

INFORMATION BRIEF
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Updated: July 2017

Transportation Budgets

This information brief reviews legislative budgets for transportation. It provides background information on the structure of transportation finance in Minnesota, outlines some features of transportation budgeting, summarizes the categorization within budget legislation, and addresses some recurring topics.

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Finance and Budget Features

Constitutional Framework

The Minnesota Constitution is integral to understanding the structure of transportation finance and therefore a legislative budget. The constitution creates accounting funds, authorizes three core transportation funding sources, dedicates the sources to transportation purposes, and sets a largely formula-based framework for allocating funding across state roads, local roads, and transit.

The constitution establishes multiple accounting funds that are separate from the state's general fund.

They consist of:

- the highway user tax distribution (HUTD) fund, which functions as a state and local road system funding collector prior to allocation to other funds (and a few appropriations are made directly from it);
- the trunk highway fund for the state's trunk highway system (which consists of the Interstate system and other highways under the jurisdiction of the Minnesota Department of Transportation);
- the county state-aid highway (CSAH) fund as well as municipal state-aid street (MSAS) fund for state assistance to local units of government; and
- the transit assistance fund, which contains separate accounts for transit in Greater Minnesota and the Twin Cities metropolitan area. [Minn. Const. art. XIV](#).

While not constitutionally established, the state airports fund contains funding for the state's airport system. The special revenue fund contains a few accounts for transportation purposes. Finally, the general fund is used for some appropriations (primarily for purposes that must be funded outside of constitutionally restricted funding streams).

Several transportation revenue sources have a constitutional basis.

The primary sources of state funding for transportation consist of (1) a motor fuels tax, (2) a motor vehicle sales tax (MVST), and (3) a tax on motor vehicle registration (also known as tab fees). All three are identified in constitutional provisions. [Minn. Const. art. XIV](#).

Federal aid constitutes another significant source of transportation funding. It comes primarily from a federal tax on motor fuels.

The constitution constrains allocation of most transportation-related tax revenue.

Revenue from the registration tax as well as the motor fuels tax is dedicated under the Minnesota Constitution (with some exceptions) to state and local highways. Further, the distribution of funds must follow a constitutional formula. As a result there is limited flexibility to shift funding from these sources between state and local roads, or between highways and transit.

MVST revenue is also constitutionally directed. Under the constitution, revenue must go entirely to transportation and there are conditions on the division of funds between roads and transit. A specific allocation is established in state statute following the constitutional requirements. [Minn. Const. Art. XIV](#), sec. 13; [Minn. Stat. § 297B.09](#). Subject to political and policymaking considerations, there is potential for modifying MVST revenue allocation (although this funding source, too, involves constitutional constraints).

The most flexible funding streams are the general fund and general sales tax revenue from long-term vehicle leases, known as the motor vehicle lease sales tax.¹

Uses of trunk highway fund dollars are constitutionally limited.

Related to the previous discussion, money in the trunk highway fund is constitutionally restricted to trunk highway purposes. Purposes include various core functions performed by MnDOT (including the design, engineering, and construction work on trunk highway projects, as well as highway maintenance, traffic safety, and general administration) and by the Department of Public Safety (mainly in traffic enforcement through the State Patrol). While most MnDOT agency functions are considered trunk highway purposes, some nontrunk highway activities (such as support of transit in Greater Minnesota, ports, aviation, and local road systems) must be funded through sources outside of the trunk highway fund.

Spending Authority

Major state agencies, such as the Minnesota Department of Transportation (MnDOT), are only authorized to expend funds through state law. This spending authority takes two basic forms: (1) appropriations in a budget or other fiscal legislation, and (2) appropriations made in state statutes.

Transportation budgets form the core spending authority for the next biennium.

The transportation budget is established through finance legislation typically authored by transportation finance committee chairs. In practice, transportation budget legislation tends to closely resemble the budget recommendations submitted to the legislature by the governor. The budget sets authorized spending levels for various programs and functions. A budget primarily contains “direct appropriations,” which provide spending authority for a specific purpose, in specific fiscal years, and in specified amounts.

Each budget is biennial, covering the two fiscal years following the session of enactment. For instance, a budget covering fiscal years 2018-2019 was enacted in 2017. (The state’s fiscal year runs from each July 1 through the following June 30, and referenced based on the calendar year in which it ends.) However, additional authority, adjustments, or supplemental budgets, might be subsequently enacted.

¹ Motor vehicle lease sales tax revenue allocated to transportation purposes in recent years amounts to a relatively small share of overall transportation funding, but can be significant for comparatively smaller budget activities like Greater Minnesota transit.

The transportation finance structure includes significant statutory appropriations that are outside the budget.

A second form of spending authority is through “statutory appropriations,” also termed standing appropriations. State statutes create ongoing authority to expend funds, and the spending authority does not need to be renewed as part of the budget process. (In a number of cases the statutory appropriation does not specify a dollar amount at all, making it an “open” appropriation.)

There are a couple of notable statutory appropriations that exist outside of the transportation budget.

- **MVST.** As noted earlier, revenue from MVST goes to both highways and transit following a combination of constitutional and statutory provisions. The transit portions—in both the Twin Cities metropolitan area and Greater Minnesota—are made available through statutory appropriations. From MVST revenue in fiscal year 2016, \$285.7 million was appropriated by statute for transit assistance (and was further allocated roughly \$257.1 million to the Twin Cities metropolitan area and \$28.6 million to transit systems in Greater Minnesota).² [Minn. Stat. § 16A.88](#). Being a significant funding stream, MVST is a consideration in crafting the budget, yet the funds are not generally apparent from bill language or some budgetary documents.
- **Motor vehicle lease sales tax revenue.** Minnesota’s general sales tax applies to long-term motor vehicle leases; it is colloquially referred to as the motor vehicle lease sales tax. Similar to MVST, a portion of the lease sales tax revenue is statutorily appropriated, such as through an allocation to Greater Minnesota transit.³ [Minn. Stat. § 297A.815](#), subd. 3. The transit share of revenue was about \$29.2 million in fiscal year 2016. The 2017 transportation budget included a notable restructuring of the allocation formula for motor vehicle lease sales tax revenue (beginning in fiscal year 2018). This included eliminating the general fund portion, accommodating the constitutional dedication of sales taxes under the Legacy amendment, and adding funding for the local bridge program as well as the HUTD fund. [Laws 2017, 1st spec. sess., ch. 3](#), art. 3, § 109.
- **Funding for opt-outs.** “Opt-outs,” consisting of transit providers in the Twin Cities metropolitan area that serve some suburban communities, are funded through MVST and therefore outside of most transportation budget legislation. Opt-outs receive a portion of MVST funds, which is administered by the Metropolitan Council. The council typically distributes additional funding beyond a formula-based minimum that is identified in statute. [Minn. Stat. § 473.388](#), subd. 4. The 2017 transportation budget set an additional MVST regional allocation requirement to the opt-outs for fiscal years 2018 and 2019. [Laws 2017, 1st spec. sess., ch. 3](#), art. 3, § 118.

² Total revenue in fiscal year 2016 amounted to about \$714.5 million (with the difference distributed to state and local roads).

³ Another portion is allocated to counties in the Twin Cities metropolitan area; this amount has been included in the direct appropriation from the CSAH fund in biennial budgets.

For transportation, statutory appropriations have not normally been identified in most legislative budget tracking spreadsheets (which identify direct appropriations rather than all sources of state aid and funding).

Other Finance Characteristics

Highlighted below are some additional features of the transportation fiscal structure.

- **General fund appropriations have historically formed a small share of transportation funding, but are set to grow in upcoming years.** Unlike other areas of state budgeting, the majority of transportation funds come from sources that are outside of the state's general fund (namely, transportation-related taxes and federal aid). As a result, a typical transportation budget contains a relatively small amount in appropriations from the general fund. General fund appropriations are made primarily to fund transit service and multimodal systems. Transportation finance bills usually set the trunk highway fund as the default fund from which appropriations are made. In 2017 the amount of general fund spending was increased (by \$300 million over the \$243.6 million base for the 2018-19 biennium, growing to \$447.9 million over base for the 2019-20 biennium). [Laws 2017, 1st spec. sess., ch. 3](#).
- **A large share of the budget funds capital projects.** A substantial portion of each transportation budget goes to capital projects as opposed to day-to-day operations. This reflects how the transportation system largely consists of publicly owned physical infrastructure with significant ongoing costs that are capital in nature, unlike many other governmental programs.
- **Funding for transportation capital is regularly provided through both a transportation budget and capital investment legislation.** The structure of the Minnesota Legislature normally includes a capital investment (bonding) committee. Transportation capital project financing is often found in both (1) transportation budget legislation, which contains direct appropriations as well as bonding authorizations in some cases (usually just for trunk highways); and (2) capital investment legislation, which regularly funds various transportation projects and programs that can include transit facilities, rail lines, ports, airport, and local road systems.
- **There are multiple types of bonds used to finance transportation capital projects.** “Trunk highway bonds” are a specialized form of general obligation bonding. They are constitutionally limited to capital projects on or functionally related to the trunk highway system, and the debt service on such bonds is paid through the trunk highway fund. “General obligation bonds”—also known as “G.O. bonds”—are available for local roads and bridges as well as other transportation capital such as rail lines and transit facilities. They cannot be used on the trunk highway system. Repayment of G.O. bonds is through general fund appropriations (typically made in capital investment legislation). [Minn. Const. arts. XI, § 5; XIV, § 11](#).

For more background and fiscal information on highway finance, see other House Research publications including *Highway Finance Overview* and *Trunk Highway System* (www.house.mn/hrd).

Elements of Transportation Budgets

This section addresses some features of a typical transportation budget based on common questions. It outlines the budget structure and provides details around spending authority.

Budget Structure

Biennial budget legislation, along with corresponding tracking spreadsheets, organize the appropriations by each recipient, program, and budget activity. Within a budget:

- appropriations are grouped by state agency receiving spending authority;
- each “program” is a major high-level area for the agency; and
- each “budget activity” is a primary categorizing unit within a program.

Transportation appropriations are most often made for budget activities, but can be for programs as well as different parts of a budget activity. Some riders to an appropriation specify additional requirements or authority for use of specific funds. In many cases there are ongoing statutory requirements surrounding use of the funds (which are sometimes referred to through a statutory reference in a rider).

Note that for the Metropolitan Council and the Department of Public Safety, only a portion of the budget is under the legislative jurisdiction of transportation committees. Other committees address portions of the agencies’ respective budgets, generally within separate finance legislation.

Department of Transportation

Department of Transportation – Legislative Budget Summary

Program	Budget Activity	Description
Multimodal Systems		
Aeronautics		General statewide aviation support, aid, and technical services; excludes the Metropolitan Airports Commission
Transit		Support for transit service in Greater Minnesota (MnDOT is not a direct provider of transit)
Passenger Rail		Planning and analysis of passenger rail lines
Freight		Programs in freight, rail, and ports; includes commercial vehicle regulation activities

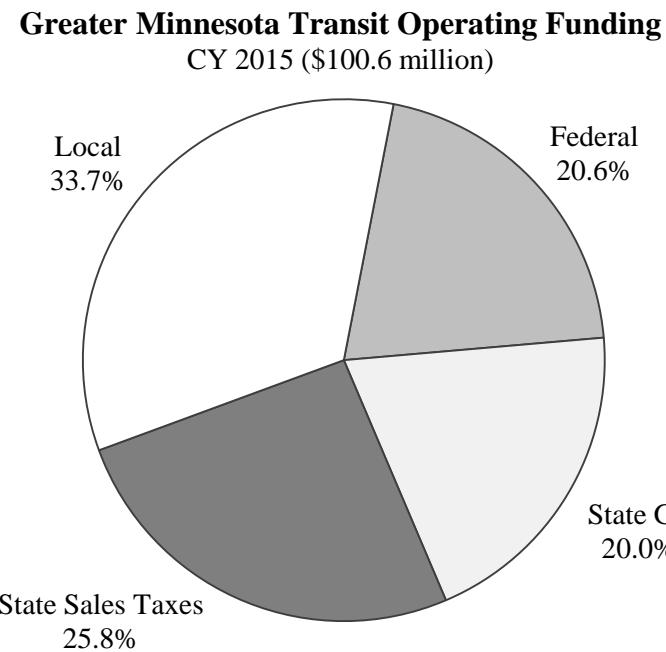
State Roads	
Operations & Maintenance (O&M)	Trunk highway system road and bridge maintenance; includes snow plowing and road clearance as well as ongoing items like roadway repairs, maintaining traffic safety infrastructure (such as guard rails and signs), and day-to-day preservation
Program Planning & Delivery	Activities in support of road and bridge construction, including project development, project management, and planning
State Road Construction (SRC)	Actual contracts and agreements for road construction projects; right-of-way acquisition; and purchasing materials
Debt Service	Principal and interest on trunk highway bonds (used to finance previous trunk highway construction work)
Statewide Radio Communications	Agency and public safety communications systems
Local Roads	
County State-Aid Roads	Assistance to counties for the county state-aid highway system
Municipal State-Aid Roads	Assistance to cities for the municipal state-aid street system
Small Cities Assistance	Aid to cities with a population below the eligibility threshold to be on the municipal state-aid system
Agency Management	
Agency Services	Internal services across the department, including the commissioner's office, human resources, accounting, financial management, and some centralized purchasing
Buildings	Design, construction, and management of MnDOT facilities, such as district headquarters and truck stations
Tort Claims	Funds for payments resulting from agency lawsuits

Trunk highway funds are typically included in the Aeronautics – Aviation Support and Services appropriation.

MnDOT's aeronautics office functions include providing air transport services for state agencies (via state-owned planes), using an internal and cross-agency billing method to account for the transportation costs. An appropriation from the trunk highway fund is primarily for the costs of MnDOT staff to utilize the service. A portion also covers personnel costs of pilots employed by the agency.

The Transit appropriation is a significant funding source for Greater Minnesota transit.

This appropriation from the state general fund is one of several transit funding sources. Others include a portion of state sales taxes (MVST as well as motor vehicle lease sales tax revenue, which as discussed previously, are both provided through a statutory appropriation), federal funds, and local funding like passenger fares and property taxes. The following chart provides a breakdown of operating funding sources, combined among all Greater Minnesota transit providers for calendar year 2015 (note that data is assembled on a calendar-year basis following the budget cycle for local government).⁴



Some trunk highway funds have also been included with the Transit appropriation.

The Transit appropriation provides for transit service and programs in Greater Minnesota. (MnDOT administers allocation of transit aid outside of the Twin Cities metropolitan area, and the Metropolitan Council takes the lead on transit issues within the Twin Cities metro.) Funding from the trunk highway fund is also provided, which largely goes towards (1) bicycle and pedestrian facilities, such as paths, located in trunk highway right-of-way; and (2) planning for multimodal integration of roads and transit.

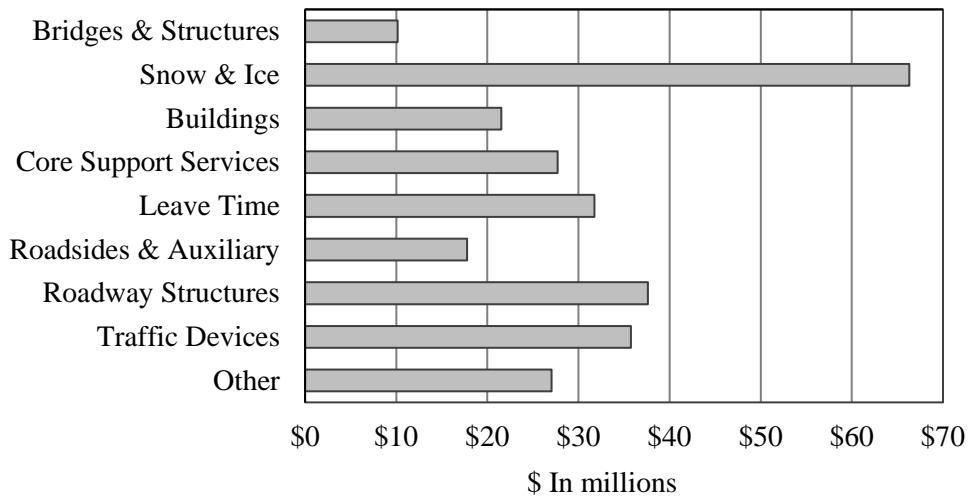
The Operations and Maintenance appropriation funds trunk highway infrastructure maintenance activities.

This is one of the largest appropriations in each biennial budget. Uses are summarized below.⁵

⁴ Data is from Minnesota Department of Transportation, *2016 Transit Report*, February 2017.

⁵ Data is from Minnesota Department of Transportation, Office of Financial Management.

Operations & Maintenance Expenditures
FY 2016 (\$275.7 million)



The appropriations under Program Planning and Delivery cover trunk highway project development and general planning.

This includes another of the major appropriations made in a budget. The department uses the funds for a variety of activities, covering activities like establishing performance goals and targets, setting long-range plans, and project design and development work. Key functions include:

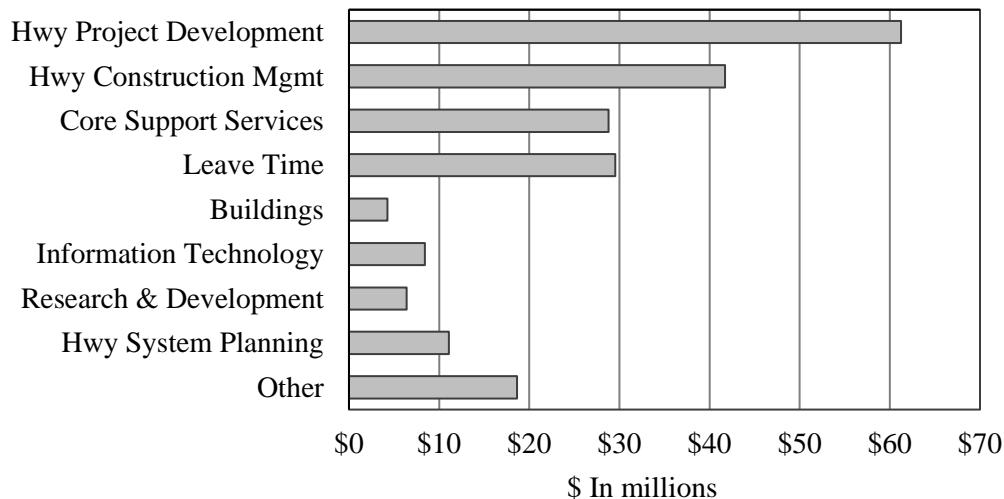
- **project development**, consisting of steps to prepare projects for construction through tasks like scoping, design and engineering, and environmental analysis;
- **construction project management**, which involves oversight of projects through activities such as materials testing and field inspections; and
- **general statewide transportation system planning** and policymaking, such as annual updates to the Statewide Transportation Improvement Program (STIP) that identifies a listing of intended projects in the upcoming four years.

In a change from previous years, the 2017 transportation budget split out Planning and Research as a separate appropriation from Program Delivery. [Laws 2017, 1st spec. sess., ch. 3.](#)

Uses are summarized in the following chart.⁶

⁶ Amounts exclude trunk highway bond proceeds. Data is from Minnesota Department of Transportation, Office of Financial Management.

Program Planning & Delivery Expenditures
FY 2016 (\$210.1 million)



The work performed with this funding supports other parts of the State Roads area of the budget, particularly State Road Construction. That is, project design and engineering along with construction oversight are necessary components in performing a road construction project.

There is a loose distinction in types of construction work done under the State Road Construction versus Operations and Maintenance budget activities.

There is not a specific type of project that is always funded under the appropriation for State Road Construction compared to Operations and Maintenance. In general, projects funded using the State Road Construction appropriation are larger in scope and include work performed under contract with a private road contractor. Projects under the Operations and Maintenance appropriation tend to be smaller in scope and the appropriation typically funds work performed by MnDOT staff (as opposed to work through a road contractor).

A typical legislative budget does not identify specific trunk highway projects.

The appropriations under Program Planning and Delivery as well as State Road Construction determine the expenditure level for road construction and repair activities. These appropriations do not typically specify particular road projects, which is instead left to agency discretion. In determining what projects to fund, MnDOT uses a process that includes:

- strategic and long-term planning that sets transportation system goals and performance targets;
- planning specific to different transportation modes (such as highways, transit, and freight rail);
- stakeholder input;
- regional project selection and decision-making; and
- analysis of cumulative project impacts against system performance measures.

A typical legislative budget does not specify highway aid allocation to counties and cities.

A transportation budget does not normally set specific amounts of assistance to each county and city. Instead there are allocation formulas established in state statutes (along with general state-aid program requirements). [Minn. Stat. §§ 162.07, 162.13](#). Distribution to counties and cities is administered by MnDOT following the statutory formulas, which use factors such as construction funding necessary to bring roads up to a uniform standard, as well as proportional shares of population, vehicle registration, and lane-miles. For more information, see House Research publications [*County State-Aid Highway System*](#) and [*Municipal State-Aid Street System*](#) (www.house.mn/hrd).

The appropriations for highway debt service reflect more than just debt service on trunk highway bonds.

A portion of the Debt Service appropriation is to cover other financial transactions beyond payment for principal and interest on trunk highway bonds, including payment related to the transportation revolving loan fund (TRLF).

Metropolitan Council

Metropolitan Council – Legislative Budget Summary

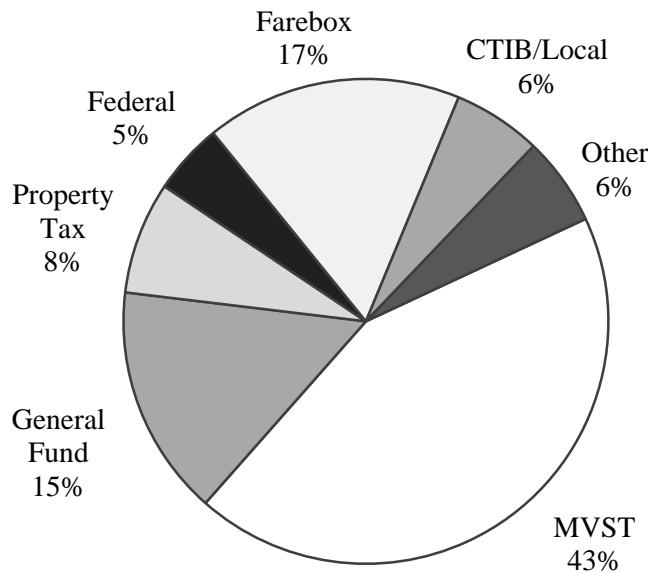
Program	Description
Bus and Rail Operations	Operations for the council's Twin Cities metropolitan area bus and rail system, including Metro Transit, Metro Mobility, contracted routes, light rail, and commuter rail
Note: Summary reflects the transportation portion of the agency legislative budget.	

The Metropolitan Council has discretion to determine uses of a transit system operations appropriation.

Among recently enacted budgets, transit appropriations to the Metropolitan Council have been for costs of a combination of bus and rail service, giving the council discretion to determine how the funds are allocated among the various transit modes and services that the council provides (that is, including regular route bus, arterial bus rapid transit, rail lines, and Metro Mobility).

As with assistance for transit in Greater Minnesota, direct appropriations to the Metropolitan Council constitute one of several sources of funds for transit operating costs. Other sources include state funding via the statutory appropriation of MVST revenue, passenger fares, and funds from the Twin Cities metropolitan area transit sales tax administered by the Counties Transit Improvement Board (CTIB). The relevant portion of the Council's 2017 operating budget is summarized in the following chart (note that the council budgets on a calendar year basis, which aligns with the budget cycle for local units of counties, cities, and towns).

Met Council Transit Operating Funding
CY 2017 Budget, Transportation Division (\$616.9 million)



CTIB funds are generally independent of state legislative budgets.

CTIB is a joint powers board comprising several Twin Cities metropolitan area counties, statutorily authorized to impose (through those counties) a local transportation sales tax. Tax revenue is administered by the board following requirements set in state law. [Minn. Stat. § 297A.992](#). Revenues in calendar year 2016 amounted to about \$119.6 million after tax collection costs.⁷ Funding from CTIB has been targeted to developing new regional transitway projects (such as the Central Corridor light rail transit line) as well as covering part of the operating costs of rail and bus transitways.

Funding allocation decisions are made by CTIB and are typically independent of state transportation finance legislation, although the two can become intertwined. There have been some cases in which a portion of revenue from the transportation sales tax has been legislatively directed to specific transit purposes. See [Laws 2011, 1st spec. sess., ch. 3, art. 2, secs. 1-2](#). (The legislative direction has largely occurred in the context of backfilling other reductions from base general fund transit appropriations.)

⁷ Amount is from Counties Transit Improvement Board, *Annual Report to the Legislature*, February 1, 2017.

Public Safety

Department of Public Safety – Legislative Budget Summary

Program	Budget Activity	Description
Admin & Related Services	Office of Communications	Communications services, including media relations and assistance to local law enforcement
	Public Safety Support	Internal services that extend across the department, including the commissioner's office, human resources, budgeting, accounting, and payroll
	Public Safety Officer Survivor Benefits	Program for aid to surviving family of officers killed in the line of duty
	Public Safety Officer Reimbursements	Program for aid to governmental units for public safety officer disability and health benefit costs
	Soft Body Armor Reimbursements	Reimbursements of a portion of peace officer soft body armor vest costs
	Technology and Support Services	Information systems, networking, and technical support
State Patrol	Patrolling Highways	Law enforcement on the trunk highway system
	Commercial Vehicle Enforcement	Enforcement of commercial motor vehicle regulations on the trunk highway system, including truck weight limits; pupil transportation safety
	Capitol Security	Security for the Capitol complex
	Vehicle Crimes Unit	Law enforcement concerning vehicle-related taxes
Driver and Vehicle Services (DVS)	Driver Services	Regulation of vehicle drivers, including licensing and exams
	Vehicle Services	Regulation of motor vehicles, including vehicle-related tax collection, titling, license plates, and vehicle dealers
Traffic Safety		Programs to reduce crashes and increase safety; primarily funded through federal assistance
Pipeline Safety		Regulation of pipeline facilities; primarily funded through inspection fees and federal assistance

Note: Summary reflects the transportation portion of the agency legislative budget.

A combination of House committees have jurisdiction over the Department of Public Safety.

While the funding for administrative functions is found in the transportation budget, various administrative activities fall under the purview of both transportation and public safety committees. In recent biennial budgets, the transportation bill has contained appropriations for the Administration and Related Services program. This area includes agency-wide functions such as the commissioner's office, human resources, and financial management, and information technology.

A couple of Department of Public Safety aid programs are traditionally funded in the transportation budget. (These are for public safety officer survivor assistance, benefits, and soft body armor reimbursements.) In the 2018-19 budget they were split out to be separate appropriations rather than riders. [Laws 2017, 1st spec. sess., ch. 3.](#)

Some HUTD fund appropriations are made to the Department of Public Safety.

Appropriations from the HUTD fund are generally to allocate agency costs among the various direct and indirect beneficiaries of agency functions. One policy rationale regards how the state's trunk highway system as well as road systems of local units of government benefit from services provided by the Department of Public Safety.⁸ Below are some variations and examples.

- **Administration and Related Services.** Appropriations for various department-wide functions are split across the general fund, trunk highway fund, and HUTD fund. This arguably reflects a sharing of costs and services provided by the department for the trunk highway system, local road systems, and the state generally.
- **Vehicle Crimes Unit.** The Vehicle Crimes Unit investigates motor vehicle-related criminal activity, including failure to register motor vehicles and failure to pay motor vehicle sales tax. A rationale expressed for funding the unit through the HUTD fund is that the unit's investigations can result in increased transportation tax revenue, which in turn would yield increases for both state and local road systems.
- **Vehicle Services.** The Vehicle Services appropriation from the HUTD fund relates to covering agency costs incurred in collecting motor vehicle sales taxes and registration taxes. Both taxes are dedicated to transportation purposes, and much of the revenue is distributed across state, county, and municipal roads. One justification for the appropriation, then, is that the various road systems ultimately receiving the tax revenue bear a portion of the costs of collecting the taxes.

⁸ Tax revenues that form the core funding sources for the HUTD fund are constitutionally dedicated to the state's trunk highway system as well as to county and municipal state-aid roadway systems. Absent HUTD fund appropriations, then, counties and eligible cities would receive additional funding through higher formula-based allocations from the fund. Put another way, an appropriation from the HUTD fund can be viewed as a technique for allocating costs between the state and local government.

The Driver Services and Vehicle Services budget activities are primarily funded from the special revenue fund.

Driver and Vehicle Services is a division of the Department of Public Safety that administers various regulatory aspects around driving, including vehicle registration and titling, taxes, and driver licensing. The division is essentially fee-based. Most functions performed by the division, such as transferring a title, include a fee imposed on vehicle owners and license holders. Fee proceeds go into dedicated accounts in the special revenue fund (one for driver services and one for vehicle services) that are designed to cover agency operations. The division is then funded via each biennial budget from these accounts.

An aspect to note is that Driver and Vehicle Services does not directly administer all offices for driver licensing and vehicle transactions throughout the state. Rather, with agency oversight, offices are operated through a system of local government as well as private entities (known as Driver's License Agents for driver licensing activities, and Deputy Registrars in the case of vehicle functions). In many cases, fees imposed for a particular transaction are retained by the office where the transaction occurred (and provide for the operating costs of that office).

For more information about transportation finance, visit the transportation area of our website, www.house.mn/hrd/.