account.[13] More information on the general financing structure is available in Appendix 1.

The Commissioner of Transportation has discretion in distributing flexible highway account funds, but its use in recent years has been limited to trunk highway expenditures and "turnbacks" of trunk highways to counties or cities. Turnbacks occur when routes that are part of the trunk highway system are turned over to the jurisdiction of a county or city and therefore become part of the county state-aid highway system or the municipal state-aid street system. The funds are

[13] The flexible highway account therefore receives 2.675 percent of HUTD revenue (which is 53.5 percent of 5 percent).

used to restore roadway conditions before turning it over to a county or city. The actual breakdown of funds to be provided for county and municipal turnbacks as well as trunk highways is determined by MnDOT in consultation with local units of government.

The 2008 legislation makes two basic changes. First, it reallocates a portion of the funds to seven metropolitan counties. That portion is termed the "excess sum," which essentially refers to recent increases in transportation revenue. The excess sum is defined as the amount of revenue within the flexible highway account from three sources: (1) new revenue from the motor fuels tax above 20 cents per gallon (which was the tax rate before the 2008 legislation), (2) new revenue from the registration tax above the inflation-adjusted amount collected in fiscal year 2008, and (3) new revenue from motor vehicle sales tax above the percentage allocated to the account in fiscal year 2007, which marks the start of a multiyear phase-in of all motor vehicle sales tax revenue to transportation.

The allocation of the excess sum is as follows:

- in fiscal year 2010, 100 percent to metropolitan counties
- in fiscal year 2011 and after, 50 percent to metropolitan counties[14]

Allocation to the metropolitan counties must exclude Minneapolis and St. Paul, but the commissioner has discretion in how the funds are otherwise distributed among the counties.

The second change to the flexible highway account modifies the allowable uses to (1) eliminate funding for the trunk highway system, (2) allow funds to be used for "safety improvements on county highways, municipal highways, streets, or town roads," and (3) allow funds to go to routes of regional significance. Laws 2008, ch. 152, art. 6, § 4.

County State-Aid Highway (CSAH) Fund Distribution

Although the Constitution specifies that a portion of highway user tax revenue must go to the CSAH fund as aid to county highways in the state-aid system, the legislature determines through statute the allocation among the counties. The 2008 legislation modifies this allocation by creating a second distribution formula that applies only to certain recent transportation funding increases. The previously existing distribution formula continues to be used for allocation of most CSAH funds (after some set-asides). The new formula is designed to address concerns that arose in recent years over equity in distribution of funds throughout the state.

The new formula distributes the "excess sum" of transportation revenue. As with a portion of flexible highway account funds, this is defined as the amount in the CSAH fund that comes from three sources: (1) new revenue from the motor fuels tax above 20 cents per gallon, (2) new revenue from the registration tax above the inflation-adjusted amount collected in fiscal year 2008, and (3) new revenue from motor vehicle sales tax above the percentage allocated to the

[14] The language of the legislation includes an allocation of 100 percent of the excess sum to metropolitan counties in fiscal year 2009, but the entire provision is not effective until July 1, 2009.

CSAH fund in fiscal year 2007. Minn. Stat. § 162.07, subd. 1a. The formula itself uses two measures:

- 40 percent of the funding is based on each county's proportion of motor vehicle registration (compared to the total for all counties)
- 60 percent is based on each county's proportion of construction needs

Appendix 4 contains a county-by-county breakdown of how the funds are distributed.

Rental Car Fee

The state imposes a fee on vehicles that are rented or leased for less than 28 days in Minnesota. Minn. Stat. § 297A.64, subd. 2. The fee revenue is first retained by the rental agencies and is used to reimburse the agencies for the taxes the agencies paid on motor vehicle registration. The fees collected by the rental agencies in excess of the amount paid for registration are then annually remitted to the state with the revenues initially going to the general fund. The funds are ultimately transferred from the general fund to the highway user tax distribution fund (HUTD) for distribution to the trunk highway, CSAH, and MSAS funds. Minn. Stat. § 297A.94, para. (d).

The act increases the fee from 3 percent to 5 percent of the sale price. This increase is expected to assist rental agencies with any increase due to the change in motor vehicle registration taxes. It is difficult to determine the additional amount of revenue the state will collect because of this interaction. However, the Department of Revenue estimated revenue deposited in the HUTD fund will increase by approximately $2 million to $3 million per year. Additional information on the revenues collected from the fee increase is included in Appendix 2.

Trunk Highway Bridge Improvement Program

Another element of the transportation finance legislation is a new program for key bridges on the trunk highway system. The program identifies types of bridges to be included, establishes prioritization for accelerating repairs and bridge replacement, identifies information to be made publicly available, and establishes reporting requirements. Minn. Stat. § 165.14.

Basic Requirements

The bridges that must be included in the program are:

- all fracture-critical bridges, which have a design so that if certain key parts of the bridge structure fail the entire bridge could collapse;

- all structurally deficient bridges, which are those assessed as having a poor condition for a part of the structure; and[15]
- any other bridges identified by the Commissioner of Transportation as priority projects.

MnDOT must inventory the bridges included in the program. As part of the inventory, the agency must assemble information on the key characteristics of each bridge. This includes its location; a summary description; condition ratings; average daily traffic; the bridge status as fracture critical, structurally deficient, or functionally obsolete; sufficiency rating; a brief summary of work to be done; an estimate of costs; and the year or years in which work is expected to be performed.

The legislation also establishes classifications for the bridges, which provide a general framework for prioritizing bridge projects. The classifications are tier 1, tier 2, and tier 3. Where feasible, all bridge projects in a higher tier (starting with tier 1) must be commenced before starting on bridges in a lower tier. The tier classifications are as follows:

- Tier 1: bridges with an average daily traffic count above 1,000 and a sufficiency rating at or below 50, or bridges that are a priority project as established by the commissioner[16]
- Tier 2: bridges that have a sufficiency rating at or below 80 or are fracture-critical but not classified as tier 1
- Tier 3: all other bridges in the program

Repair or replacement projects on all tier 1 and tier 2 bridges must begin by June 30, 2018.

The program includes two legislative reports. One is an annual report to the legislature, due by January 15, that summarizes the bridges in the program and assesses bridge project prioritization. The second is to be done in conjunction with each update to MnDOT's Statewide Transportation Plan,[17] or at least every six years, which provides the following:

- information on the decision-making process for bridge project selection
- a summary of recent and upcoming bridge projects; a projection of funding needs
- an analysis of whether there is sufficient funding for the program
- an explanation for any fracture-critical bridge that is repaired instead of replaced

[15] A bridge is structurally deficient if it has a deck, superstructure, or substructure with a condition rating of 4 or less. Condition ratings are assigned on a scale of 0 to 9, where 0 is failed/out of service and 9 is excellent condition.

[16] Sufficiency rating is a numerical value on a scale of 0 to 100 used to determine eligibility for federal funding. The scale takes into account the structural condition of each part of the bridge, functional and bridge usability issues, and other impacts on the public. A bridge with a sufficiency rating of 50 or less is eligible for federal bridge replacement funding, and a bridge with a rating at 80 or less can obtain federal rehabilitation funds.

[17] The Statewide Transportation Plan is the agency's 20-year long-range plan containing a framework for policy priorities and performance measurement. Minn. Stat. § 174.03, subd. 1a.

MnDOT Preliminary Planning

MnDOT has identified 172 bridges to be included in the program, consisting of 40 tier 1 bridges (with ten classified as fracture-critical and 30 classified as structurally deficient), 120 tier 2 bridges (with 61 that are fracture-critical and 59 structurally deficient), 11 tier 3 bridges, and one priority project identified by the commissioner. Of the tier 2 bridges, MnDOT expects to address 25 after the 2018 deadline; these bridges are relatively new or otherwise not in need of repair work within the first ten years of the program. The tier 3 bridges do not have to be addressed by 2018, and three bridges are privately owned.

MnDOT has also classified 11 large-scale projects as major bridges, also termed "budget busters." Major bridges constitute those anticipated to have structure and approach costs that exceed at least half of the federal aid distributed under a MnDOT formula to the Area Transportation Partnership (ATP) in which the bridge is located.[18] The major bridge classification reflects bridge projects that are large enough in scope that they cannot be effectively handled solely through a district's regular annual budget and therefore require additional resources or alternative tactics.

Major bridges include the Desoto Bridge on trunk highway 23 in St. Cloud, the Hastings Bridge over the Mississippi on trunk highway 61, the Lafayette Bridge on trunk highway 52 in St. Paul, the Dresbach Bridge over the Mississippi on Interstate 90, the St. Croix River Crossing on trunk highway 36 in Stillwater, and the trunk highway 43 bridge over the Mississippi in Winona. Appendix 5 contains a full listing of the major bridges, with summary information on preliminary costs and construction dates.

Bridge Improvement Program Draft Construction Schedule

Category	Before 2009	2009-12 (in STIP)	2013-18	After 2018	Total Count
Tier 1					
Major bridges		4	5		9
Other bridges	6	20	5		31
Tier 2					
Major bridges		1	1		2
Other bridges	7	44	39	25	115
Tier 3				11	11

[18] MnDOT has eight ATPs that match the MnDOT districts. The ATPs constitute regional decision-making bodies that serve stakeholder involvement and transportation project planning purposes. Each ATP develops a process for soliciting and identifying projects, establishing and negotiating project priorities, and allocating funds for the district's highway construction and maintenance projects as well as federally funded transit capital and operations. They can be composed of MnDOT district personnel as well as counties, state-aid cities, metropolitan planning organizations and other regional organizations, state agencies, modal transportation interests, and tribal communities.

Bridge Improvement Program Draft Construction Schedule

Category	Before 2009	2009-12 (in STIP)	2013-18	After 2018	Total Count
Priority projects		1			1
Total Counts	13	70	50	36	169

Notes: See page 28 for definitions of the tiers. Amounts are number of bridges where construction is scheduled to start. The schedule does not include three privately owned bridges. STIP is the State Transportation Improvement Program, MnDOT's comprehensive, statewide four-year schedule of planned construction project commitments.
Source: Minnesota Department of Transportation

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Program Funding

The program is funded specifically through $600 million in trunk highway bonds authorized at $300 million per year for fiscal years 2009 and 2010. Laws 2008, ch. 152, art. 2, § 3, subd. 2 (c). However, the agency expects to use substantially more funds from both bonding and other sources. Over the 2009 to 2018 timeframe, the program is expected to cost approximately $2.5 billion, accounting for work on 120 bridges. According to MnDOT's initial analysis in developing the program, 58 percent to 84 percent of the bridge program funds will go towards the 11 major bridges. The agency has outlined the following funding arrangement.

Bridge Improvement Program Estimated Funding, FY 2009-18 ($ in thousands)

Source	2009-12 (in STIP)	2013-18	Total Amount	% of Funds
Trunk highway bonds	$462,000	$787,000	$1,249,000	49.6%
Federal funds	151,000	528,000	679,000	27.0
MnDOT operating budget	208,000	382,000	590,000	23.4
Totals	$821,000	$1,697,000	$2,519,000	100.0%

Notes: Estimate funding accounts for work on 120 bridges. Federal funds come from MnDOT's Statewide Bridge Preservation Fund, which contains an annual set-aside of federal aid to address major bridge projects. STIP is the State Transportation Improvement Program, MnDOT's comprehensive, statewide four-year schedule of planned construction project commitments.

Source: Minnesota Department of Transportation

House Research Department

Other Provisions

Tolling and Privatization Restrictions

The legislation introduced two new highway finance prohibitions. They are, first, a restriction on road authorities from imposing tolls on streets, bridges, and highways. The statute includes exceptions for existing toll facilities and any added lane capacity. Minn. Stat. § 160.845. The second is a prohibition on road authorities from selling or leasing transportation infrastructure if it will continue to be used for transportation purposes. Minn. Stat. § 160.98.

Driver's License Reinstatement

For a person whose driver's license was revoked under certain circumstances, a legislative change allows payment of the reinstatement fee (at $250) and surcharge (at $430) in two installments. Some administration requirements apply to the installment plan. The provision is not effective until July 1, 2009, and will cost the state approximately $4.5 million per year due to delayed payments.

Transit Funding

The act limits county regional rail authority expenditures (regardless of source) for light rail or commuter rail projects to be no more than 10 percent of capital costs and none of the operating and maintenance costs. The provision only applies to counties that have imposed the new metropolitan transit sales tax.

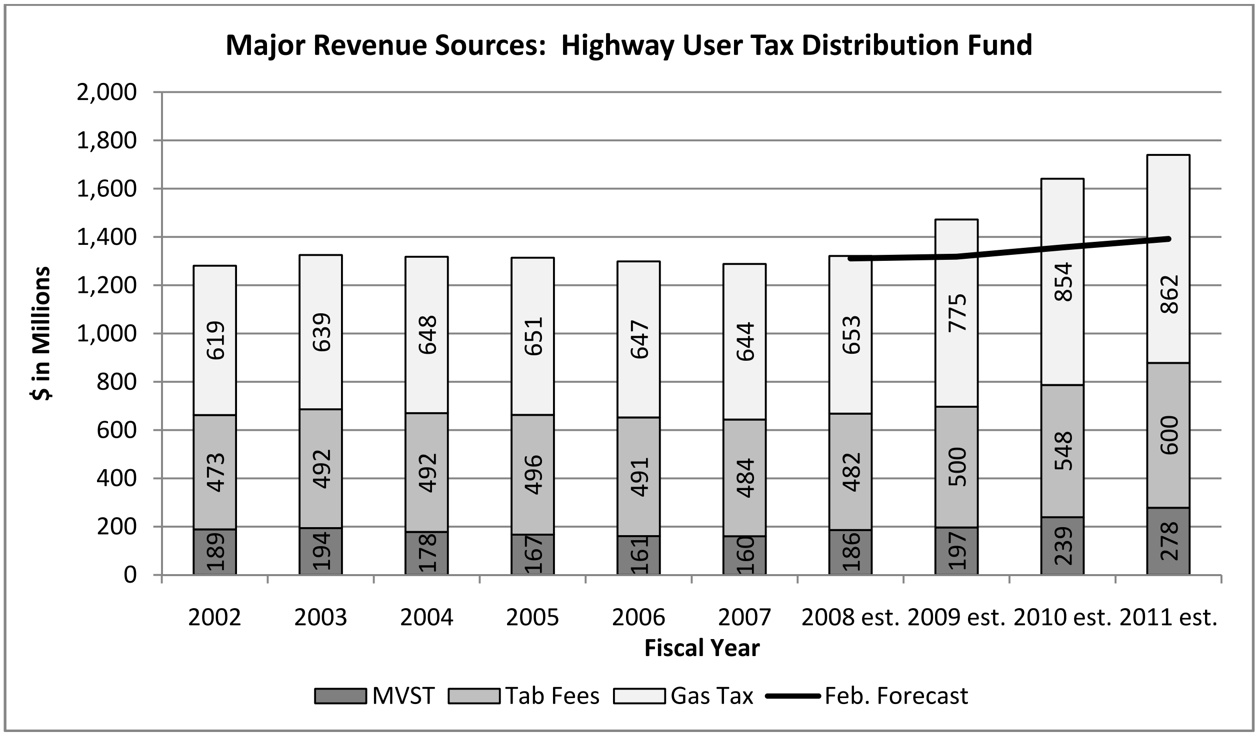
Transportation Strategic Management and Operations Advisory Task Force

The act also creates a task force to identify strategies and make recommendations on improving efficiency, management, and operations in construction and maintenance projects as well as transportation infrastructure management. Task force membership includes appointees by the governor, House, and Senate, with some appointment requirements specified. The Department of Administration must provide administrative support, and the task force expires on May 31, 2009. A report is due to the legislature by December 15, 2008.

Fiscal Implications

Historical and Estimated Trends

State revenues for highways from three major sources (the motor fuels tax, the registration tax, and the motor vehicle sales tax) are deposited in the highway user tax distribution (HUTD) fund before being transferred to other funds, such as the trunk highway fund. A flowchart outlining how HUTD funds are distributed, along with information on the formula for distributing funds, is included in Appendix 1. The figure below highlights the actual and projected revenues generated for the HUTD fund from the three major revenue sources; the bars represent actual revenues through fiscal year 2007 and estimated revenues from fiscal years 2008 to 2011, which include the 2008 legislative changes. The February forecast line for fiscal years 2008 to 2011 represents estimated revenue without the 2007 legislative session changes.



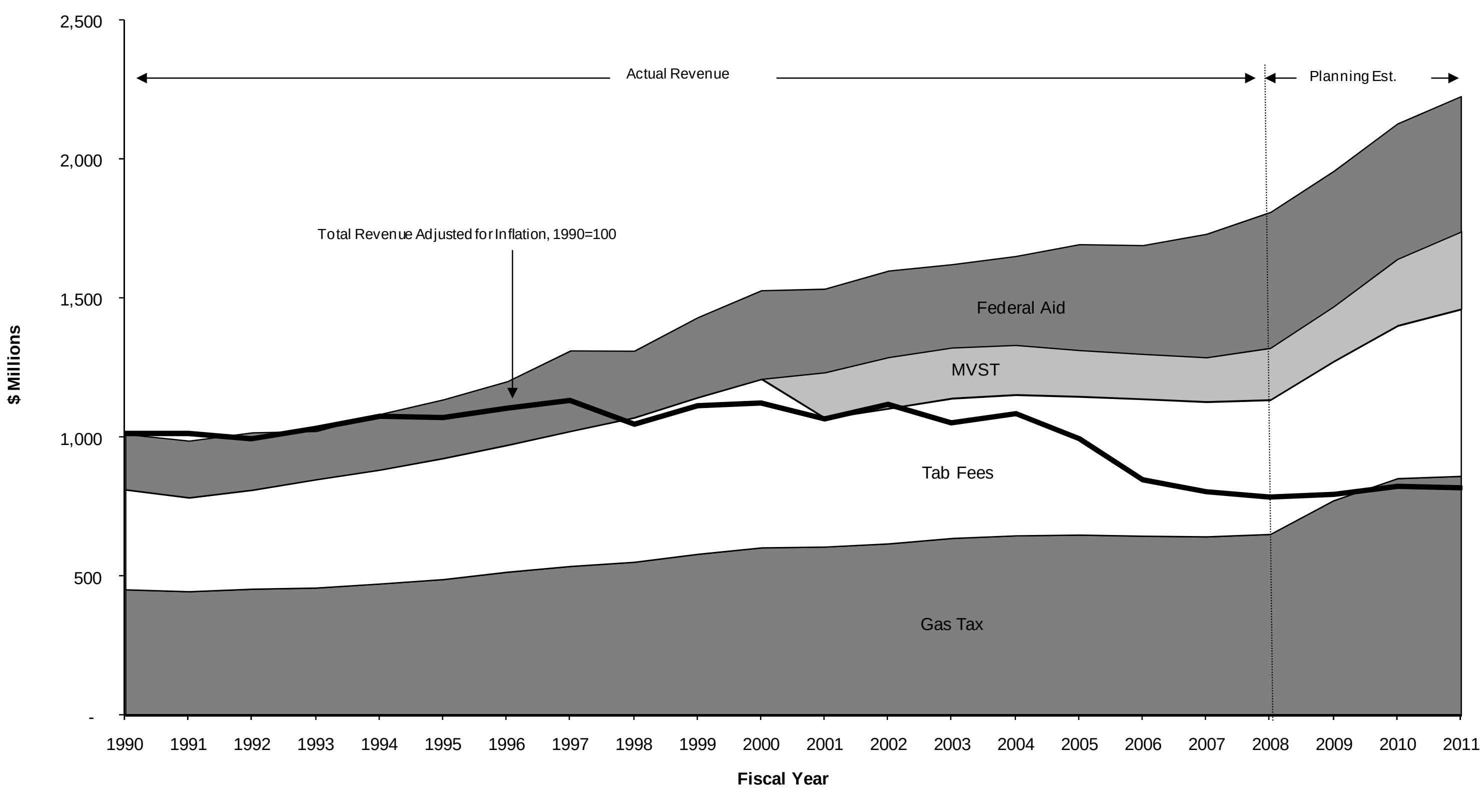
The figure above shows that HUTD revenues have been fairly consistent since fiscal year 2002 and are expected to increase due to the 2008 legislative changes. If the 2008 legislation had not passed, the revenue generated from tab fees was expected to remain constant over the next few fiscal years according the Minnesota Department of Finance. The revenue generated from the gas tax was expected to decrease by a small percentage (less than 1 percent) each year through fiscal year 2011, and the amount of the motor vehicle sales tax deposited into the HUTD was expected to increase due to the continued phase-in of the constitutional amendment. Overall, the phase-in of the motor vehicle sales tax contributes to the slight upwards sloping line as shown above.

It is important to note that the estimates for fiscal years 2008 to 2011 included in the chart above are based on Department of Finance estimates for the end of the 2008 legislative session, which utilize the February 2008 forecast. Actual revenue collections for fiscal year 2008 are estimated to be lower than the figures noted above, and to date, indications suggest the November 2008 forecast could include lower revenue estimates than those projected above for fiscal years 2009 through 2011 as well. Final estimates of the actual collections for fiscal year 2008, reported by MnDOT, are included in Appendix 1.

Potential Inflationary Impacts on Funding

One of the recent discussions in transportation has been over construction costs. Revenue provided to roads and bridges is expected to increase over the next biennium, while construction costs are expected to increase as well. The diagram below depicts the upward trend in nominal revenues since the 1990s based on actual and projected revenues provided by the Department of Finance and MnDOT. It also includes a line showing total revenues adjusted for inflation based on MnDOT's estimated construction costs. MnDOT's data suggests fairly stable inflation-adjusted revenues from 1990 to 2004 with some peaks and valleys throughout the period. However, after 2004, inflation-adjusted revenues decline significantly through 2007. Based on the current estimates, the tax and fee increases established during the 2008 legislative session allow inflation-adjusted revenues to stabilize from 2008 to 2011.

Major Sources of Highway Revenue and the Impact of Construction Cost Increases



MnDOT projects that construction costs will increase at a similar rate that revenues increase. Therefore, it appears that MnDOT's purchasing power may not change significantly over the next few years.

Inflation is affecting transit as well. As fuel and other prices increase, the capital and operating costs of maintaining and building bus routes, rail lines, and other modes of transit increase. For example, Metropolitan Transit uses approximately nine million gallons of biodiesel annually.

For each 10-cent increase in gas prices, the Metropolitan Council will pay an additional $900,000 annually based on current estimates.

Funding and Identified Transportation Needs

A perennial issue in transportation regards the appropriate level of transportation funding, which has prompted recent discussion of funding needs. Each aspect of the transportation system—state highways, local roads, and transit—has a different way to measure its needs. However, at least one commonality exists: using the agencies' current methods of calculating need, the state does not have the funds to meet the agencies' current goals. Although the agencies have identified needs using their current priorities and measures, discussion continues as to what constitutes an appropriate "need," the extent to which state funding is necessary, and how projects should be prioritized to best serve the state given available funding levels.

The following summarizes needs identified by the agencies and discusses some fiscal and policy alternatives. Multiple planning processes are currently underway at the agency level that could significantly impact the needs outlined below.

Trunk highway needs. MnDOT's District Long Range Transportation Plans published in 2005 summarize funding that districts deemed necessary to reach agency-wide performance targets for the trunk highway system from 2008 to 2030. Targets include, for instance, a goal for percentage of roads above a certain pavement quality level. The table below outlines this data, which was developed prior to the passage of the 2008 legislation.

TH Funding Needed to Meet Performance Targets, Prior to 2008 Legislation ($ in billions)

	2008-2014	2008-2030
Est. Annual Unmet Needs	$2.4	$1.0
Total Unmet Needs	17.0	22.6

Notes: Annual unmet needs are estimated based on the average of total unmet needs for each timeframe.

Source: MnDOT District Long Range Transportation Plans, 2005

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The revenue generated by the 2008 legislation is significantly less than the amount MnDOT has identified it needs to meet its performance targets. Current estimates suggest fiscal year 2009 funding for trunk highways will increase by approximately $586 million, over $1.8 billion less than what MnDOT has identified as necessary during the early years of the MnDOT plans. This gap decreases for fiscal year 2010 by approximately $60 million due to the continuing phase-in of a number of revenue raisers included in the 2008 legislation (e.g., tab fee changes). The sharp decrease in the amount of bonding authorized per year ($100 million in fiscal year 2011 down from $500 million in fiscal year 2010), widens this gap through fiscal year 2018 and possibly beyond.

Local roads needs. Each year a county screening board and a municipal screening board compute apportionment data for the CSAH and MSAS funds. The boards also examine 25-year construction needs based on MnDOT standards for roads. The table below outlines the information provided by the screening boards for 2008, prior to the 2008 legislative session.

Local Funding Needed to Meet Construction Performance Targets, Prior to 2008 Legislation ($ in millions)

	2008 Total Apportionment	2008 Total Construction Apportionment	2008 Total Construction Needs	2008 Unmet Construction Needs
CSAH	$363.9	$218.3	$479.8	$261.5
MSAS	114.4	87.5	160.2	72.7
Total	**$478.3**	**$305.8**	**$640.0**	**$334.2**

Notes: Needs are based on construction necessary to bring roads up to state standards. For CSAH, construction is estimated to make up 60 percent of the apportionment amount. For MSAS, the table uses actual January 2008 apportionment for construction.

Source: 2008 CSAH and MSAS Apportionment Data, January 2008

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Estimates currently suggest that the CSAH program will receive approximately $255 million in additional funding for fiscal years 2008 to 2011. Since unmet annual construction needs reported by the screening boards are estimated at $262 million per year, the additional funding provided though the 2008 legislation will not be enough to bring the county state-aid highways up to the current state-aid standards. A similar situation appears to exist with the MSAS program, which will receive approximately $70 million in additional funding from fiscal years 2008 to 2011. This four-year total is also below the annual needs as currently calculated by the screening board.

Metropolitan transit needs. The legislation provided the Metropolitan Council with $30.8 million in additional resources by allocating a portion of the metropolitan transit sales tax to the council. However, the council estimates it will need an additional $7.3 million in funding for calendar 2009 beyond what it will raise with the most current fare increase in order to maintain its current level of service. It plans to use a portion of its motor vehicle sales tax reserves to cover this shortfall. Currently the council has $22 million in motor vehicle sales tax reserves and believes it can take the $7.3 million from its reserves.

In addition to the $7.3 million, the Metropolitan Council estimates it will need an additional $2.5 million per year in the next biennium for Hiawatha light rail transit operations and an additional $13 million or more for calendar year 2009 for the Northstar line. If motor vehicle sales tax revenues do not perform as expected or if costs increase, the council will also need additional funding to maintain its current service as well.

Policy and fiscal alternatives. In future legislative sessions, legislators could pursue a number of policy and fiscal changes relating to financing transportation and addressing agency needs. Potential avenues include the following.

- **Increase transportation funding to meet identified needs.** The legislature could decide to fund each transportation area to the level of funding necessary to meet those needs that agencies have identified. This would require further increasing revenue for transportation purposes. Potential changes include: increasing current taxes and fees that are dedicated to transportation; restructuring taxation of a current transportation revenue stream; dedicating a current tax or fee that has not previously gone to transportation, such as dedicating a portion of the general sales tax to roads; allocating general fund dollars to transportation; or, instituting a new tax or fee. This would allow the state to meet additional needs identified by transportation agencies and their staff; however, it would require tax and/or fee increases on the public or reductions in funding to other areas.

- **Reduce transportation funding.** Tax and fee increases made in the act could be subsequently reduced by a future legislature, and the phase-in of some transportation funding sources could be halted. Alternatively, other forms of state taxation could be reduced to offset the increases in the act, although there are limited options to reallocate transportation revenue to other purposes due to constitutional restrictions. Agencies would likely need to adjust their programming and goals according to the size of any reduction, and the legislature could provide direction on making adjustments.

- **Reallocate funding within transportation.** One of the tasks in budgeting is prioritizing different goals and interests, and the legislature could choose to reevaluate the relative balance in funding for different parts of the transportation system. Although the Constitution dedicates much of transportation funding to specific purposes, there are ways in which the legislature can reallocate certain funds going to transportation.

- **Allow for agency implementation of recent funding changes.** Since a variety of agencies under the purview of transportation finance—MnDOT, Metropolitan Council, counties, cities, and the Department of Public Safety—received increased funding through the 2008 legislation, the legislature could monitor the impact of that legislation on the agencies' identified needs over the next few years before taking significant further action. This approach would (1) allow the agencies to fully implement the legislation, (2) provide time for recent revenue changes to become fully phased in, and (3) permit the agencies to develop and track any new performance targets and measures related to their planning processes. At the same time, this option could cause the agencies' identified needs to grow as they continue to delay projects due to financing.

- **Assist with identifying and prioritizing needs.** Agencies currently prioritize their programs and projects based on funding available and goals that they have identified. The legislature could increase its involvement in identifying and further determining "needs," as well as in providing input on the best ways to progress towards meeting those needs. As with the new Bridge Improvement Program, the legislature could work with agencies to help prioritize major policy areas and hold the agencies accountable for those priorities. As another example, currently MnDOT monitors its agency performance using a number of measures. However, the legislature has not historically played a significant role in helping to develop MnDOT’s performance targets and monitor results on a regular basis.

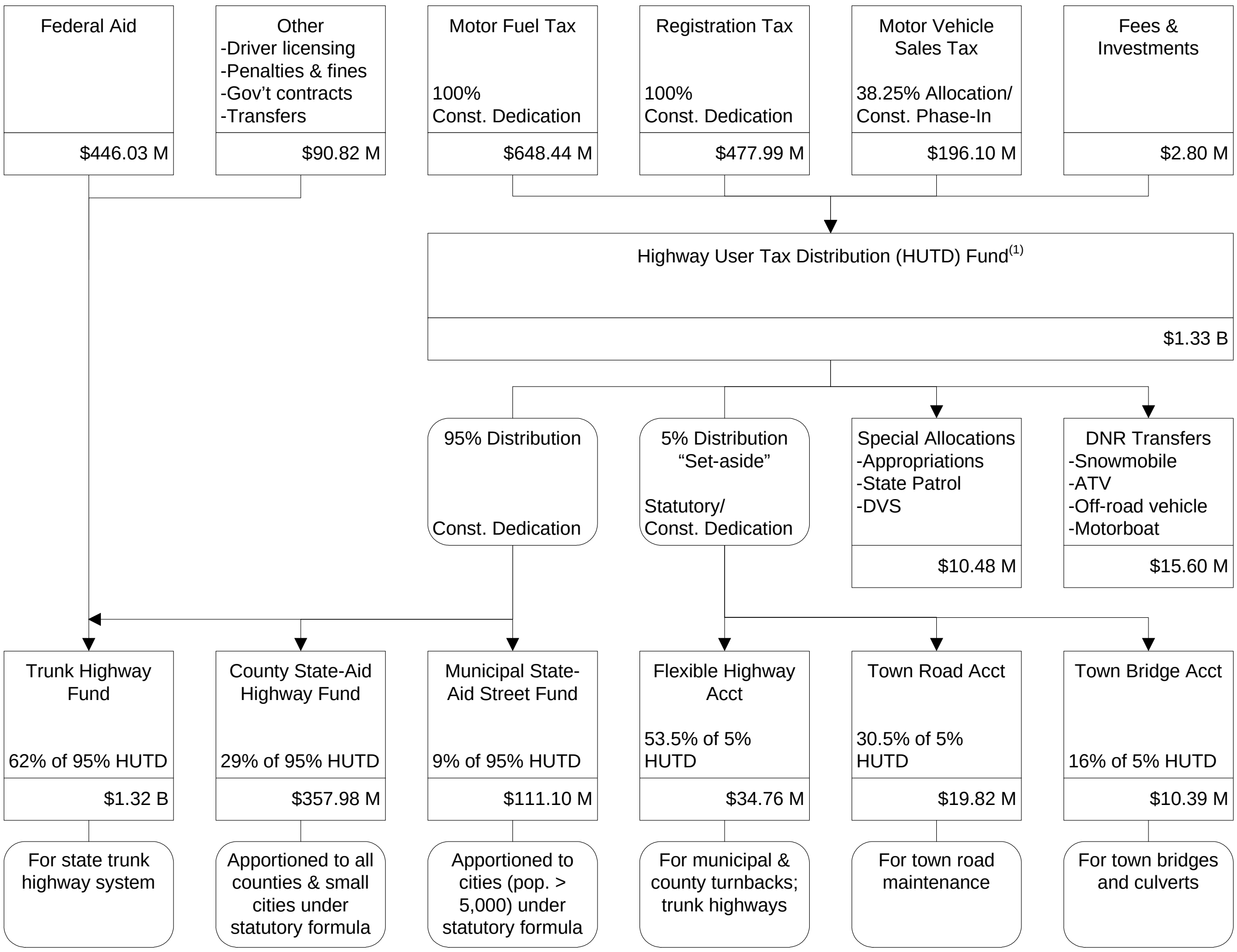
- **Provide for further evaluation of needs.** A study could focus on (1) how needs are defined and measured, (2) whether needs are accurately expressed, and (3) the potential or expected transportation system impacts from different levels of funding. An evaluation could take a variety of forms, such as through a legislative or blue ribbon commission, a special task force, or by contract with a private party. An evaluation could be systemwide, involving freight, rail, waterways, and transit, or look solely at highways.

- **Explore methods to reduce needs or improve efficiency without changing the level of state funding.** Agencies continually expand their capabilities through new technologies and solutions for addressing issues. The legislature can contribute in a variety of ways, such as by providing strategic direction and promoting maximization of innovation, efficiency, and effective management of state programs. Improved practices can help offset financial constraints.

- **Advance a combination of the above.** A number of combinations of the above options could be undertaken, some without legislative action.

Appendix 1: Highway Funding Sources and Distribution

The Minnesota Constitution dedicates certain taxes to transportation purposes and establishes a framework for distributing revenue. State statutes further specify allocation formulas and grant requirements. The chart below summarizes Minnesota's highway funding design, with fiscal year 2008 amounts.



Notes
(1) Special allocations and DNR transfers take place before the 95% & 5% distributions

Source: Minnesota Department of Transportation

Constitutional Framework

The Minnesota Constitution contains the basic framework for highway funding, establishing three highway user taxes and requiring that the revenue be "used solely for highway purposes." Minn. Const., art. XIV, § 5. It also specifies how revenue must be distributed to the state and local government.

Sources of Highway Funding

The first of three main state funding sources is a tax on motor fuels, imposed at a per-gallon rate. Minn. Stat. §§ 296A.07; 296A.08. For special fuels such as E-85, the rates are based on the energy content of the fuel. Legislation passed in 2008 will phase in an 8.5-cent tax increase, so that starting in fiscal year 2013, the rate for gas and diesel fuel will be 28.5 cents per gallon. A portion of the revenue is attributed to nonhighway use and transferred to DNR accounts. Minn. Stat. § 296A.18.

The second source is a registration tax (also known as tab fees), modified in 2008 and imposed on motor vehicles using the highway system. The registration tax for passenger vehicles is a percentage of the original value of the vehicle. There is a statutory depreciation schedule that reduces the tax owed based on the vehicle's age. Minn. Stat. § 168.013, subd. 1a. Taxes on trucks, buses, and recreational vehicles are based on the vehicle's weight and its age.

Third, a motor vehicle sales tax (MVST) applies to the sale of motor vehicles, at the same 6.5-percent rate as the general sales tax. Until recently, MVST revenue was allocated by statute to both transportation and the general fund. A constitutional amendment adopted in the 2006 election will phase in MVST solely to roads and transit. Starting in fiscal year 2012, after the phase-in, MVST will be statutorily allocated 60 percent to roads and 40 percent to transit. Minn. Stat. § 297B.09.

Distribution of Revenue

State revenue is distributed in two parts. First, a constitutional formula distributes 95 percent of the revenue.

- 62 percent goes to the trunk highway fund for the construction, maintenance, and administration of the state trunk highway system. The trunk highway fund also receives federal aid and funding from other sources.

- 29 percent goes to the county state-aid highway (CSAH) fund to support county state-aid highways. It is allocated among all counties and certain small cities via statutory formulas that include each county's proportion of construction needs, vehicles registered, and lane miles. Minn. Stat. § 162.07.

- 9 percent is for the municipal state-aid street (MSAS) fund for city roads in the state-aid system. It is distributed via a formula of 50 percent construction needs and 50 percent city population. Eligible cities are constitutionally limited to those with a population over 5,000. Minn. Const., art. XIV, § 8.

Second is a 5-percent "set-aside," distributed by statute. Money must go to one of the three foregoing funds, and the distribution cannot be changed more than once every six years. The next change is set to take effect July 1, 2009. Laws 2008, ch. 152, art. 6, § 5. After the change, it will be allocated from the CSAH fund as follows:

- 53.5 percent to a flexible highway account for (1) trunk highways being turned over to cities or counties, (2) metropolitan counties, (3) safety improvements on local roads, and (4) routes of regional significance

- 30.5 percent to an account for town road construction and repair

- 16 percent to a town bridge account for bridge replacement and repair

Appendix 2: Summary of Additional Resources

The following table summarizes revenue impacts from increased state and local transportation funding as well as bonding resources.

Laws 2008, Chapter 152 Resources by Source ($ in thousands)

Source / Allocation	FY 2008	FY 2009	FY 2010	FY 2011
Motor Fuels Taxes				
TH Fund	$6,185	$78,708	$125,981	$132,278
CSAH - Apportioned	2,893	36,815	58,927	61,872
Flexible Highway Account	525	6,682	10,695	11,229
MSAS	898	11,425	18,288	19,202
Other - DNR and Other Funds	0	2,370	5,010	6,220
Total Fuels Taxes	**10,500**	**136,000**	**218,900**	**230,800**
Motor Vehicle Registration Tax				
TH Fund	0	10,013	37,637	67,205
CSAH - Apportioned	0	4,684	17,604	31,435
Flexible Highway Account	0	850	3,195	5,705
MSAS	0	1,454	5,463	9,756
Total Motor Vehicle Registration Tax	**0**	**17,000**	**63,900**	**114,100**
Rental Car Fee Increase				
TH Fund	0	236	1,237	1,355
CSAH - Apportioned	0	110	579	634
Flexible Highway Account	0	20	105	115
MSAS	0	34	180	197
Total Rental Car Fee Increase	**0**	**400**	**2,100**	**2,300**
Motor Vehicle Lease Sales Tax				
Greater Minnesota Transit	0	0	0	4,070
Metropolitan Area Roads	0	0	0	4,070
Total Motor Vehicle Lease Sales Tax	**0**	**0**	**0**	**8,140**
TH Fund Bonding Resources				
TH Bonds	0	500,000	500,000	100,000
Debt Service	0	(2,951)	(21,576)	(110,529)
Total TH Fund Bonding Resources	**0**	**497,049**	**478,424**	**(10,529)**
Local Projects Bonding Resources				
Local Roads and Bridges Bonds	**0**	**60,000**	**0**	**0**
Potential Local Option Sales Taxes				
0.25% Transit Sales Tax (5-county)	0	96,020	107,376	110,815
80-County 0.5% Sales Tax - Maximum	0	85,406	131,581	136,083
80-County $20 Excise Tax - Maximum	0	4,491	6,770	6,837
Total Potential Revenues	**0**	**185,917**	**245,727**	**253,735**

Laws 2008, Chapter 152 Resources by Source ($ in thousands)

Source / Allocation	FY 2008	FY 2009	FY 2010	FY 2011
General Fund Appropriations				
Greater MN Transit	0	1,700	0	0
Rail - Northstar Corridor Extension	0	250	0	0
Ports	0	500	0	0
Value Capture Study	0	300	0	0
Total General Fund Appropriations	**0**	**2,750**	**0**	**0**
General Fund Impact				
Motor Fuels Tax Credit	0	0	(29,800)	(30,700)
Motor Vehicle Lease Sales Tax	0	0	0	(8,140)
Driver's License Reinstatement	0	0	(4,525)	(4,525)
Registration Tax Offset	0	(400)	(1,400)	(2,400)
Appropriations for Transportation	0	(2,750)	0	0
Total General Fund Impact	**0**	**(3,150)**	**(35,725)**	**(45,765)**
Total	**$10,500**	**$895,991**	**$973,326**	**$552,781**

Notes: Estimates for state revenues for fiscal years 2008 to 2011 are based on the Department of Finance Consolidated Fund statement dated June 24, 2008, for chapter 152 impacts only. Estimates for local revenues for fiscal years 2009 to 2011 are based on Department of Revenue analysis dated February 29, 2008. Metropolitan transit sales tax increase assumes a July 1, 2008, implementation date, with five counties collecting the tax. This includes Anoka, Dakota, Hennepin, Ramsey, and Washington counties. The value capture study appropriation is adjusted to reflect a reduction in subsequent legislation. Laws 2008, ch. 363, art. 11, § 11.

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Appendix 3: Preliminary Estimates of Debt Service Surcharge Revenue

Fiscal Year	Est. Surcharge	Est. Debt Service	Est. THF Revenue	THF Revenue Less Debt
2009	0.5	$2,951	$7,425	$4,474
2010	2.1	21,576	35,553	13,977
2011	2.5	110,529	43,765	(66,764)
2012	3.0	106,953	52,749	(54,204)
2013	3.5	119,311	62,038	(57,273)
2014	3.5	119,759	63,158	(56,601)
2015	3.5	132,047	63,537	(68,510)
2016	3.5	132,832	63,918	(68,914)
2017	3.5	144,620	64,302	(80,318)
2018	3.5	144,905	64,688	(80,217)
2019	3.5	152,431	65,076	(87,355)
2020	3.5	145,665	65,466	(80,199)
2021	3.5	141,050	65,859	(75,191)
2022	3.5	136,322	66,254	(70,068)
2023	3.5	131,795	66,652	(65,143)
2024	3.5	127,263	67,052	(60,211)
2025	3.5	122,726	67,454	(55,272)
2026	3.5	118,184	67,859	(50,325)
2027	3.5	113,637	68,266	(45,371)
2028	3.5	107,419	68,675	(38,744)
2029	3.5	98,172	69,087	(29,085)
2030	3.5	70,144	69,502	(642)
2031	3.5	52,668	69,919	17,251
2032	3.5	39,781	70,338	30,557
2033	3.5	34,414	70,761	36,347
2034	3.5	26,749	71,185	44,436
2035	3.5	21,892	71,612	49,720
2036	3.5	14,737	72,042	57,305
2037	3.5	10,390	72,474	62,084

Fiscal Year	Est. Surcharge	Est. Debt Service	Est. THF Revenue	THF Revenue Less Debt
2038	3.5	4,078	72,909	68,831
2039	3.5	1,178	73,346	72,168
2040	3.5	0	73,786	73,786
2041	3.5	0	74,229	74,229
2042	3.5	0	74,675	74,675
2043	3.5	0	75,123	75,123
2044	3.5	0	75,573	75,573
2045	3.5	0	76,027	76,027
2046	3.5	0	76,483	76,483
2047	3.5	0	76,942	76,942
2048	3.5	0	77,404	77,404
2049	2.5	0	57,464	57,464
Totals		**$2,706,178**	**$2,710,628**	**$4,450**

Notes: Amounts are in thousands (1,000s), except estimate surcharge is in cents. Revenue estimates are based on the Department of Finance, End of 2008 Legislative Session, Consolidated Fund Statement.

House Research Department

Appendix 4: Preliminary Estimates of State-Aid Distribution

Preliminary Estimates of Additional Revenue for CSAH Fund
($ in thousands)

County	FY 2009 Additional	FY 2010 Additional	FY 2011 Additional
District 1			
Carlton	$363	$670	$816
Cook	170	315	383
Itasca	699	1,293	1,573
Koochiching	183	341	414
Lake	300	555	675
Pine	520	962	1,170
St. Louis	2,368	4,374	5,322
District 1 Total	**4,603**	**8,510**	**10,352**
District 2			
Beltrami	432	798	971
Clearwater	187	346	421
Hubbard	236	438	532
Kittson	175	325	395
Lake of Woods	85	160	194
Marshall	264	490	595
Norman	195	361	439
Pennington	179	332	403
Polk	503	931	1,133
Red Lake	91	169	205
Roseau	279	516	628
District 2 Total	**2,625**	**4,865**	**5,916**
District 3			
Aitkin	292	541	658
Benton	268	496	603
Cass	359	664	807
Crow Wing	492	909	1,106
Isanti	271	500	608
Kanabec	158	293	356
Mille Lacs	364	674	820
Morrison	448	829	1,008
Sherburne	407	751	914
Stearns	1,046	1,932	2,351
Todd	224	415	505
Wadena	174	323	393
Wright	892	1,648	2,005
District 3 Total	**5,396**	**9,974**	**12,134**
District 4			
Becker	345	639	777

Preliminary Estimates of Additional Revenue for CSAH Fund
($ in thousands)

County	FY 2009 Additional	FY 2010 Additional	FY 2011 Additional
Big Stone	117	217	264
Clay	376	695	846
Douglas	327	605	736
Grant	114	211	257
Mahnomen	99	185	224
Otter Tail	811	1,499	1,824
Pope	200	370	450
Stevens	122	226	275
Swift	166	308	375
Traverse	103	191	232
Wilkin	213	395	481
District 4 Total	**2,992**	**5,542**	**6,739**
District 5			
Anoka	1,692	3,122	3,799
Carver	534	985	1,199
Hennepin	4,491	8,281	10,078
Scott	829	1,530	1,861
District 5 Total	**7,546**	**13,919**	**16,938**
District 6			
Dodge	251	464	565
Fillmore	476	880	1,070
Freeborn	367	679	826
Goodhue	502	928	1,129
Houston	324	600	730
Mower	431	797	969
Olmsted	709	1,309	1,593
Rice	425	785	955
Steele	378	699	851
Wabasha	355	657	799
Winona	455	840	1,023
District 6 Total	**4,674**	**8,639**	**10,509**
District 7			
Blue Earth	601	1,111	1,352
Brown	290	536	652
Cottonwood	199	369	449
Faribault	292	540	657
Jackson	267	494	601
Le Sueur	405	749	911
Martin	336	622	756
Nicollet	301	557	677
Nobles	330	610	742
Rock	193	358	436

Preliminary Estimates of Additional Revenue for CSAH Fund
($ in thousands)

County	FY 2009 Additional	FY 2010 Additional	FY 2011 Additional
Sibley	208	386	469
Waseca	224	415	505
Watonwan	199	369	449
District 7 Total	**3,846**	**7,116**	**8,656**
District 8			
Chippewa	158	292	355
Kandiyohi	464	858	1,043
Lac Qui Parle	172	320	389
Lincoln	136	253	308
Lyon	257	477	580
Mc Leod	354	653	795
Meeker	230	426	518
Murray	188	348	423
Pipestone	152	282	343
Redwood	326	603	733
Renville	358	663	806
Yellow Med.	207	384	467
District 8 Total	**3,002**	**5,558**	**6,760**
District 9			
Chisago	504	930	1,132
Dakota	1,654	3,051	3,713
Ramsey	2,035	3,753	4,567
Washington	1,189	2,193	2,669
District 9 Total	**5,382**	**9,927**	**12,081**
State Total	**$40,066**	**$74,050**	**$90,086**

Notes: Additional revenues include funds from the following sources: five-cent gas tax increase, gas tax surcharge, registration tax changes, and rental car fee increase. Estimates do not include the formula shift of MVST funds.

Statewide estimates for fiscal years 2009 to 2011 are based on the Department of Finance end-of-session estimates for Laws 2008, chapter 152.

House Research Department

Preliminary Estimates of Additional Revenue for MSAS Fund
($ in thousands)

Municipality	FY 2009 Additional	FY 2010 Additional	FY 2011 Additional
District 1			
Chisholm	23	42	52
Cloquet	58	108	132
Duluth	401	742	904

Preliminary Estimates of Additional Revenue for MSAS Fund
($ in thousands)

Municipality	FY 2009 Additional	FY 2010 Additional	FY 2011 Additional
Grand Rapids	52	96	117
Hermantown	43	80	97
Hibbing	117	218	265
International Falls	27	49	60
Virginia	44	82	99
District 1 Total	**765**	**1,417**	**1,727**
District 2			
Bemidji	51	94	114
Crookston	50	92	112
East Grand Forks	45	83	101
Thief River Falls	51	94	115
District 2 Total	**196**	**363**	**443**
District 3			
Albertville	25	46	56
Baxter	36	67	81
Big Lake	29	54	66
Brainerd	50	92	112
Buffalo	62	115	140
Cambridge	27	50	61
Delano	26	48	59
Elk River	97	180	220
Isanti	17	32	39
Little Falls	50	93	113
Monticello	35	65	79
Otsego	54	100	122
Sartell	57	105	129
Sauk Rapids	50	92	112
Saint Cloud	245	454	553
Saint Joseph	17	32	39
Saint Michael	65	120	146
Waite Park	20	37	45
District 3 Total	**962**	**1,783**	**2,172**
District 4			
Alexandria	72	134	163
Detroit Lakes	40	74	90
Fergus Falls	82	152	185
Moorhead	143	265	322
Morris	19	35	42
District 4 Total	**356**	**659**	**803**
District 6			
Albert Lea	79	147	179

Preliminary Estimates of Additional Revenue for MSAS Fund
($ in thousands)

Municipality	FY 2009 Additional	FY 2010 Additional	FY 2011 Additional
Austin	105	194	237
Faribault	98	181	220
Kasson	19	35	43
La Crescent	22	41	50
Lake City	21	39	47
Northfield	56	104	126
Owatonna	98	182	222
Red Wing	82	153	186
Rochester	318	589	717
Stewartville	20	37	45
Winona	91	168	205
District 6 Total	**1,009**	**1,870**	**2,279**
District 7			
Fairmont	64	119	144
Mankato	125	232	282
New Prague	21	38	47
New Ulm	58	107	131
North Mankato	52	96	117
Saint Peter	50	92	112
Waseca	29	54	66
Worthington	40	74	90
District 7 Total	**438**	**812**	**990**
District 8			
Glencoe	24	44	54
Hutchinson	58	107	130
Litchfield	28	53	64
Marshall	53	98	119
Montevideo	22	40	49
Redwood Falls	26	48	58
Willmar	78	144	175
District 8 Total	**288**	**533**	**650**
Metro Districts (5 & 9)			
Andover	124	229	279
Anoka	53	99	121
Apple Valley	149	276	337
Arden Hills	29	54	66
Belle Plaine	27	50	61
Blaine	152	282	343
Bloomington	366	677	825
Brooklyn Center	80	149	182
Brooklyn Park	193	357	435

Preliminary Estimates of Additional Revenue for MSAS Fund
($ in thousands)

Municipality	FY 2009 Additional	FY 2010 Additional	FY 2011 Additional
Burnsville	205	380	463
Champlin	64	119	146
Chanhassen	65	120	147
Chaska	74	138	168
Circle Pines	14	27	33
Columbia Heights	60	112	136
Coon Rapids	197	365	444
Corcoran	25	47	57
Cottage Grove	135	251	306
Crystal	70	129	157
Dayton	20	38	46
Eagan	196	364	443
East Bethel	68	125	153
Eden Prairie	194	360	439
Edina	159	294	359
Falcon Heights	14	27	33
Farmington	65	120	146
Fridley	90	167	203
Golden Valley	72	133	162
Ham Lake	65	121	147
Hastings	64	119	145
Hopkins	48	89	109
Hugo	47	88	107
Inver Grove Heights	131	242	295
Jordan	22	42	51
Lake Elmo	30	56	69
Lakeville	206	382	465
Lino Lakes	75	139	169
Little Canada	38	70	85
Mahtomedi	23	42	51
Maple Grove	233	432	526
Maplewood	148	273	333
Mendota Heights	44	81	99
Minneapolis	1,217	2,256	2,748
Minnetonka	187	346	422
Minnetrista	33	62	75
Mound	40	74	90
Mounds View	42	78	95
New Brighton	72	133	162
New Hope	63	116	142
North Branch	43	80	98
North St. Paul	47	87	106
Oak Grove	57	106	129
Oakdale	69	129	157
Orono	33	61	75

Preliminary Estimates of Additional Revenue for MSAS Fund
($ in thousands)

Municipality	FY 2009 Additional	FY 2010 Additional	FY 2011 Additional
Plymouth	230	427	520
Prior Lake	69	127	155
Ramsey	100	186	226
Richfield	113	210	256
Robbinsdale	40	75	91
Rogers	23	43	52
Rosemount	87	162	198
Roseville	103	191	233
Saint Anthony	25	46	57
Saint Francis	39	72	87
Saint Louis Park	142	263	321
Saint Paul	953	1,766	2,152
Saint Paul Park	22	41	51
Savage	77	142	173
Shakopee	95	176	214
Shoreview	82	152	186
Shorewood	26	49	59
South St. Paul	62	115	140
Spring Lake Park	18	34	41
Stillwater	56	103	126
Vadnais Heights	36	66	81
Victoria	21	39	48
Waconia	34	63	77
West St. Paul	50	93	114
White Bear Lake	70	130	158
Woodbury	209	388	473
Metro Districts (5 & 9)	**8,899**	**16,491**	**20,091**
State Total	**$12,913**	**$23,931**	**$29,154**

Notes: Additional revenues include funds from the following sources: five-cent gas tax increase, gas tax surcharge, registration tax changes, and rental car fee increase.

Statewide estimates for fiscal years 2009 to 2011 are based on the Department of Finance end-of-session estimates for Laws 2008, chapter 152.

House Research Department

Appendix 5: Major Bridges Summary

Start Year	Description	Location	SD	FC	Sufficiency Rating	Total Cost (millions)
2008	TH 23 Desoto Bridge over the Mississippi	St. Cloud	Y	Y	39.0	$40-45
2008	TH 11 over the Red River	Robbin (Kittson County)	N	Y	48.5	$16-20
2010	TH 61 Hastings Bridge over the Mississippi	Hastings	Y	Y	32.8	$275-335
2010	TH 52 Lafayette Bridge over the Mississippi	Saint Paul	Y	Y	49.5	$170-200
2012	I-90 Dresbach Bridge over Mississippi	Dresbach (Winona County)	N	Y	77.0	$120-200
2013	TH 36 St. Croix River Bridge	Stillwater	Y	Y	32.8	$300-440
2014	I-35E Cayuga Bridge	St. Paul	Y	N	40.8	$175-275
2014	TH 43 over the Mississippi	Winona	N	Y	49.8	$175-250
2018	TH 63 over the Mississippi	Red Wing	N	Y	44.8	$115-215
2018	TH 2 Kennedy Bridge over the Red River	Grand Forks	N	Y	83.4	$40-70
2018	TH 72 over the Rainy River	Baudette	N	Y	40.3	$40-70

Notes: Total costs are preliminary estimates. SD refers to structurally deficient. FC refers to fracture-critical. Cost estimates are for Minnesota's share for border bridges.

Source: Minnesota Department of Transportation

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