Transportation Funds Interim Budget Projection Update

Released May 5, 2020

Introduction

The Minnesota Department of Transportation (MnDOT) is a multimodal agency encompassing not only highway construction and maintenance but aeronautics, rail and transit activities. In consultation with Minnesota Management and Budget (MMB) and Minnesota Department of Revenue (DOR), MnDOT prepares fund statements for six transportation funds. These fund statements are prepared in November and February of each fiscal year (FY). An additional update is prepared at the end of each legislative session (EOS) to incorporate law-change impacts to the transportation funds.

Due to unprecedented economic impacts of the current COVID-19 pandemic, an interim budget projection is being produced to assess the revenue impacts in the current FY 2020-21 biennium only. It should be noted that there is a significant degree of uncertainty to the estimates presented in this update, as the breadth and depth of the economic impacts are unknown. This document is intended to highlight the significant impacts by fund; for more information about the various revenues and funds, the February 2020 forecast document is available here: (https://www.dot.state.mn.us/funding/index.html)

Comparisons made in this budget projection to the prior forecast reflect the difference from the February 2020 fund statements. MnDOT prepares fund statements for the following funds:

- Highway User Tax Distribution Fund (HUTD)
- Trunk Highway Fund (TH)
- County State Aid Highway Fund (CSAH)
- Municipal State Aid Street Fund (MSAS)
- Transit Assistance Fund (TAF)
- State Airports Fund (SAF)

HUTD Revenues

The current pandemic will impact HUTD revenues significantly over the upcoming months, and potentially longer. The estimates in this update assume severe impacts over the remainder of FY 2020 (April-June) and less severe but still significant impacts over the course of FY 2021. Depending on the length of current stay-at-home orders, the length and severity of a potential recession, and a variety of other unknowns, the actual impact on revenues could change significantly. Below is a summary of the assumptions used by revenue source for the current FY 2020-21 biennium ($ in millions, changes are as compared to February 2020 forecast):

- **Gas taxes**: assuming a 30% reduction in revenues for April-June of FY 2020, a 15% reduction for July-December, and then back on forecast. This is largely based on the observed impacts to traffic volume in March and April, which was down 30-40% as compared to the previous year. This information is updated daily, and is available on the MMB COVID-19 dashboard (https://mn.gov/covid19/data/response-prep/).

- **Motor vehicle sales (MVST) and motor vehicle lease sales (MVLST) taxes**: assuming a 50% reduction in revenues for April-June of FY 2020, and a 17% reduction in FY 2021. For April, revenue was down 46% compared to forecast.

- **Registration taxes**: assuming a 20% reduction in revenues for April-June of FY 2020, a 10% reduction for July-December, and then back on forecast. About 80% of revenues are paid by existing vehicles, so the decline in registration taxes will likely be less severe than MVST.

Overall, revenues in the FY 2020-21 biennium are estimated to decline by $397 million (8%).

Below is a summary of the revenue impacts by source for the current FY 2020-21 biennium ($ in millions, changes are as compared to February 2020 forecast):

Revenue Source	FY 2020-21	FY 2020-21	$ Change	% Change
	Feb '20 Fcst	May '20 Projection	Change from Feb '20 fcst	
Gas taxes	$1,863	$1,726	($137)	(7%)
Registration taxes	$1,722	$1,631	($91)	(5%)
MVST	$1,043	$881	($162)	(16%)
MVLST	$22	$19	($3)	(13%)
Other	$404	$400	($4)	(1%)
Total	**$5,053**	**$4,656**	**($397)**	**(8%)**

Trunk Highway Fund

The primary impact to the Trunk Highway Fund is the fund's share of reduced HUTD revenues, totaling $232 million for the biennium. There is no assumed change in spending, **resulting in a FY 2021 ending balance of ($9) million and utilizing all of the fund balance reserve established by internal MnDOT policy**. As defined in the Debt Management Policy, the maximum debt would increase from 16.5% in FY 2025 as of February to 16.6% in FY 2021. The maximum additional bonding capacity would correspondingly decrease to $480 million.

County State Aid and Municipal State Aid Street Funds

The CSAH and MSAS Funds are directly appropriated based on the most current revenue forecast at the time the biennial budget is prepared. The Commissioner's Order (http://www.dot.state.mn.us/safinance/appmt/commorder2020.pdf) is on a calendar year basis and allocates the funds based on revenue estimates in the preceding November forecast each year. **The allocations made for calendar year 2020 will not change.**

The projected reduction in HUTD revenues that flow through the CSAH and MSAS Funds, for both FYs 2020 and 2021, will be reflected in the 2021 allocations ($ in millions):

Fund	2020 Com Order	2021	2021	$ Change	% Change
		Feb '20 Fcst	May '20 Projection*	Change from Feb '20 fcst	
CSAH	$853	$868	$736	($132)	(15%)
MSAS	$216	$218	$185	($33)	(15%)

*Note includes both FY 21 reduced revenue and estimate of adjustment for FY 20 reduced revenue

Transit Assistance Fund

The impacts to both revenue sources in this fund, MVST and MVLST, are the same as described in the HUTD Fund. For the Met Council portion (90% of MVST in the fund), this directly reduces funding in both FYs 2020 and 2021. For the MnDOT portion (10% of MVST in the fund and 100% of the MVLST), due to the combination of the statutory nature of the funding and the timing, there are no changes to FY 2020 spending, but an $11 million (14%) reduction is projected in FY 2021. This reduction in FY 2021 assumes utilizing all of the fund balance reserve established by MnDOT internal policy, leaving the fund with $0 balance at the end of FY 2021.

Below is a summary of the spending impacts by agency for the current FY 2020-21 biennium ($ in millions, changes are as compared to February 2020 forecast):

Agency	FY 2020	FY 2020	$ Change	% Change
	Feb '20 Fcst	May '20 Projection	Change from Feb '20 fcst	
MnDOT (greater MN transit)	$73	$73	$0	0%
Met Council (Twin Cities metro transit)	$308	$265	($43)	(14%)

Agency	FY 2021	FY 2021	$ Change	% Change
	Feb '20 Fcst	May '20 Projection	Change from Feb '20 fcst	
MnDOT (greater MN transit)	$76	$66	($11)	(14%)
Met Council (Twin Cities metro transit)	$318	$263	($54)	(17%)

Federal stimulus funds: as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act signed into law in March, the Federal Transit Administration (FTA) received funding to allow transit systems to operate their adjusted public service (in response to the COVID-19 pandemic), or to purchase eligible capital items with the federal government reimbursing 100% of the net costs (transit expenses minus transit revenues). Below is a summary of the funding Minnesota is receiving:

- $54 million for greater Minnesota transit (administered by MnDOT).
- $27 million for transit systems in urban areas with populations of 50,000+ (administered directly by transit systems).
- $227 million for Twin Cities metro transit (administered by Met Council).

State Airport Fund

The airline industry has been hit particularly hard by the pandemic, which will in turn impact the revenues paid into the State Airport Fund. One mitigating factor is through April of FY 2020, receipts have come in above February forecast levels. The estimated impacts are similar to the other funds, with reductions for most revenues of 50% for the remainder of FY 2020 and 25% in FY 2021.

Below is a summary of the projected revenue impacts by source for the current FY 2020-21 biennium for the State Airports Fund only (does not include the two revolving funds) ($ in millions, changes are as compared to February 2020 forecast):

Revenue Source	FY 2020-21	FY 2020-21	$ Change	% Change
	Feb '20 Fcst	May '20 Projection	Change from Feb '20 fcst	
Aircraft sales taxes	$19	$16	($3)	(16%)
Airline flight property taxes	$14	$14	$0	0%
Aviation fuel taxes	$11	$10	($1)	(9%)
Registration taxes	$7	$5	($2)	(27%)
Other	$1	$1	$0	0%
Total	**$51**	**$45**	**($6)**	**(11%)**

With the projected reduced revenues and no change in spending (beyond a timing shift of a $3.5 million Civil Air Patrol earmark), **the State Airports Fund is projected to end FY 2021 with a balance of $411,000 (and would utilize all of the fund balance reserve established by MnDOT internal policy)**.

Federal stimulus funds: as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act signed into law in March, the Federal Aviation Administration (FAA) received funding for two primary categories. Below is a summary of the funding Minnesota is receiving:

- $158 million for operations grants to 97 airports (flows through MnDOT, specific amounts by airport):
  - $125 million for Minneapolis-St. Paul (MSP)
  - $30 million for other 8 commercial service airports
  - $3 million for 88 general aviation airports
  - 37 airports receive nothing
- 100% federal funding for Airport Improvement Program (AIP) grants (administered by MnDOT).

Appendices

Appendix 1:	Highway User Tax Distribution Fund Statement
Appendix 2:	Trunk Highway Fund Statement
Appendix 3:	County State Aid Highway Fund Statement
Appendix 4:	Municipal State Aid Street Fund Statement
Appendix 5:	Transit Assistance Fund Statement
Appendix 6:	State Airports Fund Statement

Contacts

Kristi Schroedl, Chief Financial Officer	651-366-4859	kristi.schroedl@state.mn.us
Robin Sylvester, Financial Management Director	651-366-3165	robin.sylvester@state.mn.us
Josh Knatterud-Hubinger, Budget Director	651-366-4913	josh.knatterud-hubinger@state.mn.

Appendix 1

Highway User Tax Distribution Fund

Interim Budget Projection Update May 2020

Comparison to February 2020 Forecast

($ in thousands)	Interim Budget Projection Update May 2020						Change from February 2020	
	Close	Close	Close	Close	Budget	Budget	Budget	Budget
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2020	FY 2021
Balance Forward from Prior Year	11,617	11,042	11,403	12,050	11,932	12,000	-	-
Prior Year Adjustments	(2,341)	(28)	177	1,763	-	-	-	-
Adjusted Balance Forward	9,276	11,014	11,581	13,812	11,932	12,000	-	-
Net Revenue and Transfers-In								
Motor Fuel Excise Tax	899,251	910,640	925,737	937,561	869,444	856,576	(64,456)	(72,624)
Motor Vehicle Registration Tax	701,635	752,676	781,867	803,733	790,968	839,729	(52,952)	(37,948)
Motor Vehicle Sales Tax	428,831	452,578	463,435	485,904	441,900	438,900	(71,340)	(90,360)
Sales Tax on Auto Parts	-	-	31,536	31,536	145,644	145,644	-	-
Motor Vehicle Rental Tax (9.2%)	-	-	25,927	28,108	29,122	28,170	(143)	(2,287)
Motor Vehicle Rental Tax (6.5%)	-	-	16,706	19,859	20,575	19,903	(101)	(1,616)
Leased Vehicle Sales Tax	-	-	10,641	10,772	9,493	9,504	(1,265)	(1,452)
Other Income	5,035	3,630	4,471	6,024	5,552	5,304	-	-
Total Net Revenue and Transfers-In	2,034,751	2,119,524	2,260,320	2,323,498	2,312,697	2,343,730	(190,259)	(206,287)
Expenditures and Transfers-Out								
Appropriations to MnDOT, Revenue, DPS	2,962	3,366	11,746	13,977	11,026	12,290	-	-
Transfers--DNR	22,514	22,800	23,028	23,274	22,946	21,243	(71)	(1,801)
Transfers--5% Set-Aside	100,375	104,648	111,254	114,406	113,933	115,510	(9,509)	(10,224)
Transfers--County State-Aid Highway	553,069	576,613	613,009	630,379	627,770	636,459	(52,397)	(56,336)
Transfers--Municipal State-Aid Highway	171,642	178,949	190,244	195,635	194,825	197,522	(16,261)	(17,484)
Transfers--Trunk Highway	1,182,423	1,232,758	1,310,570	1,347,707	1,342,129	1,360,706	(112,021)	(120,442)
Other	-	-	-	-	-	-	-	-
Total Expenditures and Transfers-Out	2,032,986	2,119,135	2,259,851	2,325,378	2,312,629	2,343,730	(190,259)	(206,287)
Ending Balance	**11,042**	**11,403**	**12,050**	**11,932**	**12,000**	**12,000**	-	-

Beginning in FY 2016, the ending balance in all forecast years will equal $12 million, to align with MnDOT practices to maintain positive cash and fund balances

Appendix 2

Trunk Highway Fund

Interim Budget Projection Update May 2020

Comparison to February 2020 Forecast

($ in thousands)	Interim Budget Projection Update May 2020						Change from February 2020	
	Close	Close	Close	Close	Budget	Budget	Budget	Budget
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2020	FY 2021
Balance Forward from Prior Year	275,790	381,830	376,507	436,605	424,314	283,180	-	(112,021)
Prior Year Adjustments	30,857	41,612	33,366	61,699	30,000	30,000	-	-
Adjusted Balance Forward	306,647	423,441	409,872	498,304	454,314	313,180	-	(112,021)
Net Revenue and Transfers-In								
Transfer from HUTD	1,182,423	1,232,758	1,310,570	1,347,707	1,342,129	1,360,706	(112,021)	(120,442)
Federal Aid Agreements	426,391	587,537	601,332	627,708	540,995	343,995	-	-
Other Income and Transfers-In	48,008	61,569	71,558	78,228	74,252	69,156	-	(4,127)
Total Net Revenue and Transfers-In	1,656,822	1,881,864	1,983,461	2,053,643	1,957,376	1,773,857	(112,021)	(124,569)
Expenditures and Transfers-Out								
Transportation Department	1,307,532	1,624,366	1,640,971	1,796,050	1,804,356	1,743,516	-	-
Public Safety and Other Depts.	93,382	110,895	104,748	116,680	114,332	117,482	-	-
Transfers-Out and Other	-	-	-	-	-	-	-	-
Debt Service	180,725	193,539	211,009	214,903	209,821	234,914	-	-
Total Expenditures and Transfers-Out	1,581,640	1,928,799	1,956,728	2,127,633	2,128,510	2,095,912	-	-
Balance Before Reserves	381,830	376,507	436,605	424,314	283,180	(8,875)	(112,021)	(236,590)
Ending Balance	**381,830**	**376,507**	**436,605**	**424,314**	**283,180**	**(8,875)**	**(112,021)**	**(236,590)**
Reserved Fund Balance per Policy	85,142	84,616	90,633	92,467	94,701	97,285	(6,721)	(7,474)
Unreserved Fund Balance per Policy	296,687	291,891	345,972	331,847	188,478	(106,160)	(105,299)	(229,116)
Debt Service Percentage Compared to State Revenue	14.9%	15.1%	15.3%	15.1%	15.0%	16.6%	1.1%	1.3%

Reserved Fund Balance reflects reserved amounts to mitigate risk from state revenue fluctuations, federal funding uncertainty, severe winters, etc.

Unreserved Fund Balance reflects amounts available to be appropriated for specific purposes

Appendix 3

County State Aid Fund

Interim Budget Projection Update May 2020

Comparison to February 2020 Forecast

($ in thousands)	Interim Budget Projection Update May 2020						Change from February 2020	
	Close	Close	Close	Close	Budget	Budget	Budget	Budget
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2020	FY 2021
Balance Forward from Prior Year	508,749	563,509	631,865	673,186	690,463	624,526	-	(66,276)
Prior Year Adjustments	139	246	165	320	-	-	-	-
Adjusted Balance Forward	508,889	563,754	632,030	673,506	690,463	624,526	-	(66,276)
Net Revenue and Transfers-In								
Leased Vehicle Sales Tax	29,171	33,388	36,761	37,212	32,794	32,832	(4,370)	(5,016)
Other Income	3,583	5,917	9,270	14,549	12,185	11,431	-	-
Transfer from HUTD	653,444	681,261	724,263	744,786	741,703	751,969	(61,906)	(66,560)
Transfer from General			2,000	2,000			-	-
Total Net Revenue and Transfers-In	686,199	720,565	772,294	798,547	786,682	796,232	(66,276)	(71,576)
Expenditures and Transfers-Out								
Grants to Local Governments	621,664	641,945	720,530	770,121	835,588	780,206	-	(70,449)
MnDOT Administrative and Research	9,880	10,479	10,558	11,393	16,955	16,026	-	(1,127)
Transfers to MSAS Fund	-	-	-	-	-	-	-	-
Transfers to Special Revenue	35	30	51	76	76	76	-	-
Transfers to Trunk Highway Fund	-	-	-	-	-	-	-	-
Total Expenditures and Transfers-Out	631,579	652,454	731,138	781,590	852,619	796,308	-	(71,576)
Balance Before Reserves	563,509	631,865	673,186	690,463	624,526	624,450	(66,276)	(66,276)
Less Appropriation Carryforward	563,509	631,865	673,186	690,463	624,526	624,450	(66,276)	(66,276)
Ending Balance	-	-	-	-	-	-	-	-

Appendix 4

Municipal State Aid Fund

Interim Budget Projection Update May 2020

Comparison to February 2020 Forecast

($ in thousands)	Interim Budget Projection Update May 2020						Change from February 2020	
	Close	Close	Close	Close	Budget	Budget	Budget	Budget
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2020	FY 2021
Balance Forward From Prior Year	167,954	152,926	181,968	181,431	183,006	165,528	-	(16,261)
Prior Year Adjustments	42	81	53	78	-	-	-	-
Adjusted Balance Forward	167,996	153,008	182,021	181,509	183,006	165,528	-	(16,261)
Net Revenue and Transfers-In :								
Other Income	1,286	1,876	2,804	4,269	3,226	3,013	-	-
Transfer From HUTD	171,642	178,949	190,244	195,635	194,825	197,522	(16,261)	(17,484)
Transfer From CSAH	-	-	-	-	-	-	-	-
Net Revenue and Transfers In	172,928	180,824	193,048	199,904	198,051	200,535	(16,261)	(17,484)
Expenditures and Transfers-Out								
Grants to Local Governments	184,751	148,677	190,378	194,879	210,246	195,473	-	(17,134)
MnDOT Administrative and Research	3,237	3,177	3,245	3,504	5,260	5,038	-	(350)
Transfers to Special Revenue	10	9	16	24	24	24	-	-
Total Expenditures and Transfers-Out	187,998	151,864	193,639	198,407	215,529	200,535	-	(17,484)
Balance before Reserves	152,926	181,968	181,431	183,006	165,528	165,528	(16,261)	(16,261)
Less Appropriation Carryforward	152,926	181,968	181,431	183,006	165,528	165,528	(16,261)	(16,261)
Ending Balance	-	-	-	-	-	-	-	-

Appendix 5

Transit Assistance Fund

Interim Budget Projection Update May 2020

Comparison to February 2020 Forecast

($ in thousands)	Interim Budget Projection Update May 2020						Change from February 2020	
	Close	Close	Close	Close	Budget	Budget	Budget	Budget
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2020	FY 2021
Balance Forward from Prior Year	56,246	69,634	71,445	53,073	47,064	36,358	-	(9,086)
Prior Year Adjustments	672	2,766	2,406	2,163	-	-	-	-
Adjusted Balance Forward	56,917	72,399	73,851	55,236	47,064	36,358	-	(9,086)
Net Revenue and Transfers-In								
Metropolitan Area Transit Account	257,099	271,535	278,035	291,554	265,200	263,400	(42,744)	(54,156)
Greater Minnesota Transit Account	28,567	30,171	30,888	32,393	29,500	29,300	(4,716)	(5,984)
Total Motor Vehicle Sales Tax	285,665	301,706	308,923	323,948	294,700	292,700	(47,460)	(60,140)
Leased Vehicle Sales Tax	29,171	33,388	36,761	37,212	32,794	32,832	(4,370)	(5,016)
Other Income	-	-	-	5	-	-	-	-
Total Net Revenue and Transfers-In	314,836	335,094	345,684	361,165	327,494	325,532	(51,830)	(65,156)
Expenditures and Transfers-Out								
Metropolitan Council	257,172	271,535	278,040	291,617	265,200	263,400	(42,744)	(54,156)
Transportation Department	44,948	64,513	88,422	77,719	73,000	65,657	-	(10,526)
Total Expenditures and Transfers-Out	302,120	336,048	366,462	369,337	338,200	329,057	(42,744)	(64,682)
Balance Before Reserves	69,634	71,445	53,073	47,064	36,358	32,833	(9,086)	(9,560)
Less Appropriation Carryforward	69,634	33,388	36,761	37,212	32,794	32,832	(4,370)	(5,016)
Less Met Council Balance	-	-	-	-	-	-	-	-
Ending Balance	-	**38,057**	**16,311**	**9,852**	**3,564**	**1**	**(4,716)**	**(4,544)**
Reserved Balance	-	-	7,144	5,307	4,706	3,636	-	(909)
Unreserved Fund Balance	-	-	9,167	4,544	(1,143)	(3,635)	(4,716)	(3,635)

Appendix 6

State Airports Fund

Interim Budget Projection Update May 2020

Comparison to February 2020 Forecast

($ in thousands)	Interim Budget Projection Update May 2020						Change from February 2020	
	Close	Close	Close	Budget	Budget	Budget	Budget	Budget
	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	FY 2020	FY 2021
Balance Forward from Prior Year	$24,346	$17,629	$19,222	$14,881	$15,566	$13,852	-	1,840
Prior Year Adjustments	642	593	2,200	1,601	500	500	-	-
Adjusted Balance Forward	24,988	18,222	21,422	16,482	16,066	14,352	-	1,840
Net Revenue and Transfers-In								
Transfer from General Fund	-	-	-	-	-	-	-	-
Sales Tax on Aircraft	4,941	6,501	6,153	9,572	9,900	6,000	(1,100)	(2,000)
Airline Flight Property Tax	7,000	7,006	8,000	7,026	7,000	7,000	-	-
Aircraft Registration Tax	2,455	4,202	3,440	3,273	2,340	2,475	(960)	(825)
Gasoline & Special Fuel Tax	6,118	5,843	5,987	5,223	5,700	3,975	400	(1,325)
Other Income	955	950	1,303	1,529	1,559	1,625	-	-
Total Net Revenue and Transfers-In	21,469	24,503	24,883	26,623	26,499	21,075	(1,660)	(4,150)
Expenditures and Transfers-Out								
Transportation Department	29,074	23,907	31,767	26,778	29,013	31,275	(3,500)	1,500
Transfer Out (General Fund	-	-	-	-	-	-	-	-
Total Expenditures and Transfers-Out	29,074	23,907	31,767	26,778	29,013	31,275	(3,500)	1,500
Net Change in Loan Fund	246	405	344	(761)	300	300	-	-
Balance Before Reserves	17,629	19,222	14,881	15,566	13,852	4,452	1,840	(3,810)
Less Appropriation Carryforward	2,817	3,264	2,833	2,239	2,139	2,643	-	-
Ending Balance	**$14,812**	**$15,957**	**$12,048**	**$13,327**	**$11,713**	**$1,809**	**1,840**	**(3,810)**

This fund statement consists of three funds: State Airports Fund, Hangar Revolving Loan Fund, and Air Transportation Services Fund.

State Airports Fund (Only) Fund Balance Policy

Ending Balance	14,810	15,956	10,305	11,929	10,315	411
Policy Min	1,416	1,166	1,504	1,254	1,381	1,519
Policy Max	3,000	3,000	3,000	3,000	3,000	3,000
"Excess" Balance	13,394	14,790	8,801	10,675	8,935	(1,108)