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MARCH UPDATE

Financial Management and Legislative Briefing

The Office of Financial Management prepared this financial management and legislative briefing to provide basic information on the Minnesota Department of Transportation's (Mn/DOT) finances and transportation-related legislative issues for the 2009 session. *This package has been updated to reflect the February 2009 forecast and the Governor's changes to Mn/DOT budget initiatives in March 2009.*

The first section describes Mn/DOT's proposed **biennial budget** for consideration by the 2009 Legislature, a summary of Mn/DOT's proposed 2009 **legislative initiatives** and **key issues** that may generate legislative interest in the session.

The second section provides a basic **Mn/DOT financial overview**. It includes information about how highway transportation is funded in Minnesota, and includes a history of significant revenue changes over the past 25 years. The appendix includes fund statements from the 2009 February forecast for the HUTD, Trunk Highway Fund, State Airports Fund, and Transit Assistance Fund, budget initiatives and March 2009 Governor's Recs fund statements, as well as financial data including a FY2008 overview of Mn/DOT revenues and expenditures.

Contents

2009 MARCH GOVERNOR'S RECOMMENDATIONS

The Governor made five budget recommendations for Mn/DOT in January. Of these, three are continued unchanged and one (MSAS administrative costs) is continued but the financial impact changes slightly with the February 2009 forecast. See page 4 for details. The fifth budget recommendation was changed to reflect less state revenue to the trunk highway fund:

The February 2009 trunk highway forecast reflected the lower state revenues in the HUTD from slower car sales and the impact on tab fees and MVST revenues. The trunk highway fund balance showed a shortfall of $124 million by FY 2011. To address this, the Governor's recommendation for Trunk Highway Fund Balance has been revised to include a one-time reduction in the request for appropriations for state road construction of $50 million in FY 2010 and $100 million in FY 2011, and to no longer include the $2 million annual reduction in program delivery funding. See page 4 and pages 28-29 for details.

Comments? This briefing was prepared by Mn/DOT's Office of Financial Management with writing, data and analysis from Bruce Briese, Lynn Poirier, Greg Colberg, Josh Knatterud-Hubinger, Erik Rudeen, Denny Herzog, Gerry Wood, Laurie Holmberg, Jackie Clemen and Norman S.J. Foster. Please contact Lynn Poirier (lynn.poirier@dot.state.mn.us) with questions, comments or suggestions.

FACTS RELATED TO TRANSPORTATION USERS AND THE TRANSPORTATION SYSTEM

MOTOR VEHICLE REGISTRATIONS:

Minnesota's motor vehicle registrations totaled about 4.82 million in 2007.

Department of Public Safety website, 2007 "Crash Facts"

LICENSED DRIVERS:

Minnesota had 3.91 million licensed drivers in 2007.

Department of Public Safety website, 2007 "Crash Facts"

SEAT BELT USAGE

Minnesota's seat belt usage was 88% in 2007.

Department of Public Safety website, 2007 "Crash Facts"

VEHICLE MILES TRAVELED:

Use of Minnesota's roads totaled an estimated 57.4 billion vehicle miles traveled in 2007.

Mn/DOT Office of Transportation Data and Analysis

AERONAUTICS:

Minnesota has over 6,500 registered aircraft and 136 public airports.

2007 Transportation Trivia, compiled by Office of Traffic Engineering

RAIL SYSTEM:

Minnesota's rail system consists of about 4,480 total miles of railroad, with 4,362 rail crossings.

2007 Transportation Trivia, compiled by Office of Traffic Engineering

TRANSIT:

Use of Minnesota transit systems totaled 95.7 million transit trips.

Mn/DOT Office of Transit website

BICYCLE TRAILS:

Minnesota leads the nation in miles of bicycle trails, with 523 miles of state paved miles out of a total of about 2,300 miles statewide. Minnesota and Wisconsin have about one-fourth of the nation's bike trails.

Minnesota Department of Natural Resources

WATERWAYS:

The Mississippi River System stretches over 222 miles in Minnesota, and supports five ports whose combined transported tonnage was 12.1 million tons in 2007. In addition Minnesota has four ports on Lake Superior whose combined tonnage in 2007 was 68 million net tons. This combined tonnage of 80.1 million tons was slightly less than was experienced in 2006 (80.4 million tons).

Mn/DOT Ports and Waterways website

BIENNIAL OPERATING BUDGET

This section provides an overview of Mn/DOT's 2010-11 biennial budget request for consideration by the 2009 Legislature.

Mn/DOT's proposed budget is funded by the Trunk Highway Fund, County State Aid Highway Fund, Municipal State Aid Street Fund, State Airports Fund, Transit Assistance Fund, federal funds, special revenue funds, and the state's General Fund.

The budget request for activities funded by the Trunk Highway Fund, the County State Aid Highway Fund, and the Municipal State Aid Street Fund are influenced by lower estimates in the February 2009 forecast for state transportation revenues. The primary state revenues are the motor fuel tax, the motor vehicle registration tax, and the motor vehicle sales tax (50.25% of these revenues are dedicated to highways in FY 2010 and 56.25% are dedicated to highways in FY 2011). The total amount of state revenue to the Highway User Tax Distribution fund (HUTD) is still forecast to increase over the next few years, since tax rates and the constitutional dedication of MVST is phased in, but is less than the amounts that were initially estimated after passage by the 2008 legislature of Chapter 152 ("less more" revenue).

This lower rate of revenue growth has reduced the amount of spending that is proposed for the County State Aid Highway and the Municipal State Aid Street Funds compared to Chapter 152's initial estimate. The reduced revenues have also resulted in a forecast deficit for the Trunk Highway Fund for FY2009 and FY2011. This deficit in FY2009 and shortfall in FY2011 is addressed in the proposed budget by adjustments to spending levels since all funds are required to have a positive fund balance at the end of a biennium. The request for the Trunk Highway Fund is also affected by the fact that $75.386 million of appropriations were provided for Infrastructure Investment Support ($34.034 million) and for Infrastructure Operations and Maintenance ($41.352 million) in the funding bill passed by the 2008 legislature, which to a large degree provided for additional funding that might have been requested in this budget.

Mn/DOT's major program receiving base appropriations from the state's General Fund is Greater Minnesota transit, with an annual appropriation of $18.784 million. This base appropriation is proposed to be reduced by $1.924 million per year as part of the overall budget proposals to address the nearly $5 billion projected General Fund deficit from the November 2008 and February 2009 forecasts.

This proposed budget requests a one-time appropriation from the State Airports fund of $2.25 million. In 2008, the legislature transferred $15 million from the State Airports Fund (which funds nearly all of the operations of the Aeronautics Office) to the General Fund.

CHAPTER 152 PASSED IN 2008

The submitted biennial operating budget for 2010-11 for Mn/DOT is unusual in that the Legislature passed a major transportation funding bill in 2008 that included:

- $1.8 billion in trunk highway bonding authorizations
- changes to tax rates for transportation revenues, and
- added operating appropriations for Mn/DOT maintenance, operations and program delivery.

The submitted budget has fewer initiatives than typical because Chapter 152 passed in a non budget year.

BUDGET INITIATIVES

The full text of these budget initiatives are on pages 21-27. **Updated in March 2009.*

*TRUNK HIGHWAY FUND BALANCE**

Two measures are proposed to address the deficit in the Trunk Highway Fund. First, a reduction of $44 million is requested for FY 2009 from the appropriation for state road construction, corresponding to the reduction in federal aid agreements (lower use of AC funding) anticipated for FY2008-09 that was estimated in the November 2008 forecast. No change in programmed projects will result as the construction program and STIP was developed to this lower level of federal aid.

Second, a reduction of $50 million in FY2010 and $100 million in FY2011 from appropriations for state road construction is requested, as well as base reductions of $2.5 million from annual operating appropriations for FYs 2010 and 2011 is requested. These adjustments are needed to achieve a positive fund balance for the Trunk Highway Fund of about $70 million at the end of FY 2011 to allow for financial uncertainty during the biennium.

STATE ROAD CONSTRUCTION

Mn/DOT is requesting an increase of $43.5 million in FY 2010 and $130.9 million in FY 2011 (an average of $87.2 million per year) for the state road construction appropriation. The appropriation increase request is based on estimated federal funds at the Federal Fiscal Year (FFY) 2009 amount consistent with SAFETEA-LU funding levels. No increase is assumed for FYs 2010, 2011, 2012 and 2013, given the uncertainty regarding the timing and amount of the next federal authorization. The amount of recognized federal revenues in FY 2009 was lower than normal due to significant use of federal revenues for advance construction agreement conversions (which does not result in recognized revenues) rather than for construction projects (which would result in recognized revenues). The need for these conversions resulted from use of advance construction financing to support the Bond Accelerated Projects (BAP) program authorized in 2003. This request also includes a request to remove $3.4 million per year of funding for research from the state road construction appropriation to the Infrastructure Investment and Planning (non-SRC portion) activity to more accurately reflect the nature of the investment.

AIRPORT GRANTS

An increase of $2.25 million is requested for the aeronautics program, funded by resources in the State Airports Fund.

MSAS ADMINISTRATIVE COSTS

Mn/DOT is proposing an increase in the percentage of funds in the Municipal State Aid Street Fund that can be used for the statewide administrative account to fund efforts of cities in statewide and partnership projects. The proposed increase is from 1.5% to 2%, bringing the percentage to the same level as is provided for the County State Aid Highway Fund. An increase of approximately $700,000 (out of total revenues of approximately $140 million) would be committed to administration and shared projects, while direct aid to municipalities would be reduced by the same amount.

TRANSIT GENERAL FUND

Mn/DOT is proposing a reduction in the general fund appropriation for greater Minnesota transit of $1.924 million for FY 2010 and FY 2011. This represents about 10% of Mn/DOT's total appropriations from

FY2009 GF Unallotment

The Governor is required to balance the FY 2009 budget for the general fund and has unalloted certain spending to eliminate the FY2009 deficit as estimated by the November 2008 forecast.

$600,000 has been unallotted from Mn/DOT appropriations as part of this process:

- Urban Partnership Agreement: $300,000 from 2008 one-time appropriation of $3.5 million,
- Roseau Tower, $9,518,
- Greater Minnesota Transit, $290,482 from FY2009 general fund appropriation.

Mn/DOT 2009 LEGISLATIVE INITIATIVES

A variety of initiatives are included in Mn/DOT's 2009 legislative proposals--summaries follow.

TURNBACK AND TRUNK HIGHWAY ROUTE DESCRIPTIONS

Mn/DOT District 3 is proposing turning back Trunk Highway 290 in Walker to Cass County, and a portion of Trunk Highway 293 to the city of Cambridge. In both cases, the highways formerly served state hospitals. Agreements with the county and city have been reached.

A new legislative route description for Trunk Highway 101 is required.

OUTDOOR ADVERTISING DEVICES

Mn/DOT is proposing clarification of Minn. Stat. 173.16, Subd. 4(d) at the advice of the Attorney General. A billboard was constructed within 500 feet of a ramp at CR 46 along Highway 371 in District 3. Mn/DOT ordered the board's removal, and the state eventually prevailed under appeal.

PLAT REVIEW ALONG RAIL BANK CORRIDORS

Mn/DOT is requesting statutory plat review responsibility of proposed developments along state rail bank corridors.

FILING HIGHWAY CENTERLINES FOR RECORD

Mn/DOT proposes recording as part of the permanent public record the centerline locations of highways that Mn/DOT plans to change or remove. This would serve both the public and Mn/DOT when trying to locate boundaries based upon highway centerlines, since it is common practice to obtain the location of the existing highway before moving it as part of the project development process.

MSAS ADMINISTRATIVE INCREASE

This proposal modifies the Municipal State Aid Street (MSAS) fund distribution (Minn. Stat. 162.12) to increase the percent retained in the statewide administrative account to fund efforts of cities in statewide and partnership projects from 1.5% to 2.0% of the total balance. This could be used to fund statewide and partnership projects, and to fund the increased need for program oversight of cooperative and bonding programs that do not provide for administrative funding. This would result in a 0.5% decrease in the amount of funds that are apportioned (50% based on needs and 50% based on population) to municipalities greater than 5,000.

NEEDS EFFECT OF VARIANCES AND STATE PARK ROAD ACCOUNT

Mn/DOT proposes to delete language in Minn. Stat. 162.07, Subd. 2, and Minn. Stat. 162.13, Subd. 2, which states that granted variances (from the rules and engineering standards) shall be reflected in the money needs for city and county state aid. Current practice is to make no adjustment to money needs of cities after a variance has been granted. Adjustments to the money needs of counties after a variance has been granted are most often negligible and entail excessive administration and additional accounting. Mn/DOT also proposes to delete language in Minn. Stat. 162.06, Subd. 5, which states that sums of money received by cities or counties from the state park road account shall be reflected in money needs. Current practice is to make no adjustment to money needs of counties or cities for sums of money received from the state park road account.

STATE-AID—RULES ADOPTION PROCESS

Mn/DOT proposes to exempt state aid operations rules from the provisions of Minn. Stat., Chapter 14 (the Administrative Procedure Act), including section 14.386. In general, state aid operations rules concern the internal processes and design standards for the municipal and county state-aid highway systems. The rules are revised every two or three years. The expedited process for rules adoption prescribed under Chapter 14 requires an approach in excess of what is needed for state aid operations rules.

IMPLEMENTS OF HUSBANDRY

Mn/DOT proposes a technical amendment related to instruments of husbandry (generally, equipment used exclusively in agriculture) statutes, which would complete consolidation of these provisions into a single section (Minn. Stat. 169.801) that was mostly accomplished in 2008. This amendment will also address a provision related to brakes for implements of husbandry that was identified after passage of the 2008 amendments.

MSAS OBSOLETE LANGUAGE

This proposal deletes obsolete language in Minn. Stat. 162.09, Subd. 4(b), related to cities whose population fell to less than 5,000 after the 1980 census. Current statute references the 1980s and the 1990 census.

TRUCK PERMITS—SIZE AND WEIGHT

This proposal makes technical and clarifying changes as a result of inconsistencies and points of confusion noted from the 2008 session's Truck Size and Weight (TS&W) laws amendments. This proposal corrects some truck weights that are inconsistent between permits, clarifies the applicability of certain permits, and removes some outdated, inconsistent language.

INCORPORATION OF FEDERAL SAFETY REGULATIONS

This proposal updates some of the language used to incorporate federal safety regulations into Minnesota Statutes to satisfy federal audit concerns, and updates outdated references to federal material. In addition, an amendment to Minn. Stat. 221.0314, Subd. 3a, relating to motor carrier waivers, will clarify that the commissioner must deny requests for medical waivers for drivers whose licenses have been suspended, canceled, or revoked for driving-related offenses only.

PREPAID VEHICLE IDENTIFICATION CARDS FOR EXTRAORDINARY EVENTS

This proposal expands the list of acceptable vehicle safety inspections for vehicles added to certain carriers' fleets temporarily to meet demand for special events (for example, buses brought in from other states for the Republican National Convention) to allow for comparable safety inspections from other jurisdictions.

USDOT NUMBER FOR VEHICLE IDENTIFICATION

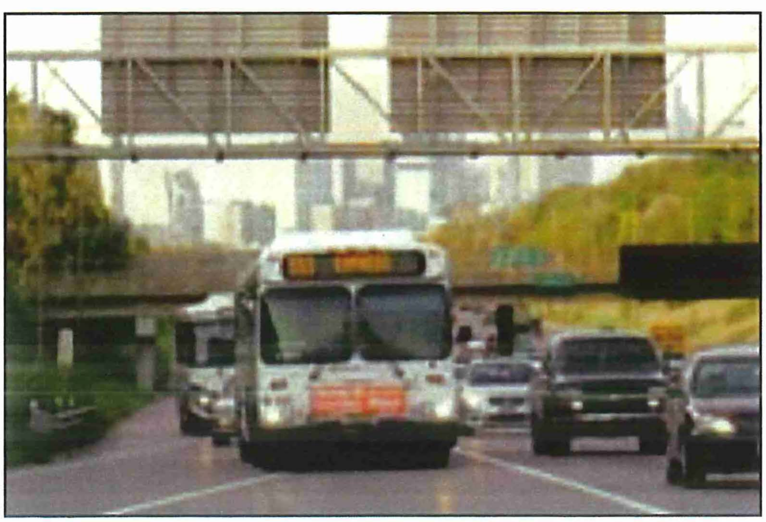
This proposal would add a requirement that commercial motor vehicles be marked with both the carrier's name and USDOT number. Currently only the carrier's name is required. This proposal is similar to federal regulations for a commercial motor vehicle in interstate commerce, which require the vehicle's power unit be marked with the carrier's name and USDOT number. This additional identifying information would make it easier to identify a carrier.

HOUSEHOLD GOODS

Late in the 2008 session, intrastate household goods carrier requirements were changed to reduce bureaucratic roadblocks while maintaining a high level of consumer protection. Mn/DOT agreed to these changes, and promised to return during the 2009 session with further proposed changes. These changes are mostly technical, not affecting the substance of the law.

STILLWATER LIFT BRIDGE ENDOWMENT FUND

Legislation is required to establish an endowment fund that can be used by Mn/DOT to pay for operations and routine maintenance of the Stillwater Lift Bridge after it is converted to bicycle/pedestrian use. The fund will also provide sufficient principal to cover the bridge's removal, if it is ever determined that the bridge needs to be removed due to safety issues. Mn/DOT completed the environmental phase of the St. Croix River Crossing Project in 2006 as documented in the Supplemental Final Environmental Impact Statement (SFEIS). A component of the SFEIS is the Amended Section 106 Memorandum of Agreement (MOA). The MOA documents the adverse effects and mitigation for each historic resource impacted by the project. Mn/DOT and WisDOT, as project sponsors, agreed to complete certain stipulations, one of which is the establishment and funding of this endowment. This year's proposal is only to establish the endowment, not yet fund it.



PILOTS SPECIAL DISABILITY BENEFIT

This proposal updates the Mn/DOT pilot retirement law to conform to revised retirement age policy and eliminate future special disability benefits for pilots. Under Minn. Stat. 352.86, Subd. 1a, pilots are provided a special disability benefit if they lose their ability to maintain the Federal Aviation Administration (FAA) medical flight certificate required for them to fly. This benefit was originally established to provide special protection until pilots reached the mandatory retirement age of 62. Mn/DOT is recommending that this benefit be phased out, and the coverage be grandfathered to the current pilots until they reach the age of 65. Under this proposal, future pilots will not have the option to participate in a special early retirement plan, which will decrease both the employees' and Mn/DOT's contributions to MSRS.

REST AREAS

Mn/DOT proposes specific language prohibiting certain acts at rest areas, travel information centers and waysides, making it illegal to:

1. Fail to dispose of all travel-related garbage and trash, including paper, cans, bottles and other waste materials by either removing from the site or depositing in designated trash containers.

2. Dump household or commercial garbage or trash brought from private property into refuse containers or other refuse facilities.

3. Drain or dump refuse or waste from any trailer, recreational vehicle or other vehicle except where receptacles are provided and designated.

4. Consume alcoholic beverages or possess open containers of beverages containing alcohol.

5. Occupy a site or building for any primary purpose other than travelers resting and refreshing from the fatigue of travel or obtaining tourism or travel information, unless specifically permitted by Mn/DOT on a case-by-case basis.

Erik Rudeen

2009 POTENTIAL LEGISLATIVE ISSUES

A variety of issues are likely to surface that directly affect Mn/DOT and the transportation community of Minnesota. This section describes some of those issues but surprises are likely.

LEGISLATIVE OVERSIGHT OF MN/DOT

In light of the I-35W bridge collapse, there has been more scrutiny of Mn/DOT than in recent years. Four separate organizations have provided reports, which have sets of recommendations. These include the Office of the Legislative Auditor Report, which was presented in February 2008 to the legislature; the Gray, Plant, Moody Report, written by the law firm commissioned by a joint House/Senate Committee to study non-technical factors related to the bridge collapse; the final report of the National Transportation Safety Board (NTSB) on the causes of the collapse, and the report of the Transportation Strategic Management and Operations Advisory Task Force (a group that was established in the 2008 transportation funding bill (Chapter 152)). It is possible that hearings may be scheduled to address issues raised in these reports, and that legislation may be drafted to implement recommendations of one or more of these groups.

FEDERAL STIMULUS LEGISLATION

President Obama and both houses of Congress have passed a large federal stimulus package. A significant element of that package is appropriations for infrastructure spending, including highways and bridges. Minnesota will receive about $502 million for roads and bridges as a state, with additional amounts for transit, airports and potentially rail and port projects.

GENERAL FUND BUDGET PROJECTED DEFICIT

The official economic forecast that was released in early December 2008 has projected a deficit for the state General Fund of nearly $5 billion. *The February 2009 forecast showed continuing poor economic conditions and outlook, and a substantial deficit even though significant federal stimulus funds were able to be incorporated into the state's revenue estimates.* Even though Mn/DOT is not significantly affected by a General Fund deficit, this issue will consume a major part of the legislature's time and energy, which may affect its ability to focus on issues that more directly affect Mn/DOT.

MINNESOTA'S HIGHWAY FINANCES

This section describes Minnesota's highway financing. Page 14 shows historical revenue trends since 1975. Pages 16 and 18 show the HUTD and Trunk Highway forecast fund statements from *February 2009*.

MOTOR FUEL TAX

The state motor fuel tax is a major source of revenue for highways in Minnesota. Each one cent of gas tax yields about $30 million per year to the Highway User Tax Distribution (HUTD) Fund and thus about $18 million in revenues to the Trunk Highway (TH) Fund. The current tax yielded $648 million in FY 2008 after refunds, collection costs, and transfers to the Department of Natural Resources (DNR).

Approximately eighty percent of motor fuel tax revenues are generated from gasoline sales. The remainder comes mostly from diesel and special fuel sales.

State law requires transfers of non-highway use gasoline tax revenues (e.g., from fuel used in boats and snowmobiles) to accounts managed by the DNR. About 3% of gasoline tax revenues, or approximately $15 million in FY2008, were termed "unrefunded" and were transferred from the HUTD Fund to DNR accounts.

Based on information supplied by the American Petroleum Institute, eight states have gasoline tax rates higher than Minnesota. Some states have local option gas taxes and/or levy a statewide sales tax or other statewide tax (e.g., an oil franchise tax in Pennsylvania) on gasoline sales. If additional statewide taxes such as a sales tax are taken into account, twenty states have higher gas tax rates than Minnesota.

MOTOR VEHICLE REGISTRATION TAXES

In FY 2008, motor vehicle registration taxes, after refunds and collection costs, yielded $477 million. Passenger class and pickup truck vehicles generated approximately 80% of total motor vehicle registration tax revenues.

MOTOR VEHICLE SALES TAX

The motor vehicle sales tax, a 6.5% tax on the sale of new and used motor vehicles, is partially dedicated to transportation. By 2012, all of this revenue will be dedicated to transportation, with 40% allocated to transit and 60% allocated to highways by state statute. In fiscal year 2008, 38.25% of this revenue was deposited in the HUTD Fund; this amounted to $196 million. *In fiscal year 2009, 44.25% of this revenue will be deposited in the HUTD Fund; this is estimated to be $181 million (February 2009).*

FEDERAL HIGHWAY FUNDS

The level of federal funding is a critical issue for Mn/DOT and for local governments across the state, because federal funds make up a substantial portion of transportation spending. For the TH Fund, which is the principal funding source for Mn/DOT and which also provides significant funding for the Department of Public Safety, approximately $463 million (*February 2009* forecast) of federal aid agreements are forecasted to be entered into in fiscal year 2009; this is about 33% of total revenue. In addition, a substantial amount of federal highway revenue is made available for local government projects. Typically this is about $100 million per year; $133 million was received for local government use in fiscal year 2008.

A concern has arisen about the level of federal highway funds that might be expected in the future. In September 2008, $8 billion was transferred from federal general revenues to the Federal Highway Trust Fund to ensure the fund remained solvent. This measure was only a temporary stopgap, as the Highway Trust Fund is still projected to go negative without Congressional action in Federal Fiscal Year (FFY) 2009 or FFY2010. The current transportation authorization bill, SAFETEA-LU, is set to expire in September 2009, and future funding levels will be significantly impacted by the next re-authorization bill. The state trunk highway forecast has assumed that federal funding levels for FFY2009 will be maintained at that level into the future--this will require Congressional action to achieve.

HIGHWAY USER TAX DISTRIBUTIONS

The Minnesota Constitution provides that 95% of HUTD Fund revenues are distributed as follows: Trunk Highway (TH) fund - 62%; County State Aid Highway (CSAH) fund - 29%; and Municipal State Aid Streets (MSAS) fund - 9%. The remaining 5%, 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, most recently by the 1998 Legislature.

Since July 1, 1999, the five percent set-aside revenues - $65 million in FY2008 - have been deposited in the CSAH Fund, where they have been further allocated to the Township Roads Account (30.5 %), Township Bridges Account (16%), and Flexible Highway Account (53.5%).

FLEXIBLE HIGHWAY ACCOUNT

The Flexible Highway Account was created by the 1998 Legislature by combining money from the five percent set-aside that was previously allocated to the Trunk Highway Fund, the county turnback Account in the CSAH Fund, and the municipal turnback Account in the MSAS Fund.

According to changes made by the 2008 Legislature, the commissioner of transportation must recommend allocation of money in the Flexible Highway Account to the CSAH Fund (which includes allocations to metropolitan counties (except *that the shares allocated to Hennepin and Ramsey counties do not include the population of the cities of the first class–Bloomington, Minneapolis and St. Paul*) from the "excess sum," the county turnback account, the safety improvement account, and the routes of regional significance account), the MSAS Fund (municipal turnback account), *and the Trunk Highway Fund (for trunk highways that will be restored and subsequently turned back by agreement to local governments)* for each upcoming two-year period as part of the biennial budget proposal.

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 following table could be different in future biennia.

The following table describes allocations of the five percent set-aside for FY2008 through 2011, *with the 2008 and 2009 amounts being actual transfers, and the 2010 and 2011 amounts being the amounts included in the biennial budget proposal, which are subject to legislative concurrence during the 2009 session:*

Five percent set-aside distributions ($ millions)

Fiscal Year	FY2008	2009	2010	2011
Town Road (30.5%)	$19.9	21.4	23.6	24.9
Town Bridge (16%)	10.4	11.2	12.4	13.1
Subtotal Township (46.5%)	$30.3	32.6	36.0	38.0
Flexible highway account				
County turnback	15.9	19.3	33.0	42.1
Municipal turnback	6.0	2.8	8.4	1.6
Trunk Highway fund	12.9	15.3	0.0	0.0
Subtotal Flexible highway (53.5%)	$34.8	37.5	41.4	43.7
Total Distributions of 5% set-aside	$65.1	70.0	77.4	81.7

CSAH FUND AND MSAS FUND SPENDING

Money in these funds is allocated to all counties and to municipalities with populations greater than 5,000, based on statutorily defined apportionment formulas. The 2008 Legislature changed the process for this allocation (formally termed apportionment). For the CSAH Fund, revenues derived from increases provided by the 2008 Legislature (e.g., increased gas tax rates) *plus increased revenue from the percentages allocated to the Highway Tax User Distribution fund above 32% due to the phase-in of motor vehicle sales tax revenue as a constitutionally dedicated transportation revenue source,* are apportioned 60% based on money needs and 40% based on relative shares of the number of motor vehicle registrations in each county. For revenues not derived from increases provided by the 2008 Legislature, the apportionment is based on monetary needs (50%), relative shares of lane miles of roads (30%), relative shares of the number of motor vehicle registrations (10%), and equal shares to each of the 87 counties (10%). For the MSAS Fund, municipalities' respective shares are based on monetary needs (50%) and population (50%).

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

Total number of municipalities qualifying for MSAS funds, 2004-08

	2004	2005	2006	2007	2008
Number of cities:	136	138	138	142	143

BONDING

As of Jan. 2009 the principal amount of outstanding trunk highway bonds totaled approximately $521 million, of which $20 million was authorized by Chapter 152 and the remainder by earlier laws. In addition, approximately $219 million of interest must be paid on these bonds, for a total of approximately $740 million of outstanding debt service. In addition another $70 million (*$66.5* million from Chapter 152) of trunk highway bonds were sold on January 13, 2009.

The total amount of trunk highway bond authorizations made by the Legislature since 2000 is *$2,442,130,000*. From these authorizations, *$718,250,000* of bonds have been issued *after the Jan. 2009 bond sale*. The most recent bond authorization occurred when the 2008 Legislature approved $1.8 billion of trunk highway bonds as part of a major transportation funding initiative. The legislation provides that a large proportion of this bonding is to improve bridges.

According to the Dept. of Finance's official statement prepared for the January 13, 2009 bond sale, principal and interest on the outstanding trunk highway bonds for upcoming fiscal years (not including the $70 million included in that sale) are:

Debt service payments on outstanding trunk highway bonds ($ thousands)

	FY2010	FY2011	FY2012	FY2013
Principal	34,765	34,765	34,765	33,120
Interest	24,855	23,147	21,440	19,742
Total	59,620	57,912	56,205	52,862

This total repayment is reduced each fiscal year by the interest earned on the balances in the trunk highway account in the state debt service fund.

The total estimated debt service transfers from the Trunk Highway Fund is based on the currently known debt service (see above) plus estimates that are developed for planned bond sales in the future. The current estimate of these transfers is from the February 2009 forecast:

Scheduled debt service transfers from the trunk highway fund ($ thousands)

	FY2010	FY2011	FY2012	FY2013
Estimated Amount:	$85,944	153,655	157,917	167,042

Source: February 2009 fund statement

The reason the estimated debt service expenditures are higher than the amounts shown in the Department of Finance's official statement is that the fund statement reflects Mn/DOT's plans to sell significant amounts of additional bonds from the authorization provided by the 2008 Legislature. As estimates of cash flow expenditures from the $1.8 billion in additional bonding are refined, these estimates of debt service will change.

Debt service is higher in the earlier years of repayment, because the repayment schedules are based on retiring one-twentieth of the principal each year, unlike repayment requirements for a home mortgage, which are a fixed annual sum for combined principal and interest, with the amount of principal being repaid increasing each year.

ADVANCE CONSTRUCTION

Mn/DOT utilizes a type of federal financing called advance construction (AC). In general, this technique permits recognizing in the current year, federal revenues scheduled to be received in future years. This results in a number of benefits.

Even though the budgetary revenue is recognized, actual reimbursement (receipt of cash from FHWA) does not begin until the year the advanced construction agreements are "converted" to regular federal funds (the year the federal funds are actually made available through a federal appropriations act).

The cash balance in the trunk highway fund may sometimes be used to pay contractors before the project is converted and federal reimbursement received. Careful management of the use of AC has been adopted to avoid potential cash flow issues. Mn/DOT has developed and continues to refine advance construction and cash management techniques.

HISTORY OF Mn/DOT REVENUE CHANGES

MOTOR FUEL TAX RATES PER GALLON: MINNESOTA

Year	Description
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 will increase to 3.5 cents by 2012
2008 April 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 FUEL TAX RATES PER GALLON: FEDERAL, MINNESOTA, AND NEIGHBORING STATES, JAN. 2009

Cents per gallon	Federal	MN	WI	SD	IA	ND
Gasoline	18.4	25.5	30.9	22.0	21.0	23.0
Diesel	24.4	25.5	30.9	22.0	22.5	23.0
Gasohol (10% blend)	18.4	25.5	30.9	20.0	19.0	23.0

MOTOR VEHICLE REGISTRATION TAXES

Year	Description
1981	Increased passenger vehicle registration taxes by phasing in an increased minimum tax
1986	Increased truck registration taxes for heavier trucks
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
2008	Modified registration tax policy for passenger vehicles to institute a process similar to what existed prior to 2000., by eliminating caps and changing the depreciation schedule; these provisions are phased-in by virtue of a provision that provides that for currently registered vehicles, no one's tax will be higher in a current year than it was in the previous year.

MOTOR VEHICLE SALES TAX AS A TRANSPORTATION REVENUE SOURCE

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

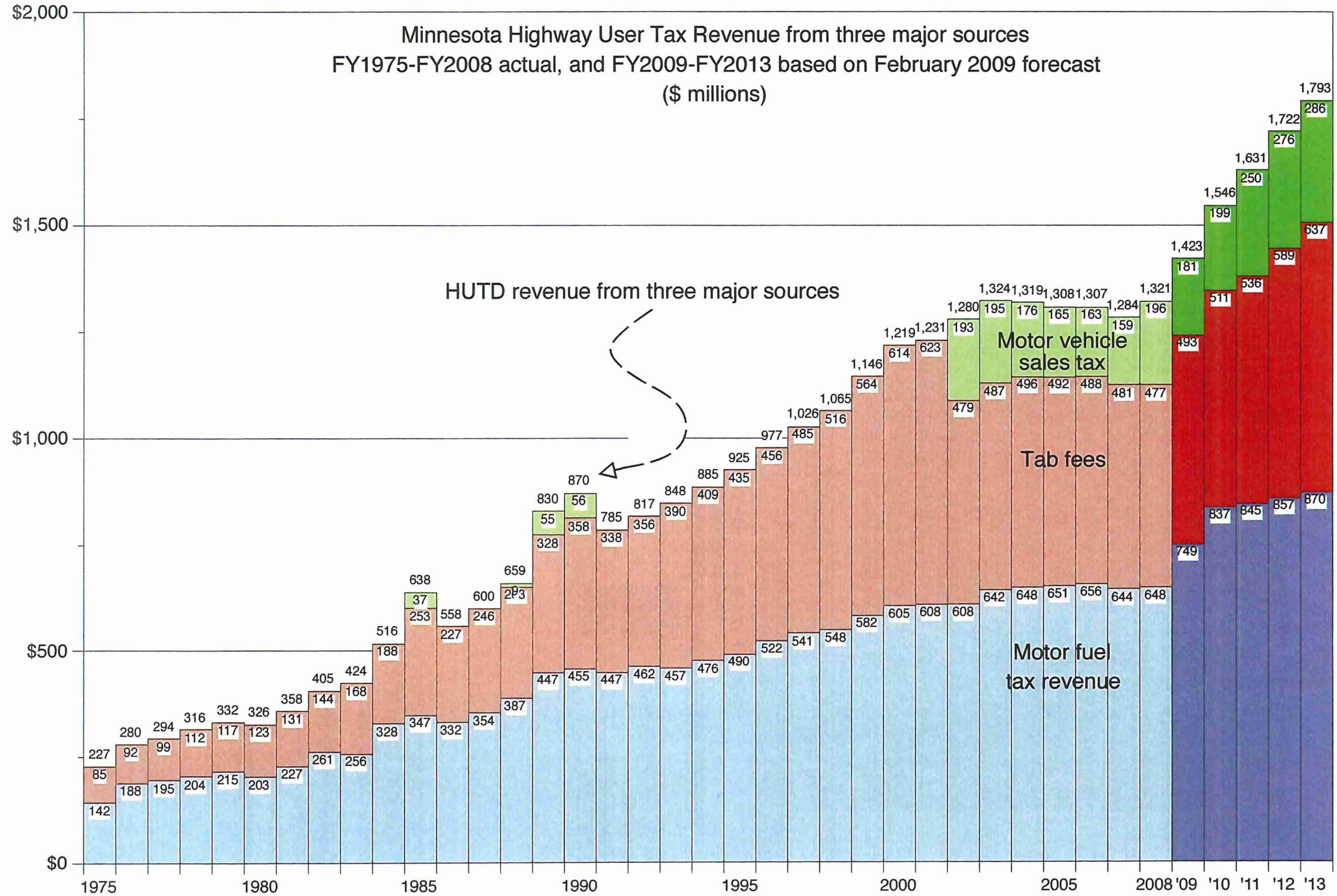
Year	Description
1981 - 1991	Numerous changes were made, which first statutorily dedicated this revenue to transportation on a phase-in basis, began the phase-in, delayed the phase-in, and ultimately eliminated this as a transportation revenue source.
2001 - 2004	Allocation of this revenue for highways and transit began again. For highways the allocation was intended to offset the reduced revenues from the change in tax policy for passenger motor vehicles made by the 2000 legislature. For transit the allocation was intended to offset a 2001 reduction in local government property taxes due to the law being changed prohibiting levying taxes for transit operations.
2005	A constitutional amendment was passed, providing that by FY 2012 all revenue 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. A five-year phase-in schedule is provided in the amendment.
2006	Voters approved the proposed constitutional amendment in the general election held in November 2006.
2007	The legislature provided a statutory allocation of revenues, consistent with the constitutional amendment, which is shown below.

Statutory allocation of motor vehicle sales tax revenues
Enacted by the 2007 Legislature
Consistent with the constitutional amendment passed by the voters in November, 2006

Fiscal Year	FY2008	2009	2010	2011	2012
Highway user tax distribution fund	38.25%	44.25%	50.25%	56.25%	60%
Metropolitan transit	24.00%	27.75%	30.00%	33.75%	36%
Greater Minnesota transit	1.50%	1.75%	3.50%	3.75%	4%
Total to transportation	63.75%	73.75%	83.75%	93.75%	100%

HISTORICAL TRENDS IN HIGHWAY REVENUE TO THE HUTD, 1975 TO 2008 AND FORECAST TO 2013

The following page shows the history of the major state highway revenue sources in Minnesota and the February 2009 forecast for the period of FY2009 to FY2013, *using the February 2009 forecast. Please note that this chart shows the three major funding sources of gas tax, tab fees and motor vehicle sales tax. Small additional amounts of revenue are also deposited in the HUTD, and are shown in the table on page 16.*



Source: Minnesota Department of Transportation, Office of Financial Management, annual Revenue and Expenditures for Transportation Purposes, budgetary basis.
Note: major sources of fuel tax, tab fees and MVST shown; small other amounts excluded ($2-2.5 million)

Appendix

This section includes a range of additional detailed or background information:

- Current forecast fund statements for the major transportation state funds, *pages 16-22*:
  - Highway User Tax Distribution fund statement, *February 2009* forecast;
  - Trunk Highway fund statement, *February 2009* forecast; *Governor's recommendations March 2009*
  - State Airports fund statement, *February 2009* forecast; *Governor's recommendations March 2009*
  - Transit Assistance fund statement, *February 2009* forecast (MVST that is dedicated to metropolitan transit and Greater Minnesota transit);

- Narratives for Mn/DOT's budget initiatives for 2010-2011, *pages 23-29, as updated for the Governor's supplemental budget recommendations in March 2009*; (Mn/DOT's full budget submission is available on the Department of Finance/MMB web site *at* http://www.finance.state.mn.us

- Vehicles Miles Traveled (VMT) and Motor Fuel Consumption from 1975 to the present, together with implied overall fleet efficiency (VMT per gallon of fuel); *page 31*

- Revenue and expenditures for transportation purposes, all sources of funds, FY2008 final (budgetary basis), on the back cover.

February 2009 Forecast--Transportation

Highway User Tax Distribution Fund
February 2009 forecast
Comparison with November 2008

($ in thousands)	February 2009 forecast					Change from November 2008				
Year	Budget	Budget	Budget	Planning	Planning	Budget	Budget	Budget	Planning	Planning
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Beginning Balance	$4,612	$0	$0	$0	$0	$0	$0	$0	$0	$0
Receipts:										
Gasoline and Special Fuel Taxes	$749,305	$836,631	$844,579	$857,221	$870,334	-$9,821	$0	$0	$0	$0
Motor Vehicle License Tax	$493,076	$510,651	$536,471	$588,978	$636,626	$8,931	-$18,987	-$52,332	-$44,865	-$34,355
Motor Vehicle Sales Tax	$180,938	$198,890	$250,144	$275,880	$286,140	$1,548	-$14,974	-$14,850	-$25,020	-$25,440
Other	$2,139	$2,239	$2,339	$2,439	$2,440	-$1,000	-$900	-$800	-$700	-$700
Total Revenues	$1,425,458	$1,548,411	$1,633,533	$1,724,518	$1,795,540	-$342	-$34,861	-$67,982	-$70,585	-$60,495
ACTUAL & ESTIMATED USES										
Appropriations to Mn/DOT, Revenue, DPS	$10,938	$11,915	$12,215	$12,215	$12,215	$0	$0	$0	$0	$0
Transfers--DNR	$16,043	$19,440	$20,030	$20,279	$20,602	-$583	$394	-$98	-$151	-$140
Transfers--Flexible Highway & Townships	$70,050	$75,740	$79,950	$84,486	$88,020	$18	-$1,765	-$3,398	-$3,526	-$3,023
Transfers--County State-Aid Highway	$385,974	$417,325	$440,523	$465,517	$484,990	$102	-$9,725	-$18,722	-$19,428	-$16,655
Transfers--Municipal State-Aid Highway	$119,785	$129,515	$136,714	$144,471	$150,514	$32	-$3,018	-$5,810	-$6,029	-$5,169
Transfers--Trunk Highway	$825,186	$892,211	$941,807	$995,243	$1,036,876	$218	-$20,790	-$40,026	-$41,535	-$35,607
Other	$2,094	$2,266	$2,295	$2,307	$2,322	-$129	$43	$72	$84	$99
Total Uses	$1,430,070	$1,548,411	$1,633,533	$1,724,518	$1,795,540	-$342	-$34,861	-$67,982	-$70,585	-$60,495
Ending Balance	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

Analysis

PURPOSE OF FUND

The highway user tax distribution fund (HUTD) was established by the Minnesota Constitution to be used solely for highway purposes. The fund receives revenue from taxes on motor vehicles, motor fuels, and sales tax on motor vehicles for transfer to various highway related funds. An amendment to the constitution passed in 2006 will fully dedicate the sales tax on motor vehicles to transportation purposes by FY 2012, with the HUTD to receive no more than 60 percent of the full dedication.

PRIMARY EXPENDITURES

The Minnesota Constitution requires that 95 percent of the revenues deposited into the HUTD be distributed as follows: 62 percent to the trunk highway fund (TH), 29 percent to the county state aid highway fund (CSAH), and 9 percent to the municipal state aid street fund (MSAS). The remaining five percent of HUTD revenues are distributed to the same three funds in accordance with a formula that the legislature periodically establishes.

FORECAST COMPARISON

Travel trends affecting fuel use have not recovered from the lower rates experienced last summer when fuel prices were high. The continued economic weakness and uncertainty have not offset the effect of lower fuel prices in recent months. The outlook for new car sales continues to weaken and affects substantially the estimates for both tab fees and MVST in this forecast.

• **Gas tax**: Since fuel tax rates are changing over the next few years, it is clearer to compare implied gallons used (tax revenues divided by the appropriate monthly fuel tax rate). Comparing FY2008 to FY2009, implied gallons taxed through the first 7 months of the fiscal year, through January, are down 5% from FY2008 to FY2009. For the most recent months since the November 2008 forecast (November, December and January), implied gallons are down about 4% from FY2008. National vehicle miles of travel (vmt) estimates from the Federal Highway Administration show vmt down 3.7% nationally through November for 2008 over 2007.

The November 2008 forecast already assumed implied gallons would be reduced in all of FY2009 by 2.6% from FY2008. This February 2009 forecast reduces FY2009 fuel tax revenue by $9.8 million to $749.3 million, representing a total of 3.7% less fuel taxed versus FY2008. The forecast of $749.3 million for FY2009 is still higher than $648.4 million for FY2008 due to the tax rate change from 20 cents per gallon for most of FY2008 to 25.5 cents per gallon for most of FY2009.

• **Tab fees**: The Department of Finance/MMB's national economic forecaster, Global Insights Inc. (GII), forecasts new light vehicle sales for both the remainder of FY2009 and for the next four years. These forecasts show a fall in national light vehicle sales from 15.3 million in FY2008 to 10.7 million in FY2009, with a strong recovery thereafter. Sales do not reach FY2008's level until FY2013, however, and economic conditions and the availability of credit will influence whether car sales recover in line with this forecast.

For this February 2009 forecast, the GII forecast was combined with data from DPS on non-truck registrations, which represent about 80% of the total tab fee revenues, for end of January 2009 and previous years to project tab fee revenues for FY2010-2013. Minnesota's new car registrations for FY2009 were forecast to grow at comparable rates to GII's forecast for the nation, and the new tab fee schedule was used to estimate revenue. The estimated tab fees revenues are reduced from November 2008 by 4% in FY2010 and 9% in FY2011, and comparably for FY2012 and FY2013. Although lower than previously forecast, the estimates still increase year by year, reflecting the new schedule phase in. FY2013's estimate of $636 million is 95% of the estimate in November 2008, and 93.5% of the estimate in March 2008 after Chapter 152 was passed.

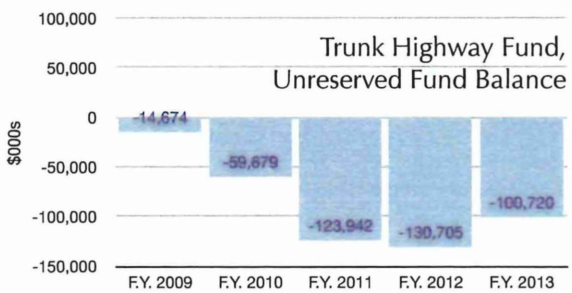
• **MVST**: New and used car sales directly affect revenues from MVST. Estimates for 2010-11 are 6-7% below November 2008's levels, and 8% below the planning estimates for FY2012-13. Year by year estimates increase due to the continued phase-in of the constitutional dedication of MVST to transportation, as well as the forecast recovery of new car sales in FY2010 and beyond.

Governor's Recommendations:
None.

February 2009 Forecast--Transportation

Trunk Highway Fund
February 2009 forecast
Comparison with November 2008

($ in thousands)	February 2009 forecast					Change from November 2008				
Year	Budget	Budget	Budget	Planning	Planning	Budget	Budget	Budget	Planning	Planning
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
ACTUAL & ESTIMATED RESOURCES										
Balance Forward From Prior Year	$143,499	-$14,674	-$59,679	-$123,942	-$130,705	$0	$228	-$19,342	-$74,937	-$115,239
Receipts:										
HUTD transfer	$825,186	$892,211	$941,807	$995,243	$1,036,876	$218	-$20,790	-$40,026	-$41,535	-$35,607
Federal aid agreements	$463,186	$299,000	$299,000	$299,000	$299,000	$0	$0	$0	$0	$0
Other income	$123,606	$87,670	$87,920	$88,195	$89,195	$10	$792	$792	$792	$792
Total Revenues	$1,411,978	$1,278,881	$1,328,727	$1,382,438	$1,425,071	$228	-$19,998	-$39,234	-$40,743	-$34,815
ACTUAL & ESTIMATED USES										
Mn/DOT	$1,420,698	$1,150,905	$1,152,298	$1,144,261	$1,141,022	$0	$1	$0	$0	$0
DPS and other	$89,911	$87,037	$87,037	$87,023	$87,023	$0	$0	$0	$0	$0
Debt service	$59,542	$85,944	$153,655	$157,917	$167,042	$0	-$430	$16,361	-$441	-$326
Total Expenditures	$1,570,151	$1,323,886	$1,392,990	$1,389,201	$1,395,087	$0	-$429	$16,361	-$441	-$326
Ending Balance	-$14,674	-$59,679	-$123,942	-$130,705	-$100,720	$228	-$19,342	-$74,937	-$115,239	-$149,728



Analysis
PURPOSE OF FUND
The trunk highway fund was established by the Minnesota Constitution for highway construction, improvement and maintenance.

SOURCE OF FUNDING
The trunk highway fund receives 62 percent of highway user tax distribution (HUTD) fund revenues (aside from the five percent of HUTD revenues that are distributed in accordance with a formula that the legislature periodically establishes), money from the federal government as aid in construction and maintenance of trunk highways, and other sources of direct income. Trunk highway bond proceeds from the sale of bonds as authorized by Article XIV of the constitution are deposited in a separate trunk highway bond fund.

FORECAST COMPARISON
The Trunk Highway fund has two major sources of revenues: state funds from the distribution from the HUTD fund, and federal aid agreements, primarily for construction contracts.

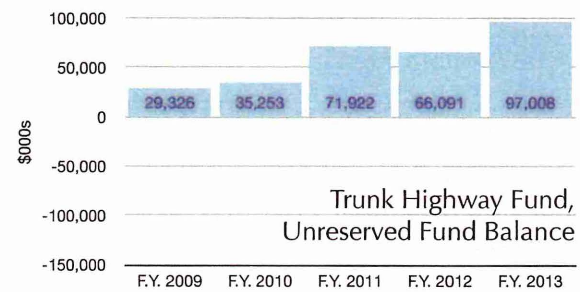
Compared to November 2008 estimates, state revenues in FY2009 are forecast to be unchanged, and about $20 million lower in FY2010, and $41 million lower in FY2011. Detailed discussion of the changes in state revenue sources are included with the HUTD fund statement summary. Debt service forecasts are similar as for November 2008, but a lower estimate of the amount of premium adds $16 million to FY2011's debt service transfer estimate.

The forecast for FY2009 is for a deficit of $14.7 million, compared to November 2008's estimate of $14.9 million for FY2009. For FY2011, this forecast is for a shortfall of $124 million, compared to the November 2008 estimate of a shortfall of $49 million. Lower state revenue estimates for FY2012 and FY2013 mean that the planning estimate for FY2013 shows a fund balance of ($100) million, down from the positive balance of $49 million for FY2013 in November 2008.

March 2009 Governor's Recommendations--Transportation

Trunk Highway Fund
Gov's Rec March 2009
Comparison with February 2009 forecast

($ in thousands)	March 2009 Governor's Reommendations					Change from February 2009				
Year	Budget	Budget	Budget	Planning	Planning	Budget	Budget	Budget	Planning	Planning
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
ACTUAL & ESTIMATED RESOURCES										
Balance Forward From Prior Year	$143,499	$29,326	$35,253	$71,922	$66,091	$0	$44,000	$94,932	$195,864	$196,796
Receipts:										
HUTD transfer	$825,186	$892,211	$941,807	$995,243	$1,036,876	$0	$0	$0	$0	$0
Federal aid agreements	$463,186	$342,500	$429,900	$386,200	$386,200	$0	$43,500	$130,900	$87,200	$87,200
Other income	$123,606	$87,670	$87,920	$88,195	$89,195	$0	$0	$0	$0	$0
Total Revenues	$1,411,978	$1,322,381	$1,459,627	$1,469,638	$1,512,271	$0	$43,500	$130,900	$87,200	$87,200
ACTUAL & ESTIMATED USES										
Mn/DOT	$1,376,698	$1,141,905	$1,180,698	$1,228,961	$1,225,722	-$44,000	-$9,000	$28,400	$84,700	$84,700
DPS and other	$89,911	$88,605	$88,605	$88,591	$88,591	$0	$1,568	$1,568	$1,568	$1,568
Debt service	$59,542	$85,944	$153,655	$157,917	$167,042	$0	$0	$0	$0	$0
Total Expenditures	$1,526,151	$1,316,454	$1,422,958	$1,475,469	$1,481,355	-$44,000	-$7,432	$29,968	$86,268	$86,268
Ending Balance	$29,326	$35,253	$71,922	$66,091	$97,008	$44,000	$94,932	$195,864	$196,796	$197,728



March 2009 Governor's Recommendations

REVENUES
The change in Federal aid agreements reflects the request for additional state road construction (SRC) appropriation authority for the level of federal funds from the surface transportation authorization act just ending in FY2009 (SAFETEA-LU). Federal formula highway funds are appropriated through the trunk highway fund and state spending authority is needed to encumber state highway projects. The base level of SRC state appropriation authority is below the current level of federal funds since the Bond Accelerated Program in 2004 included $400 million of state spending authority as one-time appropriations in state fiscal years 2004-2007 at the beginning of SAFETEA-LU.

EXPENDITURES--FY2009
The FY2009 adjustment of $44 million in SRC spending authority reflects use of federal aid in the current biennium. For FY 2008 - 09, the fiscal year close of FY 2008 in the Fall of 2008, and the adoption of the Statewide Transportation Improvement Program (STIP) means that the construction program for FY 2008-09 is now largely determined. Compared to previous forecasts, this biennial program is forecast to involve smaller amounts of federal aid agreements than previously forecast, and the level of Advanced Construction (AC) funding is lower than last forecast. The adopted program and the November 2008 and February 2009 forecasts reflect this adjusted program and lower federal aid agreement revenue but the state appropriation needs to be adjusted as well. The request to cancel $44 million in spending authority in FY 2009 reflects this lower level of federal aid agreements and the entire current program of projects is unaffected.

EXPENDITURES--FY2010-2011
The February 2009 forecast for the trunk highway fund reflected lower state revenues for FY2010-2011 and the ending balance for FY 2011 is a shortfall of $124 million.

For 2010-2011, the SRC appropriation request reflects both the impact of federal funds and state funds, since state trunk highway construction is funded by both kinds of revenues. For federal funds, the appropriation level is increased as described in the Revenues section above.

For state funds in 2010-2011, this request is to reduce state road construction funded with state revenues by $50 million in FY 2010 and $100 million in FY 2011 from state funds, and operating appropriations by a base amount of $2.5 million per year from infrastructure operations and maintenance. These adjustments are needed to balance the trunk highway fund for FY 2011 using the February 2009 forecast, and to leave a fund balance of $71.9 million to handle financial uncertainty during the 2010-2011 biennium.

The request also includes a $2.5 million base reduction in the appropriation for operations and maintenance.

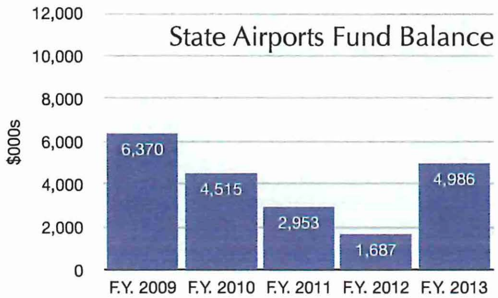
The request also includes a change in funding for certain BCA costs in the Department of Public Safety that adds $1.568 million per year to the DPS appropriation from the trunk highway fund.

February 2009 Forecast--Transportation

State Airports Fund
February 2009 forecast
Comparison with end of session 2008

Year	February 2009 forecast					Change from end of November 2008				
	Budget	Budget	Budget	Planning	Planning	Budget	Budget	Budget	Planning	Planning
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
ACTUAL & ESTIMATED RESOURCES										
Balance Forward From Prior Year	$3,605	$6,370	$4,515	$2,953	$1,687	$0	-$86	-$706	-$1,389	-$2,037
Prior Year Adjustments	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Adjusted Balance Forward	$3,605	$6,370	$4,515	$2,953	$1,687	$0	-$86	-$706	-$1,389	-$2,037
Receipts:										
Airline Flight Property Tax	$8,117	$7,800	$7,800	$7,800	$12,033	$0	$0	$0	$0	$0
Aircraft Registration Tax	$6,620	$6,620	$6,620	$6,620	$6,620	$314	$314	$314	$314	$314
Gasoline & Special Fuel Tax	$3,100	$3,100	$3,193	$3,289	$3,421	-$400	-$934	-$997	-$962	-$996
Departmental Earnings (1)	$500	$500	$500	$500	$500	$0	$0	$0	$0	$0
Investment Income	$500	$200	$400	$600	$800	$0	$0	$0	$0	$0
Other Income	$103	$103	$103	$103	$103	$0	$0	$0	$0	$0
Total Receipts	$18,940	$18,323	$18,616	$18,912	$23,477	-$86	-$620	-$683	-$648	-$682
ACTUAL & ESTIMATED USES										
Expenditures:										
Transportation, Department of	$16,174	$20,177	$20,177	$20,177	$20,177	$0	$0	$0	$0	$0
Revenue, Department of	$1	$1	$1	$1	$1	$0	$0	$0	$0	$0
Total Expenditures	$16,175	$20,178	$20,178	$20,178	$20,178	$0	$0	$0	$0	$0
Budgetary Balance	$6,370	$4,515	$2,953	$1,687	$4,986	-$86	-$706	-$1,389	-$2,037	-$2,719

Note 1: Excludes loan transactions from Hangar Revolving Fund



PURPOSE OF FUND
The purpose of the State Airports Fund is to provide technical and financial assistance to municipal airports, to improve air transportation facilities, to promote air safety, to establish and promote air service, and to pay costs of aeronautics staff in the Department of Transportation.

SOURCE OF FUNDING
1) Revenues are from aviation related taxes and fees, including aircraft registration tax, airline flight property tax, and gasoline and special fuel taxes.
2) Investment income earned by the fund is credited to the fund.

FORECAST COMPARISON
Compared to the November 2008 forecast, FY2009 has offsetting changes to aircraft registration tax and fuel tax estimates. For FY2010 and beyond, aircraft registration tax is estimated to be $314,000 higher per year. Fuel taxes are estimated to decrease by almost one quarter, reflecting the general economic conditions in the aviation industry. The airline flight property tax estimate for FY2013 includes $4.223 million that Northwest Airlines did not pay for its 2005 airflight property tax liability, due to filing for bankruptcy in 2005. The airline emerged from bankruptcy in 2007, the deadline for paying this tax is 2013. The amount is shown as revenue in 2013 on this statement.

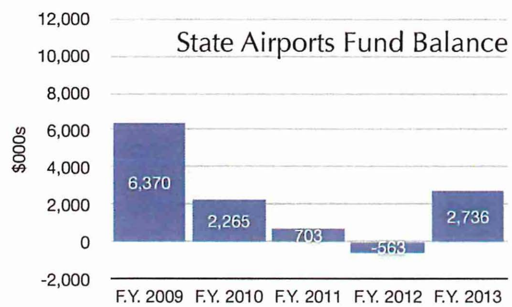
The ending fund balance for the year FY2009 is $6.4 million, little changed from the $6.5 million estimated in November 2008. The fund balance for FY2011 is $3.0 million, down about $1.4 million from November 2008. The FY2013 planning estimate fund balance is $5.0 million, largely due to the expected Northwest tax repayment in FY2013, and down $2.7 million for November 2008's estimate.

March 2009 Governor's Recommendations

State Airports Fund
Gov's Rec March 2009
Comparison with February 2009 forecast

Year	March 2009 Governor's Reommendations					Change from end of February 2009				
	Budget	Budget	Budget	Planning	Planning	Budget	Budget	Budget	Planning	Planning
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
ACTUAL & ESTIMATED RESOURCES										
Balance Forward From Prior Year	$3,605	$6,370	$2,265	$703	-$563	0	0	-2,250	-2,250	-2,250
Prior Year Adjustments	$0	$0	$0	$0	$0	0	0	0	0	0
Adjusted Balance Forward	$3,605	$6,370	$2,265	$703	-$563	0	0	-2,250	-2,250	-2,250
Receipts:										
Airline Flight Property Tax	$8,117	$7,800	$7,800	$7,800	$12,033	0	0	0	0	0
Aircraft Registration Tax	$6,620	$6,620	$6,620	$6,620	$6,620	0	0	0	0	0
Gasoline & Special Fuel Tax	$3,100	$3,100	$3,193	$3,289	$3,421	0	0	0	0	0
Departmental Earnings (1)	$500	$500	$500	$500	$500	0	0	0	0	0
Investment Income	$500	$200	$400	$600	$800	0	0	0	0	0
Other Income	$103	$103	$103	$103	$103	0	0	0	0	0
Total Receipts	$18,940	$18,323	$18,616	$18,912	$23,477	0	0	0	0	0
ACTUAL & ESTIMATED USES										
Expenditures:										
Transportation, Department of	$16,174	$22,427	$20,177	$20,177	$20,177	0	2,250	0	0	0
Revenue, Department of	$1	$1	$1	$1	$1	0	0	0	0	0
Total Expenditures	$16,175	$22,428	$20,178	$20,178	$20,178	0	0	0	0	0
Budgetary Balance	$6,370	$2,265	$703	-$563	$2,736	0	-2,250	-2,250	-2,250	-2,250

Note 1: Excludes loan transactions from Hangar Revolving Fund



March 2009 Governor's Recommendations

EXPENDITURES
The Governor's recommendation for the state airports fund is unchanged from January 2009, with a one-time increase in FY 2010 of $2.25 million from the state airports fund for airport grants. The state airports fund balance would end FY 2011 with a $0.7 million balance, about 3.5% of annual expenditures, and would be $2.7 million at the end of the planning estimates in FY 2013.

February 2009 Forecast--Transportation

Transit Assistance Fund forecast, February 2009

Comparison with November 2008

($ in thousands)	February 2009					Change from November 2008				
Year	Budget	Budget	Budget	Planning	Planning	Budget	Budget	Budget	Planning	Planning
	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Balance forward	$250	$0	$0	$0	$0	$0	$0	$0	$0	$0
Motor Vehicle Sales Tax	$120,626	$132,593	$166,763	$183,920	$190,760	$1,033	-$9,983	-$9,900	-$16,680	-$16,960
Leased Vehicle Sales Tax			$425*	$0	$2,047*	$0	$0	$0	$0	$0
Total Receipts	$120,626	$132,593	$167,188	$183,920	$192,807	$1,033	-$9,983	-$9,900	-$16,680	-$16,960
ACTUAL & ESTIMATED USES										
Metropolitan Council	$113,470	$118,740	$150,087	$165,528	$171,684	$972	-$8,940	-$8,910	-$15,012	-$15,264
Transportation Department	$7,405	$13,853	$17,101	$18,392	$21,123	$61	-$1,043	-$990	-$1,668	-$1,696
Total Uses	$120,876	$132,593	$167,188	$183,920	$192,807	$1,033	-$9,983	-$9,900	-$16,680	-$16,960
Budgetary Balance	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

PURPOSE OF FUND

The transit assistance fund is established within the state treasury and receives money distributed under section 297B.09, subdivision 1, and other money as specified by law. Money in the fund must be allocated to the greater Minnesota transit account and the metropolitan area transit account in the manner specified in section 297B.09, subdivision 1, and must be used solely for transit purposes under the Minnesota Constitution, article XIV, section 13.

SOURCE OF FUNDING

1) Revenues are from motor vehicle sales taxes.

2) The greater Minnesota transit account receives half of the net proceeds from the sales tax on leased vehicles, starting with the first distribution of net funds in FY2011.

FORECAST COMPARISON

Compared to the November 2008 forecast, MVST revenue is estimated to be 6-7% lower in FY2010-11 and 8% lower in FY2012-13. The state of the automobile market is forecast to be significantly weaker than last forecast, and for a longer time period. Metropolitan Council is estimated to receive about $9 million less per year in FY2010-11 than previously forecast, and $15 million less per year in FY2012-13. Greater Minnesota transit's share is down about $1 million per year in FY2010-11 and $1.7 million per year in FY2012-13.

*Note: the Leased Vehicle Sales Tax is shown as for November 2008 forecast.
The February 2009 update should be FY2011: $0, FY2012 $0, and FY2013 $2,250. These changes will be incorporated into end of session 2009 fund balances for both the Transit Assistance fund and the County State-Aid Highway fund.

Governor's Recommendations:

None.

TRANSPORTATION DEPT
Program: MULTIMODAL SYSTEMS
Change Item: General Fund Reduction

Fiscal Impact ($000s)	FY 2010	FY 2011	FY 2012	FY 2013
General Fund				
Expenditures	$(1,924)	$(1,924)	$(1,924)	$(1,924)
Revenues	0	0	0	0
Net Fiscal Impact	$(1,924)	$(1,924)	$(1,924)	$(1,924)

Recommendation
The Governor recommends a $1.924 million reduction from the general fund base for FY 2010 and FY 2011 for grants to greater Minnesota transit providers. This reduction to direct appropriated funds is offset by the increasing portion of MVST revenues that are statutorily dedicated for transit grants.

Background
Minnesota Department of Transportation's (Mn/DOT's) transit budget funds systems which provide transportation alternatives to driving alone and allows people to live independently and participate fully in Minnesota's communities and economy. The goals of the state transportation system include providing transit services throughout the state to meet the needs of transit users (M.S. 174.01). In greater Minnesota, the public transit participation program (M.S. 174.24) is supported by the general fund, revenues from Motor Vehicle Sales Tax (MVST – M.S. 297B.09) and, beginning in 2011, revenues from sales tax on leased motor vehicles (M.S. 297A.815). Revenues from these taxes are deposited in the greater Minnesota transit fund (M.S. 16A.88) and a share of these amounts are further allocated to the greater Minnesota transit account within that fund. Revenues deposited in this account are statutorily dedicated for assistance to transit systems outside the metropolitan area. The program provides grants for operating and capital assistance to fund public transit service outside the metropolitan area in 66 of 80 counties.

Relationship to Base Budget
The base budget for this appropriation for FY 2010 is $18.784 million. The proposed decrease of $1.924 million is an ongoing reduction to the base budget. State transit funds are used mostly to assist local governments in paying for operations of transit systems, and the requested ten percent general fund reduction will result in reductions in transit service.

Key Measures
The goal of Mn/DOT's transit programs is to meet mobility needs of Minnesota's citizens through access to a high quality, coordinated transit network that is integrated into the overall transportation system. Key measures include:

- Preserve existing public transit systems in greater Minnesota.
  Maintain current level of public transit service levels in greater Minnesota--provide resources and technical assistance to maintain the current level of public transit service (service hours, trips and number of people with access to services). Ridership in greater Minnesota was 10.4 million in 2007.

- Increase the availability of public transit service in greater Minnesota.
  The goal of the Greater Minnesota Transit Plan is to meet 80% of transit service need by 2010 – which would imply an increase in bus service hours by 7% annually.

The proposed reduction in base budget will reduce the ability to meet the specific goals and measures described above.

Statutory Change: Not Applicable

Change from January 2009 Governor's Recommendation:

None.

TRANSPORTATION DEPT
Program: MULTIMODAL SYSTEMS
Change Item: Airport Development Grants

Fiscal Impact ($000s)	FY 2010	FY 2011	FY 2012	FY 2013
State Airports Fund				
Expenditures	$2,250	$0	$0	$0
Revenues	0	0	0	0
Net Fiscal Impact	$2,250	$0	$0	$0

Recommendation
The Governor recommends a one-time appropriation of $2.25 million from the state airports fund in FY 2010 for airport development and assistance grants.

Background
Airports are key access points for business development in Minnesota communities. This request provides funding for investments focused on maintaining and preserving existing airport infrastructure, improving safety, and coordinating air travel with other transportation modes at the 136 publicly-owned airports in the state system. Ninety-six of the airports are eligible for Federal Aviation Administration (FAA) funds. Eligible projects include planning, land acquisition, paving, lighting, navigational aids, obstruction removal, equipment purchase, fencing, noise mitigation, and other needs. The state airports fund is used to maximize FAA funds, support functions not eligible for FAA funds, and provide projects at non-federally eligible airports. Projects selected for funding make the transportation network operate better by connecting airport cities to other trade centers in the nation and the world.

Relationship to Base Budget
The 2008 reduction in appropriation created a significant impact on airport projects underway in the 2008 construction season. The base budget for this appropriation for FY 2010 is $14.298 million. The proposed increase of $2.25 million is a one-time appropriation to restore funding for some of the airport grant projects that were affected by the reduction in the FY 2009 appropriation.

Key Goals and Measures
Public airports provide local transportation infrastructure to 136 communities across Minnesota, including accessibility for the businesses that *sustain strong economic growth,* and tie all corners of the state to the global economy. *Rural areas and small cities* with airports *are economically viable places for people to live and work.* (Italics identify Minnesota milestones.) Key measures include:

- 95% of Minnesota's population within 20 miles of an airport with a paved and lighted runway;
- 97% of Minnesota's population within 60 minutes of an airport with some type of cargo service;
- 83% of airports with a runway pavement condition rating of good; and
- no more than 5% of airports with a runway pavement condition rating of poor.

Small package cargo delivery is growing rapidly as internet shopping with two-day delivery options become more popular, especially in rural areas. Air transportation and/or delivery is responsible for a wide variety of social benefits ranging from business development to medical transportation to recreation. In 1999 the economic impacts of airports in Minnesota were responsible for:

- nearly 113,800 jobs
- $3.1 billion annual earnings
- $10.4 billion in annual economic activity

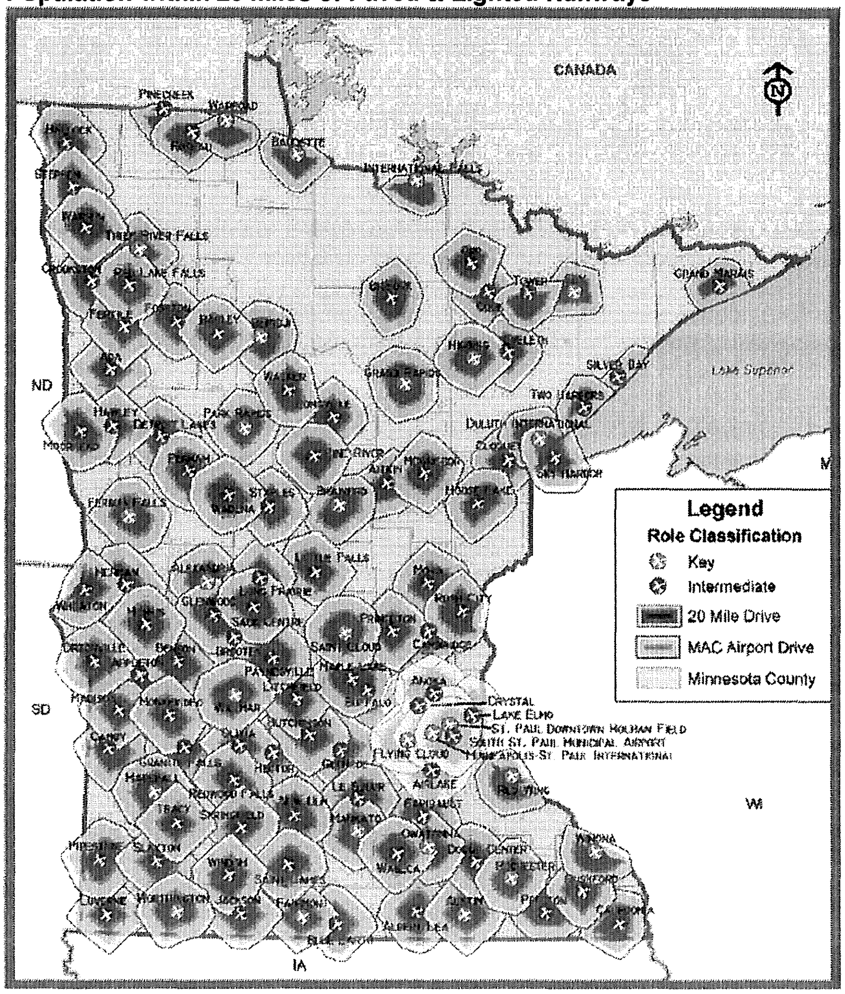
Aviation economic impacts have been difficult to determine since the events of 9/11/2001 in consideration of airline bankruptcies that have occurred since that date.

TRANSPORTATION DEPT

Program: MULTIMODAL SYSTEMS

Change Item: Airport Development Grants

Population within 20 miles of Paved & Lighted Runways



Alternatives Considered

Statutory Change: Not Applicable.

Change from January 2009 Governor's Recommendation:
None.

TRANSPORTATION DEPT
Program: LOCAL ROADS
Change Item: Administrative Costs

Fiscal Impact ($000s)	FY 2010	FY 2011	FY 2012	FY 2013
Municipal State Aid Street Fund				
Expenditures, direct: Construction	$(672)	$(710)	$(710)	$(710)
Expenditures, open: Administration	672	710	710	710
Revenues	0	0	0	0
Net Fiscal Impact	$0	$0	$0	$0

Recommendation
The Governor recommends that increased funds be made available for administrative activities related to the Municipal State-aid Street system. Current law provides that 1.5% of money available for apportionment is allocated to a separate account for administrative purposes, rather than being apportioned to the approximately 143 cities with populations over 5,000. The recommendation is to increase this percentage from 1.5% to 2.0%. This request would not change overall expenditures within the municipal state-aid street fund.

Background
The Municipal State Aid Roads budget activity deals with the 9% of the Highway User Tax Distribution fund (HUTDF) that is allocated to cities with more than 5,000 in population. These funds are apportioned to the individual cities according to a formula prescribed in law. This proposal will provide for increased flexibility for the Minnesota Department of Transportation (Mn/DOT) for statewide and partnership projects which can be funded through this account as well as program oversight of cooperative and bonding programs, which do not provide for administrative funding. A similar proposal for the county state-aid highway fund was adopted by the legislature in 2005.

Relationship to Base Budget
The change to the administrative set aside will not change overall expenditures within the municipal state-aid street fund. Apportioned funding is requested as a direct appropriation in biennial budgets, while administrative appropriations are authorized in statute. The proposed change would reduce the request for the construction direct appropriation by $672,000 in FY 2010 and $710,000 in FY 2011 and beyond, and increase the statutory appropriation by equal amounts. It should be also be noted that annual Commissioner's Orders under statute adjust the budgeted and adopted appropriation amounts at the beginning of each calendar year for final apportionment to cities.

Key Goals and Measures
The products and services provided by the State Aid for Local Transportation (SALT) Division are monitored through performance measures based upon customer satisfaction and through direct measures of level of service provided in key areas.

Statutory Change: This change affects M.S. 162.12, subd. 2.

Change from January 2009 Governor's Recommendation:
Proposal is unchanged. Amount of funding has been reestimated in line with the February 2009 forecast since 0.5% of MSAS funding in terms of dollars has changed.

TRANSPORTATION DEPT

Program: STATE ROADS

Change Item: State Road Construction Appropriation

Fiscal Impact ($000s)	FY 2010	FY 2011	FY 2012	FY 2013
Trunk Highway Fund				
Expenditures	$43,500 ~~$44,000~~	$130,900 ~~$131,400~~	$87,200 ~~$87,700~~	$87,200 ~~$87,700~~
Revenues	$43,500 ~~44,000~~	$130,900 ~~131,400~~	$87,200 ~~87,700~~	$87,200 ~~87,700~~
Net Fiscal Impact	$0	$0	$0	$0

Recommendation

The Governor recommends increasing appropriations related to state road construction from the trunk highway fund by *$43.5* million in FY 2010 and *$130.9* million in FY 2011. Of the change in FY 2011, *$87.2* million adds to the base appropriations.

Background

Spending in the state road program for state road construction and other activities including research is supported by federal formula highway funds. The current federal authorization law, SAFETEA-LU, provided for increased levels of federal highway funding for Minnesota for 2004 through 2009.

Federal highway funds for trunk highway purposes require state direct appropriation authority to spend. In 2003, the legislature appropriated $400 million of trunk highway spending authority as part of the Bond Accelerated Program (BAP). This one-time state spending authority was used to encumber projects with the additional federal formula funds. As a result, the base state appropriation level for FY 2010 for state road construction is below the full amount of forecasted federal funds. The appropriation increase requested is based on estimated federal funds at the fully available federal fiscal year (FFY) 2009 amount, with no increase assumed for FYs 2010, 2011, 2012 and 2013.

The appropriation change is comprised of two parts: (1) to increase the base appropriation for state road construction and (2) to separate the base appropriation for research from the state road construction appropriation. An average of $87.2 million spending authority is requested to adjust state appropriation levels to current forecasts of federal funding, with an average of $83.8 million available for state road construction per year and $3.4 million available for research per year. The appropriation request for $3.4 million in infrastructure investment and planning (non-SRC portion) is for research spending that was formerly part of the SRC appropriation. The request for FY 2010 and FY 2011 for state road construction averages $83.8 million but is requested in amounts that are consistent with the letting schedules in the current planned construction program.

Relationship to Base Budget

This change will increase the annual base budget in state road construction by an average of $83.8 million from $551.2 million. The spending level for research services remains at $3.4 million per year, but now is requested under infrastructure investment and planning but not within the state road construction appropriation.

Key Goals and Measures

The base budget request provides a comprehensive discussion of the various goals that the activity as a whole strives to achieve. The increase recommended by the Governor provides additional resources to support achieving these goals. These goals are described in detail in the section of the budget request that addresses the base budget request for infrastructure investment and planning.

Alternatives Considered

Statutory Change: Not Applicable.

Change from January 2009 Governor's Recommendation:

None.

TRANSPORTATION DEPT
Program: STATE ROADS
Change Item: Trunk Highway Funding Changes

Fiscal Impact ($000s)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Trunk Highway Fund					
Expenditures	$(44,000)	$(52,500)	$(102,500)	$(2,500)	$(2,500)
Revenues		0	0	0	0
Net Fiscal Impact	$(44,000)	$(52,500)	$(102,500)	$(2,500)	$(2,500)

Recommendation

The Governor recommends one-time reductions in FY 2009 of $44 million, in FY 2010 of $50 million, and in FY 2011 of $100 million to the current trunk highway appropriation for state road construction, and a base reduction in FY 2010 of $2.5 million per year from operating appropriations. These changes are proposed to address the trunk highway fund balance after the February 2009 forecast, and reflect weakening state transportation revenues (primarily tab fees and motor vehicle sales tax), as well as to adjust FY 2009 spending levels to the amount of federal aid agreements now programmed. The $44 million in FY 2009 reflects a lower level of federal aid agreements, but this reduction does not impact the current program of projects.

Background

The trunk highway fund's major revenue sources are (1) the 62% of highway user tax distribution (HUTD) fund revenues (aside from the five percent of HUTD revenues that are distributed in accordance with a formula that the legislature periodically establishes), (2) agreements with the federal government for aid in construction and maintenance of trunk highways, and (3) other sources of direct income such as interest earnings.

The February 2009 forecast for the trunk highway fund showed lower state revenues for FY 2009 and beyond. Increases from year to year are still expected because of gas tax rate changes, the tab fee depreciation schedule adjustment, and the constitutional phase-in of motor vehicle sales tax (MVST), but the increases are lower than previously forecast.

Travel trends affecting fuel use have not recovered from the lower rates experienced last summer when fuel prices were high. The continued economic weakness and uncertainty have not offset the effect of lower fuel prices in recent months. The outlook for new car sales continues to weaken and affects substantially the estimates for both tab fees and MVST in this forecast.

- Gas tax: Since fuel tax rates are changing over the next few years, it is clearer to compare implied gallons used (tax revenues divided by the appropriate monthly fuel tax rate). Comparing FY2008 to FY2009, implied gallons taxed through the first 7 months of the fiscal year, through January, are down 5% from FY2008 to FY2009. For the most recent months since the November 2008 forecast (November, December and January), implied gallons are down about 4% from FY2008. National vehicle miles of travel (vmt) estimates from the Federal Highway Administration show vmt down 3.7% nationally through November for 2008 over 2007.

  The November 2008 forecast already assumed implied gallons would be reduced in all of FY2009 by 2.6% from FY2008. This February 2009 forecast reduces FY2009 fuel tax revenue by $9.8 million to $749.3 million, representing a total of 3.7% less fuel taxed versus FY2008. The forecast of $749.3 million for FY2009 is still higher than $648.4 million for FY2008 due to the tax rate change from 20 cents per gallon for most of FY2008 to 25.5 cents per gallon for most of FY2009.

- Tab fees: The Department of Finance/MMB's national economic forecaster, Global Insights Inc. (GII), forecasts new light vehicle sales for both the remainder of FY2009 and for the next four years. These forecasts show a fall in national light vehicle sales from 15.3 million in FY2008 to 10.7 million in FY2009, with a strong recovery thereafter. Sales do not reach FY2008's level until FY2013, however, and economic conditions and the availability of credit will influence whether car sales recover in line with this forecast.

  For this February 2009 forecast, the GII forecast was combined with data from DPS on non-truck registrations, which represent about 80% of the total tab fee revenues, for end of January 2009 and previous years to project tab fee revenues for FY2010-2013. Minnesota's new car registrations for FY2009 were

TRANSPORTATION DEPT
Program: STATE ROADS
Change Item: Trunk Highway Funding Changes

forecast to grow at comparable rates to GII's forecast for the nation, and the new tab fee schedule was used to estimate revenue. The estimated tab fees revenues are reduced from November 2008 by 4% in FY2010 and 9% in FY2011, and comparably for FY2012 and FY2013. Although lower than previously forecast, the estimates still increase year by year, reflecting the new schedule phase in. FY2013's estimate of $636 million is 95% of the estimate in November 2008, and 93.5% of the estimate in March 2008 after Chapter 152 was passed.

- MVST: New and used car sales directly affect revenues from MVST. Estimates for 2010-11 are 6-7% below November 2008's levels, and 8% below the planning estimates for FY2012-13. Year by year estimates increase due to the continued phase-in of the constitutional dedication of MVST to transportation, as well as the forecast recovery of new car sales in FY2010 and beyond.

The second major source of revenue to the trunk highway fund is federal aid agreements entered into with the Federal Highway Administration. For FY 2008 - 09, the fiscal year close of FY 2008 in the Fall of 2008, and the adoption of the Statewide Transportation Improvement Program (STIP) means that the construction program for FY 2008-09 is now largely determined. Compared to previous forecasts, this biennial program is forecast to involve smaller amounts of federal aid agreements than previously forecast, and the level of Advanced Construction (AC) funding is lower than last forecast. The adopted program and the November 2008 forecast reflects this adjusted program and lower federal aid agreement revenue but the state appropriation needs to be adjusted as well. The request to cancel $44 million in spending authority in FY 2009 reflects this lower level of federal aid agreements and the entire current program of projects is unaffected.

For 2010-2011, this request is to reduce state road construction by $50 million in FY 2010 and $100 million in FY 2011 from state funds, and operating appropriations by a base amount of $2.5 million per year from infrastructure operations and maintenance. These adjustments are needed to balance the trunk highway fund for FY 2011 using the February 2009 forecast, and to leave a fund balance to handle financial uncertainty during the 2010-2011 biennium.

Statutory Change: Not Applicable.

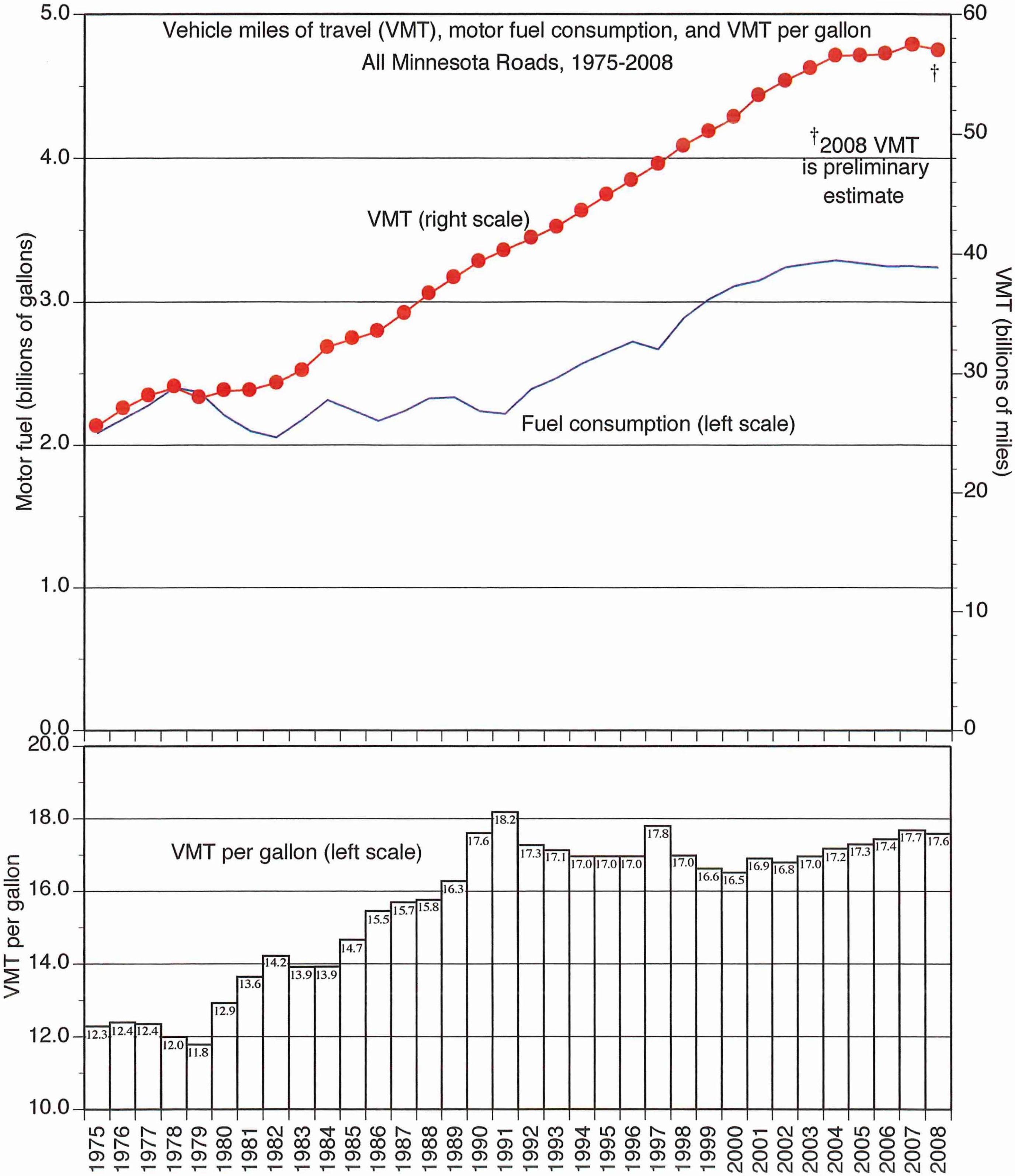
Change from January 2009 Governor's Recommendation:

Proposal has changed from January. The FY2009 reduction of $44 million in state road construction appropriation level is unchanged.

The January 2009 $4.5 million reduction in base appropriations for program delivery ($2 million) and operations & maintenance ($2.5 million) from FY2010 has been refined to include just the latter element.

The February 2009 trunk highway forecast fund balance for FY2011 was lower by $74 million to negative $124 million. To address this fund balance and to allow for a fund balance to handle financial uncertainty during the 2010-11 biennium, a one-time reduction in SRC appropriation level of $50 million in FY2010 and $100 million in FY2011 is included in the March 2009 supplemental Governor's recommendations.

The Governor's March 2009 recommendations leave a trunk highway fund balance of $71.9 million for FY2011.

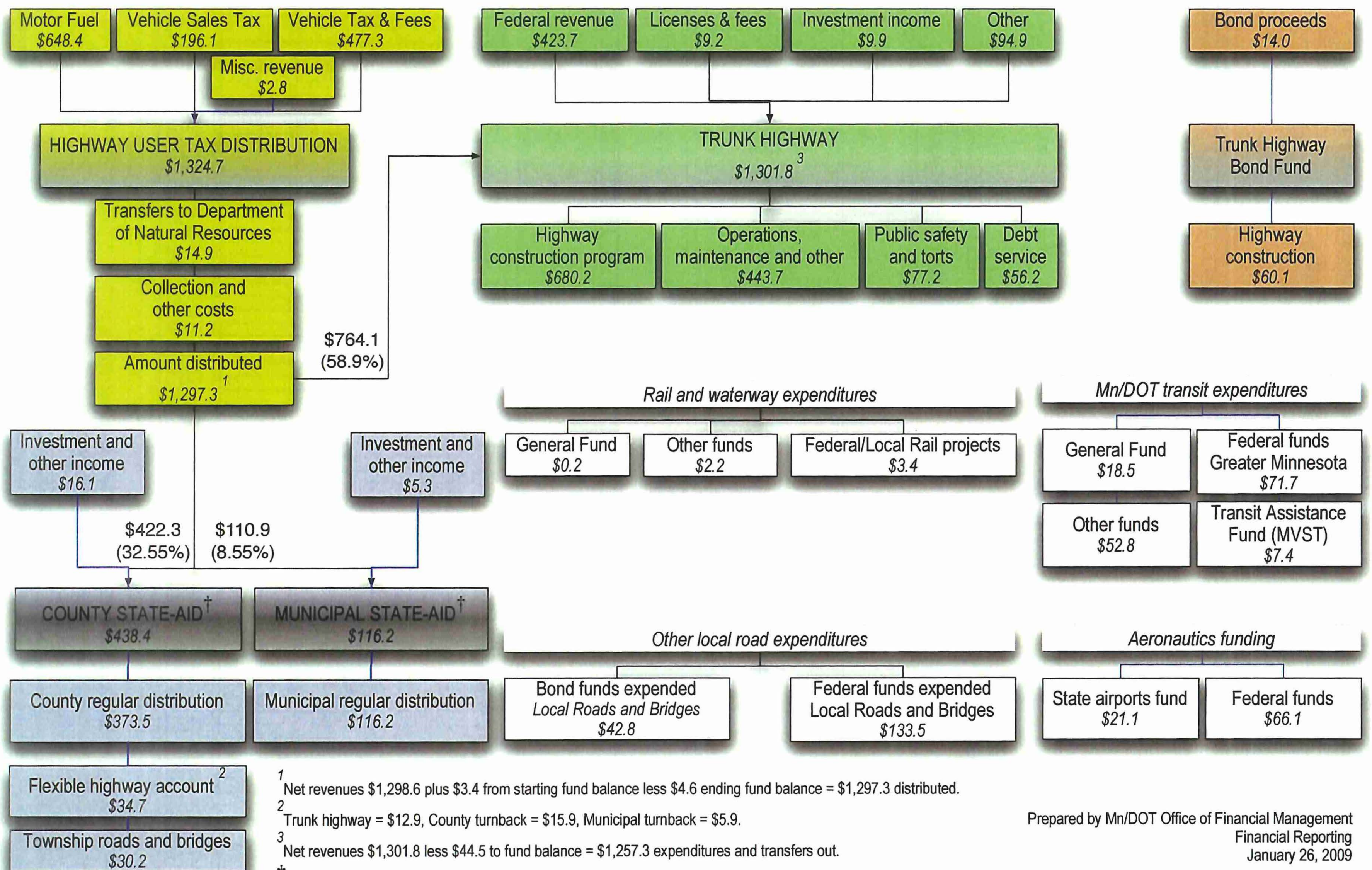


Sources:
Fuel consumption: Minnesota Dept of Revenue monthly fuel tax reports,
http://www.taxes.state.mn.us/petroleum/publications/publications.shtml
VMT: Mn/DOT Office of Travel Data Analysis,
http://www.dot.state.mn.us/roadway/data/html/roadwaydata.html

STATE OF MINNESOTA

REVENUE AND EXPENDITURES FOR TRANSPORTATION PURPOSES
ALL SOURCES OF FUNDS ($ MILLIONS)

FY 2008 FINAL (BUDGETARY BASIS)



1 Net revenues $1,298.6 plus $3.4 from starting fund balance less $4.6 ending fund balance = $1,297.3 distributed.

2 Trunk highway = $12.9, County turnback = $15.9, Municipal turnback = $5.9.

3 Net revenues $1,301.8 less $44.5 to fund balance = $1,257.3 expenditures and transfers out.

† CSAH and MSAS distributions shown as FY2008 close. Jan 2008 Commissioner's Order amounts based on November 2007 forecast.

Prepared by Mn/DOT Office of Financial Management
Financial Reporting
January 26, 2009