Transportation Funds Forecast

November 2013

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Transportation Funds Forecast

The purpose of this document is to serve as the official guide to the Minnesota Department of Transportation (MnDOT) forecast for the six transportation funds:

- Highway User Tax Distribution Fund
- Trunk Highway Fund
- County State Aid Highway Fund
- Municipal State Aid Street Fund
- Transit Assistance Fund
- State Airports Fund

The primary focus is on comparing the most current forecast with the prior forecast. Background information on the transportation funds and the forecast process is also provided. In addition, planning estimates are provided for fiscal years 2016 and 2017.

November 2013 Forecast Executive Summary

The November 2013 forecast estimates for the three principal highway user taxes have all changed since the end of 2013 legislative session forecast. For the two year period (FY 2014-15), revenues have changed by:

- Motor Fuel Excise Tax – 0.5% greater
- Motor Vehicle Registration Tax – 3.2% greater
- Motor Vehicle Sales Tax – 2.8% greater

The percentage change for the entire Highway User Tax Distribution (HUTD) Fund (which includes several minor sources of revenue in addition to the three sources discussed above) is a projected increase of 1.9%. Over the two years of the forecast period FY 2014-15 (FY 2013 amounts are now actual revenues), the estimated revenue for the HUTD Fund is $69.4 million greater than in the end-of-session forecast. This revenue flows through to the Trunk Highway, County State Aid Highway, and Municipal State Aid Street Funds.

The November 2013 forecast also includes planning estimates for FY 2016 and 2017. Compared with estimates for the FY 2014-15 biennium, revenue is forecast to change as follows:

- Motor Fuel Excise Tax – 0.6% less
- Motor Vehicle Registration Tax – 7.0% greater
- Motor Vehicle Sales Tax – 11.4% greater

We all have a stake in A to B

Total estimated revenue to the HUTD Fund for FY 2016-17 is approximately $173.9 million greater than for FY 2014-15, or an increase of 4.6%.

Forty percent of the motor vehicle sales tax revenue is currently dedicated to the Transit Assistance Fund, and the FY 2014-15 forecast for this revenue has increased by the same 2.8% as the amounts dedicated to the HUTD Fund.

Estimates of investment income in all funds have increased for FY 2015-17. The most significant increases are expected in FY 2016 and 2017, when both interest rates (forecast by MMB) and cash balances are projected to continue to increase.

In 2008 the Legislature borrowed $15 million from the State Airports Fund to address a shortfall in the General Fund. The Legislature also included a statutory provision (addition to M.S. 16A.152) requiring repayment from any forecast surplus in the General Fund. Repayment was to occur after reserves had been replenished and the amounts owed to the school districts had been repaid. The November 2013 General Fund forecast, released on December 5, forecasts a surplus large enough to both repay the K-12 School property tax recognition shifts and to repay the $15 million owed to the State Airports Fund. Therefore, this repayment has been incorporated into the November 2013 forecast for the State Airports Fund in FY 2014.

The current planning estimate for the airline flight property tax for FY 2014-17 is unchanged at $8 million. However, the amount to be certified prior to December 31, 2013 will be further evaluated in light of the $15 million transfer from the General Fund. Any changes will be reported in the February 2014 forecast.

In addition, major changes occurred to funding sources in the State Airports Fund through 2013 enacted legislation. These will be explained in the detailed discussion of the State Airports Fund beginning on page 20. Forecast revenues for this fund are different from the amounts in the end-of-session forecast by minor amounts, though some offsetting differences in FY 2014 occurred. A $2.5 million reduction in the estimated revenue for the aircraft registration tax was offset by a $2.2 million increase in airline flight property taxes due to receipt of prior year taxes from an airline in bankruptcy.

There is a 42.8% increase in estimated revenue from the sales tax on motor vehicle leases for the FY 2014-15 forecast period. One-half of this revenue up to $9 million is credited to the County State Aid Highway Fund and the remaining revenue is credited to the Greater Minnesota Transit Account in the Transit Assistance Fund.

This forecast does not include any macroeconomic effects of a potential failure to achieve a budget agreement for federal FY 2014 which might result in a federal government shutdown in January 2014, or the possible failure to increase the overall federal government borrowing authority in February 2014. Economists at MMB believe the adverse economic impacts from sequestration on the overall Minnesota economy have not been significant. The federal spending cuts to defense and non-defense programs are estimated to reduce the level of employment by no more than 5,000 jobs by the end of the year, or just 0.2 percent. A second round of sequestration cuts will have similar marginal consequences.

The prior sequestration has not materially affected any of the funds discussed in this forecast document. Although there was minimal effect on Minnesota's transportation programs, we will continue to monitor the situation, and any impacts will be reported in the February 2014 forecast.

Introduction to Transportation Funds

MnDOT, in consultation with MMB, prepares fund statements for six transportation funds. These fund statements are prepared in November and February of each fiscal year. Additional updates are prepared each year at the end of the legislative session to incorporate law changes impacting the transportation funds.

MnDOT prepares fund statements for the following funds:

- Highway User Tax Distribution Fund
- Trunk Highway Fund
- County State Aid Highway Fund
- Municipal State Aid Street Fund
- Transit Assistance Fund
- State Airports Fund

These forecasts are prepared based on the same statutory requirements as the state's General Fund forecast (M.S. 16A.103) and are also based on the statutory requirement in M.S. 174.03, subdivision 9.
The vast majority of state funding for highways in Minnesota is provided by funding from the Trunk Highway Fund (THF), the County State Aid Highway Fund (CSAH), and the Municipal State Aid Street Fund (MSAS). These three funds receive funding from the Highway User Tax Distribution Fund (HUTD). All four of these funds were created in Article XIV of the Minnesota Constitution.

Highway User Tax Distribution Fund

The Highway User Tax Distribution Fund (HUTD) receives revenues from sources dedicated to highways and transit by Article XIV of the Minnesota Constitution. These revenue sources are:

- Motor Fuel Excise Tax
- Motor Vehicle Registration Tax
- Motor Vehicle Sales Tax

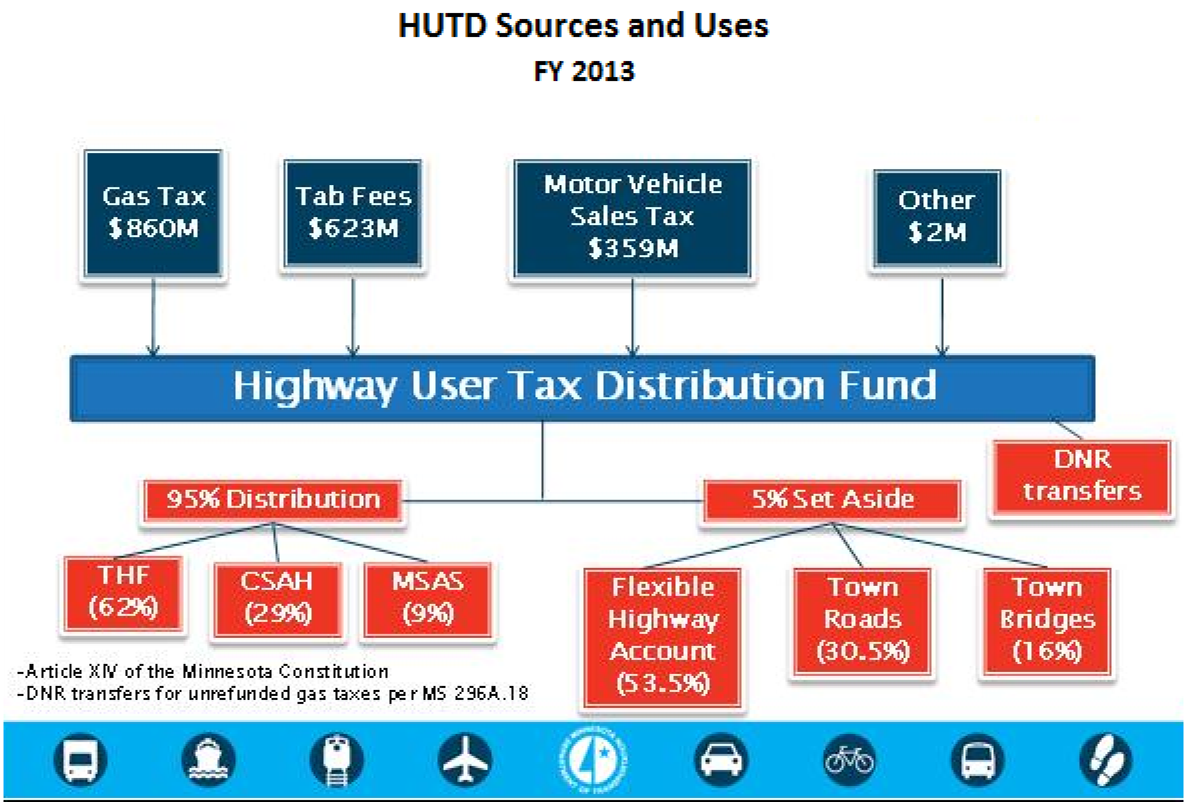
With the exception of the revenue from the Motor Vehicle Sales Tax that is constitutionally dedicated to public transit (currently set at 40% by statute), revenues from these three taxes are all constitutionally required to be deposited into the Highway User Tax Distribution Fund. From there they are subsequently transferred, in accordance with formulas in Article XIV of the Minnesota Constitution and in statute, to the Trunk Highway Fund, the County State Aid Highway Fund, and the Municipal State Aid Street Fund.

Of the total revenue to the Highway User Tax Distribution Fund, 95% is allocated by a formula in the constitution to:

- Trunk Highway Fund – 62%
- County State Aid Highway Fund – 29%
- Municipal State Aid Street Fund – 9%

The remaining five percent, referred to as the five percent set aside, is all allocated to the County State Aid Highway Fund in accordance with M.S. 161.081. This funding is further allocated to Township Roads, Township Bridges, and the Flexible Highway Account, as shown in the chart below.

Across FY 2014-17, motor fuel excise taxes comprise approximately 44% of revenue, motor vehicle registration taxes comprise approximately 35% of revenue, motor vehicle sales taxes comprise approximately 21% of revenue, and other sources such as investment income comprise less than 1% of the revenues for the HUTD fund.



Motor Fuel Excise Tax

According to article XIV of the Minnesota Constitution, "…The Legislature may levy an excise tax on any means or substance used for propelling vehicles on the public highways of this state…" This tax is commonly referred to as "gas tax." It is levied on gasoline, diesel fuel, compressed natural gas, and a variety of other special fuels.

The current gas tax rate in Minnesota is 25 cents per gallon plus a 3.5 cent per gallon debt service surcharge. This surcharge is intended to cover the debt obligations for capital projects on the trunk highway system as authorized in the Laws of 2008, Chapter 152. The final debt service surcharge increase of a half cent was implemented on July 1, 2012.

The table below provides information about how Minnesota's motor fuel tax rates compare with those in the surrounding states and with federal tax rates.

Comparison of December 2013 Motor Fuel Tax Rates (per gallon)

Cents per gallon	Federal	MN	WI	SD	IA	ND
Gasoline	18.4	**28.5**	30.9	22.0	21.0	23.0
Diesel	24.4	**28.5**	30.9	22.0	22.5	23.0
Gasohol (10% blend)	18.4	**28.5**	30.9	22.0	19.0	23.0

The following table shows historical motor fuel tax rates:

Year	Historical Motor Fuel Excise Rates in Minnesota
1975	Increased from 7 to 9 cents per gallon
1980	9 to 11 cents
1981	11 to 13 cents
1983	13 to 16 cents (for eight months) and then to 17 cents beginning January 1, 1984
1988	17 to 20 cents
1994	Phased out 2-cent gasohol credit over 4 years
2008	Chapter 152 authorized a number of changes to the fuel tax rates from 2008 to 2012; including a general rate increase of 5 cents phased in by October 1, 2008, and a debt service surcharge that increases to 3.5 cents by 2012.
2008 Apr 1	20 cents to 22.0 cents (2 cent general increase)
2008 Aug 1	22.0 cents to 22.5 cents (debt service surcharge)
2008 Oct 1	22.5 cents to 25.5 cents (3 cent general increase)
2009 Jul 1	25.5 cents to 27.1 cents (debt service surcharge)
2010 Jul 1	27.1 cents to 27.5 cents (debt service surcharge)
2011 Jul 1	27.5 cents to 28 cents (debt service surcharge)
2012 Jul 1	28.0 cents to 28.5 cents (debt service surcharge)

Motor Vehicle Registration Tax
According to article XIV of the Minnesota Constitution, "…The Legislature may by law tax motor vehicles using the public streets and highways on a more onerous basis than other personal property…" These taxes are commonly referred to as "tab fees."

Motor Vehicle Sales Tax
According to article XIV of the Minnesota Constitution,"…revenue from a tax imposed by the state on the sale of a new or used motor vehicle…must be allocated for the following transportation purposes: not more than 60% must be deposited in the highway user tax distribution fund, and not less than 40% must be deposited in a fund dedicated solely to public transit…" Current statutes provide that 60% of this revenue is deposited in the HUTD fund and 40% is deposited in the Transit Assistance Fund.

HUTD Revenue Forecast Detail

Motor Fuel Excise Tax Forecast

The outlook for fuel consumption is affected by:

- the economy and world oil prices
- long-term policy (e.g. corporate average fuel economy (CAFE) standards)
- consumer trends toward more fuel efficient vehicles
- utilization of other transportation options

To forecast the motor fuel excise tax, MnDOT consults the U.S. gasoline consumption macroeconomic forecasts produced by Global Insight (GII). Global Insight is the same macroeconomic consultant that the state uses to assist with forecasting the General Fund. MnDOT also reviews regional forecast information from the federal Energy Information Administration (EIA). Finally, a comparison is made of actual local consumption versus previous forecast information provided by GII and EIA.

The most current forecast from EIA is unchanged from the end-of-session forecast, projecting declining consumption in each year. The GII forecast projects less consumption in 2014 and 2015, and slightly more in 2016 and 2017 as compared to the end-of-session forecast. The specific forecasts are shown in the tables below. MnDOT uses a blended average of the consumption forecasts by EIA and GII as the consumption forecast for future years. These amounts are then multiplied by the motor fuel tax rate, resulting in the estimated revenue. For the current year, the EIA and GII forecasts are compared with actual year-to-date revenues. Through October, actual revenues are greater than the end-of-session forecast. Because the current year revenues are up, and future year projections were relatively unchanged, the end result is projected revenues for FY 2014-15 are approximately $8 million, or 0.5% greater, than in the end-of-session forecast. Revenues for FY 2014 are 0.5% greater than forecast in end-of-session and for FY 2015 are 0.4% greater. This also results in a higher base for future fiscal years.

Energy Information Administration (EIA) Changes, Nov '13 vs. EOS '13					
	Nov '13 Forecast Annual Energy Outlook 2013 Baseline		EOS '13 Forecast Annual Energy Outlook 2013 Early Release		
Year	Delivered Motor Gasoline Consumption, All Sectors (quadrillion BTU)	Growth (Year over Year)	Delivered Motor Gasoline Consumption, All Sectors (quadrillion BTU)	Growth (Year over Year)	Change
2013	1.24	-1.2%	1.24	-1.2%	0.0%
2014	1.20	-3.0%	1.20	-3.0%	0.0%
2015	1.17	-2.4%	1.17	-2.4%	0.0%
2016	1.16	-0.8%	1.16	-0.8%	0.0%
2017	1.15	-0.8%	1.15	-0.8%	0.0%

Global Insight (GII) Changes, Nov '13 vs. EOS '13			
	Nov '13 Forecast	EOS '13 Forecast	
Year	GII Highway Consumption of Fuel Year over Year Growth	GII Highway Consumption of Fuel Year over Year Growth	Change
2013	-0.26%	-0.76%	0.50%
2014	0.18%	1.22%	-1.04%
2015	-0.02%	0.14%	-0.16%
2016	0.84%	0.20%	0.64%
2017	0.79%	0.75%	0.04%

MnDOT Consumption Forecast Changes, Nov '13 vs. EOS '13			
	Nov '13 Forecast	EOS '13 Forecast	
Year	Blended Average of EIA/GII	Blended Average of EIA/GII	Change
2013	-0.75%	-1.00%	0.25%
2014*	-0.50%	-0.90%	0.40%
2015	-1.22%	-1.14%	-0.08%
2016	0.02%	-0.31%	0.32%
2017	-0.00%	-0.02%	0.02%
*EIA/GII blended average of -1.42% adjusted to -0.5% in FY 2014 to account for actual year-to-date revenues			

The estimated revenue included in the November 2013 forecast from the motor fuel excise tax is shown below:

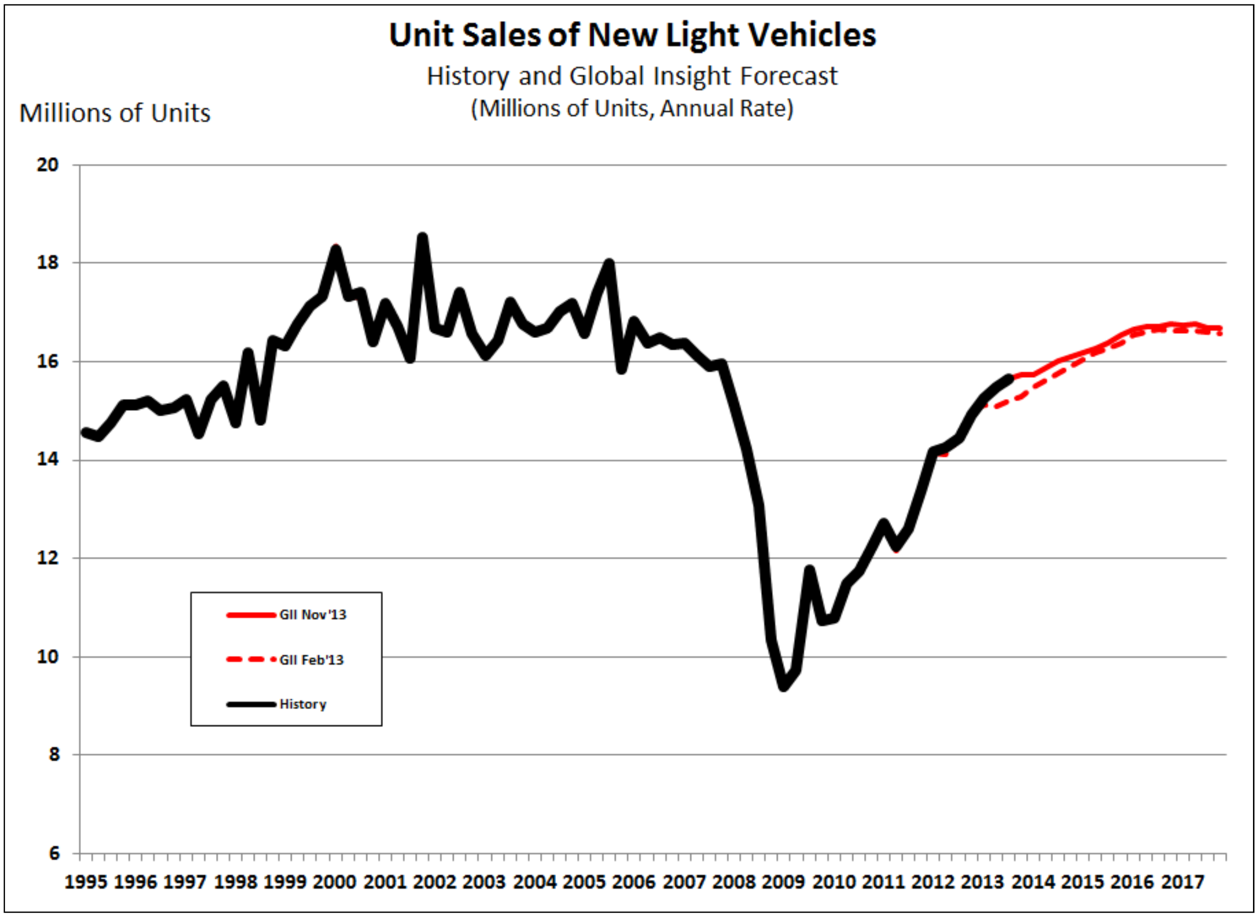
Motor Fuel Tax Revenues
($ in millions)

State Fiscal Year	Nov '13 Fcst	EOS '13 Fcst	$ Change	% Change
2013	$860 M	$859 M	$0.7 M	0.1%
2014	857	853	4.2	0.5%
2015	847	843	3.4	0.4%
2016	847	841	6.2	0.7%
2017	$847 M	$840 M	$6.3 M	0.8%

Fiscal Year 2016 and 2017 Planning Estimates
The planning estimates for FY 2016-17 show an overall decrease in revenue; revenue for FY 2016-17 is estimated to be 0.6% less than FY 2014-15. However, all of this reduction is attributed to the change from FY 2014 to FY 2015. Revenue for FY 2016 and 2017 is expected to be approximately the same each year (about $847 million), which is the same as is expected in FY 2015. The FY 2015 forecast is for a reduction of about $10 million compared with FY 2014.

The overall trend for the forecasts for both the FY 2014-15 forecast period and the planning estimates is for continued reduced consumption, because of increases in overall vehicle fuel efficiency and reductions in miles driven.

Motor Vehicle Registration Tax Forecast
The policy for taxes on passenger motor vehicles is described in M.S. 168.013, subdivision 1a. Vehicles are taxed based on $10 plus 1.25% of the vehicle's value, depreciated over time until the 10th year of registration, after which the tax is $35. Revenue from these taxes comprises about 80% of the total revenue from motor vehicle registration taxes. The remaining motor vehicle registration tax revenue is provided by taxes on commercial vehicles. The policy for this taxation is generally based on vehicle weight and age. This passenger motor vehicle registration tax policy was instituted in 2008, and included a provision that the tax on any passenger vehicle when calculated using the new policy would not be greater than paid previously; this provision resulted in a phase-in of the full impact of this policy change.
The following chart depicts the unit sales rate for new light vehicles, from 1995 through the forecast period. All data are provided by GII and reflect national levels. The solid red line reflects the current forecast, which has increased slightly since the end-of-session forecast, which was unchanged from the February 2013 forecast (the dashed red line).



MnDOT has a model to forecast revenue from passenger vehicles that is largely based on forecasts of the purchase of new passenger vehicles. Forecasts of the sales of new vehicles are provided by GII. The chart suggests that new vehicle sales will be slightly greater than was assumed in GII's prior forecast. Estimated revenues for the two year forecast period are 3.2% greater than was forecast at end-of-session. This is an increase of approximately $41 million. The November 2013 forecast continues to use the detailed vehicle information supplied by the Department of Public Safety in February 2013 that MnDOT uses in its model to forecast revenue from passenger motor vehicles. The February 2014 forecast will also take into account new data supplied by the Department of Public Safety. MnDOT assumes that an additional $110 million per year of motor vehicle registration tax revenue is received from taxes on various other types of vehicles, primarily on heavy trucks. This assumption reflects an increase of $5 million from the end-of-session forecast. These truck revenues have stayed relatively constant as a percentage of overall registration tax revenues over the last few years. As total revenues have increased, truck revenues have increased as well.

The estimated revenue for both passenger vehicles and non-passenger vehicles included in the November 2013 forecast from the motor vehicle registration taxes is shown on the next page:

Motor Vehicle Registration Tax Revenues

($ in millions)

State Fiscal Year	Nov '13 Fcst	EOS '13 Fcst	$ Change	% Change
2013	$623 M	$599 M	$23.7 M	4.0%
2014	644	624	20.7	3.3%
2015	666	646	20.3	3.1%
2016	690	670	19.5	2.9%
2017	$712 M	$693 M	$18.7 M	2.7%

Fiscal Years 2016 and 2017 Planning Estimates

The estimate for FY 2016-17 is for continued growth in revenue compared with revenue for FY 2014-15. Revenue for FY 2016-17 is estimated to be 7.0% greater than FY 2014-15. An increase of 3.5% is expected in FY 2016 compared to FY 2015, and an increase of 3.3% is expected in FY 2017 compared to FY 2016. The total additional revenue for FY 2016-17 is approximately $91 million, compared with revenue for FY 2014-15.

Motor Vehicle Sales Tax Forecast

As mentioned previously, the HUTD Fund receives 60% of the revenue from the motor vehicle sales tax. This is a 6.5% tax on the sale of new and used motor vehicles. MMB prepares the official forecast of this revenue, which is largely based on input provided by GII. Similar to the forecast for passenger motor vehicles, this forecast is largely based on estimates of sales of passenger vehicles, so the trend is similar to that described previously for motor vehicle registration tax revenue.

Compared with the end-of-session forecast, which had some minor adjustments from the February 2013 forecast based on enacted legislation, estimated revenue in the November 2013 forecast is 2.8% greater for the FY 2014-15 forecast period, an increase of approximately $21 million. The estimated revenue included in the November 2013 forecast that will be received by the HUTD Fund from the motor vehicle sales tax is shown below:

Motor Vehicle Sales Tax Revenues

($ in millions)

State Fiscal Year	Nov '13 Fcst	EOS '13 Fcst	$ Change	% Change
2013	$359 M	$359 M	-$0.3 M	-0.1%
2014	383	374	9.3	2.5%
2015	407	395	12.0	3.0%
2016	432	419	12.5	3.0%
2017	$448 M	$442 M	$6.0 M	1.4%

Fiscal Years 2016 and 2017 Planning Estimates
The estimate for FY 2016-17 is for moderate growth in revenue compared with FY 2014-15. Revenue for FY 2016-17 is estimated to be 11.4% greater than FY 2014-15. An increase of 6.0% is expected in FY 2016 compared to FY 2015, and an increase of 3.9% is expected in FY 2017 compared to FY 2016. The total additional revenue for FY 2016-17 is $89.7 million compared to FY 2014-15.

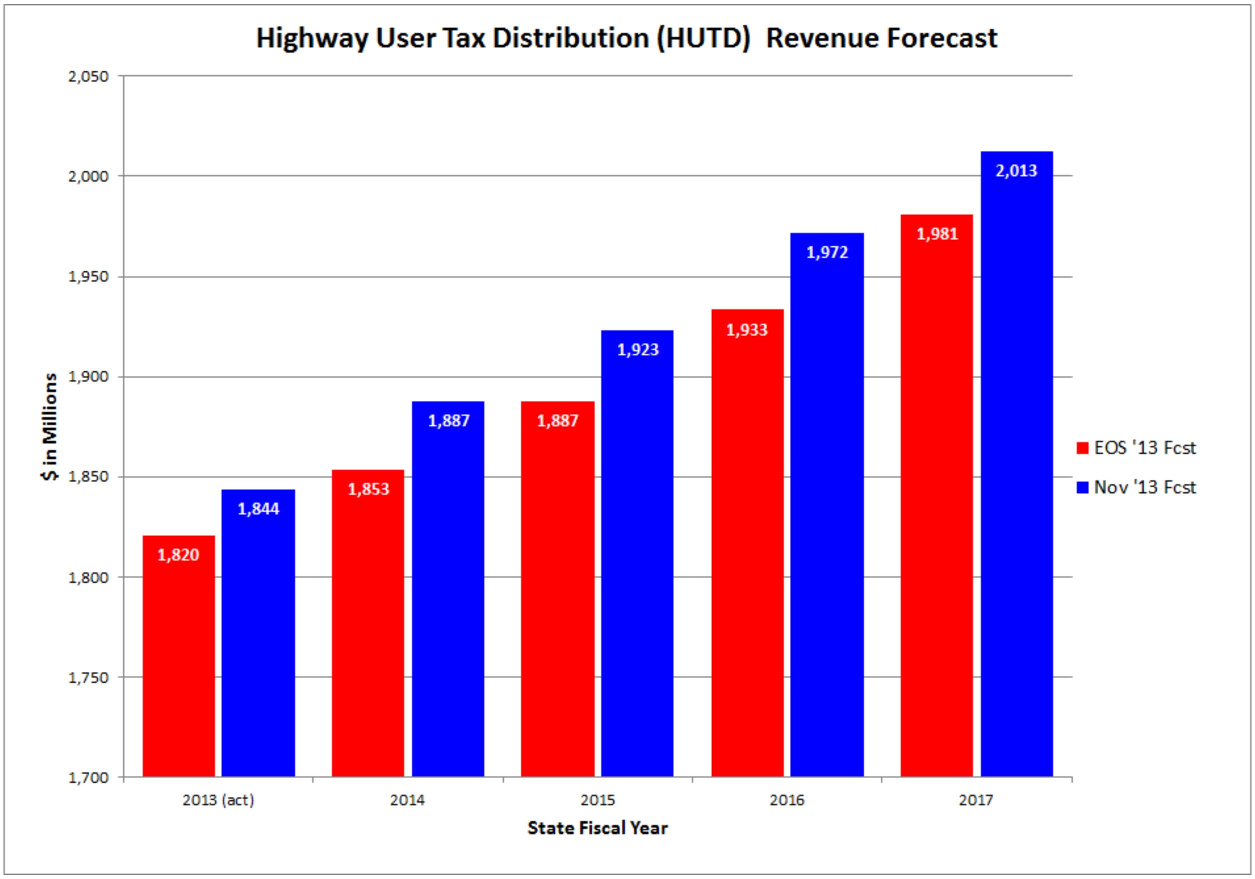
Total HUTD Revenue
When the three revenue sources described above are combined, in addition to other smaller revenue sources, revenue to this fund is estimated to be 1.9% greater than the end-of-session forecast for the two year forecast period, an increase of $69.4 million. The total estimated revenue for the HUTD Fund is shown below:

HUTD Revenues
($ in millions)

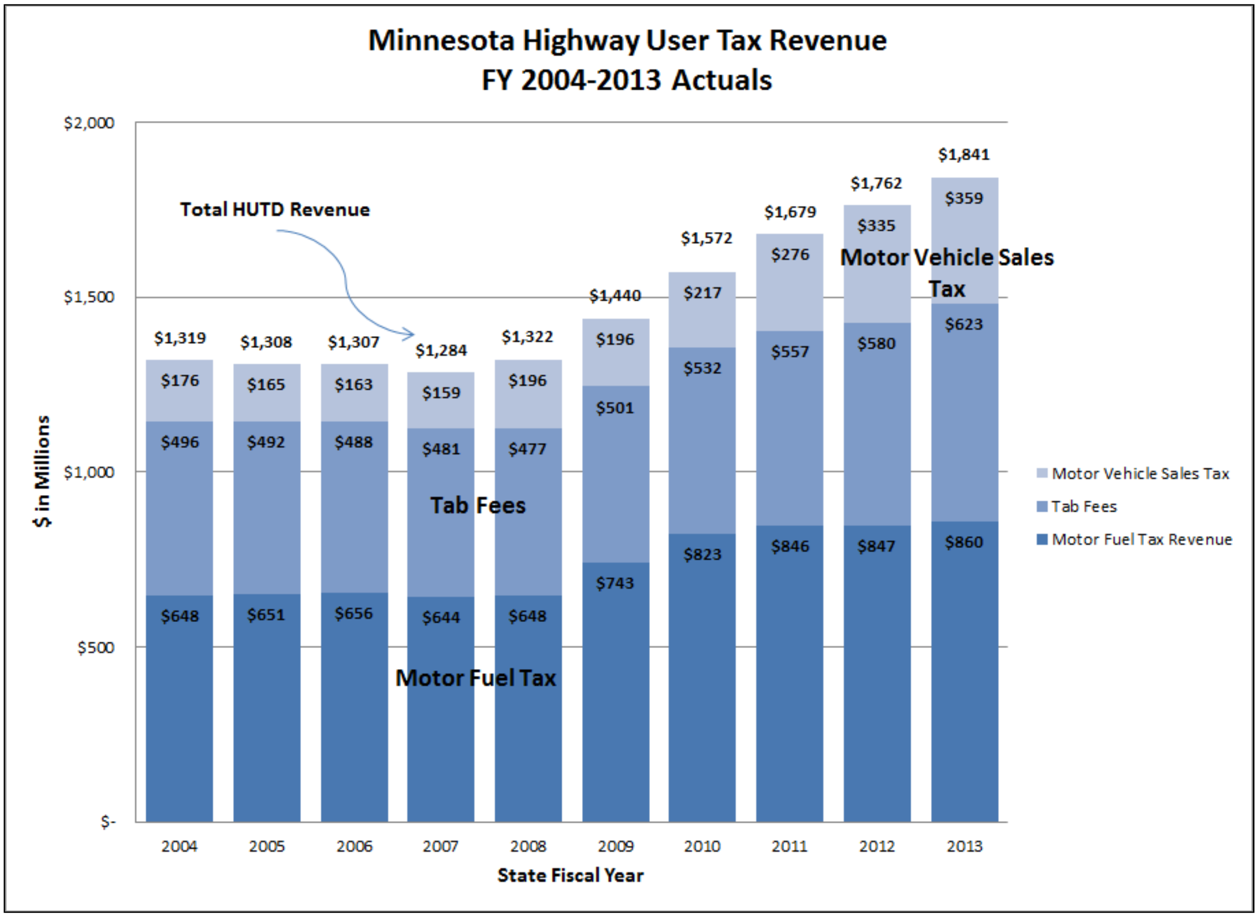
State Fiscal Year	Nov '13 Fcst	EOS '13 Fcst	$ Change	% Change
2013	$1,844 M	$1,820 M	$23.2 M	1.3%
2014	1,887	1,853	33.9	1.8%
2015	1,923	1,887	35.5	1.9%
2016	1,972	1,933	38.3	2.0%
2017	$2,013 M	$1,981 M	$31.7 M	1.6%

Fiscal Years 2016 and 2017 Planning Estimates
The estimate for FY 2016-17 is for growth in revenue compared with FY 2014-15. Revenue for FY 2016-17 is estimated to be 4.6% greater than FY 2014-15. An increase of 2.5% is expected in FY 2016 compared to FY 2015, and an increase of 2.1% is expected in FY 2017 compared to FY 2016. The total additional revenue for FY 2016-17 is $173.9 million, compared with revenue for FY 2014-15.

Below is a chart that summarizes total HUTD revenues for FY 2013-17, for both the end-of-session forecast and the current November 2013 forecast:



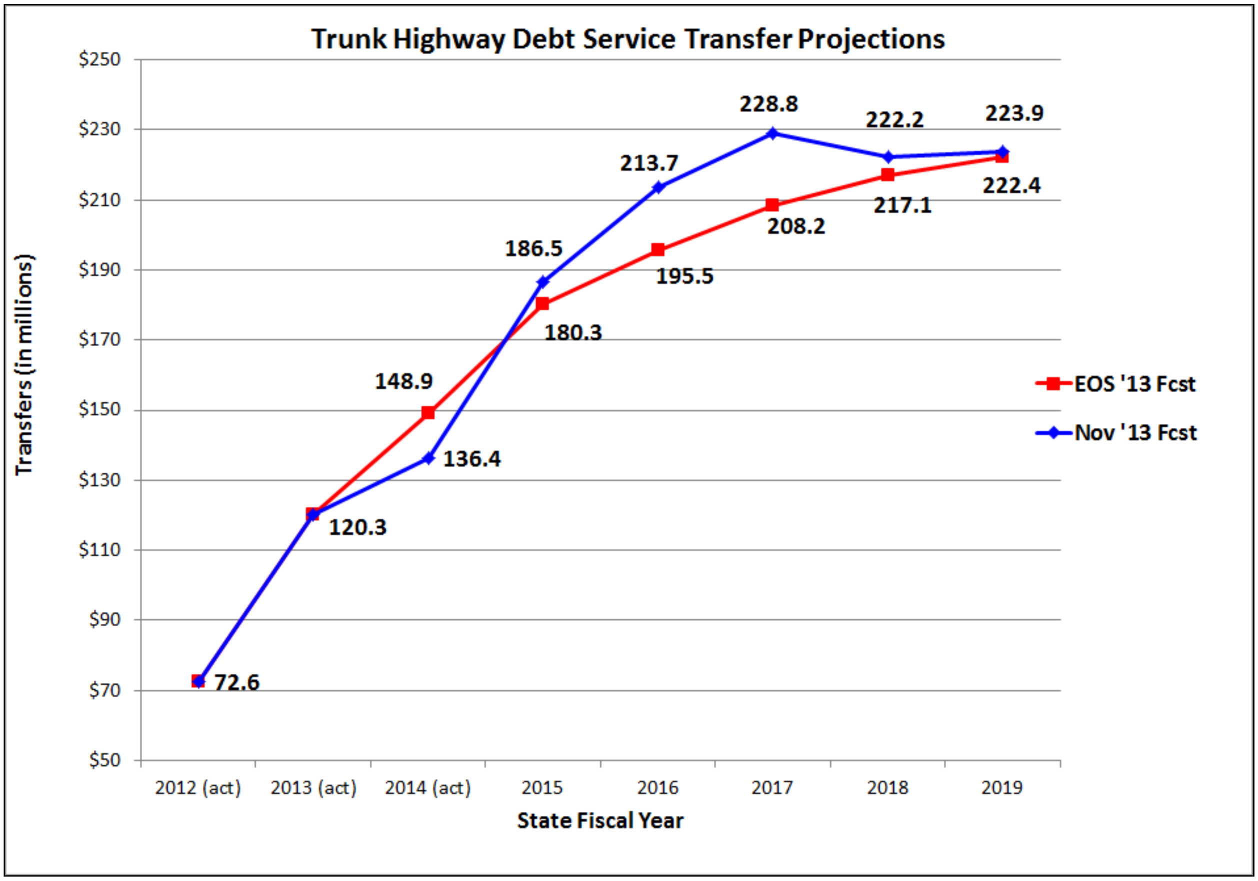
The chart below provides a 10 year history of actual revenues, for FY 2004-13, to the HUTD fund for the 3 principal taxes (motor fuel excise tax, vehicle registration taxes, and motor vehicle sales tax):



Trunk Highway Fund

The Trunk Highway Fund receives revenue from various sources. Across FY 2014-17, transfers from the HUTD Fund comprise approximately 70% of revenue, federal aid agreements comprise approximately 26% of revenue, and other sources, such as investment income, comprise approximately 4% of revenue.

The Trunk Highway Fund has unique constitutional authority (see Article XIV, section 11 of the Minnesota Constitution) to sell authorized trunk highway bonds. The debt service on these bonds (payment of principal and interest) is specified as the first obligation of the fund. In recent years the amount of debt service expenditures (transfers to the state Debt Service Fund) has been substantial and is forecast to become even greater in the future. The debt service transfer in FY 2014 was approximately $136 million and is forecast to grow to nearly $187 million in FY 2015, or nearly 16% of revenues to the fund, not counting federal aid agreements. Compared with the end-of-session forecast, there is a slight decline in forecast debt service for FY 2014-15, approximately $6 million (1.9%). However, there is an increase of nearly $39 million (9.6%) for FY 2016-17. This is primarily due to changes in the timing of cash needed for bond-funded projects. The majority of these changes were to update the cash flow forecast for actual projects selected for the $300 million Corridors of Commerce program enacted by the 2013 Legislature and announced in November. Below is a chart that summarizes these changes to the estimated debt service transfer:



There were several significant changes incorporated into the November 2013 forecast, compared with the end-of-session forecast for the Trunk Highway Fund. First, revenue received by this fund via transfer from the HUTD Fund for FY 2014 and 2015 is estimated to be 2.1% greater than the end-of-session forecast for the same reasons as described earlier for the HUTD Fund. This is an increase of approximately $46.2 million over the two year period.

The first year of the 2014-17 State Transportation Investment Plan (STIP) has approximately $80M fewer trunk highway construction projects funded with federal aid than MnDOT previously forecast for the FY 2014-15 biennial budget. This is primarily due to changes related to the new federal reauthorization law, Moving Ahead in the 21st Century (MAP-21). MnDOT originally forecast additional federal revenue for MnDOT national highway system projects, resulting in less for local projects. Subsequent decisions were made by MnDOT to keep federal funding to local governments at approximately the same level for construction projects already programmed in the 2013-16 STIP. Of the $80M total, $50M of MnDOT federal funded projects were advanced to FY 2013, displacing state funded projects that are now in FY 2014. Since federal grant revenue is recognized for fund statement purposes at the time of encumbrance, this resulted in $50M more federal grant revenue in FY 2013 than forecast in the Trunk Highway Fund, with no change in FY 2013 expenditures. The remaining $30M of reduced federally funded projects also reduces federal grant revenue in FY 2014, with no change in FY 2014 expenditures as MnDOT will redirect the budget authority from federal to state funded projects.

The forecast changes for both FY 2012-13 and FY 2014-15, along with the total impact on fund balance, are shown in the table below:

Trunk Highway Fund Balance Changes

Nov '13 vs. EOS '13

($ in millions)

	FY12-13	FY14-15
State Revenues (HUTD)	11.8 M	46.2 M
Federal Aid Agreements	50.1	-80.1
Other Revenue	5.4	0.4
Transfers In	-0.6	-2.8
Prior Year Adjustments *	25.3	0.0
Total Revenue Impact	**92.1**	**-36.3**
Transportation Expenditures	2.4	0.0
Other Agencies	-1.6	0.0
Transfers Out	0.6	0.0
Debt Service Transfer	0.0	-6.3
Total Expenditure and Transfer Impact	**1.4**	**-6.3**
Fund Balance Change	**90.6**	**-30.0**
Total Cumulative Change	**90.6 M**	**60.6 M**
Fund Balance		
EOS '13 Forecast	226.1	118.3
Nov '13 Forecast	316.8	178.9
Change	**90.6 M**	**60.6 M**

* Prior Year Adjustments include encumbrance cancellations for years prior to FY13 and prior year revenue related to cancelled Federal encumbrances.

MnDOT's Trunk Highway Fund is governed by four financial policies. The two most relevant to this forecast are the debt service and fund balance policies. The debt policy states that debt service (which includes repayments of Local Government Advances in accordance with M.S. 161.361 and transportation revolving loan repayments in accordance with M.S. 161.04, subdivision 4, in addition to the debt service transfers described in this section) should not exceed 20 percent of annual state revenues to the Trunk Highway Fund. The debt service percentage and comparison to 20 percent debt service policy is shown below for the forecast period. Both policies are included in the Appendices at the end of this document.

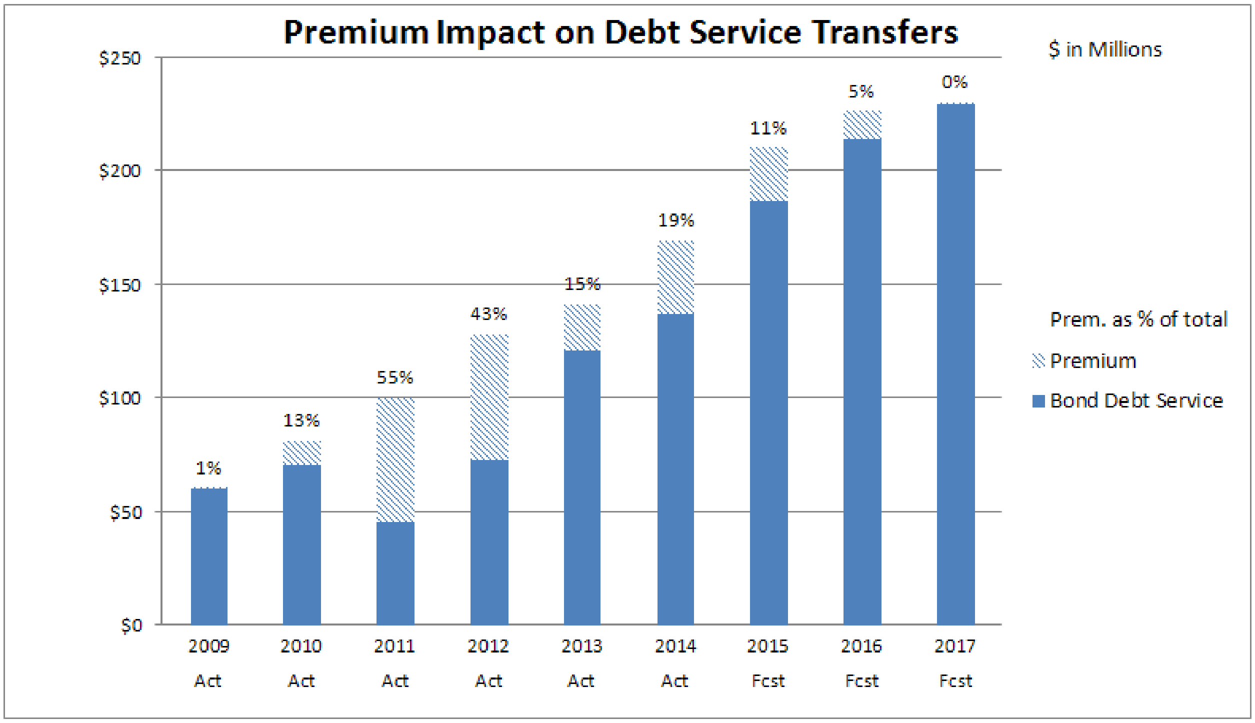
Minnesota Department of Transportation
Debt Management Policy
(S in millions)

Year	Total Debt Service [1]		Estimated Current %	Variance from 20% Policy Limit [2]	
2012	$80.5	M	7.5%	$133.6	M
2013	126.4		11.2%	99.1	
2014	145.9		12.6%	85.9	
2015	196.0		16.8%	38.0	
2016	223.2		18.5%	17.8	
2017	238.3		19.2%	10.5	
2018	231.7		18.6%	17.1	
2019	$233.4	M	18.8%	$15.4	M

(1) Includes bond debt transfers, transportation revolving loans, and local area advances
(2) Represents amount of additional debt service to reach 20% limit

As MnDOT manages to this policy, there are variables to the debt management calculation outside of the State's control. One of the largest variables is interest rate fluctuation, which can lead to large debt service expenditure fluctuations. Because of low interest rates, MnDOT's fund balance has benefited the past several years. When bond interest rates drop below 5%, trunk highway general obligation bonds command a premium which must be accounted for in the year of sale. Therefore, debt service is lower the year the bonds are sold, but this decrease is then offset over the 20 year life of the bonds.

In the years our debt has increased, primarily as a result of Laws of 2008 Chapter 152, which included $1.8 billion of bonding authorization, the chart below illustrates the reduction to debt service as the result of premium. The solid bar represents the actual/forecast debt service; adding the dashed bar represents what the debt service would have been without the actual/forecast premium reducing it in each bond sale year.



Fiscal Years 2016 and 2017 Planning Estimates
Estimated revenues for FY 2016-17 are slightly less than the amounts for FY 2014-15. Transfers from the HUTD for FY 2016-17 are estimated to be $98 million greater than FY 2014-15, an increase of 4.4%. FY 2016 is estimated to be 2.6% greater than FY 2015, and the amount for FY 2017 is estimated to be 2.1% greater than FY 2016. Estimated federal revenue is significantly lower due to uncertainty about federal policy for federal-aid highways (the existing federal authorization law – MAP-21 – expires on September 30, 2014).

The forecast of investment income assumes continued low interest rates through FY 2015, with rates beginning to increase in FY 2016. In addition, the cash balance in the fund is expected to be larger. These two factors result in a forecast for increased revenue for FY 2015-17.

Expenditure forecasts are generally based on the current law budget, with expenditures in FY 2016 and 2017 being the same as those in FY 2015. This is not the case with projected debt service expenditures (transfers to the state debt service fund), which are based on estimated cash flow for projects to be funded with bond proceeds, which in turn are the basis for the amount of bonds that are projected to be sold. Total debt service is forecast to be $120 million (37%) greater in FY 2016-17 than in FY 2014-15.

County State Aid Highway (CSAH) Fund

The County State Aid Highway Fund receives almost all of its revenue through transfers from the HUTD Fund. The CSAH Fund also receives a share of revenue from the sales tax on motor vehicle leases (see below) and investment income. This revenue is distributed annually through the Commissioner's Order process, as governed by M.S. Chapter 162.

The forecast revenue in November 2013 for transfers from the HUTD Fund is 2.1% greater than was estimated at end-of-session for the same reasons previously described in the HUTD section. This is an increase of approximately $25.6 million over the two year forecast period.

The forecast for investment income is greater than estimated in the end-of-session forecast, for the same reasons described for the Trunk Highway Fund. The forecast for investment income increased by about $481,000 for the two year period, or 11%.

In 2008, the Legislature statutorily dedicated a new source of revenue to transportation: revenue from the sales tax on motor vehicles leases. One-half of this revenue, greater than $32 million in FY 2013 and beyond, was allocated to the CSAH Fund and one-half was allocated to the greater Minnesota transit account in the Transit Assistance Fund. The 2013 Legislature changed this policy for FY 2014 and FY 2015. The amount of this revenue to be deposited in the CSAH Fund was capped at $9 million. This resulted in a projected decrease in revenue from this source of approximately $10.8 million over the two year period in the end-of-session forecast compared with the February 2013 forecast. The November 2013 forecast for motor vehicle leases increased significantly from the end-of-session forecast, but there is no impact to the CSAH fund because of the $9 million cap. The forecast for the motor vehicle lease sales tax is provided by the Department of Revenue. This revenue is allocated to five of the seven metropolitan counties, not including Hennepin and Ramsey counties.

Of the revenue transferred from the HUTD fund, 95% is allocated to apportionments for highway construction and maintenance to Minnesota's 87 counties and 5% is allocated for purposes described in M.S. 161.081: 30.5% is allocated to Township Roads, 16% is allocated to Township Bridges, and 53.5% is allocated to the Flexible Highway Account, which has a number of prescribed uses. This forecast will result in slightly more revenue being available for these three areas.

Fiscal Years 2016 and 2017 Planning Estimates
Estimated revenues for FY 2016-17 are greater than the amounts for FY 2014-15 in each of the three revenue sources.

First, transfers from the HUTD for FY 2016-17 combined are estimated to be $53.9 million greater than FY 2014-15, an increase of 4.4%. FY 2016 is estimated to be 2.6% greater than the amount for FY 2015, and the amount for FY 2017 is estimated to be 2.1% greater than the amount for FY 2016.

Second, revenue from one-half of the motor vehicle lease sales tax is estimated to be nearly $32 million greater in FY 2016-17 than in FY 2014-15. This is due both to the expiration of the $9 million per year cap and substantial projected revenue growth in the overall revenue source.

Third, investment income in FY 2016-17 is estimated to be $18 million greater than FY 2014-15, nearly a four-fold increase. FY 2016 is estimated to be 164% greater than the amount for FY 2015, and the amount for FY 2017 is estimated to be 136% greater than the amount for FY 2016.

Municipal State Aid Street (MSAS) Fund

The Municipal State Aid Street Fund receives almost all of its revenue through transfers from the HUTD Fund. In addition, this fund receives investment income revenue. This revenue is distributed annually to municipalities with population greater than 5,000 through the Commissioner's Order process for street construction and maintenance, as governed by M.S. Chapter 162.

The forecast revenue in November 2013 for transfers received from the HUTD Fund is 2.1% greater than was estimated at end-of-session for the same reasons as previously described in the HUTD and CSAH sections. This is an increase of approximately $6.7 million over the two year forecast period.

The forecast for investment income is greater than in the end-of-session forecast for the same reasons as was described previously for the TH Fund and the CSAH Fund. The forecast for investment income increased by approximately $200,000 over the two year period.

Fiscal Years 2016 and 2017 Planning Estimates
Estimated revenues for FY 2016-17 are greater than the amounts for FY 2014-15. Both revenue sources are projected to be greater in FY 2016-17 than in FY 2014-15.

First, transfers from the HUTD for FY 2016-17 are estimated to be approximately $14 million greater than FY 2014-15, an increase of 4.4%. FY 2016 is estimated to be 2.6% greater than the amount for FY 2015, and the amount for FY 2017 is estimated to be 2.1% greater than the amount estimated for FY 2016.

Second, investment income in FY 2016-17 is $5.8 million greater than FY 2014-15. FY 2016 is estimated to be $1.4 million greater than the amount for FY 2015, and the amount for FY 2017 is estimated to be $3 million greater than the amount FY 2016.

Transit Assistance Fund

The Transit Assistance Fund was created (M.S. 16A.88) to provide a fund to receive the transit portion of the constitutionally dedicated revenue (currently 40%) from the motor vehicle sales tax. By statute (M.S. 297B.09), 36% of motor vehicle sales tax is allocated to the metropolitan area transit account (administered by the Metropolitan Council) and 4% is allocated to the greater Minnesota transit account (administered by MnDOT).

The forecast for this fund was affected by two factors. First, the forecast revenue for the November 2013 forecast for the motor vehicle sales tax (as previously discussed) resulted in an increase of about $14.2 million for the FY 2014-15 forecast period (2.8%), compared with the forecast in the end-of-session forecast. Of this increase, $12.8 million impacts the metropolitan area transit account (administered by the Metropolitan Council), and $1.4 million impacts the greater Minnesota transit account (administered by MnDOT).

Second, the end-of-session forecast for the motor vehicle lease sales tax was $10.8 million higher than the amount in the February 2013 forecast. This was due to the policy change made by the 2013 Legislature described in the discussion of the CSAH Fund. The November 2013 forecast is nearly $25 million (62%) greater than the end-of-session forecast for FY 2014-15, due to an increase in the estimated revenue for the entire revenue source. Current law provides that the actual receipt of this revenue does not occur until after the close of a specific fiscal year. Because of this, all of the estimated revenue from this source is assigned as a balance forward to the subsequent fiscal year on the fund statement.

The overall effect of these two factors is an increase in revenue of $39 million for the entire Transit Assistance Fund for the two year forecast period. The total estimated revenue for the Greater Minnesota portion of the Transit Assistance Fund is shown below:

Greater Minnesota Transit Revenues
($ in millions)

State Fiscal Year	Nov '13 Fcst	EOS '13 Fcst	$ Change	% Change
2013	$38 M	$35 M	$3.1 M	8.8%
2014	54	43	11.4	26.5%
2015	63	48	14.7	30.8%
2016	53	45	7.3	16.1%
2017	$56 M	$48 M	$7.9 M	16.6%

Fiscal Years 2016 and 2017 Planning Estimates
Motor Vehicle Sales Tax revenue is estimated to be approximately $60 million greater for FY 2016-17 than in FY 2014-15, an increase of 11.4%. FY 2016 is estimated to be 6.0% greater than the amount for FY 2015, and FY 2017 is estimated to be 3.9% greater than the amount for FY 2016.

Revenue from one-half of the motor vehicle lease sales tax is estimated to be $14.4 million (22%) less in FY 2016-17 than in FY 2014-15. This is primarily due to the expiration of the policy that capped the amount of this revenue to be deposited the CSAH fund at $9 million per year for FY 2014 and FY 2015, offset in part by the projected growth in the overall revenue source. The amount for FY 2016 is estimated to be $11.5 million (32%) less than the amount projected for FY 2015, and the amount for FY 2017 is projected to be nearly $2 million (8%) greater than the amount for FY 2016.

State Airports Fund

The State Airports Fund was statutorily created (M.S. 360.017) to carry out statutory aviation functions. This includes costs for airport development and assistance grants, aeronautic planning, administration, and operations. Three funds make up the total consolidated State Airports Fund:

- State Airports Fund
- Hangar Revolving Loan Fund
- Air Transportation Services Revolving Fund

Ending balances in the two revolving funds are not included in the consolidated fund statement ending balance, because their receipts are dedicated to their specific functions.

The remainder of the section only addresses the individual State Airports Fund.

General Fund Payback

In 2008 the Legislature borrowed $15 million from the State Airports Fund, as a plan to address a projected shortfall in the General Fund. The Legislature also included a statutory provision (addition to M.S. 16A.152) requiring repayment of this amount from any forecast surpluses in the General Fund. Repaying the State Airports was to occur after reserves had been replenished and the amounts owed to the school districts had been repaid. The November 2013 General Fund forecast, released on December 5, forecasts a surplus large enough to both repay the remaining amounts owed to the school districts and to repay the $15 million owed to the State Airports Fund. Therefore, this repayment has been incorporated into the November 2013 forecast for the State Airports Fund in FY 2014.

2013 Enacted Legislation Impacts

Prior to the changes enacted by the Legislature in 2013, the State Airports Fund received most of its revenue from three primary sources: airline flight property tax (46%), aircraft registration tax (34%), and aviation fuel tax (19%) across FY 2012-17. This policy was changed by adding a fourth revenue source – sales tax on aircraft purchases, and by increasing the aviation fuel tax and changing the policy for aircraft registration that resulted in lower amounts of revenue. Two of these changes had an effective date of July 1, 2014 and one had an effective date of July 1, 2013. The estimated revenue effects of these changes are summarized below:

	FY 2014	FY 2015	FY 2016	FY 2017
Aviation Fuel Tax	$0.0 M	$1.9 M	$2.1 M	$2.2 M
Sales Tax on Aircraft	2.9	2.9	2.9	2.9
Aircraft Registration	0.0	-3.8	-3.8	-3.8
Total	$2.9 M	$1.0 M	$1.2 M	$1.3 M

These policy changes changed the end-of-session forecast, as indicated above.

Fiscal Years 2014 and 2015 Forecast

The November 2013 forecast has several significant changes to estimates of these revenue sources. The estimate for aircraft registration revenue in FY 2014 has been reduced because it is expected that about one-half the revenue from this tax will be received in June 2014, but be based on the new policy, which results in lower amounts of tax liability, since many of these receipts are paid in advance for the upcoming year. This results in a reduced estimate of approximately $2.5 million.

For the aviation fuel tax forecast, MnDOT relies on forecasts made by the Federal Aviation Administration and the General Aviation Manufacturers' Association. The current guidance is for an increase of 1.9% per year in consumption; the previous forecast assumed an annual increase of 2.0%. FY 2013 actual revenues were about $948,000 less than in end-of-session forecast.

The airline flight property tax is based on a certification made by MnDOT to the Department of Revenue in accordance with M.S. 270.075. This law requires MnDOT to determine the property tax portion of revenue for the State Airports Fund, which is defined as the difference between the "…total fund appropriation and the estimated total fund revenues from other sources for the state fiscal year in which the tax is payable…" The current planning estimate for FY 2014-17 is unchanged at $8 million. However, the amount to be certified prior to December 31, 2013 will be further evaluated in light of the $15 million transfer from the General Fund. Any changes will be reported in the February 2014 forecast. In addition, the estimate for FY 2014 includes a $2.2 million receipt from an airline currently in bankruptcy. The net change to FY 2014 revenue due to these changes is ($.2M).

State Airports Revenues and Transfers (State Airports Fund Only)

($ in millions)

State Fiscal Year	Nov '13 Fcst	EOS '13 Fcst	$ Change	% Change
2013	$23 M	$22 M	$0.9 M	4.1%
2014	36	21	14.8	70.8%
2015	19	19	0.1	0.5%
2016	20	19	0.3	1.5%
2017	$20 M	$20 M	$0.6 M	3.2%

Fiscal Years 2016 and 2017 Planning Estimates

Estimated revenues for this fund for FY 2016-17 are approximately $15 million less than the amounts for FY 2014-15, due to the $15 million transfer from the General Fund being a one-time occurrence. Other revenue sources for this fund are only slightly different than for FY 2014-15.

Appendices

Appendix 1: Highway User Distribution (HUTD) Fund Statement

Appendix 2: Trunk Highway Fund Statement

Appendix 3: Transit Assistance Fund Statement

Appendix 4: State Airports Fund Statement

Appendix 5: County State Aid Highway Fund Statement

Appendix 6: Municipal State Aid Street Fund Statement

Appendix 7: Minnesota Highway User Tax Revenue - % of Total Revenues

Appendix 8: Debt Management Policy *(Note 1)*

Appendix 9: Fund Balance Policy *(Note 1)*

Note 1: The attached MnDOT policy documents have been updated to provide more content, such as background, FAQs, etc. The actual policies have not changed.

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Appendix 1

November 2013 Forecast-Transportation

Highway User Tax Distribution Fund

November 2013 Forecast

Comparison to End of Session 2013 Forecast

($ in thousands)	November 2013 Forecast						Change from End of Session 2013				
	Close	Close	Budget	Budget	Planning Est	Planning Est	Close	Budget	Budget	Planning Est	Planning Est
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Balance Forward from prior year	$1,848	$2,025	$8,691	$0	$0	$0	$0	$8,691	$0	$0	$0
Prior year adjustments	$1	$4,595	$0	$0	$0	$0	$4,595	$0	$0	$0	$0
Adjusted Balance Forward	$1,850	$6,620	$8,691	$0	$0	$0	$4,595	$8,691	$0	$0	$0
Net Revenue and Transfers-In											
Motor Fuel Excise Tax	846,741	860,007	857,124	846,628	846,756	846,748	749	4,192	3,445	6,159	6,338
Motor Vehicle Registration Tax	579,619	622,586	644,174	666,211	689,515	712,152	23,743	20,661	20,292	19,509	18,731
Motor Vehicle Sales Tax	335,351	358,671	383,033	407,014	431,528	448,196	-255	9,320	12,008	12,457	6,048
Other income	2,690	2,280	3,041	3,059	3,805	5,443	-1,071	-283	-265	181	599
Total Net Revenue and Transfers-In	1,764,401	1,843,544	1,887,372	1,922,912	1,971,604	2,012,539	23,166	33,889	35,481	38,306	31,716
Expenditures and Transfers-Out											
Appropriations to MnDOT, Revenue, DPS	10,866	11,126	11,539	11,472	11,472	11,480	-845	6	6	6	6
Transfers--DNR	21,196	21,866	21,852	21,662	21,538	21,537	-191	-242	-204	-253	-140
Transfers--5% Set-Aside	86,542	90,358	93,067	94,423	96,863	98,910	1,005	2,141	1,784	1,928	1,592
Transfers--County State-Aid Highway	476,846	497,870	512,801	520,268	533,717	544,993	5,539	11,796	9,830	10,621	8,775
Transfers--Municipal State-Aid Highway	147,987	154,511	159,145	161,463	165,636	169,136	1,718	3,661	3,051	3,296	2,723
Transfers--Trunk Highway	1,019,463	1,064,412	1,096,333	1,112,298	1,141,051	1,165,157	11,843	25,219	21,015	22,708	18,760
Other	1,326	1,330	1,326	1,326	1,326	1,326	0	0	0	0	0
Total Expenditures and Transfers-Out	1,764,225	1,841,473	1,896,063	1,922,912	1,971,604	2,012,539	19,070	42,580	35,481	38,306	31,716
Ending Balance	**$2,025**	**$8,691**	**$0**	**$0**	**$0**	**$0**	**$8,691**	**$0**	**$0**	**$0**	**$0**

Appendix 2

November 2013 Forecast-Transportation

Trunk Highway Fund

November 2013 Forecast

Comparison to End of Session 2013 Forecast

($ in thousands)	November 2013 Forecast						Change from End of Session 2013				
	Close	Close	Budget	Budget	Planning Est	Planning Est	Close	Budget	Budget	Planning Est	Planning Est
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Balance Forward from prior year	$199,967	$397,785	$316,756	$181,188	$178,894	$177,884	$0	$90,644	$46,912	$60,628	$67,141
Prior year adjustments	15,106	25,299	0	0	0	0	25,299	0	0	0	0
Adjusted Balance Forward	215,073	423,084	316,756	181,188	178,894	177,884	25,299	90,644	46,912	60,628	67,141
Net Revenue and Transfers-In											
Transfer from HUTD	1,019,463	1,064,412	1,096,333	1,112,298	1,141,051	1,165,157	11,843	25,219	21,015	22,708	18,760
Federal aid agreements	393,993	550,712	438,775	512,080	362,980	361,980	50,105	-80,105	0	0	0
Other income and transfers-in	51,041	63,154	62,851	57,542	64,190	78,750	4,830	-1,315	-1,108	1,966	3,099
Total Net Revenue and Transfers-In	1,464,497	1,678,278	1,597,959	1,681,920	1,568,221	1,605,887	66,778	-56,201	19,907	24,674	21,859
Expenditures and Transfers-Out											
Transportation Department	1,124,582	1,573,451	1,507,109	1,407,212	1,265,010	1,262,912	2,446	0	0	0	0
Public Safety and Other Depts.	84,603	90,850	89,969	90,490	90,515	91,037	-1,013	0	0	0	0
Debt service	72,601	120,305	136,448	186,512	213,705	228,811	0	-12,469	6,191	18,161	20,566
Total Expenditures and Transfers-Out	1,281,785	1,784,606	1,733,526	1,684,214	1,569,230	1,582,760	1,433	-12,469	6,191	18,161	20,566
Balance before reserves	397,785	316,756	181,188	178,894	177,884	201,011	90,644	46,912	60,628	67,141	68,434
Less Appropriation Carryforward	0	0	0	0	0	0	0	0	0	0	0
Ending Balance	**$397,785**	**$316,756**	**$181,188**	**$178,894**	**$177,884**	**$201,011**	**$90,644**	**$46,912**	**$60,628**	**$67,141**	**$68,434**
Reserved Fund Balance per Policy		$88,398	$90,050	$84,270	$82,546	$82,395					
Unreserved Fund Balance per Policy		$228,358	$91,138	$94,624	$95,338	$118,617					
Debt Service Percentage Compared to State Revenue		11.2%	12.6%	16.8%	18.5%	19.2%					

Appendix 3

Transit Assistance Fund

November 2013 Forecast

Comparison to End of Session 2013 Forecast

($ in thousands)	November 2013 Forecast						Change from End of Session 2013				
	Close	Close	Budget	Budget	Planning Est	Planning Est	Close	Budget	Budget	Planning Est	Planning Est
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Balance Forward from prior year	$6,010	$15,622	$34,816	$28,760	$35,530	$23,990	$0	$23,486	$10,745	$13,940	$6,470
Prior year adjustments	0	212	0	0	0	0	212	0	0	0	0
Adjusted Balance Forward	6,010	15,834	34,816	28,760	35,530	23,990	212	23,486	10,745	13,940	6,470
Net Revenue and Transfers-In											
Metropolitan Area transit account	201,210	215,202	229,820	244,208	258,917	268,917	-153	5,592	7,205	7,474	3,629
Greater Minnesota transit account	22,357	23,911	25,536	27,134	28,769	29,880	-17	621	801	830	403
Total Motor Vehicle Sales Tax	223,567	239,114	255,356	271,342	287,686	298,797	-170	6,214	8,006	8,305	4,032
Leased Vehicle Sales Tax	9,299	14,438	28,760	35,530	23,990	25,945	3,108	10,745	13,940	6,470	7,540
Total Net Revenue and Transfers-In	232,866	253,552	284,116	306,872	311,676	324,742	2,938	16,959	21,946	14,775	11,572
Expenditures and Transfers-Out											
Metropolitan Council	201,210	210,929	234,093	244,208	258,917	268,917	-4,426	9,865	7,205	7,474	3,629
Transportation Department	22,043	23,641	56,078	55,895	64,298	53,870	-15,910	19,834	11,546	14,770	6,873
Total Expenditures and Transfers-Out	223,254	234,570	290,171	300,103	323,215	322,787	-20,336	29,699	18,751	22,244	10,502
Balance before reserves	15,622	34,816	28,760	35,530	23,990	25,945	23,486	10,745	13,940	6,470	7,540
Less Appropriation Carryforward	0	0	28,760	35,530	23,990	25,945	-11,330	10,745	13,940	6,470	7,540
Less Met Council Balance	0	4,273	0	0	0	0	4,273	0	0	0	0
Ending Balance	$15,622	$30,543	$0	$0	$0	$0	$30,543	$0	$0	$0	$0

Appendix 4

November 2013 Forecast-Transportation

State Airports Fund

November 2013 Forecast

Comparison to End of Session 2013 Forecast

	November 2013 Forecast						Ch	Change from End of Session 2013				
($ in thousands)	Close	Close	Budget	Budget	Planning Est	Planning Est		Close	Budget	Budget	Planning Est	Planning Est
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017		FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Balance Forward from prior year	$2,902	$2,605	$4,112	$20,873	$21,141	$21,274		$0	$480	$15,237	15,329	15,613
Prior Year adjustments	479	144	0	0	0	0		144	0	0	0	0
Adjusted Balance Forward	3,381	2,749	4,112	20,873	21,141	21,274		144	480	15,237	15,329	15,613
Net Revenue and Transfers-In												
Transfer from General Fund	$0	$0	$15,000	$0	$0	$0		$0	$15,000	$0	0	0
Sales Tax on Aircraft	0	0	2,900	2,900	2,900	2,900		$0	$0	$0	0	0
Airline Flight Property Tax	7,287	12,017	10,191	8,000	8,000	8,000		-216	2,191	0	0	0
Aircraft Registration Tax	6,496	8,704	3,816	2,500	2,500	2,500		2,104	-2,484	0	0	0
Gasoline & Special Fuel Tax	3,470	2,522	3,539	5,507	5,775	5,945		-948	0	-4	-7	-11
Other Income	1,197	1,305	1,567	1,614	1,861	2,403		-214	49	96	291	636
Total Net Revenue and Transfers-In	18,450	24,547	37,014	20,521	21,036	21,748		725	14,756	92	284	625
Expenditures and Transfers-Out												
Transportation Department	19,227	23,183	20,252	20,252	20,902	20,902		390	0	0	0	0
Revenue Department	0	0	1	1	1	1		-1	0	0	0	0
Total Expenditures and Transfers-Out	19,227	23,183	20,253	20,253	20,903	20,903		389	0	0	0	0
Balance before reserves	2,605	4,112	20,873	21,141	21,274	22,119		480	15,237	15,329	15,613	16,238
Less Appropriation Carryforward	1,521	1,487	1,651	1,815	1,979	2,143		-34	-34	-34	-34	-34
Ending Balance	**$1,083**	**$2,625**	**$19,222**	**$19,325**	**$19,294**	**$19,975**		**$514**	**$15,270**	**$15,363**	**$15,647**	**$16,272**

This fund statement consists of three funds: State Airports Fund, Hangar Revolving Loan Fund, and Air Transportation Services Fund.
Ending balances in the two revolving funds are not included in the consolidated fund statement ending balance since their receipts are dedicated to their specific functions.

County State Aid Fund

November 2013 Forecast

Comparison to End of Session 2013 Forecast

($ in thousands)	November 2013 Forecast						Change from End of Session 2013				
	Close	Close	Budget	Budget	Planning Est	Planning Est	Close	Budget	Budget	Planning Est	Planning Est
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Balance Forward from prior year	$314,720	$453,538	$488,869	$498,550	$504,344	$504,344	$0	$50,329	$64,117	$75,855	$75,855
Prior Year adjustments	485	188	0	0	0	0	188	0	0	0	0
Adjusted Balance Forward	315,205	453,726	488,869	498,550	504,344	504,344	188	50,329	64,117	75,855	75,855
Net Revenue and Transfers-In											
Leased Vehicle Sales Tax	9,299	14,438	9,000	9,000	23,990	25,945	3,108	-15	10	6,470	7,540
Other income	2,372	2,431	2,599	2,873	7,103	16,361	-72	104	378	2,562	3,840
Transfer from HUTD	563,388	588,227	605,868	614,691	630,581	643,903	6,544	13,937	11,614	12,549	10,367
Transfer from MSAS	0	0	0	0	0	0	0	0	0	0	0
Total Net Revenue and Transfers-In	$575,059	$605,096	$617,467	$626,564	$661,674	$686,209	$9,580	$14,026	$12,001	$21,581	$21,747
Expenditures and Transfers-Out											
Grants to local governments	425,372	560,979	576,183	597,505	647,717	671,639	-35,855	0	0	24,137	21,246
MnDOT Administrative and Research	7,236	8,975	12,903	13,265	13,957	14,570	-4,706	238	264	444	501
Transfers to MSAS	2,218	0	13,000	10,000	0	0	0	0	0	-3,000	0
Transfers to Trunk Highway Fund	1,900	0	5,700	0	0	0	0	0	0	0	0
Total Expenditures and Transfers-Out	436,726	569,954	607,786	620,770	661,674	686,209	-40,561	238	264	21,581	21,747
Balance before reserves	453,538	488,869	498,550	504,344	504,344	504,344	50,329	64,117	75,855	75,855	75,855
Less Appropriation Carryforward	453,538	488,869	498,550	504,344	504,344	504,344	50,329	64,117	75,855	75,855	75,855
Ending Balance	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

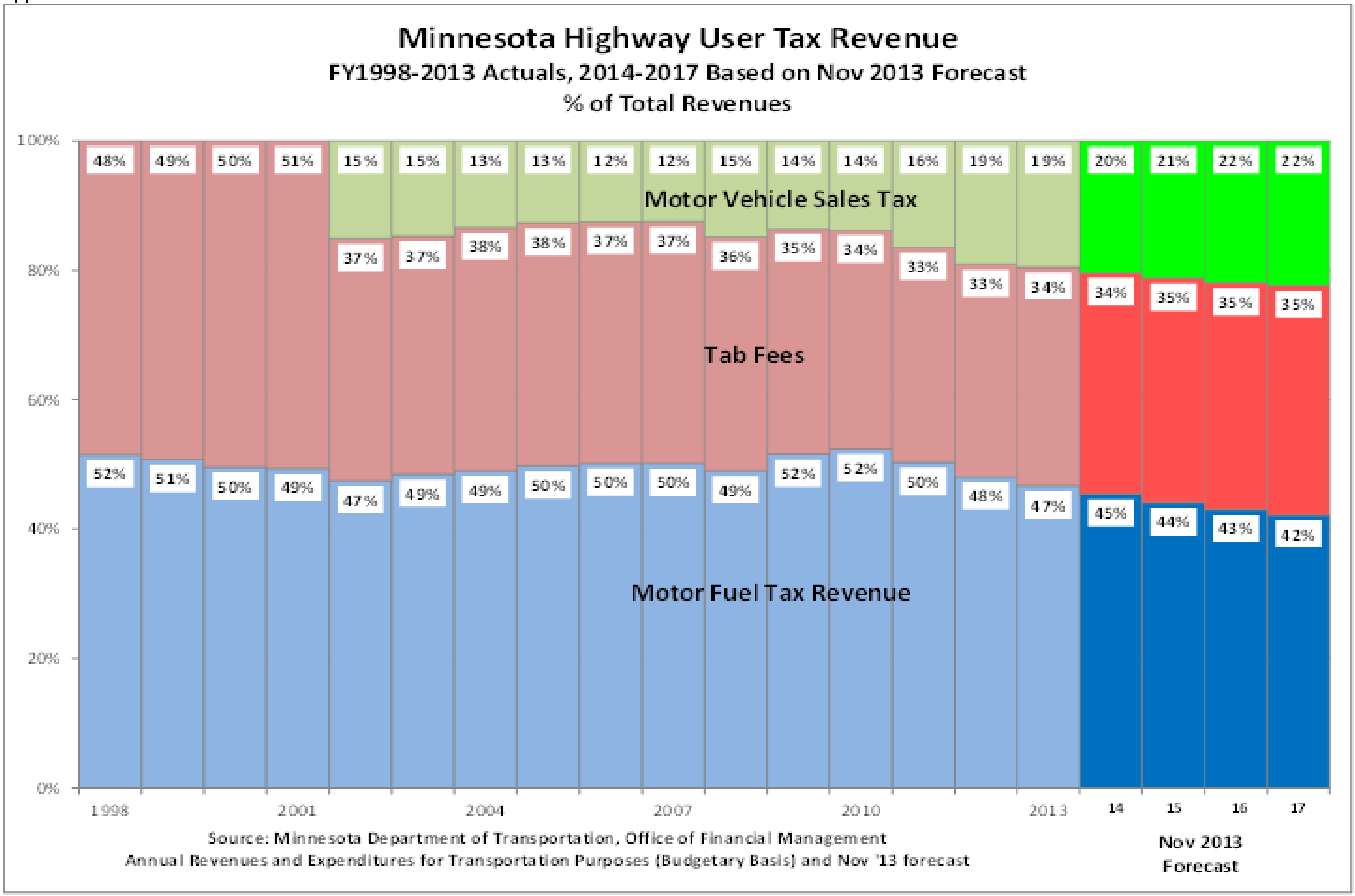
Municipal State Aid Fund

November 2013 Forecast

Comparison to End of Session 2013 Forecast

($ in thousands)	November 2013 Forecast						Change from End of Session 2013				
	Close	Close	Budget	Budget	Planning Est	Planning Est	Close	Budget	Budget	Planning Est	Planning Est
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Balance Forward from prior year	$129,016	$139,869	$161,492	$165,204	$168,338	$168,338	$0	$24,609	$28,256	$31,337	$31,337
Prior Year adjustments	163	84	0	0	0	0	84	0	0	0	0
Adjusted Balance Forward	129,180	139,953	161,492	165,204	168,338	168,338	84	24,609	28,256	31,337	31,337
Net Revenue and Transfers-In											
Other income	1,009	918	996	1,083	2,439	5,433	-18	61	148	869	1,386
Transfer from HUTD	147,987	154,511	159,145	161,463	165,636	169,136	1,718	3,661	3,051	3,296	2,723
Transfer from CSAH	2,218	0	13,000	10,000	0	0	0	0	0	-3,000	0
Total Net Revenue and Transfers-In	$151,214	$155,429	$173,141	$172,545	$168,075	$174,569	$1,700	$3,722	$3,198	$1,166	$4,109
Expenditures and Transfers-Out											
Grants to local governments	137,881	130,723	165,219	165,095	163,851	170,237	-21,711	0	35	1,126	4,021
MnDOT Administrative and Research	2,644	3,167	4,210	4,317	4,224	4,332	-1,114	74	83	39	88
Transfers to CSAH	0	0	0	0	0	0	0	0	0	0	0
Total Expenditures and Transfers-Out	140,524	133,891	169,429	169,411	168,075	174,569	-22,824	74	117	1,166	4,109
Balance before reserves	139,869	161,492	165,204	168,338	168,338	168,338	24,609	28,256	31,337	31,337	31,337
Less Appropriation Carryforward	139,869	161,492	165,204	168,338	168,338	168,338	24,609	28,256	31,337	31,337	31,337
Ending Balance	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**

Appendix 7



Minnesota Highway User Tax Revenue
FY1998-2013 Actuals, 2014-2017 Based on Nov 2013 Forecast
% of Total Revenues
100%
80%
60%
40%
20%
0%
Motor Vehicle Sales Tax
Tab Fees
Motor Fuel Tax Revenue
48% 49% 50% 51% 15% 15% 13% 13% 12% 12% 15% 14% 14% 16% 19% 19% 20% 21% 22% 22%
37% 37% 38% 38% 37% 37% 36% 35% 34% 33% 33% 34% 34% 35% 35% 35%
52% 51% 50% 49% 47% 49% 49% 50% 50% 50% 49% 52% 52% 50% 48% 47% 45% 44% 43% 42%
1998
2001
2004
2007
2010
2013
14
15
16
17
Source: Minnesota Department of Transportation, Office of Financial Management
Annual Revenues and Expenditures for Transportation Purposes (Budgetary Basis) and Nov '13 forecast
Nov 2013
Forecast

FINANCIAL MANAGEMENT

Debt Management

MnDOT Policy FM007

Policy Contents

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Effective Date *as signed by Responsible Senior Officer*

Last Update
Replaces Policy 2.6, "Debt Management Financial Administration," 7-1-2010

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Policy Statement

Debt service for all forms of debt obligations of the trunk highway fund may not exceed 20 percent of annual state revenues to the trunk highway fund. Currently available forms of debt obligations for the trunk highway fund are:

- Trunk highway bonds;
- Loans from the transportation revolving loan fund;
- Money advanced by local governments by agreement for trunk highway construction projects;
- Other forms of long-term commitments are possible, for example, from forms of innovative financing.

Reason for Policy

When funds that involve incurring debt obligations are received for use in current budget periods, these monies must be repaid in accordance with the terms of the debt obligation instruments in future years. Even if economic conditions (such as low interest rates, expected low construction cost, and the like) are favorable for using debt obligations, limits to the amount of bonds or other obligations are needed in order to protect future budgets from being required to make debt service payments that are so large that other portions of the budget must be adjusted.

Although careful planning may have occurred to limit total debt service to less than 20% of estimated state revenues to the trunk highway fund, estimated revenue is just that – based on estimates. Actual revenue in future years may vary significantly from estimates. Future events could occur that might substantially impact the receipt of actual revenue, such as major disruption of petroleum supplies and substantial economic recession. If the actual revenue were substantially less than was forecasted, the percentage of debt service could exceed 20%, despite management practices that limited the amount of debt obligations entered into.

Also, legislation was passed in 2010 that added statutory language requiring that MnDOT develop a debt management policy Minnesota Statute 167.60 "Debt-Financing Management Policy."

Who Needs to Know this Policy

The Commissioner and Deputy Commissioner need to be aware of this policy, because it provides a policy constraint to use in decision making about the degree of bond funds or other forms of debt obligations that is reasonable to undertake in current years. Proposals to use bond proceeds or other forms or debt obligations might be initiated by MnDOT or by the legislature. The Chief Financial Officer and the Director of the Office of Finance, along with direct reports, need to fully understand the policy and the potential actions that might result so they can provide expert counsel to the Commissioner and Deputy Commissioner. The division directors need to be aware of this policy in order to participate as part of the executive management team in evaluating potential uses of bonding or other forms of debt obligation. The Director of Government Affairs needs to be aware of this policy, because this person is regularly communicating with legislators and other persons attempting to influence transportation policy and legislation, which may include interest in use of debt financing. The Director of the Office of Capital Programs and

Performance Measures needs to be aware of this policy, because this person's responsibility includes planning and programming of trunk highway construction projects, some of which are funded with trunk highway bonds. Additionally, District Engineers and Office Directors must also be well-informed with the policy.

Procedures

The Budget Director and staff prepare a formal fund statement for the trunk highway fund in November and February of every fiscal year and as needed at the end of a legislative session. The fund statement covers the current fiscal year and two additional biennia into the future. These fund statements include total projected debt service amounts. A related analysis is also performed, by calculating the percentage of total debt service as a percentage of total state revenues for the forecast period plus the one additional biennium (for years beyond the forecast period, forecasts of revenue are unofficial and the debt service forecast is based on existing debt obligations plus forecasted future sales of authorized trunk highway bonds and constant amounts for repayments of local government advances by agreement and loan payments for loans from the transportation revolving loan fund, based on estimates for the last year of the forecast period). This analysis is communicated to the Director of the Office of Finance and to the Chief Financial Officer. If the estimated debt service in future years is projected to be 19% or greater, the Chief Financial Officer will communicate this information to the Commissioner and Deputy Commissioner.

As needed, the Commissioner, Deputy Commissioner, and Chief Financial Officer will develop strategies for reducing the amount of debt service as a percentage of total state revenues. The Transportation Program Investment Committee will be consulted in developing these strategies. It should be noted that once the percentage of debt service reaches the 20% guideline, it will be very difficult to adopt any strategy to reduce the amount of debt service requirements, because they are based on actions that have already occurred (e.g., bond sales) that have legally obligated ongoing debt service payments.

- One possible strategy would be to delay the sale of authorized trunk highway bonds that have been programmed to state road construction projects, which would either involve delaying the scheduled letting of these projects or require identification of different sources of funding for these projects, which might impact other programmed projects.
- Another possible strategy would be to request the legislature to change any building projects already approved to be funded with trunk highway bonds to instead use a continuing appropriation from the trunk highway fund.
- Any proposed building projects in the future that are contemplated to be paid for with trunk highway bonds could instead be converted to being funded with appropriations from the trunk highway fund.
- Another possible strategy is to propose legislation to increase revenues from state sources to the trunk highway fund by a sufficient amount to result in the percentage total debt service as compared to total state revenues to an amount less than 20%.
- Another possible strategy would be to discontinue granting local government advances by agreement and loans from the transportation revolving loan fund until the overall debt service percentage is less than 18%.

Forms/Instructions

Not applicable

Definitions

Arbitrage
Federal law prohibits retaining cash from bond sale proceeds for more than specified periods of time, which vary based on the type of bonds. Based on this, Minnesota Management and Budget has implemented policy limiting the maximum time period that proceeds from trunk highway bonds may be retained. If proceeds are not used within that period of time, the federal internal revenue service is authorized to levy a severe penalty.

Cash Flow Forecast
This consists of estimated expenditures of funds for projects funded with trunk highway bond proceeds over the time period for the completion of the entire construction of the projects. These forecasts are prepared prior to scheduled bond sales and in conjunction with the state's official November economic forecast each year.

Discount on Bonds

Trunk Highway Bonds carry a 5% coupon rate, but the market –based interest rates are typically different than 5%. If the market-based rate is greater than 5%, the amount of the estimated debt service transfer is increased accordingly to reflect the difference in interest costs for the market-based rate and 5% over the twenty year life of the bonds.

Money Advanced by Local Governments by Agreement

This policy is described in Minnesota Statute 161.361 "Advance Funding for Trunk Highway Projects." It basically allows local governments to advance money to pay for programmed trunk highway construction projects, by agreement. Repayments to the local governments are typically made in the year the project is currently scheduled. The law provides for three different types of advances and limits total repayments related to each of these types of advances to $10 million per year.

Premium on Bonds

Trunk Highway Bonds carry a 5% coupon rate, but the market –based interest rates are typically different than 5%. If the market-based rate is less than 5%, the amount of the estimated debt service transfer is reduced accordingly to reflect the difference in interest costs for the market-based rate and 5% over the twenty year life of the bonds.

State Revenue

Revenue from constitutionally dedicated highway taxes (motor fuel taxes, motor vehicle registration taxes, and 60% revenue from the motor vehicle sales tax) that are transferred from highway user tax distribution fund to the trunk highway fund, and other sources of revenue (such as investment income) that are deposited directly into trunk highway fund.

Transportation Program Investment Committee

This committee has nine voting members, consisting of the Deputy Commissioner, all six Division Directors, the District Engineer of the Metropolitan District, and the Chief Financial Officer. The committee's main purpose is to provide strategic management leadership for all aspects of MnDOT's trunk highway construction program.

Transportation Revolving Loan Fund

This fund was created in Minnesota Statute 446A.085 Transportation Revolving Loan Fund to provide funding for a variety of activities related to transportation infrastructure construction and maintenance. Loans are provided at below market interest rates and repayments are specified in a formal loan agreement. MnDOT is authorized to enter into loans by Minnesota Statute 161.04, subdivision 4 "Trunk Highway Fund, Loan for Trunk Highway Project; Appropriation."

Trunk Highway Bonds

Trunk highway bonds are bonds authorized by the legislature under authority of Constitution of the State of Minnesota, Article 14, Section 11 "Highway Bonds" and Minnesota Statute 167.50 "Minnesota Trunk Highway Bonds," the proceeds of which must be used for capital projects that are part of or functionally related to the construction, improvement or maintenance of the state trunk highway system.

Trunk Highway Fund

This fund is the principal operating fund for MnDOT, and to some extent for the Department of Public Safety. It is a governmental fund that accounts for public monies used to construct, maintain, and operate Minnesota's trunk highway transportation infrastructure. Annual transfers of funds to the Minnesota Management & Budget (MMB) debt service account in the state debt service fund are also made from this fund.

Trunk Highway Fund Debt Service

Debt service (payment of principal and interest) on trunk highway bonds is required by the constitution to be paid from the Trunk Highway Fund. In practice a transfer is made in November of each year from the Trunk Highway Fund, to the Minnesota Management and Budget (MMB) debt service account in the state debt service fund, from which actual payments of debt service are made. Also included in MnDOT's debt service budget are required repayments of loans made from the transportation revolving loan fund for trunk highway purposes, and repayments of money advanced by local governments by agreement for trunk highway construction projects. Debt service on trunk highway bonds will usually start at lower levels compared with total cost of projects, because sales are based on estimated cash needs for each project, not the total project cost. Also, once the total amount has been sold, the amount of debt service declines fairly slowly because principal on bonds is reduced by only 5% each year.

Responsibilities

Commissioner and Deputy Commissioner

Ensure that proposed budgets and other actions that might result in new authorizations of trunk highway bonds will not result in future, total debt service that is estimated to be greater than 20 percent of annual state revenues to the trunk highway fund. If legislative committees propose new authorizations of trunk highway bonds that would result in the total debt service estimated to be greater than 20 percent of annual state revenues to the trunk highway fund, communicate with appropriate legislative leaders and Minnesota Management & Budget.

Chief Financial Officer

Provide information to the Commissioner and Deputy Commissioner about the currently estimated percent that total debt service is of estimated annual state revenue to the trunk highway fund. Provide information to the Commissioner and Deputy Commissioner about the effect that additional bond authorizations would have on estimated total debt service level. Assist in communicating concerns to legislative leadership as needed.

Director, Office of Finance

Ensure that updates to the information about the percent estimated total debt service is of annual state revenues to the trunk highway fund are provided each time a formal forecast for the trunk highway fund is prepared. Obtain official forecasts of trunk highway debt service from Minnesota Management & Budget whenever proposals are made to propose additional trunk highway bond authorizations, either within the department or by external parties. When information about changes in the program of projects using trunk highway bond revenues is received from the Director, Office of Capital Programs and Performance Measures, develop revised estimates of cash flows for the projects and obtain revised estimates of the trunk highway debt service from Minnesota Management & Budget, which is responsible for providing official estimates of trunk highway fund debt service.

Director, Office of Capital Programs and Performance Measures

Monitor the program of construction projects for use of trunk highway bond proceeds. Notify the Director, Office of Finance, when changes to the program are made. These include changes to scheduled letting dates for projects that shift the project or projects into a different fiscal year and changes in estimated project costs that are greater than $10 million. Report any concerns that may arise to the Transportation Program Investment Committee.

Transportation Program Investment Committee

Take action to modify the schedule of highway and bridge construction projects proposed for use of trunk highway bonds as needed.

Appendices

Frequently Asked Questions

Q: Why is only state revenue used in calculating the allowable total debt service percentage?

A: Federal funds are available on a reimbursement basis. Federal funds could not legally be used for debt service payments on trunk highway bonds. Also, there is a greater degree of uncertainty about the level of federal funds that might be available in future years.

Q: Why is the level of the trunk highway fund total debt service projected for beyond the official forecast period?

A: MnDOT's practice was recently modified to be consistent with the debt capacity forecast requirements contained in Minnesota Statute 16A.105 "Debt Capacity Forecast". Also, debt service usually begins at relatively modest levels and grows to the maximum amount after several years, after which it declines relatively slowly. Because of this a longer time frame is needed to see the full effects of the use of trunk highway bonds proceeds.

Related Information

This policy is highly related to the policies about Trunk Highway Fund Balance and the Use of Federal Highway Advance Construction Financing.

References:
Minnesota Statute 167.60 "Debt-Financing Management Policy"
Minnesota Statute 161.04, subdivision 4 "Trunk Highway Fund, Loan for Trunk Highway Project; Appropriation"
Minnesota Statute 161.361 "Advance Funding for Trunk Highway Projects"

History of Policy Updates or Amendments

Supercedes
Policy 2.6 – Debt Management, Financial Administration, established 7-1-10

Policy Owner

Duane Leurquin

Duane Leurquin
Director, Financial Management

Date Signed 4/1/13

Internal Control & Accountability Governance Board has reviewed this policy and recommends approval

Susan M. Mulvihill

Susan Mulvihill *(on behalf of the Board)*
Division Director, Employee & Corporate Services Division

Date Signed 4/16/13

Responsible Senior Officer

Bernard J. Arseneau
Deputy Commissioner and Chief Engineer

Date Signed 4-17-13

Fund Balance

MnDOT Policy FM006

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Effective Date *as signed by Responsible Senior Officer*

Last Update
Replaces Policy 2.3, "Fund Balance," established 7-1-2010

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Policy Statement

The trunk highway fund should maintain an undesignated, unreserved fund balance of not less than the sum of:

- 6 percent of annual projected state revenues to the fund, plus
- 2 percent of authorized but unissued debt, plus
- An amount estimated for the future debt service funding shortfalls for years where debt service is projected to exceed 20 percent of annual state revenues.

If any forecast projects that the fund balance target will not be met, MnDOT will propose actions, including biennial budget submissions that achieve the target by the end of the next biennium, unless the commissioner finds that an emergency warrants a longer period of adjustment.

Reason for Policy

As described in the definition of fund balance, the amount of estimated revenue is a major factor in determining the estimated fund balance. The revenue used to calculate a fund balance is always based on a mixture of estimated and actual revenue for a given accounting period. Although unlikely, events could occur to substantially impact the receipt of actual revenue, such as major disruption of petroleum supplies and substantial economic recession. Therefore, policy is needed to provide an adequate level of reserve to protect against a major shortfall in revenue.

Federal revenues have added uncertainty due to the possibility of delayed congressional action or inaction. In addition, the federal aid highway program is largely funded by receipts to the Federal Highway Trust Fund, which receives most of its revenue from federal motor fuel taxes. A major disruption to fuel supplies could result in reduced motor fuel tax revenue, which might result in reduced federal highway funding being made available to Minnesota.

Excessive use of Federal Advance Construction Agreements could affect future federal revenue in that large amounts of funding might be needed for "conversions," thereby reducing the amount of funding available for current year federal aid agreements.

Another reason for this policy is to provide resources that could be used to address unexpected contingencies. As an example, $14 million of appropriations from the trunk highway fund were provided by the legislature in the summer of 2012 to assist with various flood relief efforts. Having a sufficient fund balance made this action financially feasible.

Prudent business practice is to have adequate fund balance to protect against uncertainty and volatility of receipt of revenue. As an example Budget Trends Study Commission report presented to the legislature in January 2009 recommended a budget reserve consisting of 4.1% to 4.6% of two year revenues for the general fund.

Also, legislation was passed in 2010 added statutory language requiring that MnDOT develop a debt management policy that, among financial issues requires: "… management of trunk highway fund balance impacts, Minnesota Statute 167.60, "Debt-Financing Management Policy."

Who Needs to Know this Policy

The commissioner and deputy commissioner need to be aware of this policy, because it provides a policy constraint in budget deliberations. The Chief Financial Officer, and the Director of the Office of Finance, along with his direct reports, needs to fully understand the policy and the potential actions that might result. Additionally, the Division Directors, Government Affairs Director, the Capital Programs & Performance Measures Director, District Engineers, Office Directors must also be well-informed with the policy and the subsequent budget implications.

Procedures

The Budget Director and staff prepare a formal fund statement for the trunk highway fund in November and February of every fiscal year. The fund statement covers the current fiscal year and either three or four fiscal years in the future. A fund balance is calculated as part of preparing each of these statements. This statement provides the basis for evaluating the fund balance and any budget proposals under consideration in conjunction with this policy. In addition MnDOT's financial reporting group prepares ongoing, unofficial financial statements and, in conjunction with Minnesota Management & Budget (MMB), year-end formal financial statements. These are reviewed to see if any major changes in the fund balance have occurred. Trends related to external factors that might affect future revenues (e.g., the price of petroleum in world markets) are also regularly monitored.

Forms/Instructions

Not applicable

Definitions

Budgetary Basis

Revenue is based on the amounts attributable to a fiscal year. This is usually very similar to actual receipts, with the exception of federal revenue, which is based on the amount of federal aid agreements, rather than actual receipts from the Federal Highway Administration. Actual federal receipts are usually only a portion of the total federal aid agreement. Expenditures are typically the total amount of actual expenditures plus encumbrances.

Federal Aid Advance Construction Agreements

Federal aid advance construction agreements are a special type of federal aid agreement. Typically rather than receiving reimbursement on a concurrent basis, reimbursement occurs in future periods of time or future years, with the agreements based on future federal aid amounts expected to be allocated to MnDOT. Actual reimbursement, often referred to as a "conversion," is typically a lump sum amount, representing reimbursement of costs incurred in the previous period or previous years. When conversion happens in future years after actual expenditures, the amount of the current year's federal aid funding is reduced.

Federal Aid Agreements

Federal aid agreements are executed on a project-by-project basis between MnDOT and the Federal Highway Administration. They provide for reimbursement of project costs on a concurrent basis (that is, reimbursement of project costs is provided on a scheduled basis, usually weekly). The total dollar amount of an agreement is the maximum amount of reimbursement that will be provided. Reimbursement is typically for 80% of eligible costs. Since the entire amount of a project encumbrance is recognized as an expenditure on a budgetary basis, so too is the entire amount of the federal aid agreement for the same project.

Fund Balance

The amount of estimated and actual revenue either projected or actually received by the trunk highway fund for a given fiscal year, less appropriations (made by legislature or through statutory provisions), or if after the end of a fiscal year, actual revenue minus the total amount of expenditures plus remaining encumbrances. For years beyond which appropriations are made, the fund balance is the estimated future revenues minus the amounts of expenditures, reserves, and other uses of revenue in the fund, projected for the end of a fiscal year. Revenue includes transfers from the Highway User Tax Distribution Fund (legally prescribed share of motor fuel tax, motor vehicle registration tax, and motor vehicle sales tax revenues), other ongoing revenue, and federal aid agreement revenue provided by the Federal Highway Administration. These agreements are typically for expenditures on highway construction projects; cash reimbursement is made for actual expenditures on a concurrent basis, but the total amount of the agreement is recognized as revenue and included in the fund balance calculation.

Trunk Highway Bonds
Trunk Highway bonds are bonds authorized by the legislature under authority of Minnesota Constitution, Article XIV, section 11, and Minnesota Statutes 167.50, the proceeds of which must be used for trunk highway purposes.

Trunk Highway Fund
This fund is the principal operating fund for MnDOT, and to some extent for the Department of Public Safety. It is a governmental fund that accounts for public monies used to construct, maintain, and operate Minnesota's trunk highway transportation infrastructure. Annual transfers of funds to the MMB debt service account in the state debt service fund are also made from this fund.

Trunk Highway Fund Debt Service
Debt service (payment of principal and interest) on trunk highway bonds is required by the constitution to be paid from the Trunk Highway Fund. In practice a transfer is made in November of each year from the Trunk Highway Fund to a trunk highway bond account in the state bond fund, from which actual payments of debt service are made. Also included in MnDOT's debt service budget are required repayments of loans made from the transportation revolving loan fund for trunk highway purposes, and repayments of money advanced by local governments by agreement for trunk highway construction projects. Debt service on trunk highway bonds will usually start at lower levels compared with total cost of projects, because sales are based on estimated cash needs for each project, not the total project cost. Also, once the total amount has been sold, the amount of debt service declines fairly slowly because principal on bonds is reduced by only 5% each year.

Responsibilities

Commissioner and Deputy Commissioner
Ensure that proposed budgets and other actions that might result in appropriations from the trunk highway fund are constrained by the level of fund balance prescribed by this policy. If legislative committees propose appropriations that would result in the fund balance being lower than recommended in this policy, communicate with appropriate legislative leaders and Minnesota Management & Budget.

Chief Financial Officer
Provide information to the Commissioner and Deputy Commissioner about the level of proposed additional appropriation authority that the policy can support. Assist in communicating concerns to legislative leadership as needed.

Director, Office of Finance
Ensure that the level of fund balance for the Trunk Highway Fund is accurately calculated in conjunction with the preparation of formal fund statements for this fund in November and February of each fiscal year. Ensure that all necessary procedures and reporting needed for compliance with this policy are carried out and that regular reporting of balances occurs.

Appendices

Minnesota Statute 167.60, "Debt-Financing Management Policy"
Budget Trends Study Commission Report to the Legislature, January 12, 2009
(http://www.mmb.state.mn.us/doc/budget/trends/report-09.pdf)

Frequently Asked Questions

Q: If an approved budget is based on an adequate fund balance, what factors might affect the size of the fund balance during the course of a year or biennium?

A: The primary factor is the possibility of actual revenues being different than the estimated amounts. If revenue is less than forecasted and estimated spending is not changed, the fund balance will be lower than the forecasted amount.

Q: **Why is the level of the trunk highway fund balance recommended in this policy such a large number?**

A: There is volatility to some degree in all four of the principal revenue sources for the trunk highway fund, and a substantial fund balance provides protection against adverse results. Also, projected debt service costs for the fund are projected to be substantial for a number of years, more than 17% of revenues (not including federal aid agreements) through 2020. It is important to have a substantial fund balance so that these legally required payments can be made without adversely affecting for other MnDOT programs.

Q: **Why does the policy include a provision related to 2% of the amount of authorized, but unissued trunk highway bonds?**

A: Authorized bonds are legally allowed to be sold, resulting in an increase in the amount of debt service required in future fiscal years, which would correspondingly reduce the fund balance.

Q: **How could estimated debt service grow to a number greater than 20% of estimated state revenues to the trunk highway fund, since MnDOT has a separate policy that limits debt service to no more than 20% of state revenues?**

A: Legislative action could provide additional trunk highway bond authorizations, even if MnDOT did not propose or support such action. Also, it is possible that state revenues to the trunk highway fund could be substantially reduced due to external conditions (e.g., major disruption of petroleum supplies) in future years, but the required debt service on already issued bonds would remain the same. This could increase the debt service percentage to greater than 20%.

Related Information

This policy is highly related to the policies about Trunk Highway Fund Debt Management and the Use of Federal Highway Advance Construction Funding.

References:

Minnesota Statute 167.60, "Debt-Financing Management Policy"

Budget Trends Study Commission Report to the Legislature, January 12, 2009
(http://www.mmb.state.mn.us/doc/budget/trends/report-09.pdf)

History of Policy Updates or Amendments

Supercedes

Policy 2.3 – Fund Balance, established 7-1-10

Policy Owner

Duane Leurquin
Director, Financial Management

Date Signed Jan 29, 2013

Internal Control & Accountability Governance Board has reviewed this policy and recommends approval

Tracy Hatch *(on behalf of the Board)*
Board Chair and Chief Financial Officer

Date Signed 3.21.13

Responsible Senior Officer

Bernard J. Arseneau
Deputy Commissioner and Chief Engineer

Date Signed 3-21-13