



Dedication of Motor Vehicle Sales Tax Revenues

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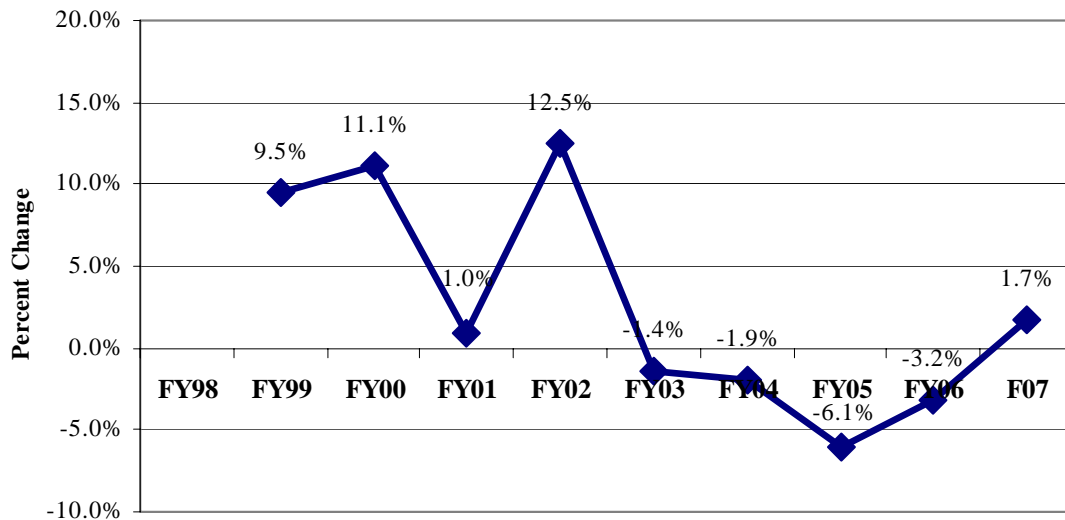
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Background: Motor Vehicle Sales Tax, Fiscal Year 1992 to 2007

Minnesota taxes the sales of motor vehicles at the same rate as the state general sales tax, or 6.5 percent of the purchase price of the vehicle less the value of any trade-in vehicle. The tax generated \$540 million in FY 2006. From 1998 to FY2007, the annual tax generated has increased 23 percent from \$445 million in FY 1998 to \$549 million in FY 2007. During the same period, the average percent change each year was 2.56%. Chart 1 provides an annual history of the change in Motor Vehicle Sales Tax Revenue. As illustrated by Chart 1, year-to-year growth has varied significantly, from a high of 12 percent in FY2002 to a decline of -6 percent in FY 2005.

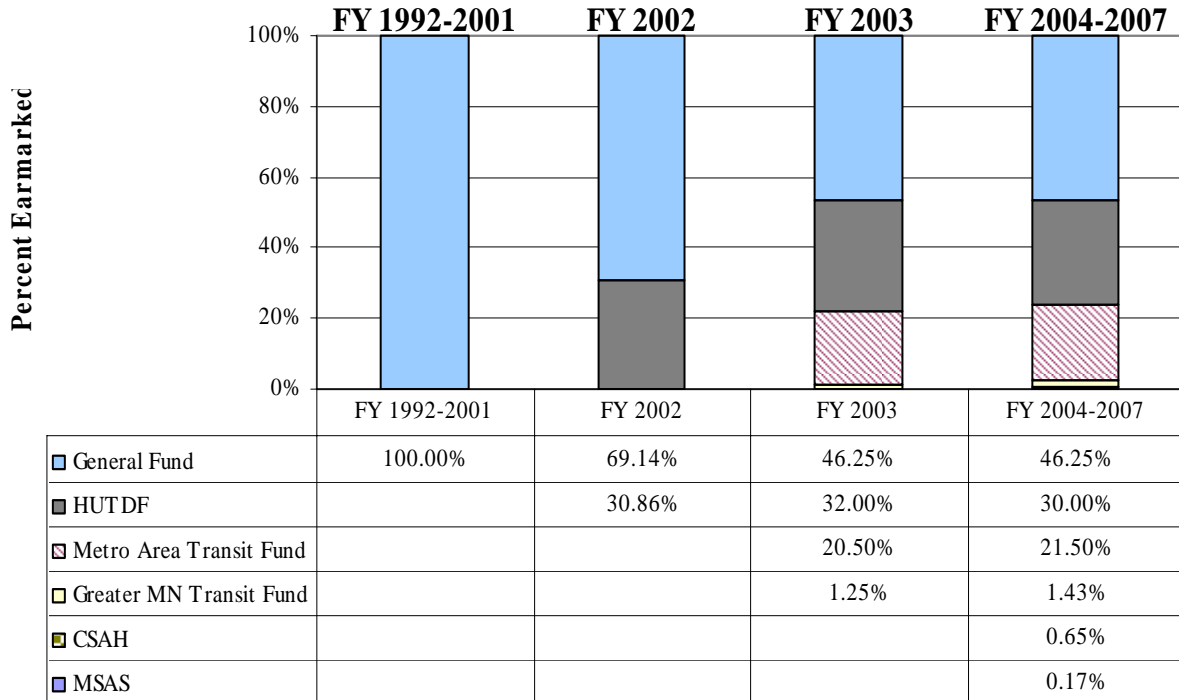
Chart 1. Annual Growth in Motor Vehicle Sales Tax Revenue, FY 1998 to FY 2007



Graphic: House Fiscal Staff
Data Source: MN Department of Finance, Price of Government, February 2006 Forecast

The distribution and use of these revenues is determined by statute. From 1993 through FY 2001, all proceeds from the motor vehicle sales tax (MVST) were deposited into the state general fund and used for various purposes. Recently law changes have altered that distribution of MVST revenues. Chart 2 (on the next page) summarizes the distribution of these funds from FY 1992 to FY 2007.

Chart 2. Distribution of Motor Vehicle Sales Tax, FY 1992 to FY 2007



Graphic: House Fiscal Staff

Data Source: MN Department of Finance, Consolidated Fund Balance, February 2006 Forecast

In FY 2002, to replace lost revenues resulting from a reduction in motor vehicle registration tax or "tab fees" (enacted in FY 2000), 30.86 percent of MVST revenues were shifted to the Highway User Tax Distribution Fund (HUTDF) from the general fund. (See Box 1 for a description of this fund, page 3) The amount of MVST revenues shifted to the HUTDF changes in FY 2003 to 32 percent and back to 30 percent for FY 2004 to FY 2007.

Until 2002, the property tax was the primary source of revenue for both urban and rural transit in Minnesota. As a part of the property tax reforms enacted in FY 2001, the legislature prohibited the use of property tax for funding transit operations in the metropolitan area and replaced those revenues, and existing rural transit levies, with a dedicated portion of MVST revenues. In FY 2003, MVST revenues were also shifted to transit funds. The Greater Metropolitan Area Transit Fund and the Greater Minnesota Transit Fund received 20.5 percent and 1.25 percent respectively. (See Box 1 for a description of these funds) The Greater Minnesota Transit Fund was earmarked revenue from MVST to replace lost property tax revenues. The amount dedicated from MVST to these funds slightly increased in FY 2004.

In FY 2004, County State Aid Highway (CSAH) and Municipal Street Aid Funds (MSAS) also received earmarked revenues from MVST. The percent earmarked is .65 percent and .17 percent respectively. (See Box 1 for a description of these funds)

Box 1: Transportation Funds

Highway User Tax Distribution Fund (HUTDF). A fund established by the Minnesota Constitution to distribute motor fuels tax and vehicle registration tax revenues. The distribution of the combined tax revenue is as follows: 62 percent to the Trunk Highway Fund, 29 percent to the County State-Aid Fund and 9 percent to the Municipal State Aid fund. The remaining 5 percent is determined by statute and can be adjusted no more frequently than once every six years.

Greater Metropolitan Area Transit Fund. A fund established in the state treasury. All money in this fund is annually appropriated to the Metropolitan Council for the funding of transit systems within the metropolitan areas under sections 473.384, 473.387, 474.388, 473.405 to 473.449.

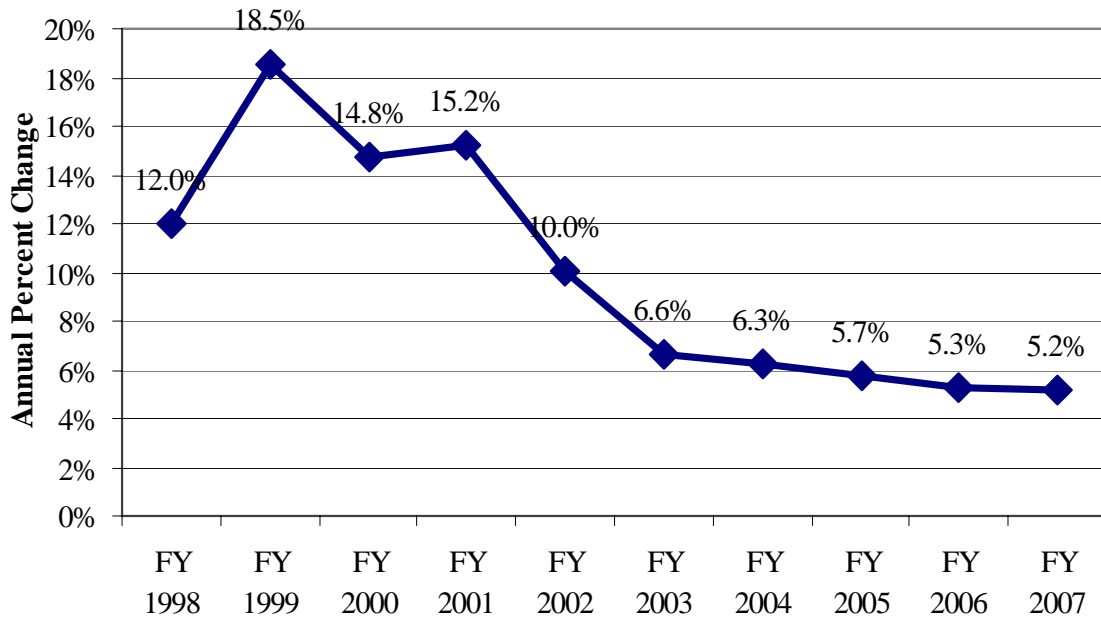
Greater Minnesota Transit Fund. A fund established in the state treasury. Money in this fund is annually appropriated to the commissioner of transportation for assistance to transit systems outside the metropolitan area. Beginning in FY 2003, the commissioner may use up to \$400,000 each year for administration of the transit program as provided in section 174.24 and related program administration.

County State Aid Highway Funds (CSAH). A fund established by the state constitution for distribution of a portion of the Highway User Tax Distribution fund for construction and maintenance of county roads.

Municipal State Aid Street Fund (MSAS). A fund established by the Minnesota Constitution to provide money to cities with over 5,000 in population for their municipal state-aid streets. The municipal state-aid fund receives a constitutionally guaranteed 9 percent of 95 percent of the highway user tax distribution fund. Money in the highway user tax distribution fund comes from constitutionally dedicated taxes on motor fuels and motor vehicles, and a statutorily dedicated portion of revenue from the state motor vehicle sales tax. (House Research Short Subject by John Williams, September 2005).

Finally, from FY 1992 to FY 2007, the amount of MVST revenues being sent to the general fund has been reduced from 100 percent to 46.25 percent. From this reduction, the amount of MVST revenues as a percent of the general fund sales tax revenues has proportionately declined from 12 percent in FY 1998 to 5.1 percent in FY 2007. Chart 3 summarizes the annual percent change in MSVT revenues as percent of the general sales tax revenues.

Chart 3. Annual Percent Change in MSVT Revenues as a Percent of General Sales Tax Revenues.

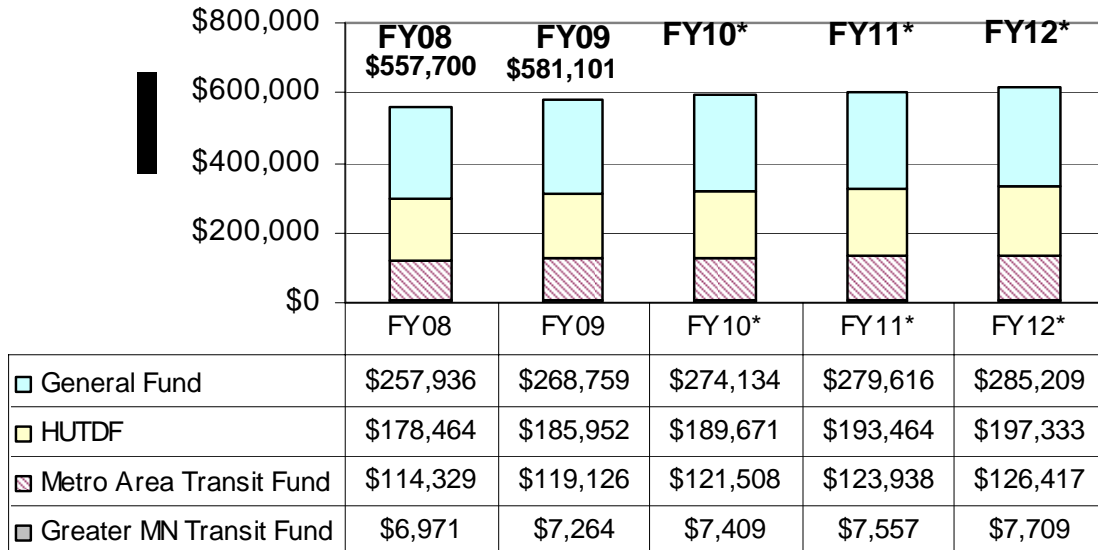


Graphic: House Fiscal Staff
Data Source: MN Department of Finance, Price of Government, February 2006 Forecast

Current Law: FY 2008 and forward

Starting in FY 2008, according to statute, the distribution and use of MVST revenues changes again (reverts back to the FY 2003 allocation for MVST). For FY 2008 and after, the amount of MVST revenues to the general fund, HUTDF, Metropolitan Transit Fund and the Greater Minnesota Transit Fund is 46.25 percent, 32 percent, 20.5 percent and 1.25 percent respectively. Chart 4 summarizes the dollar amount of estimated MVST revenues dedicated to each fund in FY 2008 to FY 2012. County State Aid Highway and Municipal State aid Street Funds would no longer receive dedicated revenue from MVST starting in FY 2008 under current law.

Chart 4. Estimated FY 2008-09 MVST Revenues



Graphic: House Fiscal Staff

Data Source: MN Department of Finance, Price of Government, February 2006 Forecast & Consolidated Fund Balance and General Fund Balance, End of 2006 Legislative Session, June 2006. * FY 10-FY 12 are estimated MVST revenues by House Fiscal Staff. The forecast by the Department of Finance will include these fiscal years in its forecast starting with the November 2006 Forecast.

Proposed Constitutional Amendment: If adopted, FY 2007 and forward

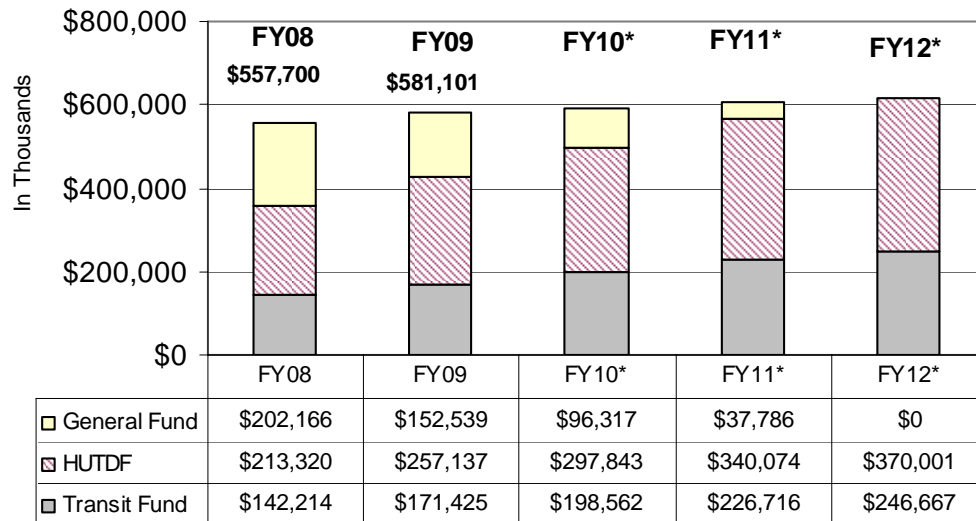
The 2005 Legislature authorized a constitutional amendment on transportation funding. The proposed amendment to be presented to voters in November 2006 asks if all the revenue from the existing motor vehicle sales tax should go to improve the state's highway and public transit systems. The phase-in schedule for shifting MVST revenues to transportation purposes would begin in FY 2008 and would be completely phased-in by FY 2012.

The specific constitutional amendment language is:

"Shall the Minnesota Constitution be amended to dedicate revenue from a tax on the sale of new and used motor vehicles over a 5-year period, so that after June 30, 2011, all of the revenue is dedicated at least 40 percent for public transit assistance and not more than 60 percent for highway purposes?"

If this amendment is adopted by the voters, the law specifies that the allocation of MVST revenues to the general fund would be 36.25 percent in FY 2008 and decline by ten percent each year until that amount percent reaches zero in FY 2012. MSVT revenues dedicated to the HUTDF and a newly created Transit Fund would be 38.25 percent and 25.5 percent respectively. These amounts would increase to 60 percent for HUTDF and 40 percent for Transit by FY 2012. Chart 5 shows the amount of MVST estimated revenues to each fund for FY 2008 to FY 2012.

Chart 5. Estimated Amount of MVST Revenues to Each Fund

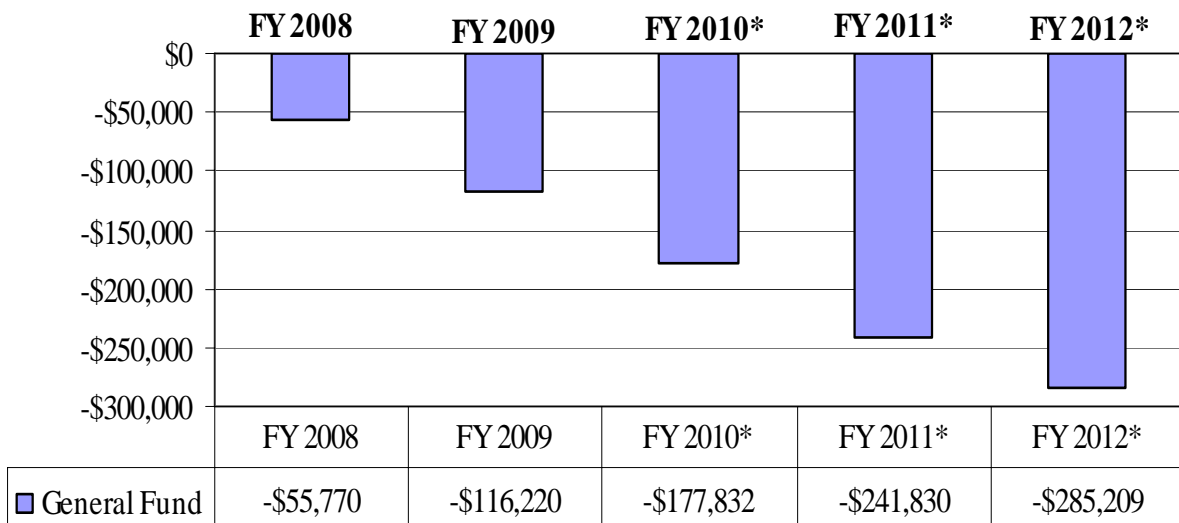


Graphic: House Fiscal Staff

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As shown in Chart 4 and Chart 5 above, the adoption of the constitutional amendment is not expected to have any revenue impact on the total amount of MVST revenues available. Instead the constitutional amendment would have the following impacts over 5 years: (1) it would eliminate funding earmarked for the general fund; (2) it would eliminate certain funds earmarked to receive MVST revenue under current law, specifically the Metropolitan Area Transit Fund and the Greater Minnesota Transit Fund, and would replace it with a newly created Transit Fund; and (3) it would increase the level of dedicated funding to the HUTDF under current law. As an example of the estimated dollar impact in the FY 2008-09 biennium, MVST revenues earmarked for the general fund would decrease by \$172 million (-20%) and MVST revenues earmarked for highways and transit would increase by the same proportion. Chart 6 shows the estimated reduction in the deposit of MVST revenues to the general fund if the constitutional amendment is adopted.

Chart. 6. The effect of the Constitutional Amendment on the General Fund



Graphic: House Fiscal Staff

Data Source: MN Department of Finance, Price of Government, February 2006 Forecast & Consolidated Fund Balance and General Fund Balance, End of 2006 Legislative Session, June 2006. * FY 10-FY 12 are estimated MVST revenues by House Fiscal Staff. The forecast by the Department of Finance will include these fiscal years in its forecast starting with the November 2006 Forecast.

Looking Forward

If the constitutional amendment is adopted by the voters, the 2007 Legislature may want to address several transportation and other general issues.

Transportation Issues:

1. The 40 percent of MVST revenues dedicated to Transit would be split between the Metropolitan Council for use in the metro area, and MN/DOT's Office of Transit to be used in greater Minnesota. If this amendment is adopted, the Legislature will determine the split between the metro area and greater Minnesota.

2. How to allocate dedicated funding for roads and transit starting after FY 2012 and beyond? The constitutional amendment authorizes up to 60 percent for highways and roads and at least 40 percent to public transit statewide. The Legislature could increase the transit portion of 40 percent by statute if it chose to do so by reducing the 60 percent dedicated to highways. Conversely, highway revenues are limited to 60 percent of the proceeds and could not exceed that amount.

General Issues:

1. Diverting money from the general fund for transit, does that money need to be replaced?

2. If property tax reforms enacted in 2001 prohibiting the use of property tax revenue for funding transit should be reversed? Is MVST a stable source of revenue for transit with its variable year-to-year revenue changes?

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