

HOUSE RESEARCH

Bill Summary

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Overview

This bill contains a transportation finance proposal that consists of several elements involving trunk highway bonding, highway user taxes, the state general sales tax, the motor vehicle sales tax, and local option transportation finance. (The proposal is similar to one found in H.F. 931.) Provisions include:

- ▶ authorizing and appropriating \$800.8 million in trunk highway bonds, provided at \$100 million per year over fiscal years 2014-17;
- ▶ raising registration taxes by increasing the rate (from 1.25 percent to 1.375 percent of depreciated base value) as well as the flat fee (from \$10 to \$20);
- ▶ establishing a late payment penalty for some registration taxes;
- ▶ increasing taxes on motor fuels by a total of 9.5 cents per gallon for gasoline and diesel with proportional increases for other fuel types, which is phased in over fiscal years 2014-17;
- ▶ allocating all revenue from motor vehicle lease sales tax to transportation purposes;
- ▶ expanding the general sales tax to include motor vehicle repairs and service, with revenues allocated to transportation purposes;
- ▶ amending exemptions to the general sales tax to include purchases made with constitutionally dedicated transportation funds;
- ▶ eliminating some exemptions from the motor vehicle sales tax;

Section

- ▶ raising the flat tax, from \$90 to \$150, imposed on sales of collector vehicles in lieu of the motor vehicle sales tax;
- ▶ modifying the county wheelage tax, to expand the authority to all counties and eliminate a \$5 cap;
- ▶ raising the rate, from 0.25 percent to 0.5 percent, for the metropolitan area transportation sales tax and requiring allocation of a one-third of revenues to county highways;
- ▶ eliminating a referendum requirement on the local option transportation sales tax for counties in Greater Minnesota; and
- ▶ authorizing cities to establish municipal street improvement districts.

Article 1: Trunk Highway Bonds

Overview

This article authorizes and appropriates \$800.8 million in trunk highway bonds, spread over fiscal years 2014-17.

- 1 Bond appropriations.** Identifies and summarizes trunk highway bonds appropriations.
- 2 Department of Transportation.** Authorizes and appropriates \$800 million in trunk highway bonds, at \$100 million each per year for the Corridor Investment Management Strategy (CIMS) program and the Transportation Economic Development (TED) program, for fiscal years 2014-17.
- 3 Bond sale expenses.** Appropriates \$800,000 to the Department of Management and Budget for expenses related to bond sales.
- 4 Bond sale authorization.** Authorizes sale of trunk highway bonds.
- 5 Effective date.** Makes the article effective the day after enactment.

Article 2: Highway User Taxes

Overview

This article contains provisions raising the registration tax and the motor fuels tax.

- 1 Passenger automobile; hearse.** Raises the registration tax on passenger vehicles, to:
 - ▶ increase the rate from 1.25 percent to 1.375 percent; and
 - ▶ raise the flat fee from \$10 to \$20.

The registration tax is imposed in two parts: (1) based on a rate applied against the vehicle's

Section

original value and adjusted by a depreciation factor (which reduces taxes owed as the vehicle ages), and (2) a flat fee. Both parts are being changed in the bill. A hold harmless provision applies to the rate increase, so that this portion of the registration tax for a vehicle could not increase by more than the amount due on the vehicle in any previous year (regardless of vehicle ownership). The flat fee increase raises registration taxes by \$10 for all vehicles.

- 2 **Late payment penalty.** Establishes a penalty for failure to pay the registration tax within 30 days of the beginning of the registration period. Appropriates funds to the Department of Public Safety for start-up costs of administering the provision. Provides for notification, non-issuance of plates, and situations where the penalty is not imposed.
- 3 **Rate of tax.** Raises the tax rate on gasoline and diesel by 5 cents per gallon (from 25 to 30 cents), and the tax on gasoline blends by proportional amounts. The increase goes into effect October 1, 2013.
- 4 **Rate of tax.** Raises the tax rate on special fuels in amounts that are proportional to the 5 cents per gallon tax increase for gasoline. The increase goes into effect October 1, 2013.
- 5 **Surcharge rate.** Increases a motor fuels tax surcharge by a total of 4.5 cents per gallon, phased in at an additional 1.5 cents per gallon each year over fiscal years 2015-17. Makes technical changes.

The surcharge is an additional tax rate applied with the motor fuels tax. The rate is set to drop in the future based on tax collections resulting from the surcharge compared to debt service payments made on trunk highway bonds.

- 6 **Motor vehicle lease sales tax revenue allocation.** Amends the allocation of revenue from the sales tax on leased motor vehicles, to:
 - ▶ no longer provide \$32 million annually to the general fund (which increases funds for both Greater Minnesota transit and Twin Cities metropolitan area county highways);
 - ▶ provide, from the 50 percent of revenues allocated to county highways, a base amount to Twin Cities metropolitan area counties that equals the funds those counties received in fiscal year 2013; and
 - ▶ allocate remaining funds, from the 50 percent of revenues for county highways, to metropolitan counties proportional to population.

Section

Article 3: General Sales Tax

Overview

This article modifies the state's general sales tax, to apply the tax to vehicle repairs and maintenance, direct revenues from the new vehicle repair sales tax to transportation purposes, and exempt certain purchases made with constitutionally dedicated funds from the general sales tax.

- 1 **Sale and purchase.** Expands the general sales tax to include motor vehicle repairs and maintenance work. The change goes into effect starting January 1, 2014.
- 2 **Materials used in providing certain taxable services.** Identifies parts and materials used in motor vehicle repair as among materials that are stored and used in a taxable service, which has the effect of making such items exempt from the general sales tax.
- 3 **Sales to government.** Creates an exemption from the general sales tax for local government purchases of goods and services made using funds from the transit assistance fund.
- 4 **Sales of certain goods and services to government.** Creates an exemption from the general sales tax for MnDOT and certain local units of government for purchases made using funds from the trunk highway fund, county state-aid highway fund, or municipal state-aid street fund.
- 5 **Deposit of revenues.** Directs allocation of revenues from the new sales tax on vehicle repairs and maintenance being created in this article, as follows:
 - ▶ 25 percent for Greater Minnesota transit;
 - ▶ 25 percent for Twin Cities metropolitan area transit; and
 - ▶ 50 percent for the county state-aid highway system.

The provision is effective starting in fiscal year 2014, but contains a one-year lag so that for instance collections during 2014 are allocated in fiscal year 2015.

Article 4: Motor Vehicle Sales Tax

Overview

This article contains modifications related to the motor vehicle sales tax, including exemptions from the tax and the flat fee for collector vehicles.

- 1 **Purchase price.** Makes conforming changes.
- 2 **Sale, sells, selling, purchase, purchased, or acquired.** Eliminates an exemption from the motor vehicle sales tax for gifts between individuals, with the exemption retained for gifts between parents and children as well as between spouses.

Section

- 3 In lieu tax for collector vehicles.** Raises the flat fee, from \$90 to \$150, imposed on sales of collector vehicles instead of the motor vehicle sales tax.
- 4 Exemptions.** Eliminates an exemption from the motor vehicle sales tax for vehicles originally purchased outside of Minnesota, which currently applies when (1) the person was not a Minnesota resident and subsequently becomes a resident, and (2) the purchase was made more than 60 days prior to the change in residence.

Article 5: Local Option Transportation Finance

Overview

This article contains provisions on local option finance for transportation, including wheelage tax, metropolitan area and greater Minnesota transportation sales taxes, and municipal street improvement districts.

- 1 County wheelage tax.** Broadens authority for counties to impose an annual wheelage tax, to:
- ▶ provide the authority to all counties, which is expanded from the current restriction to the seven-county Twin Cities metropolitan area; and
 - ▶ eliminate a specified tax amount of \$5, so that the amount could be determined by each county.

Makes technical changes.

- 2 Authorization; rates.** Increases the rate of the metropolitan area transportation sales tax, from 0.25 percent to 0.75 percent. This sales tax is imposed and administered by the Counties Transit Improvement Board.
- 3 Allocation of grant awards.** Amends grant requirements for the metropolitan area transportation sales tax, so that grants must be allocated:
- ▶ two-thirds for transitways; and
 - ▶ one-third for county highways.

The effect of this change, in conjunction with the rate increase in section 2 of this article, is to allocate half of new revenue to transitways and half to county highways.

- 4 Authorization; rates.** Eliminates a referendum requirement for a county to impose a Greater Minnesota transportation sales tax, which may instead be imposed by resolution following a hearing.
- 5 [435.39] Municipal street improvement districts.** Authorizes cities to establish a municipal street improvement district.

Subd. 1. Definitions. Defines terms for the section.

Section

Subd. 2. Authorization. Authorizes a city to create a municipal street district by ordinance to cover or defray costs of street improvement projects.

Subd. 3. Uniformity. Requires a standard fee for each property classification.

Subd. 4. Adoption of plan. Establishes provisions governing a required street improvement plan prior to imposing street improvement fees.

Subd. 5. Citywide districts. Provides for a district that is citywide.

Subd. 6. Uses of fees. Requires separate accounting of street improvement fees and uses within that district.

Subd. 7. Collection; up to 20 years. Sets billing and assessment provisions, and a maximum period of 20 years for the district.

Subd. 8. Notice; hearings. Requires street improvement fee by ordinance, following a public hearing.

Subd. 9. Not exclusive means of financing improvements. Provides for other means to pay street improvements or maintenance costs. Restricts use of special assessments.