

Transportation Finance Overview

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Presentation Contents

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- Part 1: Highway Finance (Primarily)
 - Basic Structure
 - Revenue Sources
 - Other Funding
 - Highway Funds
 - Distribution
 - Recap & Comments
 - Part 2: Transit & Other Finance

Highway Finance

Basic Structure

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Minnesota's system of streets and highways

- The state maintains the trunk highway system, including interstates and major highways
- Counties, cities, and townships each have jurisdiction over their respective road systems



Highway Finance

Basic Structure

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Minnesota's system of streets and highways (cont.)

- Local units of government receive state aid for part of their road systems
 - County state-aid highway (CSAH) system
 - Municipal state-aid street (MSAS) system
 - State-aid systems are part of local roads

Highway Finance

Basic Structure

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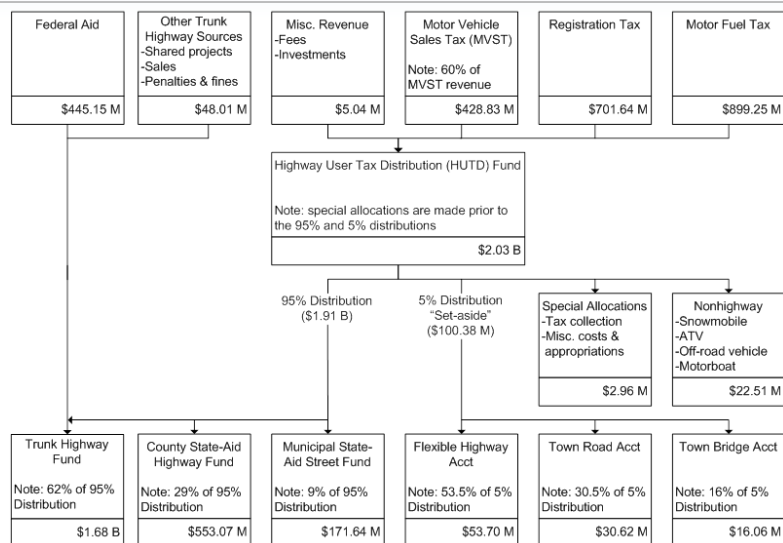
Highway system funding

- State funding based on a *constitutional & statutory* framework of dedicated revenues
- Most transportation-related general fund appropriations are not for highways
 - Transit
 - Dept. of Public Safety
- Local roads are funded through federal aid, state assistance, and property tax revenue

Highway Finance

Finance Flow Overview, FY 2016

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Highway Finance Revenue Sources

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Main sources of highway revenue

- Motor fuels tax
- Registration tax (tab fees)
- Motor vehicle sales tax

Highway Finance Revenue Sources

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Motor fuels tax

- Current total rate for gasoline and diesel is 28.5 cents per gallon
 - 25 cents, plus
 - 3.5 cents debt service surcharge (variable)
- Other types of fuel are taxed at a rate proportional to their energy content
- About 2.5% of revenues are attributed to non-highway uses (snowmobiles, ATVs)
- 100% constitutional dedication to roads

Highway Finance Revenue Sources

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Motor fuels tax (cont.)

- 2008 legislation increased the tax, phased in over FY 2008-13

Fiscal Year	Rate (cents)
1988-07	20
2008-09	20 – 20.5 (varied)
2010	27.1
2011	27.5
2012	28
2013+	28.5

Highway Finance Revenue Sources

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Registration tax (tab fees)

- Annual tax on vehicles registered in MN
- Tax rate for autos is \$10 plus 1.25% of the manufacturer's base price, which is depreciated yearly based on a statutory schedule
- The minimum is \$35
- Trucks are taxed based on weight and age
- 100% constitutional dedication to roads

Highway Finance Revenue Sources

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Motor vehicle sales tax (MVST)

- 6.5% tax on the sale of new and used vehicles, in lieu of general sales tax
- Constitutional amendment passed in 2006
 - Provides 100% dedication of revenues to transportation
 - Phased in over fiscal years 2008-12
- Constitutional limitations
 - “Not more than 60%” for highways
 - “Not less than 40%” for transit

Highway Finance Revenue Sources

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Motor vehicle sales tax (cont.)

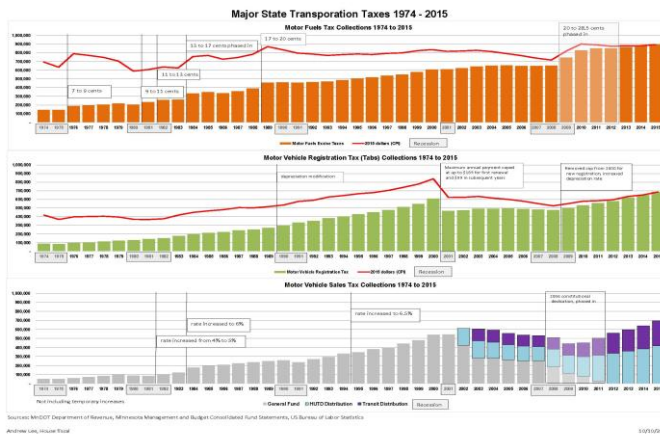
- Allocation determined by statute
- Allocation formula in FY 2012+, after phase-in

Recipient	%
Highways (HUTD)	60%
Twin Cities metropolitan transit	36%
Greater Minnesota transit	4%

Highway Finance Revenue Sources

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State revenue sources history (see handout)



Highway Finance Other Funding

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Other revenue sources

- Federal aid
- General fund appropriations
- Trunk highway system
 - Local construction work
 - Permits & other user fees
 - Penalties & fines
 - Sale of property, goods, & services

Highway Finance

Other Funding

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Other revenue sources (cont.)

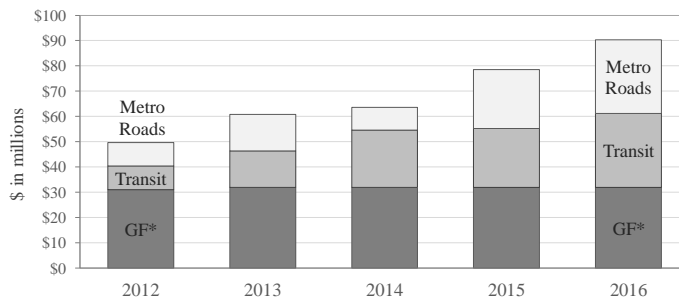
- Motor vehicle lease sales tax revenue
 - General sales tax revenue from vehicle leases
 - Allocation to some Twin Cities metropolitan area counties
 - Distribution based on population

Highway Finance

Other Funding

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Motor Vehicle Lease Sales Tax History
FY 2012-16



* Includes portion to Legacy funds

Highway Finance

Other Funding

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Transportation bonding

- Debt financing for capital projects
- Bonds are authorized and proceeds appropriated through enacted legislation
- Trunk highway bonds vs. other general obligation (G.O.) bonds for transportation
 - Trunk highway bonds are constitutionally separate
 - Trunk highway bonds can *only* be used for the trunk highway system; other G.O. bonds can *not* be used for trunk highways

Highway Finance

Other Funding

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Transportation bonding (cont.)

- Trunk highway bonds
 - Recent purposes: state road & bridges, new programs, specific MnDOT facilities
 - In transportation and capital investment bills
- G.O. bonds for transportation
 - For programs – e.g., local bridges, local roads, Greater MN transit facilities
 - For specific projects – e.g., airports, Central Corridor LRT
 - In capital investment bills

Highway Finance

Other Funding

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Transportation bonding (cont.)

- Trunk highway bonding limitations
 - Constrains future trunk highway spending
 - MnDOT policy limits trunk highway debt service to no more than 20% of state sources for Trunk Highway fund
- G.O. bonds for transportation
 - Must be capital in nature, and cannot be used for rolling stock

Highway Finance

Other Funding

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Transportation bonding (cont.)

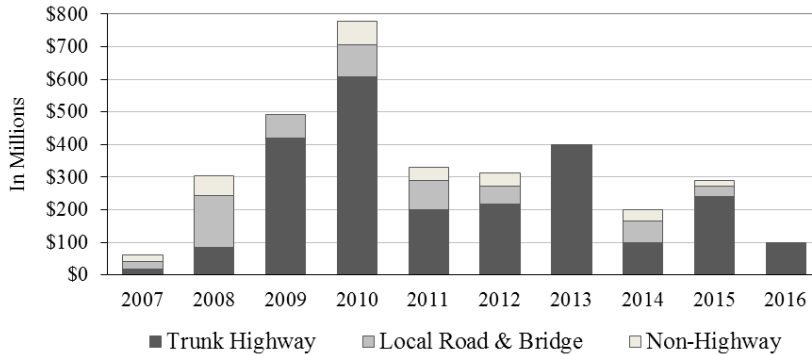
- Enacting trunk highway bonding legislation
 - Simple majority vote of both legislative chambers and governor's signature
- Enacting G.O. bonding legislation
 - Three-fifths vote of both legislative chambers and governor's signature
- State debt limit
 - Applies to both G.O. and trunk highway debt
 - Tax supported principal outstanding can be no more than 3.25% of state personal income

Highway Finance

Other Funding

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Transportation-Related Bonding History
By Purpose, 2007-16



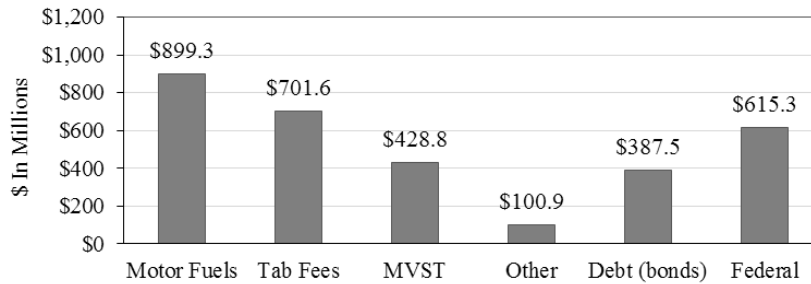
Note: year is fiscal year in which bonds are available (bond proceeds appropriations)

Highway Finance

Funding Sources, FY 2016

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State and Federal Highway Funding
FY 2016 (\$3.13 billion), incl. bonding

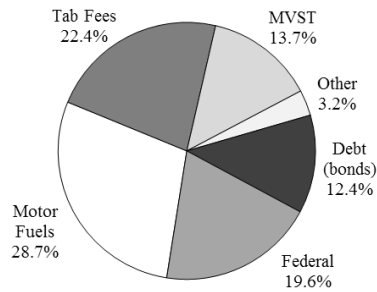


Highway Finance

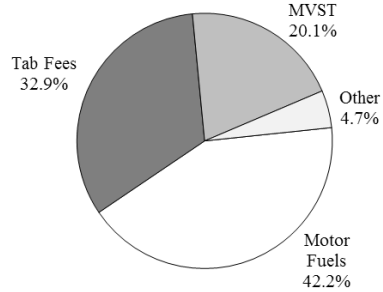
Funding Sources, FY 2016

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Highway Funding Sources Distribution
FY 2016 (\$3.13 billion), incl. bonding



State Funding Sources Distribution
FY 2016 (\$2.13 billion)



Highway Finance

Highway Funds

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Highway User Tax Distribution (HUTD) fund

- Established under the Minnesota Constitution
- Contains dedicated highway revenue
 - Registration tax
 - Motor fuels tax
 - Motor vehicle sales tax
- Distributes funds to state and local highways

Highway Finance

Highway Funds

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Three core highway funds

- All established under the Minnesota Constitution
- Trunk Highway fund: for the state system of trunk highways and interstates
- County State-Aid Highway (CSAH) fund: for county systems
- Municipal State-Aid Street (MSAS) fund: for city systems

Highway Finance

Distribution

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Highway revenue distribution

- Framework is constitutional
- Revenue in HUTD fund is distributed to the three core highway funds
- HUTD fund distribution is split into two parts (after special allocations)
 - 95% distribution
 - 5% distribution “set-aside”

Highway Finance Distribution

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95% distribution from HUTD

- Into funds for state and local roads
- Constitutional formula

Fund	%
Trunk Highway fund	62%
County State-Aid Highway (CSAH) fund	29%
Municipal State-Aid Street (MSAS) fund	9%

Highway Finance Distribution

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5% set-aside from HUTD

- Set-aside can be allocated to Trunk Highway fund, CSAH, and/or MSAS
- Allocation formula can only be changed every 6 years (last changed in 2009)
- Statutory formula

Account	%
Town bridge account	16%
Town road account	30.5%
Flexible highway account	53.5%

Highway Finance Distribution

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5% set-aside from HUTD (cont.)

- Flexible highway account funds
 - Twin Cities metropolitan area counties
 - Turnbacks: fixing up and turning over trunk highways to local units of government
 - Local road safety
 - Routes of regional significance
- Turnbacks are based on agreement between MnDOT and local units of government

Highway Finance Distribution

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Allocations to local units of government

- CSAH fund & MSAS fund
- Distributed to counties and cities by MnDOT
- Primarily direct aid, with some set-asides (e.g., disaster, research)
- Distributions are based on statutory formulas
- Most formula components are proportional across aid recipients

Highway Finance Distribution

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CSAH fund allocation

- Direct aid distributed following two formulas
- Share under each formula

Formula	%
Apportionment sum	68%
Excess sum	32%

- Excess sum share based on increased revenue due to changes in 2007-08

Highway Finance Distribution

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CSAH fund allocation (cont.)

- Apportionment sum formula

Component	%
Equal	10%
Vehicle registration	10%
Lane miles	30%
Constructions needs	50%

Highway Finance Distribution

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CSAH fund allocation (cont.)

- Excess sum formula

Component	%
Vehicle registration	40%
Constructions needs	60%

Highway Finance Distribution

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Municipal State-Aid Street (MSAS) allocation

- System is essentially constitutionally restricted to cities having population of at least 5,000
- Statutory formula

Formula Component	%
Population	50%
Constructions needs	50%

Highway Finance Distribution

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Commissioner's orders

- Identifies aid allocation
- Details distribution for HUTD, CSAH, MSAS, 5% set aside, and motor vehicle lease sales tax revenue
- Released each year in January
- See handout

Highway Finance Recap & Comments

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Highway finance characteristics

- Structure is both constitutional and statutory
- Core state revenue comes from three sources that are related to highway activities
 - MVST, gas tax, & registration tax
- Funding flows into three highway funds
 - For the state, counties, and cities
- Funds are largely distributed via several formulas

Highway Finance Recap & Comments

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Highway finance characteristics (cont.)

- Highway budget historically contains little to no general fund dollars
- Highway and transit finance connections
 - MVST
 - Motor vehicle lease sales tax revenue
 - Bonding

Highway Finance Recap & Comments

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Flexibility and limitation in policymaking

- Core funding sources are constitutionally dedicated to transportation
 - Highways only: gas tax, registration tax
 - Highways & transit only: MVST
- Constitutional distribution formula for state and local roads
- The most flexible funding sources are a relatively small share of funding
 - General fund, motor vehicle lease sales tax

Presentation Contents

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 - Part 2: Transit & Other Finance
 - Transit Finance
 - Other Transportation Finance
 - Budgets

Transit Finance Background

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Transit provided by local units of government

- Twin Cities metro area
 - Metropolitan Council (Metro Transit, contracted)
 - Suburban providers (opt-outs)
 - Independent providers
- Variety in Greater Minnesota
 - 56 systems
 - Urban, small urban, rural, elderly & disabled
 - Various route & schedule structures

Transit Finance Background

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Transit-related entities

- State legislature
- Metropolitan Council
 - Metropolitan Planning Organization – with Transportation Advisory Board (TAB)
 - Transit operator
- MnDOT
- Counties & regional railroad authorities
- Joint powers organizations
 - Counties Transit Improvement Board (CTIB)

Transit Finance Background

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Transit-related entities (cont.)

- Cities
- Suburban transit providers
- Private contractors
- U.S. Department of Transportation

Transit Finance Background

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Counties Transit Improvement Board (CTIB)

- Authorized in 2008 (Ch. 152)
- Joint powers board of county elected officials
- Optional for 7 Twin Cities metropolitan area counties
 - Anoka, Hennepin, Ramsey, Washington
 - Dakota – withdrawal commenced
- Local option transit sales tax authorized
 - 0.25% rate
 - CY 2016 estimate: \$117.3 million

Transit Finance Background

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Counties Transit Improvement Board (cont.)

- Funds for transitways – capital and operating, park-and-rides
- CTIB funding policies
 - 50% of net operating cost of funded transitways
 - Funding for some “transitways”: LRT, commuter rail, highway BRT
 - Limited funding for arterial BRT
 - No funding for bus operations

Transit Finance Background

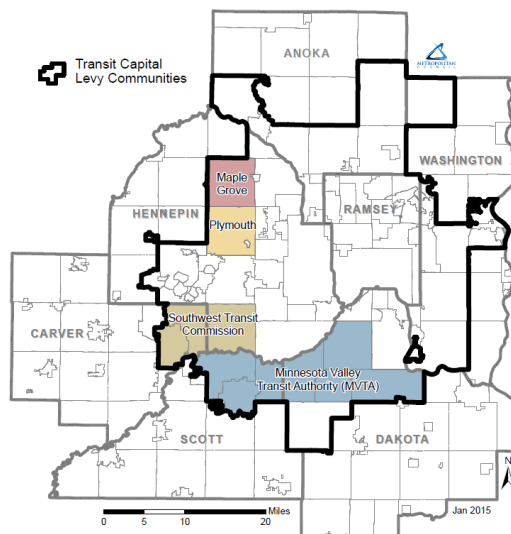
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Suburban transit providers (opt-outs)

- Local circulator and express bus transit service
 - In some communities
 - Instead of Met Council service
- Aid from a portion of MVST
 - Formula-based statutory minimum allocation
 - Additional amount “regionally allocated” by Metropolitan Council
- CY 2017 Met Council budget: \$28.0 million allocated

Transit Finance Background

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Transit Finance Background

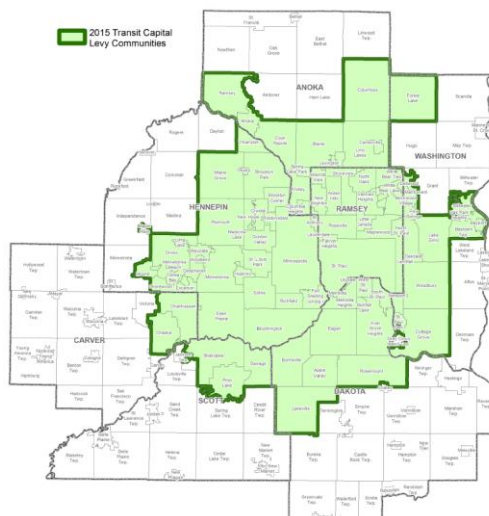
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Metropolitan Council property tax

- Regional transit capital (RTC) levy
- “Transit taxing district”
 - Geographic subset of the 7-county Twin Cities metropolitan area
 - Area specified in statute
 - Can expand based on transit service agreements

Transit Finance Background

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Transit Finance Background

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Metropolitan Council property tax (cont.)

- RTC levy revenue covers debt service on bonds
 - Bonds primarily used for transit fleet maintenance and replacement, and some facilities
 - Bonds issued by the Metropolitan Council under legislative authorizations
 - Provides federal funding match

Highway Finance Background

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Motor vehicle sales tax (MVST) recap

- Constitutional dedication to transit
- Constitutional limitations
 - “Not more than 60%” for highways
 - “Not less than 40%” for transit
- Statutory allocation formula

Recipient	%
Highways (HUTD)	60%
Twin Cities metropolitan transit	36%
Greater Minnesota transit	4%

Transit Finance Background

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Operating vs. capital

- Operating
 - Transit service delivery
 - Operations planning
- Capital
 - Transitway development (expansion)
 - Bus and rail fleet maintenance & replacement
 - Transit service & support facilities
- Distinction among funding sources and in transit budgeting

Transit Finance Funding Sources

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Sources of Greater Minnesota transit funding

- Federal aid
- State sources
 - General fund
 - Motor vehicle lease sales tax revenue
 - MVST allocation (4% of revenues)
 - General obligation bonds (capital only)
- Local effort (property taxes, sales taxes)
- Farebox revenue

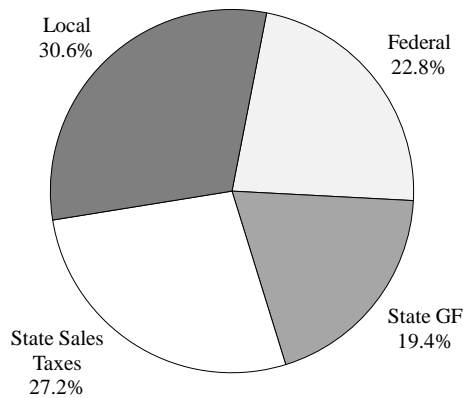
Transit Finance

Funding Sources

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Greater MN - Transit Operating Funding

CY 2015 Budgets (\$103.2 million)



Transit Finance

Funding Sources

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Sources of Twin Cities metropolitan area transit funding

- Federal aid
- State sources
 - General fund (GF)
 - MVST allocation (36% of revenues)
 - General obligation bonds (capital only)
- Farebox revenue

Transit Finance

Funding Sources

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Sources of Twin Cities metropolitan area transit funding (cont.)

- CTIB 0.25% transit sales tax
- Property taxes
 - Metropolitan Council RTC levy for debt service on bonds
 - County Regional Railroad Authorities

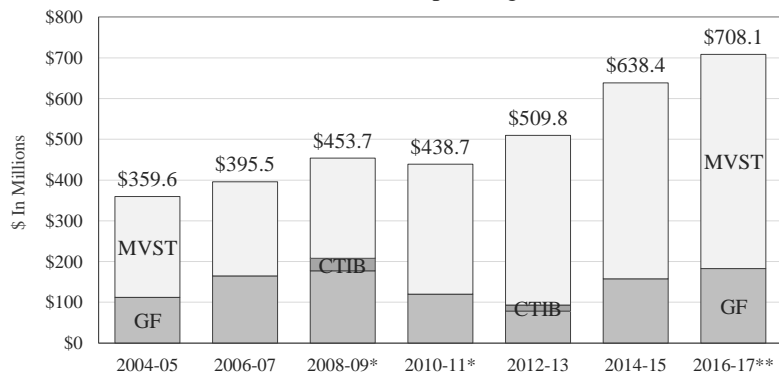
Transit Finance

Funding Sources

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State Transit Funding History

Twin Cities Metro Area, Transit Operating (2004-17 Biennia)



* MVST phase-in period

** Includes forecast revenue

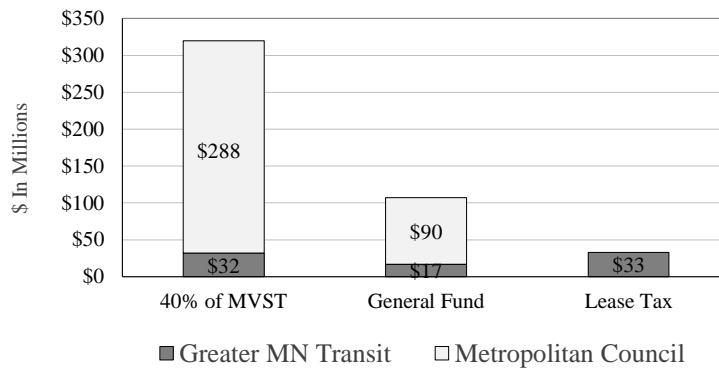
CTIB amounts shown are from statutory directives

Transit Finance

Funding Sources

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State Transit Funding FY 2018 Base (In Millions)



Transit Finance

Metropolitan Council Budgeting

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Allocation of state funding

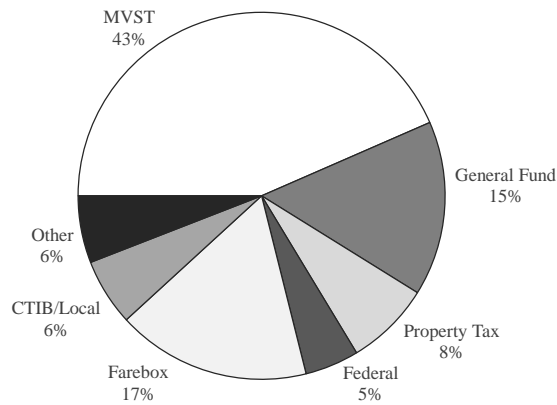
- General fund and MVST available for transit operations
- Allocation of state sources determined by Metropolitan Council in its budget
 - Recent state appropriations have not specified amounts by transit mode or purpose

Transit Finance

Metropolitan Council Budgeting

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

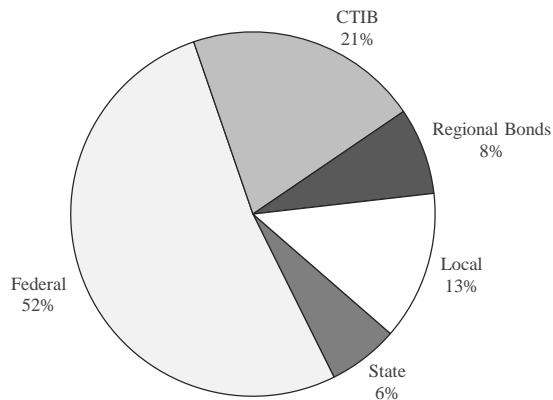


Transit Finance

Metropolitan Council Budgeting

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Met Council - 6-Year Capital Plan Sources
CY 2017 Budget, CIP for transit 2017-22 (\$4.17 billion)



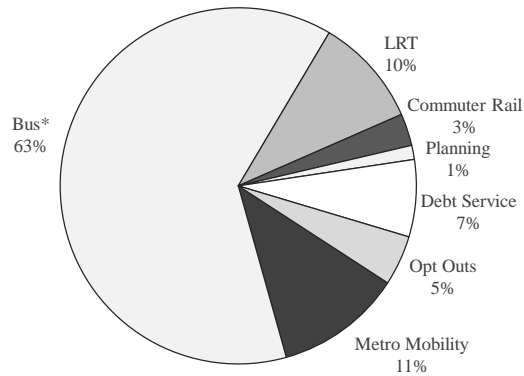
Transit Finance

Metropolitan Council Budgeting

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Met Council - Transit Operating Budget

CY 2017 Budget, Transportation Division (\$616.9 million)



* Includes contracted and Transit Link service

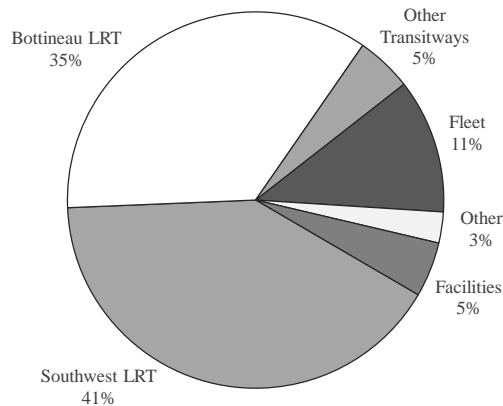
Transit Finance

Metropolitan Council Budgeting

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Met Council - 6-Year Capital Plan Spending

CY 2017 Budget, CIP for transit 2017-22 (\$4.17 billion)



Other Transportation Finance Multimodal

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Aeronautics

- State airports fund for aeronautics services and aid to airports
- Four core revenue sources
 - Aviation fuel tax: declining rate based on amount of fuel
 - Aircraft registration tax: based on list price
 - Airline flight property tax: on commercial aircraft equipment, rate based on state appropriations
 - General sales tax revenue on aircraft sales

Other Transportation Finance Multimodal

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State Aviation Revenue
FY 2016 (\$21.5 million)



Note: excludes fund balance in State Airports Fund

Other Transportation Finance Multimodal

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Other modes

- Ports, freight rail, passenger rail, commercial motor vehicles
 - General fund appropriations
 - General obligation bonds
 - Federal aid

Transportation Finance Budgets

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Committee budgetary jurisdiction

- MnDOT
 - Trunk highway system (trunk highway fund)
 - Local roads (CSAH, MSAS, motor vehicle lease sales tax revenue, general fund)
 - Aeronautics (state airports fund)
 - Other modes and activity: transit, passenger rail, freight (general fund)
- Met Council
 - Transportation area of the agency (general fund, MVST)

Transportation Finance Budgets

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Committee budgetary jurisdiction (cont.)

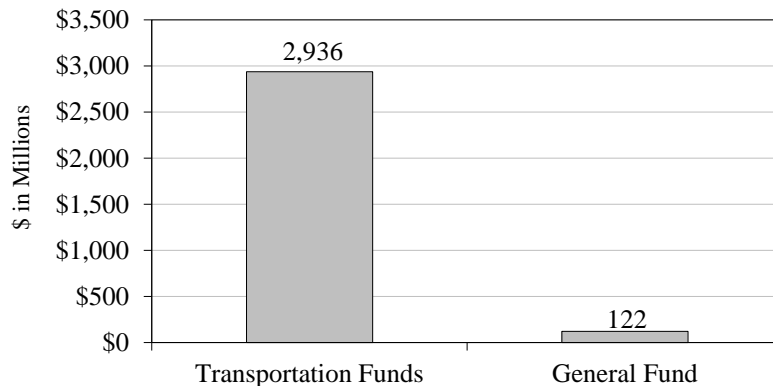
- Department of Public Safety
 - State Patrol (trunk highway fund, general fund for Capitol Security)
 - Driver and Vehicle Services (DVS) - fee-based structure (special revenue fund operating accounts)
 - Other divisions and activity: administrative, Traffic Safety, Pipeline Safety

Transportation Finance Budgets

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Transportation Finance Committee Jurisdiction

FY 2018 Base (In Millions; excludes bonds, Non-Highway federal aid)



Transportation Finance Budgets

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Appropriations tracking sheet

- Committee document used to show
 - Changes to base budget
 - Comparison of base, House, and Senate positions
- See Handout of 2016-2017 Tracking Sheet of bill passed in 2015 legislative session

Conclusion

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Questions?