Mn/DOT
FINANCIAL MANAGEMENT AND LEGISLATIVE BRIEFING PACKAGE
2006

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STATE OF MINNESOTA

Office Memorandum

To: Managers
Office and Business Managers
Public Affairs Coordinators

Date: March 3, 2006

From: Scott Peterson, Director
Office of Finance

Phone: 651/296-1363

Subject: 2006 Financial Management and Legislative Briefing Package

Attached is the Financial Management and Legislative Briefing Package for 2006.

Over the years, this document has been a valuable resource for staff who prepare and deliver Mn/DOT's legislative programs. The document also provides general legislative information to Mn/DOT's employees.

This year's package includes:

- A summary of the 2006 capital budget request approved by Governor Pawlenty
- Mn/DOT's 2006 legislative initiatives.
- A discussion of transportation-related issues of current department and legislative interest.
- Summary of selected department financial and non-financial data.

I hope you will find this document to be a helpful overview for this year's legislative session, as well as a useful reference document. I encourage you to share it with your staff.

If you would like additional copies of the package, contact Bruce Briese at 297-1203.

Contents

INTRODUCTION

The Office of Finance prepared this briefing package to provide basic information on Mn/DOT's finances and transportation-related legislative issues. It provides a summary for this legislative session about proposed policy initiatives, gives an orientation to certain issues facing Mn/DOT, and provides background on Mn/DOT's financial picture.

There are three sections in this package.

1. The first describes the portion of the Mn/DOT Capital Budget Request for the 2006 legislative session that received a positive recommendation from the Governor. It also discusses transportation-related requests from other agencies that were approved by the Governor.
2. The second section contains a summary of Mn/DOT's proposed 2006 legislative initiatives and key issues that may generate legislative interest in the upcoming session.
3. The third section depicts Mn/DOT's financial picture. It includes information about FY 2005 revenues, expenditures, and funding sources; a history of significant revenue changes over the past 25 years; and some useful financial and non-financial data.

I. Mn/DOT Capital Budget

Introduction

This section provides an overview of Mn/DOT's Capital Budget. Capital budget requests are distinct from biennial budget requests in that they:

1. Represent a program improvement or expansion, such as local bridge replacement projects;
2. Extend the life or enhance the value of a building, such as asbestos removal and re-insulation;
3. Are non-recurring in nature, like land acquisition; or
4. Are project specific, such as new buildings.

Mn/DOT Capital Projects Included In Governor's Recommendations For The 2006 Session

($ in Thousands)

General Obligation Bonding Requests

Northstar Commuter Rail: $60,000

This project will use existing rail lines to transport commuter trains from Big Lake to downtown Minneapolis, a distance of about 40 miles. Also included in this project is a connection with the Hiawatha Light Rail Transit (LRT) station at First Avenue in Minneapolis. This project will be jointly funded by the state (33.33%), the federal government (50%), and local governments and regional rail authorities (16.67%). Currently, the estimated cost of the project is $289 million.

Local Bridge Replacement Program: $30,000

This program provides funding to replace or rehabilitate deficient local bridges that do not receive federal funding or to provide the local or state matching funds (typically 20% of the project cost) for those bridges that do receive federal funding.

Local Road Improvement Grants: $10,000

This program provides funding for provide grants to cities, counties, or townships with local road construction, reconstruction, or reconditioning projects of regional or statewide significance that cannot be funded through existing revenue sources. These projects would be directly associated with development of major state road construction projects, or would be projects that are significant to the state or a region. This funding will be administered in accordance with M.S. 174.52.

Total approved General Obligation Bonding Requests **$100,000**

Mn/DOT Trunk Highway Bonding Requests

Mankato Headquarter Building: $18,228

This request is for funding to construct a replacement headquarters building and support facilities on a new site near Trunk Highway 60 and Trunk Highway 22, east of Mankato. Mn/DOT, the State Patrol, and Drivers License Examination employees will jointly occupy the new building. The site will include a new Transportation Operations Communications Center, which will allow coordinated dispatching and incident management throughout the ten counties in south and southwestern Minnesota, serving Mn/DOT, the State Patrol, and the Department of Natural Resources.

Chaska Truck Station: $6,949

This request is for the construction of a new truck station, needed to support Mn/DOT maintenance activities in the southwestern metropolitan area. This project's timetable for construction has been accelerated because of the earlier construction of Trunk Highway 212, made possible by the Governor's Bond Accelerated Program (BAP) initiative passed by the Legislature in 2003. Carver County will partner with Mn/DOT in the construction and operation of this facility.

Total Mn/DOT Trunk Highway Bonding Requests **$25,177**

Non-Mn/DOT Transportation-Related Projects Included in the Governor's Recommendations For the 2006 Session

Transportation Building Exterior Repair (Department of Administration): This project is to repair the anchoring system for the exterior granite panels on the Transportation Building.

Trunk Highway Bonds $10,161

Cedar Avenue Bus Rapid Transit (Metropolitan Council):
This request is to provide additional funding of phase 1 development of a project for bus rapid transit in the Cedar Avenue corridor, south of I-494 to Apple Valley. This request, when combined with previous amounts provided and federal and local money, is intended to allow for completion of phase 1.

General Fund Bonds $5,000

I-35W Bus Rapid Transit Facilities (Metropolitan Council):
This money would be used for two facilities supporting bus rapid transit in the I-35W corridor, south of Minneapolis, one near 46th Street ($3.3 million) and the other near 82nd Street ($5.0 million).

General Fund Bonds $8,300

Central Corridor Transitway (Metropolitan Council):
This proposal is for engineering of a transitway running between downtown Minneapolis and downtown St. Paul. Currently two transit technologies are being considered: Bus Rapid Transit (BRT) and Light Rail Transit (LRT).

General Fund Bonds $2,500

St. Cloud Regional Airport:
This proposal is for funding to begin purchasing land adjacent to the existing airport in preparation for expansion of this airport.

General Fund Bonds $2,000

Total Transportation Request

The total amount of funding being requested for the projects described above is $153,138,000 which is approximately 17% of the total amount requested by the Governor. Of this, $125,177,000 is for projects requested by Mn/DOT.

The transportation portion of the Governor's request is funded by:

- General Obligation Bonds $117,800,000 (14% of requested General Obligation Bonds)
- Trunk Highway Bonds $ 35,338,000

In the past, capital projects directly related to the trunk highway system have been paid for with cash appropriations from the trunk highway fund, rather than by trunk highway bonds. If the projects to be funded by trunk highway bonds are approved, this would be the first time that trunk highway bonds have been used in this way.

II. LEGISLATIVE INITIATIVES AND ISSUES

MN/DOT 2006 LEGISLATIVE PROPOSALS

Revised
February 22, 2006

SUBJECT	**DESCRIPTION**
1. Aeronautics Rules	Mn/DOT proposes to repeal the requirements related to the distribution of rules contained in M.S. 360.015, Subd. 16. Aeronautics rules would then be distributed in accordance with M.S. Chapter 14 (the Administrative Procedures Act), which provides all of the procedural requirements related to rules, including public notification. If this is approved, Mn/DOT would no longer be required to mail a copy of aeronautics rules to all of the members of the public listed in that section. The existing requirement is no longer economical or practical compared with the use of email and the internet.
2. Crane Operator Certification	Laws of Minnesota, 2005, Chapter 87, prohibits operating a crane with a lifting capacity of five tons or more on a construction site, unless the individual has a valid crane operator certificate received from a nationally recognized and accredited certification program. Mn/DOT expressed concerns about this bill during the 2005 session. Representative Mahoney, the bill's principal sponsor, has said he would not object to a limited exemption for Mn/DOT employees being added to this law in the 2006 legislative session.
3. HazMat—Age of Drivers	Federal law requires that drivers who transport hazardous materials be 21 years of age. However, federal law allows an exception for the transportation of small quantities of hazardous materials that are only incidental and are used in a business. Examples are: (1) agricultural chemical haulers within 50 miles of the business, and (2) small petroleum truck drivers. This proposal is to change Minnesota law so that it is consistent with federal law. It was developed in response to a situation that arose last summer when a temporary employee of a lawn care service was cited for driving a vehicle with a small quantity of gasoline in a can.
4. Property Transfers	There are six potential property transfers that may be made through legislation in the 2006 legislative session. Some of the proposals require work with other agencies, and some require approval of the appropriate local governments. These potential transfers are briefly described below. **Camp Release Rest Area.** This rest area will be transferred to the city of Montevideo. In addition, since the site has historic qualities, Mn/DOT is working with the DNR (which owns part

SUBJECT	DESCRIPTION
	of the site) and the Historical Society to develop "historical review" language to make the transfer through the legislative process (including satisfactory historical protection language). **Wetland Mitigation Sites in District 6.** Mn/DOT proposes conveying two wetland mitigation sites on Trunk Highways 16 and 26 to the U.S. Fish and Wildlife Service (USFWS). Previously, Mn/DOT received land from the USFWS that was needed to reconstruct the Trunk Highway 16 and Trunk Highway 26 interchange, and had agreed to transfer these sites in exchange. This legislation is needed to accomplish the transfers that were previously agreed to. The Board of Water and Soil Resources is supportive of this proposal. The Attorney General's office is of the opinion that this proposal does not need to go before the Land Exchange Board established in M.S. 94.346. **Trunk Highway 242 Turnback in Anoka County.** Since Trunk Highway 242 is a legislatively established trunk highway route, repeal of the statute describing this route is required in order to transfer it to Anoka County. A Memorandum of Understanding between Mn/DOT and Anoka County has been executed regarding this transfer. The cities of Blaine and Coon Rapids are also expected to be supportive of the transfer. The route termini are U.S. Highway 10 and Trunk Highway 65. The highway will be constructed to four lanes (approximately one-third has already been reconstructed) prior to the transfer, with funding provided by money in the county turnback account in the County State Aid Highway Fund. **Trunk Highway 262 Turnback in Martin County**. Since Trunk Highway 262 is a legislatively established trunk highway route, repeal of the statute describing this route is required in order to transfer it to Martin County. This transfer is called for in the district's jurisdictional plan. **Trunk Highway 294 Turnback in Kandiyohi County**. The former regional treatment center in Willmar is being sold for economic development purposes, so the city is interested in taking over jurisdiction of this roadway, which is near the former treatment center.
5. Land Management—Holdover Issues From the 2005 Session	A variety of land management issues were considered but not acted on by the 2005 Legislature. Mn/DOT is proposing that these issues be addressed by the 2006 Legislature. There were three types of issues.

SUBJECT	DESCRIPTION
	1 - Appraisal and Negotiation Requirements for Property Acquisition for Transportation Purposes. The proposed changes in this area would do several things: a) Clarify that the "owner" is the fee owner or the purchaser of a contract for deed, so that Mn/DOT is not required to provide the appraisal to anyone who claims any legal interest in the property. Also, Mn/DOT would not be required to provide appraisal reimbursement to everyone with a legal interest in the property. b) Increase from 60 to 90 days the amount of time that the landowner has to obtain an appraisal of the landowner's property. Mn/DOT believes that landowners need this additional time because of the high demand for appraisals. c) Give acquiring authorities 30 days to reimburse the landowner for the appraisal after the landowner submits the payment information. d) Allow the acquiring authority to pay the landowner's appraiser directly, instead of requiring the landowner to pay the appraiser and seek reimbursement from the government. e) Require the landowner to give the acquiring authority a copy of his or her appraisal if the landowner seeks reimbursement. f) Require that the landowner's appraisal be performed in accordance with the Uniform Standards of Professional Appraisal Practice. g) Require the acquiring authority and the landowner to exchange any appraisals either party intends to use in a condemnation commissioners hearing. This disclosure would facilitate negotiation. h) Reimburse landowner appraisals of non-residential property up the $5,000. **2 - Sale of Surplus Mn/DOT Property**. Mn/DOT currently has authority to sell both surplus (M. S. 161.44) and excess (M.S. 161.23) property. These statutes provide that the receipts are deposited into the Trunk Highway Fund as undedicated receipts. This proposal would make these revenues dedicated receipts and would appropriate them to the Commissioner for: a) Paying the costs of selling land and buildings, including salaries and expenses; b) Paying fees required in existing law in sections 161.23 (licensed real estate brokers' fees) and 161.44 (auctioneers' fees; licensed real estate brokers' fees); c) Purchasing additional highway right of way; and

SUBJECT	DESCRIPTION
	d) Paying for trunk highway construction projects. **3 - Reconveyances to Former Owners.** Mn/DOT proposes to change existing law so that land may be reconveyed to the former owner, after a judgment from a court that this action is reasonable. Under a provision of current law, which the Legislature adopted in 2001 (after hearing false horror stories from a real estate attorney), Mn/DOT may reconvey land to a former owner, if it was acquired through an eminent domain proceeding, only with the owner's consent. Mn/DOT sometimes settles eminent domain cases by agreeing to acquire less land than was initially put into condemnation. The department also sometimes changes the design of a project after beginning condemnation proceedings and then needs less land than originally anticipated. In that case the department wishes to reconvey the land no longer needed. The real problem arises when the department acquires only a part of an owner's property and must pay severance damages for diminishing the value of the remainder of the property of the owner. Some owners would rather give up the land and receive a severance payment.
6. **Petrofund Reimbursement** (Department of Commerce Initiative)	Responsible parties that voluntarily perform cleanup actions at petroleum release sites that are a result of storage tank releases are eligible for reimbursement through the Petrofund program, administered by the Department of Commerce. Typically, a comprehensive application process must be completed for each individual petroleum cleanup site. In an effort to streamline the reimbursement process, Mn/DOT proposes allowing for a one-time reimbursement for past projects that have not already been granted reimbursement within a designated time period agreed upon between Mn/DOT and the Petrofund Board. This would be for approximately 40 sites for which reimbursement has not been obtained. The payment would be based on the average reimbursement rate used in the past.
7. **State Aid—CSAH Screening Board**	M.S.162.07, Subd. 5, currently provides that the County State Aid Highway System Screening Board expires on June 30, 2006. Mn/DOT proposes that this requirement be removed. This board has an ongoing role in advising Mn/DOT's State Aid For Local Transportation Division. The screening board meets twice a year. The spring meeting's purpose is to determine the recommended average unit prices for different components of a highway system for that year's county state-aid highway needs study. The fall meeting's purpose is to determine the annual money need amount for each county, based in part on the unit price information agreed upon at the spring meeting. Money needs comprises 50% of the formula used to "apportion" revenues in the County State Aid Highway Fund to the 87

SUBJECT	DESCRIPTION
	counties. Thus, the County State Aid Highway Screening Board plays a significant function in determining apportionments to the various counties.
8. **Towing Authority**	This legislation would give "towing authority" to the Minnesota Department of Transportation for removal of stalled vehicles from state highways. As a "towing authority," Mn/DOT could order custody tows provided by private towing companies for the removal of stalled vehicles. Currently only the State Patrol has the authority to order custody tows. "Towing authority" would be delegated at the direction of the Commissioner of Transportation to those Mn/DOT employees needing "towing authority," primarily to employees of the Freeway Incident Response Safety Team (FIRST), maintenance supervisors, and construction inspectors. The quick removal of stalled vehicles from the freeway is important in helping to reduce congestion and secondary crashes on metro area freeways. A stalled vehicle on the shoulder of a freeway creates a safety hazard to motorists, interferes with bus shoulder use, hinders emergency vehicle response, and adds to congestion on metro area freeways. A stalled vehicle on the shoulder reduces the capacity of the freeway by up to 5%. For every one minute that a lane is blocked, four minutes of congestion is created. Last year Mn/DOT proposed this legislation with the support of the State Patrol's upper management. Mn/DOT and the State Patrol have developed a Memorandum of Understanding that outlines how the agencies would work together to clear stalled vehicles, if this legislation were to be enacted. This legislation did not move forward last year partially due to opposition from the Minnesota State Patrol Troopers Association. Mn/DOT is currently working with the Troopers Association to try to address some of their concerns and gain their support, although the Association may still oppose this initiative because it believes the proposed legislation would take responsibility away from its membership.
8. **Truck Size & Weight Proposals**	Mn/DOT undertook a major effort since the end of the last legislative session to develop proposals for changing Minnesota's Truck Size and Weight (TS&W) laws. Numerous meetings were held, including a Northstar Workshop at the University of Minnesota. A consultant was engaged to help guide the department through this evaluation process. Although Mn/DOT has not yet received the final TS&W report from the consultant, the department has approved many recommendations from the study. These recommendations will be incorporated

SUBJECT	DESCRIPTION
	into a major bill to bring before the 2006 legislature. In addition to the recommendations described below, all of trucks would have to meet existing bridge formula and tire weight limits, and would have to follow all weight limit postings. The various recommendations to be pursued in the 2006 legislative session are described in the following paragraphs. Note that all of the trucks discussed below having weight limits greater than 80,000 pounds would not be able to travel on Interstate Highways because of federal law, except trucks transporting intermodal containers. **Allow 90,000 pound trucks with 6 axles.** These trucks would be the same dimensions as today's five axle combinations. They would be allowed to reach 99,000 pounds during winter and seasonal harvest periods. They would not be allowed on the Interstate Highways unless they were carrying sealed intermodal cargo containers. The annual permit fee for this truck would be $300. This is consistent with the permit fee for the forest products trucks authorized during the 2004 legislative session. **Allow 97,000 pound trucks with 7 axles.** These trucks would also be the same dimensions as today's five axle combinations. They would be allowed to reach 99,000 pounds during winter and seasonal harvest periods. Drivers of these vehicles would have to meet Federal Motor Carrier Safety Administration drvier disqualification regulations. The annual permit fee for this truck would be $600. **Allow 108,000 pound twin-trailer trucks with 8 axles.** These trucks would be the same dimensions as the twin-trailers used today by companies like UPS and FedEx. They would only be allowed on the Minnesota Twin Trailer Network and National Truck Network. They would need affirmative approval from local governments before operating on local roads. These trucks would <u>not</u> be allowed any harvest or winter weight increases. The trailers would have to be coupled with a B-train, which greatly increases safety. Drivers would have to meet all pertinent qualifications, and would have to follow hours-of-services regulations. The annual permit fee for this truck would be $850, which is consistent with the permit fee enacted for Blandin paper trucks last session. **Allow 80,000 pound straight trucks with 7 axles.** This would be the only truck that would be longer than provided in current

SUBJECT	DESCRIPTION
	law. They would be allowed to increase up to a maximum length of 45 feet, up from today's limit of 40 feet. These trucks would be allowed to be equipped with lift axles. The axles could be raised when not hauling a load, but would be required to be down when carrying a load. Steering axles or castering wheels would be required. The annual permit fee for this type of truck would be $300. Even with additional axles, maximum gross vehicle weight would not be allowed to exceed the manufacturer's maximum vehicle weight rating. This assures that the vehicles will accelerate properly, stop properly and have a frame and suspension that is designed to safely carry the load on the trucks. Current law requires brakes "...adequate to stop and hold the vehicle..." If the proposed legislation were enacted, brakes would be required on every wheel, which would actually improve stopping distance. The modification of any trucks by adding axles would be required to be completed by certified re-manufacturers following federal regulations. **Change spring load restrictions.** Current law sets a maximum weight limit of 5 tons per axle on county roads during the time when seasonal load restrictions are in effect. Under this proposal, all county roads would default to 7 tons per axle unless posted otherwise. Every industry group that was consulted sought this change. State trunk highways would remain at 10 tons per axle unless posted otherwise, while city streets and township roads would continue to default to 5 tons per axle unless posted otherwise. Spring weight restrictions on gravel roads would be extended two weeks longer than paved roads. **Change the 9-ton network.** The 73,280 pound limit for 5 axle semi-trailers would be removed on 9-ton roads, and axle weights and the bridge formula would be allowed to control up to 80,000 pounds gross vehicle weight. In addition, this legislation will be used to "clean up" a few selected truck size and weight regulations in statute, and in a few cases bring state law into conformance with federal requirements. Some modifications would be made to regulations on recreational vehicle combinations. For example, current law only allows ¾-ton pickups to tow recreational vehicle combinations, but it is actually safer to allow 1-ton pickups with dual rear wheels to haul them, which is what Mn/DOT is proposing.

SUBJECT	DESCRIPTION
	The annual permit fee for livestock haulers would be raised from $200 to $300 to be consistent with the fee in the first category of trucks listed previously. The legislation allowing these types of trucks was enacted last session with an effective date of July 1, 2006. The permit for hauling oversized baled agricultural products would be raised from $24 to $60, but farmers would only need to obtain one permit for hauling any type of hay, straw or corn stalks (currently different permits are needed for hauling square bales of hay and round bales of hay). At this time the proposal includes eliminating liability exemptions for implements of husbandry (farm implements like grain carts and manure spreaders that are towed behind tractors) that damage roads or bridges. All other vehicles are held liable when they do damage. However, Mn/DOT continues to work with the Department of Agriculture on this issue and has promised not to pursue this provision, if agreement cannot be reached before session begins. The requirement to obtain a permit for hauling crops (10% more weight per truck load than is usually legally allowed) during harvest would be eliminated. The ability to haul increased weights during harvest would still exist, but the process of obtaining a permit would be eliminated. Current law allows only sugar beets, potatoes and carrots to be hauled. This proposal is to allow the extra 10% for all crops harvested in the fall.

POTENTIAL 2006 LEGISLATIVE ISSUES

A variety of issues are likely to surface that directly affect Mn/DOT and the transportation community of Minnesota.

Major Revision of Truck Size and Weight Laws

Minnesota's laws regarding allowable weight limits, lengths, and widths of commercial motor vehicles are designed to ensure safe vehicle operation on Minnesota's roadways and to preserve the state's investment in highway and bridge infrastructure. Federal laws govern limits on the Interstate Highways and other selected state highways.

In recent years, the Legislature has approved many exceptions and special provisions to state laws governing TS&W on state and local roads. In light of changing patterns of economic growth and logistics, continued increases in truck traffic, and numerous requests for changes to laws, it has become apparent that a comprehensive review of Minnesota's state TS&W laws was needed.

Because of this Mn/DOT undertook a substantial study of TS&W laws during the past seven months. The department convened both a technical and a policy committee to advise on TS&W issues. Those groups were made up of federal, state and local government officials; members of the trucking, paper products, construction, and agricultural industries; and other interested parties such as railroads, law enforcement, and the AAA. Regional meetings to gather input from the public were held in Rochester, Duluth, Bemidji, Windom, Detroit Lakes, St. Cloud, Redwood Falls, and Roseville. Mn/DOT also held outreach meetings with over 25 different interest groups. In addition, a day long Northstar workshop was held at the University of Minnesota, attended by over 100 people. The result of this study was a list of recommended changes to Minnesota's TS&W laws developed by Mn/DOT that will be introduced for consideration by the 2006 legislature.

This legislation is sure to be controversial. Some safety advocates are concerned about heavier trucks traveling on Minnesota's roads. The railroad industry is concerned that allowing heavier vehicles will divert freight away from rail and onto trucks. Although the agricultural industry is expected to be generally supportive of these changes, there are certain elements of this proposal—especially ending the liability exemption for damage caused by implements of husbandry—that could be controversial.

Many of these changes would impact groups represented by other state agencies. This is especially true of the State Patrol, which does much of the size and weight enforcement on Minnesota's highways. Some police organizations have already expressed safety concerns about these recommendations. However, Mn/DOT has been working with affected state agencies, and they are generally supportive of these changes.

Truck size and weight (TS&W) laws affect the cost of transportation for Minnesota's freight shippers and carriers. It is hoped that modifying Minnesota's TS&W laws will help make the state more economically competitive. Allowing heavier payloads means fewer truck trips and lower transportation costs. Changes to these laws should improve productivity, improve local access, allow for more direct routing of freight, and promote uniformity. Groups seeking changes to TS&W regulations often argue for higher limits by citing the fact that neighboring states have higher weight limits than Minnesota.

Historically, studies have documented the impacts of heavily loaded and overloaded trucks on pavement surfaces and bridge structures. However, research has shown that heavier trucks equipped with additional axles do less damage to road pavements than lighter trucks with fewer axles, and several recommendations being made to the 2006 Legislature involve both heavier trucks and additional axles. All of the proposed new configurations do less damage to roads than the existing 80,000 pound, five axle trucks. Having weight spread over additional axles, combined with fewer truck trips, means less wear and tear on pavements. But allowing heavier vehicles also means that some additional bridges would need to be posted, and would require higher bridge design standards in the future. However, these bridges were all identified in the 2004 legislative session when the timber haulers bill was passed.

Heavier trucks could lead to slightly higher crash rates, but with fewer trucks on the road the overall result may be fewer overall crashes. In addition, adding additional axles could lead to better stopping distances, even with heavier trucks, since its is recommended that each wheel would be required to have a brake, meaning each brake will be stopping less weight. Safety consultants involved in this process have stressed the importance of requiring vehicle modifications and other requirements to assure safety.

Processes For Acquisition of Property

A recent U.S. Supreme Court decision related to the use of eminent domain proceedings used by state and local governments to acquire property has led to renewed interest in Minnesota related to property rights types of legislation. Typically provisions related to payment of attorneys fees by the acquiring public agency to property owners are included in these bills. Mn/DOT has eminent domain authority that is used, when necessary, to acquire property needed for road and bridge projects, and local governments have this authority as well. Currently, Mn/DOT does not pay attorneys fees in eminent domain cases. Thus, if legislation were passed requiring payment of attorneys fees, Mn/DOT's cost of acquiring property could be significantly increased.

Bonding

During even-numbered years the capital budget (bonding) bill is typically one of the most significant pieces of legislation that is debated. For the upcoming session, the Governor has recommended a total proposed capital budget of $897 million. $811 million of this request would be financed with state general fund, general obligation bonds, and $35 million would be financed by trunk highway bonds. This budget proposal includes numerous transportation initiatives, which are described in the Capital Budget section of this document (see pages 3 to 5).

For some of the transportation items, inflation was taken into account related to proposals from 2005 that were not approved by the legislature. This includes the Mankato district headquarters building proposal ($18.2 million compared with $16.6 million proposed in 2005) and the Mn/DOT Building Exterior Repair Proposal ($10.2 million compared with $9.3 million in 2005); these items total $2.5 million of increased costs due to inflation from 2005 to 2006.

The total transportation portion of this request totals $153.1 million, which is 17% of the total amount requested by the Governor. $125.2 million of this amount (14% of the total request) is for projects requested by Mn/DOT.

If the Governor's request is approved, this would be the first time that trunk highway bonds, rather than cash appropriations from the Trunk Highway Fund, would be used to pay for items in Mn/DOT's request directly related to the trunk highway system – the Mankato district headquarters building, the Chaska Truck Station, and the Mn/DOT Building Exterior Repair project. The requested amounts for these three projects total approximately $35 million.

Northstar Commuter Rail

The 2005 Legislature provided $37.5 million toward the state's share of funding for commuter rail between downtown Minneapolis and Big Lake.

The current cost estimate for providing commuter rail from Minneapolis to Big Lake, including a connection to light rail in downtown Minneapolis, is approximately $289 million. The governor has included $60 million for the Northstar Commuter Rail project in his 2006 proposed capital budget bill, which would provide the remaining portion of the state's share of funding for this project. It is anticipated that the Federal Transit Administration will provide a 50 percent federal match to state and local dollars.

As it relates to the required 50 percent state-local match, the governor's proposal is for the state to pay two-thirds of construction costs and local governments to pay one-third. He has also asked that the Northstar Corridor Development Authority (NCDA) participate with the state in creating an operating subsidy agreement. It is intended that this agreement would limit the state's obligation to 50% of the operating subsidy, with the remaining 50% of the operating subsidy being paid by local governments along the corridor.

Passage of a New Federal Transportation Authorization Bill (SAFETEA-LU)

Under federal law, an authorization law must exist for Congress to be able to appropriate money, consistent with the purposes of the authorization law. For highways and transit this authorization is provided by a law known as SAFETEA-LU, which became law on August 10, 2005. This law was the successor to TEA-21, which was scheduled to be in effect from 1998 until September 30, 2003, and was extended several times because a successor bill had not yet been passed. Nationally, SAFETEA-LU provided inflation-adjusted increases of 5% for highways and 16% for transit.

Minnesota received the second highest proportional increase in highway funding of any state in the nation. This included a 17% increase in highway formula funds and a 162% increase in "earmarked" funding committed to 142 projects. Over the six-year life of the act, Minnesota's apportionments are approximately $3 billion, with about $2.5 billion of this total being formula funds and the remainder being earmarked funds. The majority of the increase in formula funds is projected to come to Minnesota in federal fiscal years 2008 and 2009. A major reason for Minnesota's large, proportional increase is its mandated use of 10% ethanol blends in gasoline, the only state in the nation with this requirement. The tax treatment of ethanol-blended gasoline in federal law was changed in the past year such that credits for the blending of gasoline with ethanol are now paid directly to marketers from the federal general fund, based on the gallons of ethanol blended, rather than through use of a reduced fuel tax on gasoline blended with ethanol, which had been reducing federal highway trust fund revenue. This resulted in an increase in revenue to the federal highway trust fund, and also a substantial increase to the proportionate share of gasoline (whether or not it is blended with ethanol) attributed to Minnesota. Since part of the formula for allocated federal highway revenues is based on gallons of fuel attributed to each state, this increases Minnesota's proportionate share of fuel tax revenues collected by the federal government. The full effect of this change will not be realized until January 2007.

Mn/DOT forecasted and planned for the increased federal highway formula funding contained in this bill, and projects are programmed for almost all of the additional funding through 2008.

There are two important financial issues to watch under SAFETEA- LU: (1) Will the federal highway trust fund be able to sustain the funding levels authorized in the latter years of the bill; and (2) Will annual appropriated Obligation Authority (spending authority) levels be lower than under TEA-21 (Obligation Authority received in 2005 and 2006 was about 5% lower than anticipated)?

Among the new features to the highway portion of SAFETEA-LU are a new Equity Bonus Program (replaces the Minimum Guarantee Program from TEA-21), the Highway Safety Improvement Program (replaces the Hazards Elimination Program that was part of STP funding from previous law), which greatly increases the safety funding, and the Safe Routes To School Program.

The purpose of the Equity Bonus Program is to assure that all states receive at least specified percentages of the revenues they contribute to the federal highway trust fund as follows:

- Fiscal Years 2005 and 2006 — 90.5% (the same as TEA-21)
- Fiscal Year 2007 — 91.5%
- Fiscal Years 2008 and 2009 — 92%

Historically Minnesota has received more funds in apportionments than its contributions to the federal highway trust fund (and has been thus termed a "donee" state), but in recent years this has been due primarily to Minnesota's mandated use of ethanol in gasoline and the federal tax treatment that was just changed in the past year. Minnesota is now a "donor" state (that is, it contributes more than it receives), and the Equity Bonus Program will provide Minnesota with a substantial amount of federal funds.

The Highway Safety Improvement Program approximately doubles the amount of funding provided for safety projects. Included in this program are set asides for rail-highway crossings and high risk rural roads projects.

The Safe Routes To School Program will provide Minnesota with about $9.5 million of apportionments for projects that improve the ability of students to walk and bike to school.

SAFETEA-LU provided an estimated 66% increase in federal transit funding, or $168 million. This included a substantial increase in rural transit funding for which Mn/DOT has a major responsibility.

Some of the project earmarks in SAFETEA-LU are the following:

- Union Depot — $50 million
- Trunk Highway 53, Falls to Falls Corridor — $50 million
- Red Rock/Rush Line/Central Corridor Studies — $ 4 million
- Bus and Bus-Related Capital — $14 million
- Minneapolis/St. Paul Non-Motorized Pilot Program — $25 million
- University of Minnesota as a National University Transportation Center — $16 million
- Humphrey Institute's Center For Excellence in Rural Road Safety — $ 3.5 million

Transportation Funding Increase Initiatives

A number of interest groups actively pursued substantial increases to funding for transportation during the 2005 legislative session. These proposals included suggestions for increases in the gasoline tax, providing for indexing the gasoline tax to inflation, increases in the motor vehicle registration taxes for passenger vehicles (tab fees – generally these proposals advocate moving away from the maximum tax amounts enacted during the Ventura Administration), a one-half cent Metropolitan Area sales tax, additional Trunk Highway Bonding, and increasing the percentage of the motor vehicle sales tax committed to transportation (currently this is nearly 54%). Toward the end of the session a major bill was passed by the legislature, but was vetoed by the Governor. It is possible that legislation proposing significant increases in transportation funding may again be seriously debated, although Governor Pawlenty's continued commitment to fund transportation without raising taxes, the short duration of the 2006 session, and the fact that 2006 is an election year may lessen legislators' interest in this topic.

Governor Pawlenty has proposed a major transportation funding initiative in conjunction with his support for passage of the constitutional amendment dedicating all revenues from the motor vehicle sales tax (MVST) to highways and transit. Under the Governor's proposal the increased Trunk Highway Fund-related revenues from the MVST would be dedicated to debt service on $2.5 billion of trunk highway bonds to be sold over a ten year period, as would a portion of the normal increases in revenue from other Trunk Highway Fund revenue sources. The new bonding would begin in fiscal year 2008. This proposal is likely to result in legislative hearings.

Motor Vehicle Sales Tax Constitutional Amendment

As mentioned in the previous section a major transportation funding bill was passed by the Legislature in 2005, but was vetoed by the Governor. One feature of that bill was a constitutional amendment dedicating MVST revenues to highways and transit, with a five year phase-in period. Constitutional amendments cannot be vetoed, so this proposal remains in law even though it was part of a larger bill that was vetoed, with the ballot question to be presented to the voters in the November 2006 election. Note that the Governor's 2005 $4.5 billion bonding proposal included a proposed constitutional amendment dedicating MVST revenues to highways and transit that was very similar to the one in the bill vetoed by the Governor. There is some controversy around the specific language in the version of the amendment that was passed last year, which may lead to attempts to change this language. The amendment states, in part:

> The revenue "...must be allocated for the following transportation purposes: not more than 60 percent must be deposited in the highway user tax distribution fund, and not less than 40 percent must be deposited in a fund dedicated solely to public transit as defined by law."

Some groups are concerned about the fact that 40% or more of MVST revenues would go to transit, while the percentage dedicated to highways is capped at 60%. The fear of these groups is that transit funding would end up being greater than 40% and highway funding would correspondingly be less than 60%. These groups also fear that since the large majority of transit funding occurs in the twin cites area, MVST revenues would disproportionately be spent in the metropolitan area.

One issue related to this amendment that almost certainly will come up is the need for new statutory language that would conform to the constitutional amendment. Currently, this portion of statute allocates 32% of MVST revenues to the Highway User Tax Distribution Fund, 1.25% to the Greater Minnesota Transit Fund, 20.5% to the Metropolitan Area Transit Fund, and 46.25% to the General Fund for the period FY 2008 and beyond. The constitutional amendment does not specify the percentage in different years that would be allocated to the Highway User Tax Distribution Fund (merely saying not more than 60%), does not specifically reference either of the transit funds currently in statute, and does not provide the specific percentage for transit in different years (merely saying not less than 40%). Instead, the amendment says that revenues for transit would be allocated to a "...fund dedicated solely to public transit assistance as defined by law." The only thing that is completely clear in the constitutional amendment is that the percentage of MVST revenues allocated to the General Fund will be 36.25% in FY 2008, 26.25% in FY 2009, 16.25% in FY 2010, 6.25% in FY 2011, and 0% in FY 2012 and beyond.

Local Government Transportation Funding

In recent legislative sessions local governments have actively pursued transportation initiatives, and in the 2006 legislative session this trend is expected to continue. For example local governments proposed approximately $145 million of transportation projects to the Governor for possible inclusion in the Governor's capital budget request. This consisted of about $53 million of highway and bridge projects, nearly $84 million of transit, commuter rail and rail projects, approximately $7 million of aeronautics related projects, and about $2 million for other initiatives. In addition it is likely that local governments will lobby for much greater funding levels for local bridges and local road improvement bonding than have been recommended by the Governor. This is a clear indication that local governments believe there is a significant shortage of transportation funding. Last year an initiative was advanced to allow municipalities to charge street utility fees, and it is possible that this proposal will be considered again. Under the street utility fee concept, charges would be made to property owners based on the traffic generated by the property; it would be a fee rather than a tax. Thus, property that is currently tax exempt would be charged the fee, in addition to the fee being charged to property owners that already pay property taxes.

The passage of a new federal transportation authorization bill also may lead to additional proposals on behalf of local government. That bill included funding for numerous highway priority projects specified by Congress. The total value of these projects is approximately $465 million, about half of which is for projects on local roads. These projects require a 20% state match, and local governments are likely to pursue legislation to have state funding be made available to pay this match. At least eight of the projects for which funding in the capital budget was requested either mentioned a specific federal high priority project designation or specifically stated that the request was for the 20% state match.

Target Formula Evaluation

Mn/DOT has completed its evaluation of the target formula, used to provide targets to each of the eight Area Transportation Partnerships for federal formula funds. A separate but similar formula is used to provide targets for state funds from the Trunk Highway Fund used on trunk highway projects. The changes will be implemented in 2009. The new target formula was developed to align construction funding with Mn/DOT's priorities of preservation, safety, and mobility. It is tied to measurable performance needs on the transportation system and is consistent with the performance-based planning that has been incorporated into the state and district plans. The current formula was based on system size, had no link to performance, and did not address safety or other important factors. The current approach to targeting revenues also makes it difficult for any District to fund large projects such as major bridges or major corridor improvements. To address this problem the department has incorporated two new features into its programming process, a statewide bridge preservation fund and a statewide corridor fund. The department has adopted a policy that no Area Transportation Partnership will receive less money under the new formula than it would have received under the current formula.

Primary Seatbelt Legislation

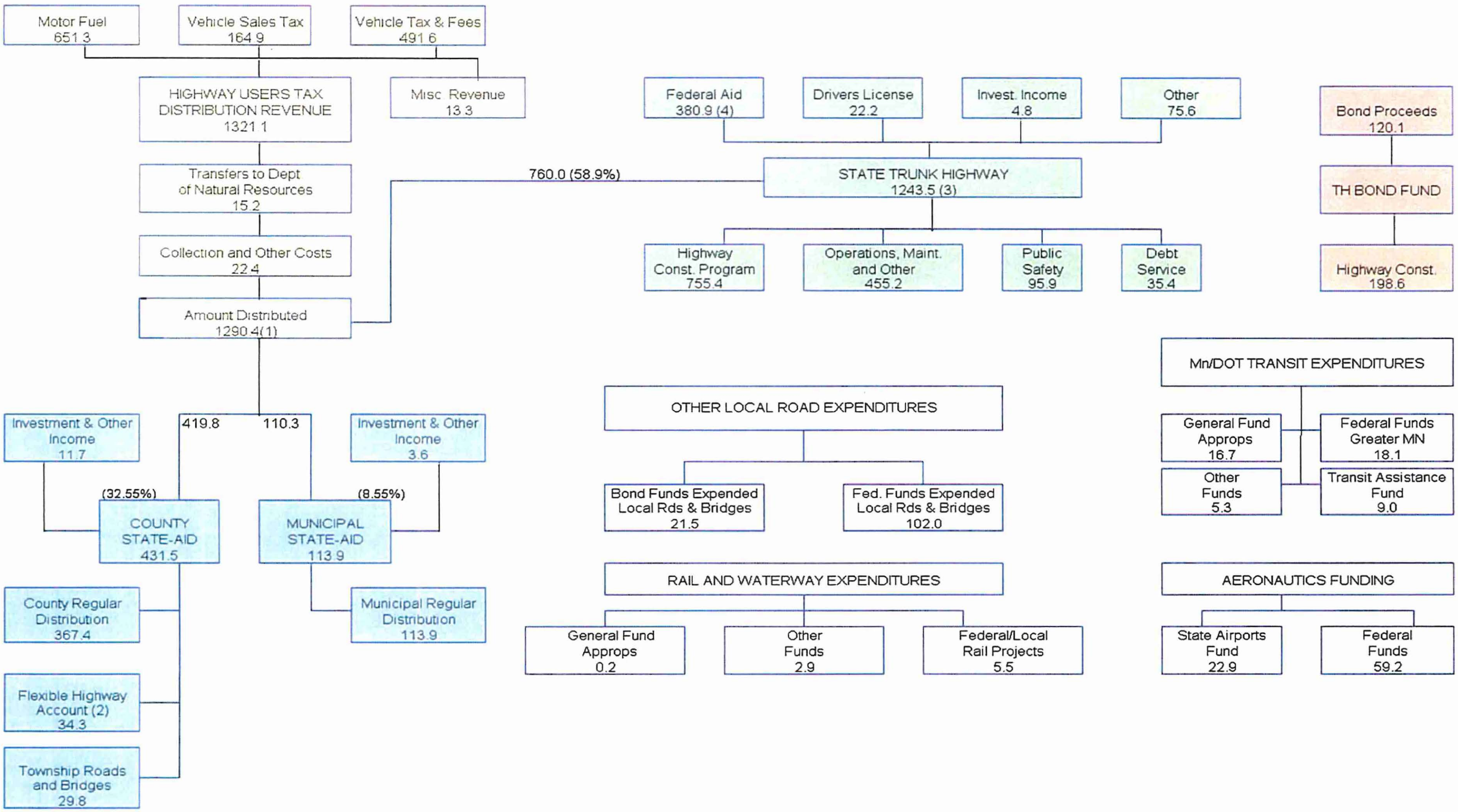
Minnesota has had a seat belt law since 1986. Currently, this law requires every person in the front seat of every vehicle to use a seat belt, and it requires every person under the age of 11 who is riding in the back seat to also be buckled up. However, people who are not buckled up cannot be stopped and ticketed for their violation unless a police officer observes the driver committing some other traffic violation. Changing this law to allow police officers to stop people for seat belt violations only is often referred to as "Primary Seatbelt Legislation."

There is likely to be renewed interest in this legislation in 2006 because the new federal authorization bill has provided funding for incentive grants to states that either have primary seatbelt legislation or that have 85% or higher seatbelt use in the state (Minnesota's seatbelt compliance is currently 83.9%). Under this program, Minnesota would receive an additional $15 million per year from the incentive grant funding. Current plans, if this funding were available, would be to use $10 million of it for rural road safety, $2 million for cable median barriers, and $3 million to continue the existing speed management program.

Not only would Minnesota receive additional federal revenue, safety experts predict that this change in law would save 50 lives per year and 1,000 serious injuries. The overall societal benefit of enacting primary seatbelt legislation is estimated by the National Highway Safety Administration to be $114 million per year in Minnesota.

III. FINANCIAL AND HIGHWAY USE INFORMATION

MINNESOTA STATE GOVERNMENT
REVENUE AND EXPENDITURES FOR TRANSPORTATION PURPOSES
ALL SOURCES OF FUNDS (Dollars in Millions)
FY 2005 Final



Prepared by Financial Reporting - December 30, 2005

(1) - Net Revenues $1283.5 plus $6.9 from Fund Balance
(2) - Trunk Highway = $0, County Turnback = $26.0 , Municipal Turnback = $8.3.
(3) - Expenditures are substantially higher than revenues due to an unusual circumstance related to the 494 project. The project was encumbered in FY 2004 and also recognized as an unprocessed agreement at the end of FY 2004. Midway through FY 2005 that old encumbrance was cancelled and the project was re-encumbered in FY 2005. The FY 2005 expenditures (which include encumbrances) therefore include that project again, and the fund balance received an offsetting increase in prior year encumbrance cancellations.

(4) - This figure differs from the Federal Aid amount on the Budgetary Statement and Fund Statement. Those statements have the Change in Unbilled AC netted against the agreements executed amount. Here, as well as on the internal monthly statements the adjustment for the unbilled AC is made as a separate line on the Analysis of Changes in Fund Balance statement.

HISTORY OF Mn/DOT REVENUE CHANGES

Motor Fuel Taxes (Gasoline and Special Fuels)

1975 Increased from 7 to 9 cents per gallon.
1980 Increased from 9 to 11 cents per gallon.
1981 Increased from 11 to 13 cents per gallon.
1983 Increased from 13 to 16 cents per gallon (for eight months) and then to 17 cents per gallon beginning January 1, 1984.
1988 Increased from 17 to 20 cents per gallon.
1994 Phase out of 2 cent gasohol credit over 4 years.

Motor Fuel Tax Rates Per Gallon: Federal, Minnesota, and Neighboring States

	Federal	MN	WI	SD	IA	ND
Gasoline	18.4	20.0	29.9	22.0	20.7	23.0
Diesel	24.4	20.0	29.9	22.0	20.7	23.0
Gasohol (10% blend)	18.4*	20.0	29.9	20.0	19.0	23.0

*The American Jobs Creation Act (AJCA) of 2004 changed federal tax treatment related to ethanol-blended gasoline (gasohol). The Highway Account of the Federal Highway Trust Fund now receives the same amount of revenue from gasohol as it does from unblended gasoline. Credits are paid from the Federal General Fund for ethanol blended with gasoline, based on the gallons of ethanol, thus maintaining the federal tax incentive for the use of ethanol. The effect of this change is to increase the federal gasohol (10% blend) tax (as relates to the Federal Highway Trust Fund) to 18.4 cents per gallon.

Motor Vehicle Registration Taxes

1981 Increase in passenger vehicle registration taxes by phasing in an increased minimum tax. The minimum was increased in 1981 on a phase-in schedule from $23 to $35 in 1985, which is the current minimum tax.

1986 Increased truck registration taxes for heavier trucks:

Truck Size	Old Tax	New Tax
9 ton	$1520	$1595
10 ton	$1620	$1760

1989 Adjusted schedule for reduction of taxes paid for passenger vehicles as they become older, such that, citizens pay more over the life of the vehicle.

2000 Retained the same policy for calculating the tax for passenger vehicles, but provided a maximum tax of $189 for the first renewal and a maximum tax of $99 for the second and subsequent renewals.

Motor Vehicle Sales Tax as a Transportation Revenue Source

The Motor Vehicle Sales Tax (MVST) was previously defined as the Motor Vehicle Excise Tax (MVET)

1981	Established phase-in of MVST as a transportation revenue source (75% Highways, 25% Transit) over three bienniums (100% by FY 1990).
1983	Delayed scheduled phase-in two years.
1984	Added one additional year (FY 1985) at the 25% share.
1986	Took away FYs 1986 and 1987 (@25% share); left intact the schedule for FY 1988 and beyond.
1987	Eliminated the phase-in concept. Allowed 5% transfer for FY 1988 and beyond.
1988	Allowed 30% MVST transfer for 1989 and beyond; provided that beginning July 1, 1991 none of the highway share would be distributed to CSAH and MSAS Funds.
1989	Allowed 35% MVST transfer for FY 1990 and beyond. All of the highway share (75%) of the additional 5% is transferred to the Trunk Highway Fund.
1990	Allowed 30% MVST transfer for FY 1991 and beyond. The 5% reduction was taken from the HUTDF share, resulting in 25% for HUTDF/Transit distribution, and 5% credited entirely to the Trunk Highway Fund/Transit.
1991	Eliminated as a transportation revenue source.
2001	HIGHWAYS: In FY 2002, 30.86% of MVST revenues were deposited in the Highway User Tax Distribution Fund. In FY 2003, 32% of MVST revenues were deposited in the Highway User Tax Distribution Fund. TRANSIT: For FY 2003, 20.5% of MVST was dedicated to the Metropolitan Area Transit Fund and 1.25% of MVST was dedicated to the Greater Minnesota Transit Fund, both for property tax relief. An additional 2% of MVST was scheduled to be dedicated to the "metropolitan area transit appropriation account" beginning on July 1, 2003.
2003	For 2004 – 2007 the distribution was changed to the following: HIGHWAYS: 30% of MVST revenues to be deposited to the Highway User Tax Distribution Fund, 0.65% to the County State Aid Highway Fund, and 0.17% to the Municipal State Aid Street Fund. TRANSIT: 21.5% of MVST revenues will be dedicated to the Metropolitan Area Transit Fund and 1.43% to the Greater Minnesota Transit Fund. No money will be deposited to the "metropolitan area transit appropriation account."

After 2007, the distribution would revert to that which was in effect for FY 2003, except there will no longer be a distribution to the "metropolitan area transit appropriation account."

2005 A constitutional amendment was passed providing that by FY 2012 all revenues would be dedicated to transportation as follows: (1) not more than 60% to be deposited in the Highway User Tax Distribution Fund; and (2) not less than 40% to be dedicated to transit. Currently 46.25% is deposited in the General Fund, and in 2012 none of MVST revenue would be deposited to the General Fund. A five-year phase-in schedule is provided in the amendment. This will be voted on in the November 2006 general election.

MINNESOTA'S HIGHWAY FINANCES

Motor Fuel Tax

At current consumption levels, each one cent increase in the gas tax would yield about $32 million per year to the Highway User Tax Distribution Fund. This would generate $19 million in revenues to the Trunk Highway Fund. The current tax of 20 cents per gallon yielded $637 million in FY 2005 after refunds, collection costs and transfers to DNR. The tax was last increased in 1988. In 1994, the Legislature enacted a phase-out of the ethanol tax credit over four years.

Of motor fuel tax revenues, 82% are generated from gasoline sales. The remainder is mostly generated from diesel and special fuel sales.

State law requires transfers of gas tax revenues presumed to be attributed to non-highway uses (e.g., boats and snowmobiles) to accounts managed by the Department of Natural Resources. About 3% of gasoline tax revenues, or approximately $16 million, are termed "unrefunded" and transferred from the Highway User Tax Distribution Fund to the Department of Natural Resources each year. Legislation is expected in 2006 to increase this percentage by 0.12% as a result of completion of a legislatively-mandated study of the use of gasoline in all-terrain vehicles.

Based on current tables of motor fuel tax rates from the American Petroleum Institute and the Federation of Tax Administrators, twenty-four states have gas tax rates for gasoline blended with ethanol that are higher than Minnesota's and four states have gas tax rates the same as Minnesota's. Some states have local option gas taxes and/or levy a sales tax on gasoline sales. Taking statewide sales taxes into account would raise the number of states with higher gas tax rates than Minnesota to twenty-nine.

Motor Vehicle Registration Taxes

In FY 2004 motor vehicle registration taxes, after refunds and collection and other costs, yielded $488 million. Passenger class and pickup truck vehicles generated approximately 80% of total motor vehicle registration tax revenues.

Motor Vehicle Sales Tax

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

In FY 2002, the HUTDF received 30.86% of MVST revenues, equal to $189 million. In FY 2003 the HUTDF received 32% of MVST revenues, equal to about $194 million. The 2003 legislature changed the percentages of revenue from the MVST to the HUTDF to 30% for FY 2004-FY 2007. The HUTDF received $178 million in FY 2004 and $164 million in FY 2005 from these transfers. New distributions were provided for the County State Aid Highway (0.65%) and Municipal State Aid Street (0.17%) Funds.

The 2005 legislature approved a constitutional amendment that would dedicate all MVST revenues to transportation, with a phase-in over 5 years. If the voters in the November 2006 election do not approve this amendment, the distribution to the HUTDF would return to 32%

beginning in FY 2008, and the distributions to the two state aid funds would be discontinued. If the voters approve the constitutional amendment, the HUTDF would receive up to 38.25% in FY 2008, up to an additional 6% in each of FYs 2009 – 2001, and up to 60% beginning in FY 2012.

Federal Highway Funds

As described earlier a new federal authorization bill, SAFETEA-LU, was approved in August 2005, which will stay in effect until September 30, 2009. This action has lessened to a large degree the uncertainty about the funding levels that Minnesota will receive in the upcoming years. Some uncertainty does remain, especially revolving around the level of "obligation (spending) authority" that will actually be provided. Recently the percentage of obligation authority has been as high as 95% of the apportionment amounts in the bill, but during the current year, this was only about 85%. The level of federal funding is a critical issue for Mn/DOT and for various local governments across the state, because federal funds make up a substantial portion of transportation spending.

Highway User Tax Distributions

The Minnesota Constitution provides that 95% of highway user tax distribution fund revenues are distributed as follows: Trunk Highways - 62%; County State Aid Highways - 29%; and Municipal State Aid Streets - 9%. The remaining 5%, usually referred to as the five percent set-aside, is distributed in accordance with a formula established by the Legislature, but the formula may only be changed once every six years. The 1998 Legislature made the most recent change in this formula. Since July 1, 1999, all of the five percent set-aside revenues - approximately $65 million per year - have been transferred to the County State Aid Highway Fund where they have been further allocated to the Township Roads Account (30.5 %), Township Bridges Account (16 %), and Flexible Highway Account (53.5%, see below). The most recent allocation of the set-aside revenues prior to July 1, 1999 distributed them to the Trunk Highway Fund (28%), the County State Aid Highway Fund (64%) and the Municipal State Aid Street Fund (8%). This formula could be changed by the 2006 legislature, since eight years have passed since it was last changed.

Flexible Highway Account

The Flexible Highway Account was created by the 1998 Legislature essentially by combining monies from the five percent set aside that were previously allocated to the Trunk Highway Fund, the County Turnback Account in the County State Aid Highway Fund, and the Municipal Turnback Account in the Municipal State Aid Street Fund. The Commissioner of Transportation must recommend allocation of money in the Flexible Highway Account among the funds and accounts mentioned above for each upcoming two-year period, as part of the biennial budget proposal. The following table describes the HUTDF five percent set aside for FY 2004-2007.

HUTDF 5% Set-aside Distributions		(In Millions of Dollars) 2004	2005	2006	2007
Town Road Account	(30.5%):	20.0	19.6	19.4	19.8
Town Bridge Account	(16.0%):	10.5	10.3	10.2	10.4
Flexible Highway Account:					
County Turn Back Account:		20.8	26.2	18.0	25.8
Municipal Turn Back Account:		14.4	8.3	5.7	1.5
Trunk Highway Fund:		0.0	0.0	10.4	7.4
Subtotal Flexible Highway (53.5%):		35.2	34.5	34.1	34.7
GRAND TOTAL 5% HUTDF Set-aside:		65.7	64.4	63.7	64.9

Since the distribution of money in the Flexible Highway Account is subject to decisions made in the biennial budget process, the relative amounts in the preceding table could be different in future bienniums. Also, the 2006 legislature could choose to change the distribution of the HUTDF five percent set-aside monies.

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

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

As a result of each decennial census, or as a result of the annual State Demographer's estimate, additional municipalities may qualify for funding because their population became greater than 5,000. At each census, some municipalities may stop qualifying for funding because their population fell below 5,000. As we progress through the decade, additional municipalities may qualify for funding due to incorporation, consolidation, or by State Demographer's estimate. Municipalities may also appeal their census counts.

The total number of municipalities qualifying for MSAS funds from 2001-2005 is shown below:

	2001	2002	2003	2004	2005
Total Number of Municipalities Qualifying for MSAS Funds	129	130	133	136	138

Bonding
The 2003 legislature authorized the sale of $400 million of trunk highway bonds to eliminate traffic bottlenecks and improve at-risk interregional corridors in the metropolitan area and outstate Minnesota. In addition a total of $220 million of trunk highway bonds were authorized in accordance with the 2000 funding program and subsequent re-financing of the projects undertaken as a result of the 2000 funding program. As part of the Governor's 2006 Capital Budget recommendations, trunk highway bonds are being proposed for three building projects; approximately $35 million of trunk highway bonds will be authorized if the Governor's recommendations are approved. If approved this would be the first time that trunk highway bonds would have been used as a funding source for trunk highway building projects. In addition the Governor has proposed that the 2006 Legislature authorize $2.5 billion of trunk highway bonds over a ten year period, beginning in FY 2008. This proposal is contingent on passage of the constitutional amendment that would dedicate all Motor Vehicle Sales Tax revenues for transportation purposes. As of October 1, 2005, including the bonds sold in the October 1st sale, there were $412,155,000 of outstanding trunk highway bonds.

Advance Construction
The legislation authorizing $400 million of trunk highway bonds referenced above also explicitly authorized Mn/DOT to spend federal funding made available using advance construction funding procedures. Advance construction funding, in general, permits recognizing in the current year federal revenues scheduled to be received in future years. There are a number of benefits that are realized using advance construction funding. It should be noted that this is borrowing from future federal revenues to be used in the current or at least earlier years than planned. Thus, careful management of the use of this funding is needed, and Mn/DOT is working hard to put these management techniques in place.

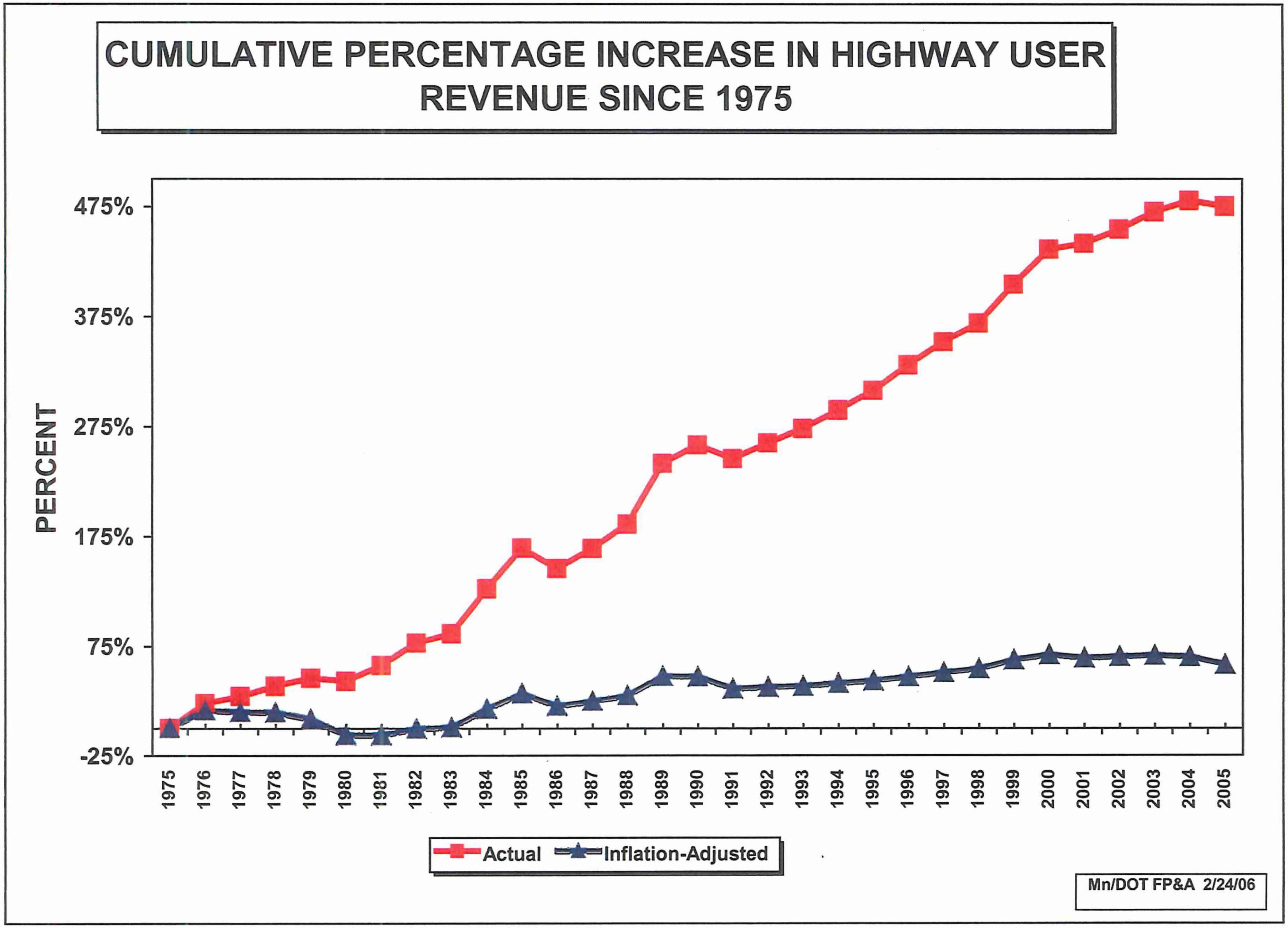
HIGHWAY USE AND FINANCING

The charts that follow include:

- Cumulative Percentage Increase in Highway User Revenue Since 1975, both actual dollars and adjusted for inflation.
- Vehicles Miles Traveled (VMT) and Motor Fuel Consumption from 1975 to the present.
- Minnesota Highway User Tax Revenue by major type from 1975 to the present.
- Minnesota Highway User Taxes Per Vehicle Mile Traveled from 1975 through the present, as adjusted for inflation.

These charts demonstrate that on an inflation-adjusted basis revenues have only increased slightly, even though actual revenues (without taking inflation into account) have increased much more substantially. Use of the highway system, on the other hand, has more than doubled over a thirty-year period. Finally, on an inflation-adjusted basis, Minnesota highway user taxes per vehicle mile traveled have declined dramatically over a thirty year period.

The last page discusses various facts relating to transportation users and their use of the transportation system.


CUMULATIVE PERCENTAGE INCREASE IN HIGHWAY USER REVENUE SINCE 1975
PERCENT
475%
375%
275%
175%
75%
-25%
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
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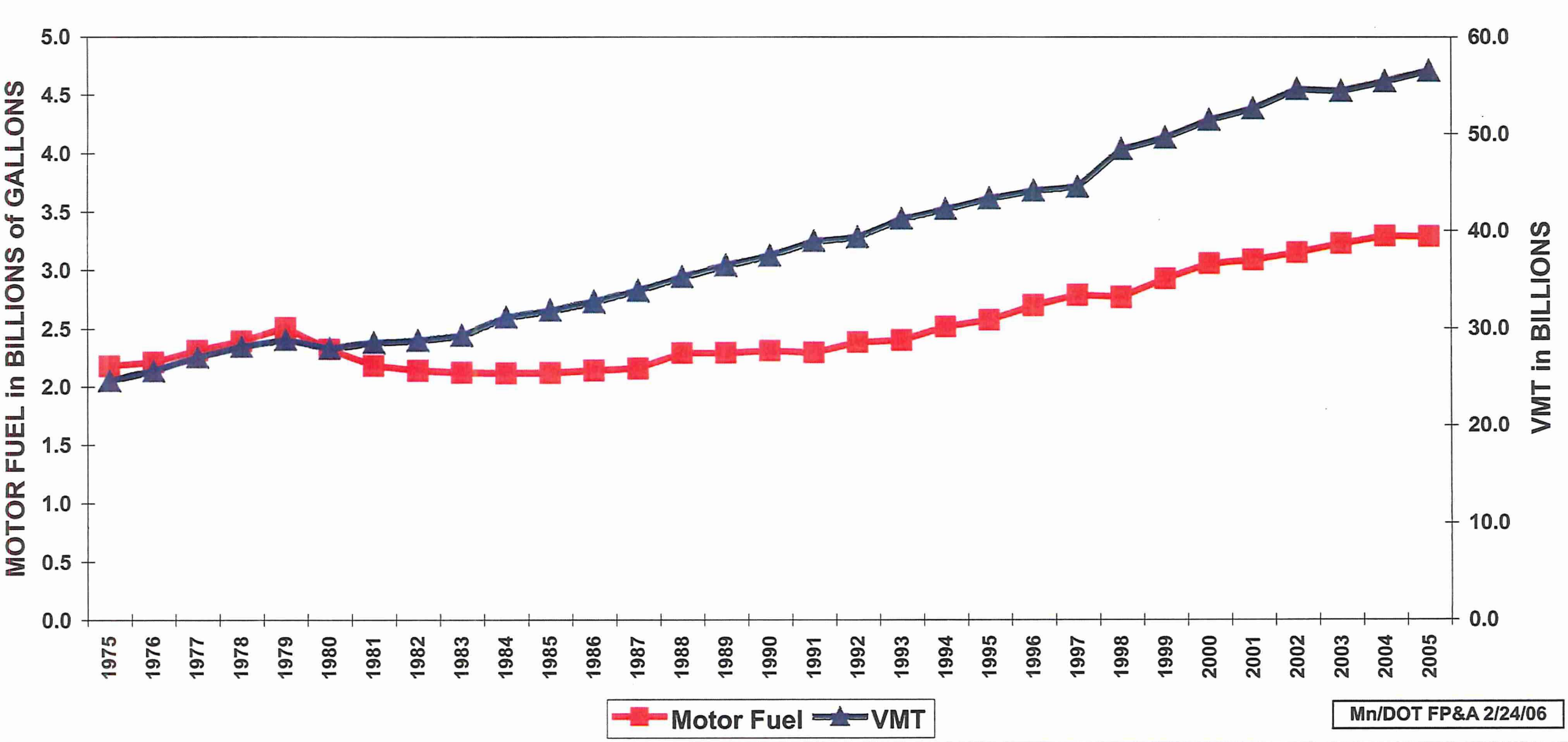
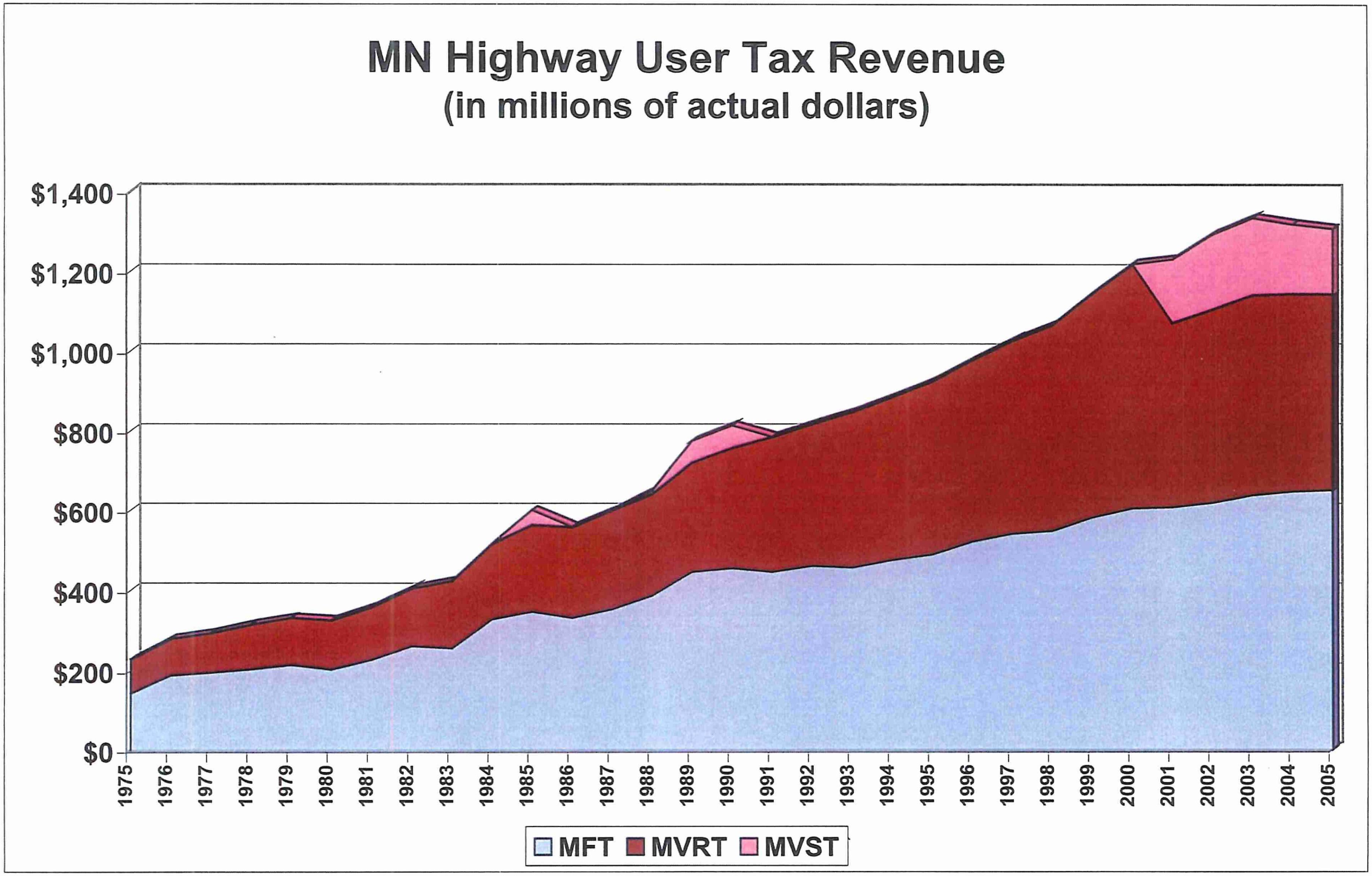
Actual
Inflation-Adjusted
Mn/DOT FP&A 2/24/06

VMT & MOTOR FUEL CONSUMPTION



Mn/DOT FP&A 2/24/06


MN Highway User Tax Revenue
(in millions of actual dollars)
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
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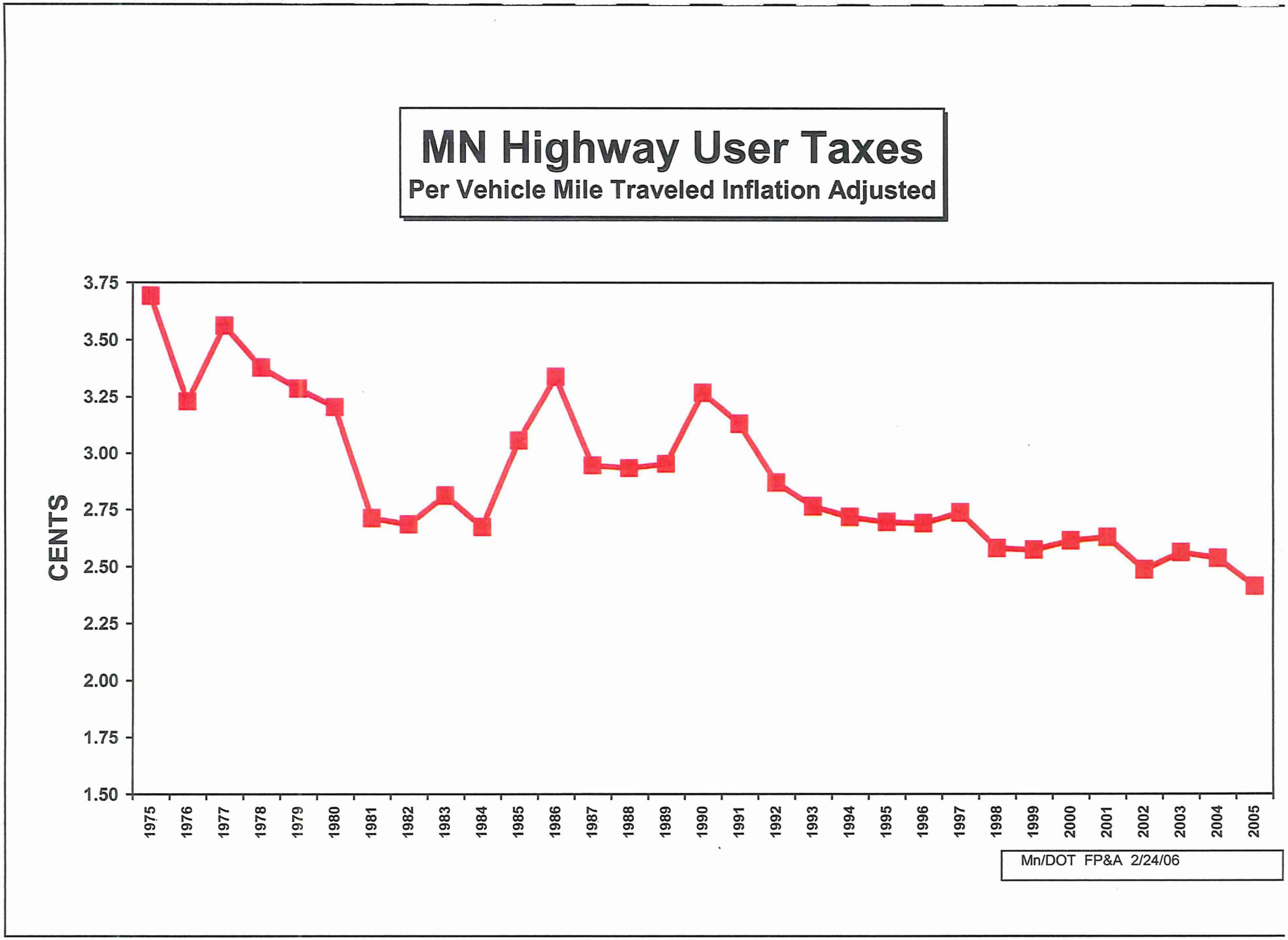
MN Highway User Taxes
Per Vehicle Mile Traveled Inflation Adjusted
CENTS
3.75
3.50
3.25
3.00
2.75
2.50
2.25
2.00
1.75
1.50
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984 1985 1986 1987 1988 1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005
Mn/DOT FP&A 2/24/06

FACTS RELATED TO TRANSPORTATION USERS AND THEIR USE OF THE TRANSPORTATION SYSTEM

Motor Vehicle Registrations:

- Minnesota's motor vehicle registrations in 2004 totaled about 4.8 million. (Minnesota Department of Public Safety)

Minnesota Licensed Drivers:

- There were 3.8 million licensed drivers in Minnesota in 2003. (2003 Minnesota Transportation Trivia, compiled by Mn/DOT Office of Traffic Engineering)

Seat Belt Usage

- Minnesota's seat belt usage was 83.9% as of September 2005. (Office of Traffic Engineering).

Vehicle Miles Traveled:

- Use of Minnesota's roads totaled 56.6 billion vehicle miles traveled. (Office of Communications).

Aeronautics:

- There are over 6,500 registered aircraft and 149 public airports in Minnesota. (Office of Aeronautics, 2005)

Waterways:

- There are 222 miles of navigable rivers with 58 active river terminals and 32 Lake Superior terminals. (2003 Transportation Trivia, compiled by the Office of Traffic Engineering)

Transit:

- Use of Minnesota transit systems in 2003 totaled 91.5 million transit trips. (Office of Transit, 2005)

Bicycle Trails:

- Minnesota leads the nation in miles of bicycle trails, with 395 miles of state paved miles out of a total of about 1,300 miles statewide. Minnesota and Wisconsin have about one-fourth of the nation's bike trails. (Office of Transit, Bicycle Facts, 2003)

Minnesota's rail system:

- The rail system consists of about 4,520 miles of railroad, with 4,600 rail crossings. (2003 Minnesota Transportation Trivia, compiled by Mn/DOT Office of Traffic Engineering)