



Dedication of Motor Vehicle Sales Tax Revenues

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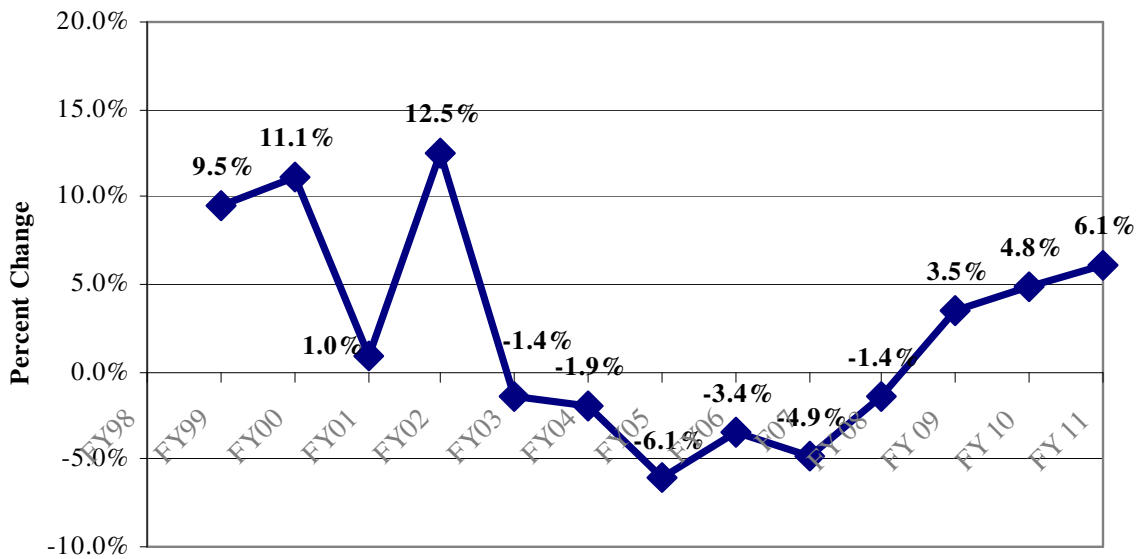
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Background: Motor Vehicle Sales Tax, Fiscal Year 1992 to 2007

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 \$539 million in FY 2006. From FY1998 to FY2007, the annual tax generated has increased 15 percent from \$445 million in FY 1998 to \$512 million in FY 2007. During the same period, the average percent change each year was 1.7%. 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.

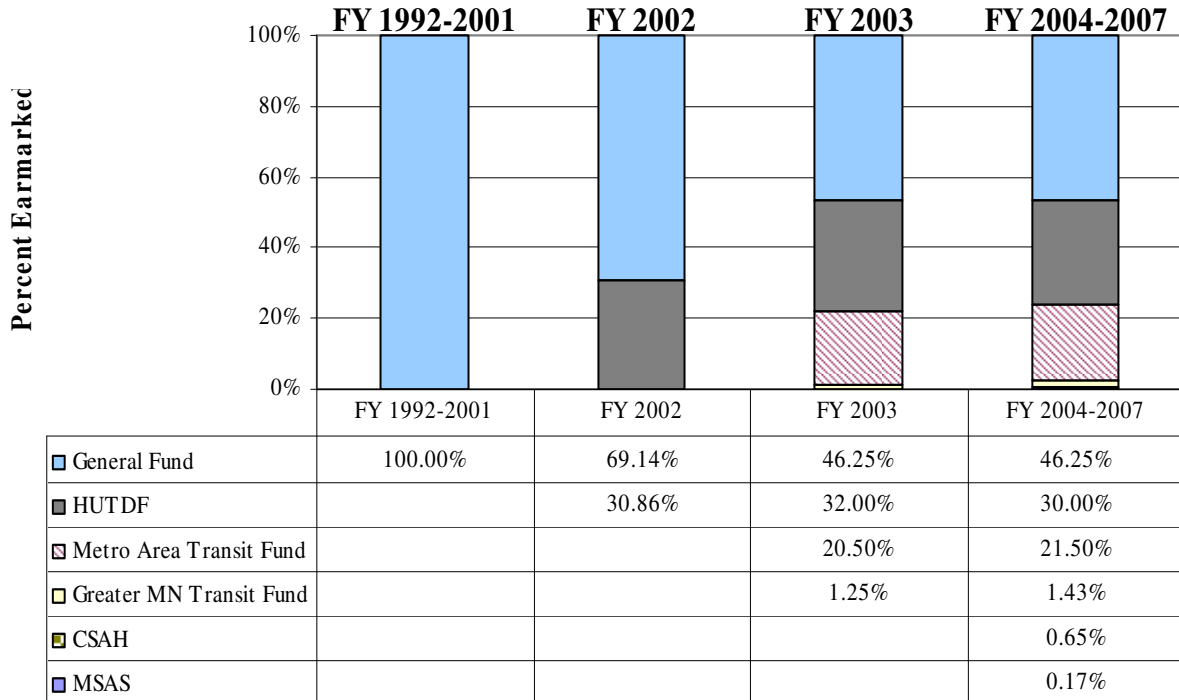
Chart 1. Estimated Annual Change in Motor Vehicle Sales Tax Revenue, FY 1998 to FY 2011



Graphic: House Fiscal Staff
Data Source: MN Department of Finance, Price of Government, November 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 percentage 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.

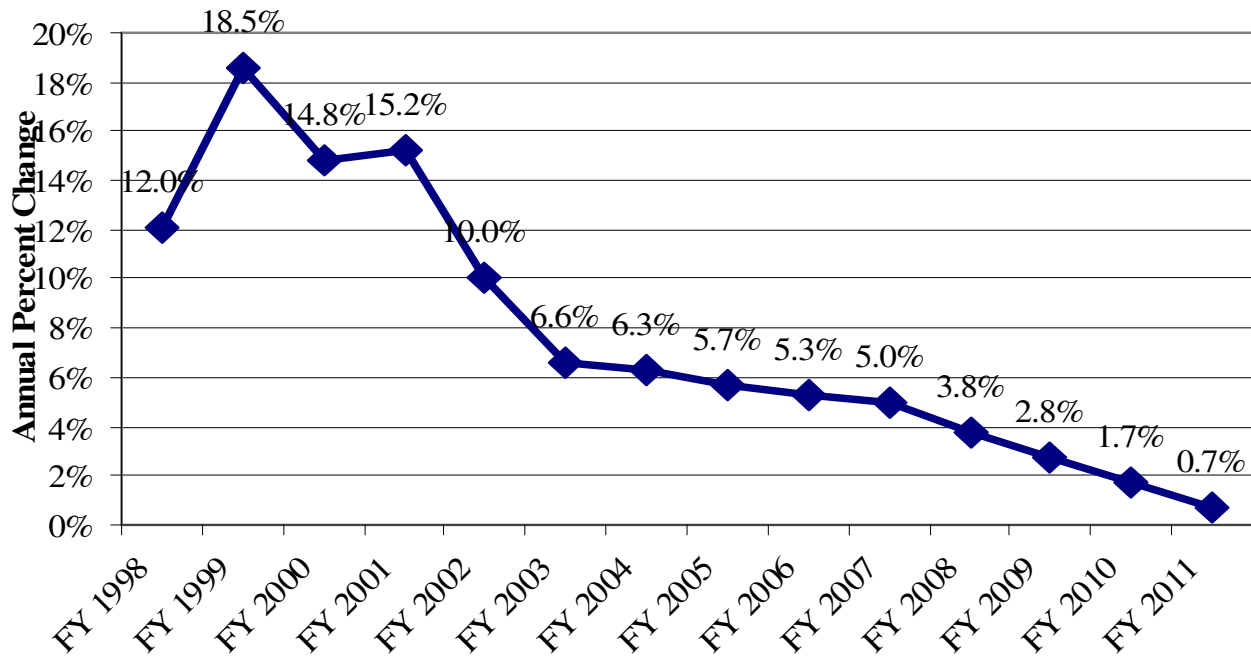
Greater Minnesota Transit Fund. A fund established in the state treasury. Money in this fund is annually appropriated to the commissioner of transportation for assistance to transit systems outside the metropolitan area. Beginning in FY 2003, the commissioner may use up to \$400,000 each year for administration 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 5.0 percent in FY 2007. Chart 3 summarizes the annual percent change in MSVT revenues as percent of the general sales tax revenues.

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



Graphic: House Fiscal Staff

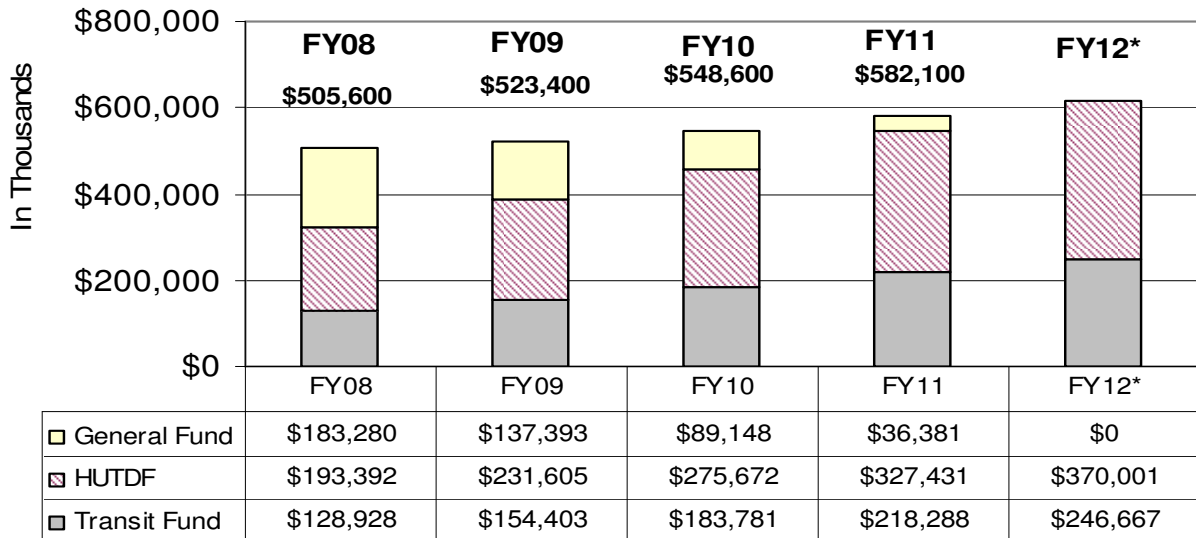
Data Source: MN Department of Finance, Price of Government, November 2006 Forecast

Voter Approved Constitutional Amendment: FY 2007 and forward

In the November 2006 election, voters approved a constitutional amendment dedicating the revenue from the existing motor vehicle sales tax to improving the state's highway and public transit systems. The phase-in schedule for shifting MVST revenues to transportation purposes begins in FY 2008 and ends by FY 2012.

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 4 shows the estimated amount of MVST estimated revenues to each fund for FY 2008 to FY 2012.

Chart 4. Estimated Amount of MVST Revenues to Each Fund



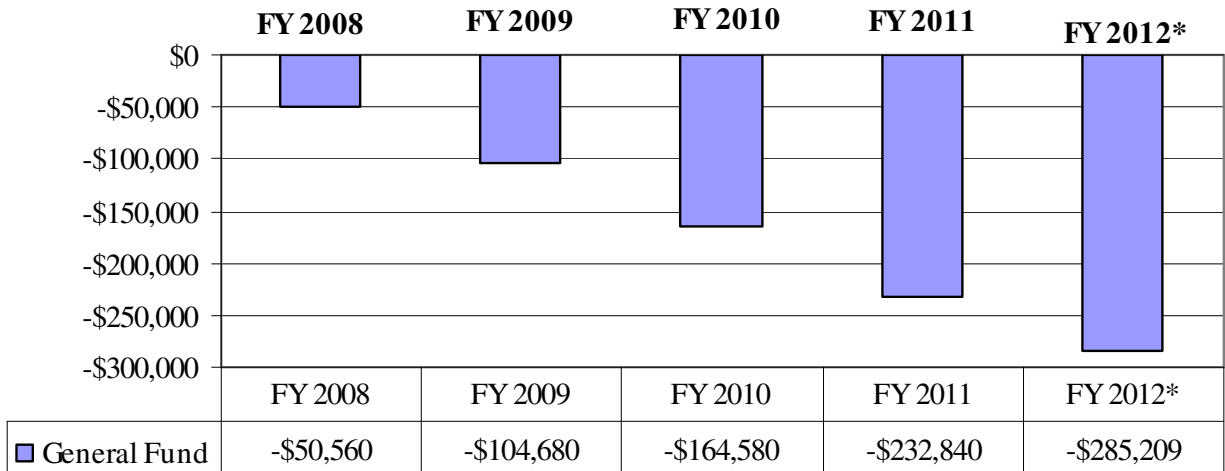
Graphic: House Fiscal Staff

Data Source: MN Department of Finance, Price of Government, November 2006 Forecast & Consolidated Fund Balance and General Fund Balance. * FY12 is estimated MVST revenues by House Fiscal Staff.

As shown in Chart 4 above, the passage of the constitutional amendment will not have any revenue impact on the total amount of MVST revenues available. Instead the constitutional amendment will have the following impacts over 5 years: (1) it will eliminate funding earmarked for the general fund; (2) it will 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 \$155 million (-20%) and MVST revenues earmarked for highways and transit would increase by the same proportion. Chart 5 shows the estimated

reduction in the deposit of MVST revenues to the general fund with passage of the constitutional amendment.

Chart. 5. The effect of the Constitutional Amendment on the General Fund



Graphic: House Fiscal Staff

Data Source: MN Department of Finance, Price of Government, November 2006 Forecast & Consolidated Fund Balance and General Fund Balance. FY 12 are estimated MVST revenues by House Fiscal Staff.

Looking Forward

With the adoption of the constitutional amendment approved by 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. The exact split between the metro area and greater Minnesota will need further clarification.

2. How should dedicated funding for roads and transit be allocated 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 motor vehicle sales tax revenue from the general fund for transportation, should that revenue be replaced?
2. Should property tax reforms enacted in 2001 prohibiting the use of property tax revenue for funding transit be reversed¹? Is MVST a stable source of revenue for transit with its variable year-to-year revenue changes?

*For more information about taxes, please contact: **Katherine Schill** at 651-296-5384 or **Cynthia Templin** at 651-297-8405.*

¹ Laws of 2001, First Special Session, Chapter 5, Article 3, section 72 remove the Metropolitan Council's ability to levy for transit operations.