

Highway Funding Sources

Funding framework The Minnesota Constitution establishes a basic framework for state highway finance. It dedicates certain funding to be “used solely for highway purposes,” through three main transportation-related taxes on: motor fuels, motor vehicle registration, and motor vehicle sales. [Minn. Const. art. XIV](#). State statutes further specify policies, such as tax rates, allocation formulas, and local aid requirements.

Motor fuels tax The motor fuels tax is imposed at a per-gallon rate and collected from petroleum distributors. The tax rate varies across fuel classifications in state law. The rate for regular gasoline is the same for diesel and certain gasoline blends. [Minn. Stat. § 296A.07](#), subd. 3. The tax rate for other fuel types, such as E85 and compressed natural gas, is proportional to that of gasoline based on energy content of each fuel.

Legislation passed in 2008 phases in an 8.5-cent tax increase, so that starting in fiscal year 2013, the rate for gas and diesel will be 28.5 cents per gallon (and proportional for other fuel types). [Laws 2008, ch. 152](#).

Gasoline Tax Phase-In

Period	Rate per gallon (cents)
FY 2007	20.0
FY 2008-09	20.0 - 25.5 (varies)
FY 2010	27.1
FY 2011	27.5
FY 2012	28.0
FY 2013 & After	28.5

Based on constitutional language dedicating motor fuel tax revenue “used for propelling vehicles on the public highways of this state,” revenue is handled in a couple of ways when the motor fuel is not used for transportation on public roads. [Minn. Const. art. XIV](#), § 10.

- Taxes paid on fuel used in nonhighway commercial operations, principally farming, are refunded.
- A portion of tax revenue is attributed to fuel use in nonhighway recreation, such as in motorboats and ATVs, and transferred into Department of Natural Resources (DNR) accounts supporting those activities. [Minn. Stat. § 296A.18](#).

Motor vehicle registration tax The state imposes a registration tax (also known as tab fees) on motor vehicles domiciled in Minnesota. The annual tax applies to passenger vehicles as well as trucks and other vehicles that use public streets and highways. A major exception is vehicles owned by government agencies (including school buses).

For passenger vehicles, the tax depends on the vehicle’s original value as well as its age. Vehicles are taxed at 1.25 percent of the *base value* multiplied by a *depreciation factor*, plus \$10. The base value is the manufacturer’s list price (without options) for a particular make and model when the vehicle was new. The depreciation factor is a yearly reduction following a statutory schedule. In the vehicle’s first year of life there is no depreciation. The depreciation is 90 percent in its second year, and it drops by 10 percentage points a year until its eleventh year (when the formula changes from a percentage to a flat \$25). [Minn. Stat. §](#)

168.013, subd. 1a. Legislation in 2008 modified the schedule for depreciating the base value and eliminated caps on the amount of tax due. [Laws 2008, ch. 152](#).

Trucks are taxed on the basis of weight and age. The tax on trucks and truck-tractors depends on weight, but entails a 25 percent reduction after eight years of life. Farm trucks pay a weight-based tax that is reduced after eight years of life. Buses are also taxed on weight, with depreciation beginning in the third year of life. Motorcycles have a flat tax of \$10 annually. [Minn. Stat. § 168.013](#).

Motor vehicle sales tax

The motor vehicle sales tax, or MVST, is a 6.5 percent tax applied to the sale of new and used motor vehicles based on the purchase price of the vehicle. [Minn. Stat. § 297B.02](#). It is imposed instead of the general sales tax. Some older autos as well as collector’s vehicles have a flat tax instead. MVST is collected by auto dealers or when the vehicle is registered.

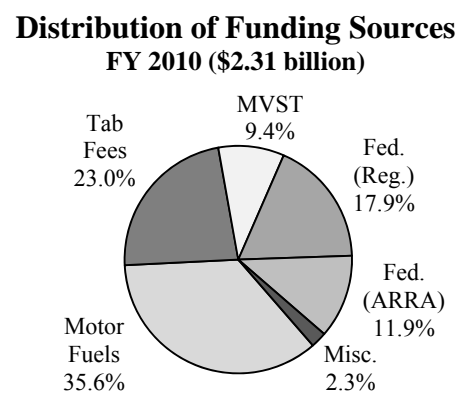
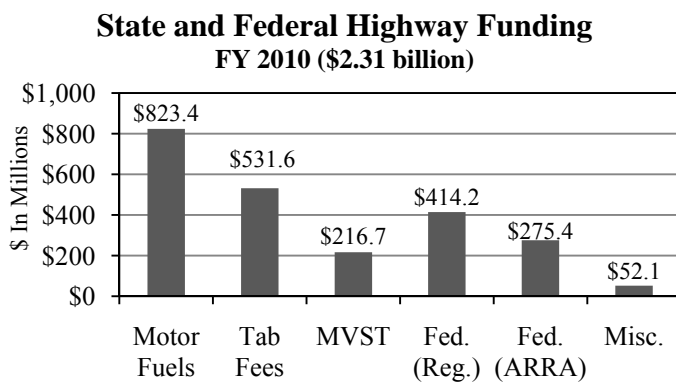
Historically, MVST revenue has gone to both transportation and the general fund. Voters in 2006 approved a constitutional amendment that dedicates all MVST revenue to transportation purposes, phased in over fiscal years 2008 to 2012. The Constitution also requires that “no more than 60 percent” of the revenue go to highways and “not less than 40 percent” go to public transit assistance. [Minn. Const. art. XIV, § 13](#). An MVST phase-in schedule established in statute specifies the actual division between highways and transit. [Minn. Stat. § 297B.09](#). In fiscal year 2012, after the phase-in, the revenues will be distributed 60 percent to highways and 40 percent to transit, with the transit portion divided into 36 percent for the metropolitan area and 4 percent for greater Minnesota.

Other sources

Federal aid is another significant highway funding source. In fiscal year 2010, it amounted to \$472.79 million for trunk highways and \$216.78 million for local roads. Federal aid can also be divided between regular program aid and onetime stimulus funding from the American Reinvestment and Recovery Act of 2009 (ARRA). Additional funding for the state’s trunk highway system comes from (1) debt financing, in the form of trunk highway bonds; and (2) various sources such as fees, fines, and sales of excess land and property.

Funding amounts

The charts below summarize amounts of highway funding from state and federal sources (for the trunk highway system as well as for aid to local government).



Notes: (1) “Motor fuels” category includes DNR transfers; (2) “MVST” category only contains highway funding; (3) “Misc.” category is primarily various forms of revenue for the trunk highway system; and (4) funding excludes bond proceeds.

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