



## Transportation Funds Forecast

The purpose of this document is to serve as the official guide to the Minnesota Department of Transportation (MnDOT) forecast for the six transportation funds:

- Highway User Tax Distribution Fund
- Trunk Highway Fund
- County State Aid Highway Fund
- Municipal State Aid Street Fund
- Transit Assistance Fund
- State Airports Fund

The primary focus is on comparing the most current forecast with the prior forecast. Background information on the transportation funds and forecast process is also provided. In addition, planning estimates are provided for fiscal years 2016 and 2017, which were not required to be prepared in February 2012 or in the End of Session 2012 statements released in June 2012.

### November 2012 Forecast Executive Summary

The November 2012 forecast estimates for the three principal highway user taxes have all changed since the End of Session 2012 forecast. For the four year period including FY 2012-15, revenues have changed by:

- Motor Fuel Excise Tax – 0.5% less
- Motor Vehicle Registration Tax – 0.8% less
- Motor Vehicle Sales Tax – 0.5% less

The percentage change for the entire Highway User Tax Distribution (HUTD) Fund (which includes several minor sources of revenue in addition to the three sources discussed above) is 0.7% less. Over the four years of the forecast period, FY 2012-15, the estimated revenue for the HUTD Fund is estimated to be \$47.9 million less than the End of Session 2012 Forecast. This revenue flows through to the Trunk Highway, County State Aid Highway, and Municipal State Aid Street Funds.

The November 2012 forecast also includes planning estimates for fiscal years 2016 and 2017. Compared with estimates for the FY 2014-15 biennium, revenue is forecast to change as follows:

- Motor Fuel Excise Tax – 1.0% less
- Motor Vehicle Registration Tax – 3.3% greater
- Motor Vehicle Sales Tax – 13.6% greater

# Transportation Funds Forecast

## November 2012

Released December 7, 2012

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Total estimated revenue to the HUTD Fund for FY 2016-17 is approximately \$129 million greater than is forecasted for the FY 2014-15 biennium, or 3.5%.

Forty percent of the motor vehicle sales tax revenue is currently dedicated to the Transit Assistance Fund, and this revenue decreased by the same 0.5% as the amounts dedicated to the HUTD Fund.

Estimates of investment income in all funds have decreased over the four year forecast period. The vast majority of the changes are for fiscal year 2015. A significant increase is expected in fiscal years 2016 and 2017, when interest rates on invested cash are projected to increase.

The estimated revenue in the State Airports Fund has decreased, due to a reduction in the estimated annual growth for aviation fuel tax from 3% per year to 2% per year, and Aircraft Registration Tax revenue estimates have also been reduced. In addition, revenue from the Airflight Property Tax for fiscal year 2012 was approximately \$713,000 less than forecast, due to amounts outstanding from two airlines that are in bankruptcy. Beginning in fiscal year 2015, the revenue estimated in this forecast is not sufficient to fully fund the legally authorized level of spending. Estimated revenue for the FY 2016-17 biennium is only slightly higher than is forecasted for the FY 2014-15 biennium, or 1.6%.

There is an 82% increase in estimated revenue from the sales tax on motor vehicle leases. One-half of this revenue is credited to the County State Aid Highway Fund and the other half is credited to the Greater Minnesota Transit Account in the Transit Assistance Fund.

It should be noted that this forecast does not take into account any effects of a potential failure to resolve the “fiscal cliff” at the federal level. The Department of Management and Budget’s 2012 November Forecast predicts that in the event this fiscal cliff is not resolved, another recession is likely to occur and could last several months. This would almost certainly result in reduced revenues for transportation funds, compared to those depicted in this forecast.

## Introduction to Transportation Funds

The Department of Transportation, in consultation with the Department of Management and Budget, prepares fund statements for six transportation funds. These fund statements are prepared in November and February of each fiscal year. Additional updates are prepared each year at the end of the legislative session to incorporate law changes impacting the transportation funds.

MnDOT prepares fund statements for the following funds:

- Highway User Tax Distribution Fund
- Trunk Highway Fund
- County State Aid Highway Fund
- Municipal State Aid Street Fund
- Transit Assistance Fund
- State Airports Fund



These forecasts are prepared based on the same statutory requirements as the state's General Fund forecast (M.S. 16A.103) and are also based on the statutory requirement in M.S. 174.03, subdivision 9.

The vast majority of state funding for highways in Minnesota is provided by funding from the Trunk Highway Fund (THF), the County State Aid Highway Fund (CSAH), and the Municipal State Aid Street Fund (MSAS). These three funds receive funding from the Highway User Tax Distribution Fund (HUTD). All four of these funds were created in Article XIV of the Minnesota Constitution.

## Highway User Tax Distribution Fund

The Highway User Tax Distribution Fund (HUTD) receives revenues from sources dedicated to highways and transit by Article XIV of the Minnesota Constitution. These revenue sources are:

- Motor Fuel Excise Tax
- Motor Vehicle Registration Tax
- Motor Vehicle Sales Tax

With the exception of the revenue from the Motor Vehicle Sales tax that is constitutionally dedicated to public transit (currently set at 40% by statute), revenues from these three taxes are all constitutionally required to be deposited into the Highway User Tax Distribution Fund. From there they are subsequently transferred, in accordance with formulas in Article XIV of the Minnesota Constitution and in statute, to the Trunk Highway Fund, the County State Aid Highway Fund, and the Municipal State Aid Street Fund.

Of the total revenue to the Highway User Tax Distribution Fund, 95% is allocated by a formula in the constitution to:

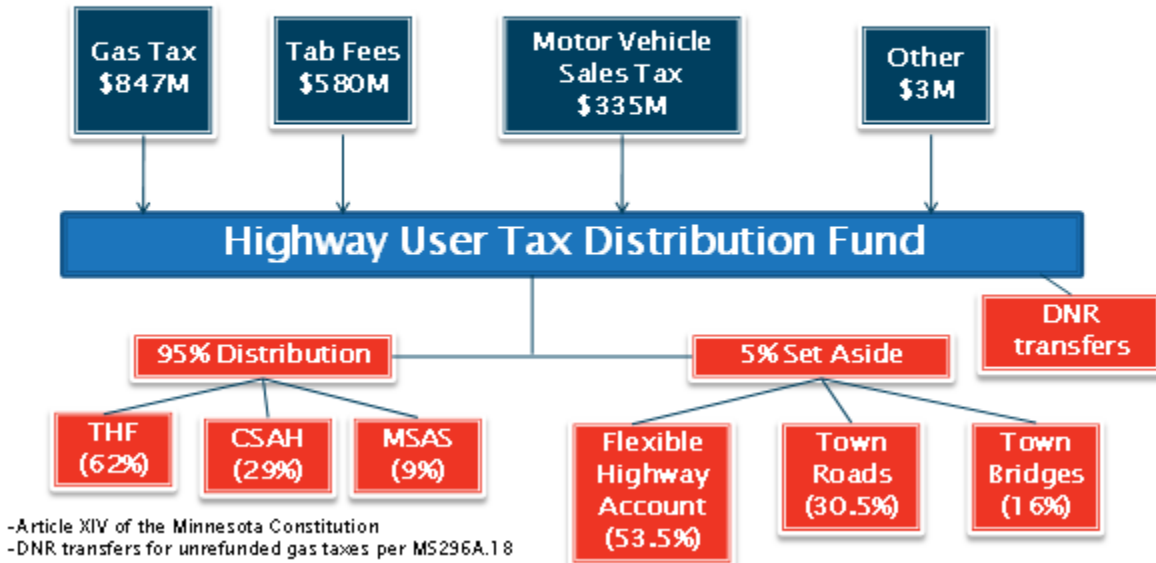
- Trunk Highway Fund – 62%
- County State Aid Highway Fund – 29%
- Municipal State Aid Street Fund – 9%

The remaining five percent, referred to as the five percent set aside, is all allocated to the County State Aid Highway Fund in accordance with M.S. 161.081. This funding is further allocated to Township Roads, Township Bridges, and the Flexible Highway Account, as shown in the chart below.

Across FY 2012-17, motor fuel excise taxes comprise approximately 46% of revenue, motor vehicle registration taxes comprise approximately 33% of revenue, motor vehicle sales taxes comprise approximately 21% of revenue, and other sources such as investment income comprise less than 1%.



## HUTD Sources and Uses FY 2012 (preliminary)



### Motor Fuel Excise Tax

According to article XIV of the Minnesota Constitution, "...The legislature may levy an excise tax on any means or substance used for propelling vehicles on the public highways of this state..." This tax is commonly referred to as "gas tax." It is levied on gasoline, diesel fuel, compressed natural gas, and a variety of other special fuels.

The current gas tax rate in Minnesota is 25 cents per gallon plus a 3.5 cent per gallon debt service surcharge. This surcharge is intended to cover the debt obligations for capital projects on the trunk highway system as authorized in the Laws of 2008, Chapter 152. The final debt service surcharge increase of a half cent was implemented on July 1, 2012.

The table below provides information about how Minnesota's motor fuel tax rates compare with those in the surrounding states and with federal tax rates.

### Comparison of July 2012 Motor Fuel Tax Rates (per gallon)

Cents per gallon	Federal	MN	WI	SD	IA	ND
Gasoline	18.4	<b>28.5</b>	30.9	22.0	21.0	23.0
Diesel	24.4	<b>28.5</b>	30.9	22.0	22.5	23.0
Gasohol (10% blend)	18.4	<b>28.5</b>	30.9	20.0	19.0	23.0



The following table shows historical motor fuel tax rates:

Year	Historical Motor Fuel Excise Rates in Minnesota
1975	Increased from 7 to 9 cents per gallon
1980	9 to 11 cents
1981	11 to 13 cents
1983	13 to 16 cents (for eight months) and then to 17 cents beginning January 1, 1984
1988	17 to 20 cents
1994	Phased out 2-cent gasohol credit over 4 years
2008	Chapter 152 authorized a number of changes to the fuel tax rates from 2008 to 2012; including a general rate increase of 5 cents phased in by October 1, 2008, and a debt service surcharge that increases to 3.5 cents by 2012.
2008 Apr 1	20 cents to 22.0 cents (2 cent general increase)
2008 Aug 1	22.0 cents to 22.5 cents (debt service surcharge)
2008 Oct 1	22.5 cents to 25.5 cents (3 cent general increase)
2009 Jul 1	25.5 cents to 27.1 cents (debt service surcharge)
2010 Jul 1	27.1 cents to 27.5 cents (debt service surcharge)
2011 Jul 1	27.5 cents to 28 cents (debt service surcharge)
2012 Jul 1	28.0 cents to 28.5 cents (debt service surcharge)

### Motor Vehicle Registration Tax

According to article XIV of the Minnesota Constitution, "...The legislature may by law tax motor vehicles using the public streets and highways on a more onerous basis than other personal property..." These taxes are commonly referred to as "tab fees."

### Motor Vehicle Sales Tax

According to article XIV of the Minnesota Constitution, "...revenue from a tax imposed by the state on the sale of a new or used motor vehicle...must be allocated for the following transportation purposes: not more than 60% must be deposited in the highway user tax distribution fund, and not less than 40% must be deposited in a fund dedicated solely to public transit..." Current statutes provide that 60% of this revenue is deposited in the HUTD fund and 40% is deposited in the Transit Assistance Fund.

## HUTD Revenue Forecast Detail

### Motor Fuel Excise Tax Forecast

The outlook for fuel consumption is affected by:

- the economy and world oil prices
- long-term policy (e.g., corporate average fuel economy (CAFE) standard)
- consumer trends toward more fuel efficient vehicles
- utilization of other transportation options



To forecast the motor fuel excise tax, MnDOT consults the U.S. gasoline consumption macroeconomic forecasts produced by Global Insight (GII). Global Insight is the same macroeconomic consultant that the state uses to assist with forecasting the General Fund. MnDOT also reviews regional forecast information from the federal Energy Information Administration (EIA). Finally, a comparison is made of actual local consumption versus previous forecast information provided by GII and EIA.

The most current forecasts from both EIA and GII are for lower consumption of motor fuels over the forecast period. The specific forecasts are shown in the tables below. MnDOT uses an average of the consumption forecasts by EIA and GII as its consumption forecast. These amounts are then multiplied by the motor fuel tax rate, resulting in the estimated revenue. Revenues are approximately 0.5% less than the End of Session 2012 forecast for the entire four year forecast period, which is approximately \$19 million. However, most of this shortfall was due to revenue for fiscal year 2012 being nearly \$18 million (2%) less than the End of Session 2012 forecast. Revenues for fiscal years 2013 and 2014 are forecast to be almost the same each year; the forecast for fiscal year 2015 is for a decrease of 0.6% compared with fiscal year 2014, which is approximately the same as was forecast in the End of Session 2012 fund statement.

### Fiscal Years 2016 and 2017 Planning Estimates

The planning estimates for fiscal years 2016 and 2017 are for a minor decrease in revenue. Revenue for fiscal years 2016 and 2017 combined is estimated to be 1% less than the forecast for fiscal years 2014 and 2015 combined. A reduction of 0.6% is expected in fiscal year 2016, compared with fiscal year 2015, and a reduction of 0.3% is expected in fiscal year 2017 compared with fiscal year 2016. The total reduced revenue for the FY 2016-17 biennium is \$18.1 million, compared with revenue forecasted for the FY 2014-15 biennium.

Energy Information Administration (EIA) Changes, Nov 12 vs. Feb 12					
Year	Nov 12 Forecast Annual Energy Outlook 2012		Feb 12 Forecast Annual Energy Outlook 2012 Early Release		Change
	Delivered Motor Gasoline Consumption, All Sectors (quadrillion BTU)	Growth (Year over Year)	Delivered Motor Gasoline Consumption, All Sectors (quadrillion BTU)	Growth (Year over Year)	
2008	1.30		1.30		
2009	1.30	-0.4%	1.29	-0.5%	0.1%
2010	1.30	0.0%	1.30	0.5%	-0.5%
2011	1.29	-0.8%	1.27	-2.6%	1.8%
2012	1.27	-1.2%	1.27	0.2%	-1.3%
2013	1.26	-0.8%	1.26	-1.0%	0.3%
2014	1.25	-1.2%	1.24	-1.0%	-0.2%
2015	1.23	-1.2%	1.23	-0.7%	-0.5%
2016	1.22	-1.2%	1.23	-0.5%	-0.7%
2017	1.20	-1.2%	1.22	-0.9%	-0.4%



Global Insight (GII) Changes, Nov 12 vs. Feb 12			
	Nov 12 Forecast	Feb 12 Forecast	
Year	GII Highway Consumption of Fuel Year over Year Growth	GII Highway Consumption of Fuel Year over Year Growth	Change
2008	-0.95%	-0.97%	0.03%
2009	-2.82%	-2.98%	0.16%
2010	0.43%	0.66%	-0.23%
2011	-0.82%	-0.86%	0.04%
2012	-1.87%	-2.03%	0.16%
2013	0.31%	0.71%	-0.40%
2014	1.05%	0.35%	0.70%
2015	-0.02%	-0.34%	0.32%
2016	0.05%	-0.64%	0.69%
2017	0.64%	0.04%	0.60%

The estimated revenue included in the November 2012 forecast from the motor fuel excise tax is shown below:

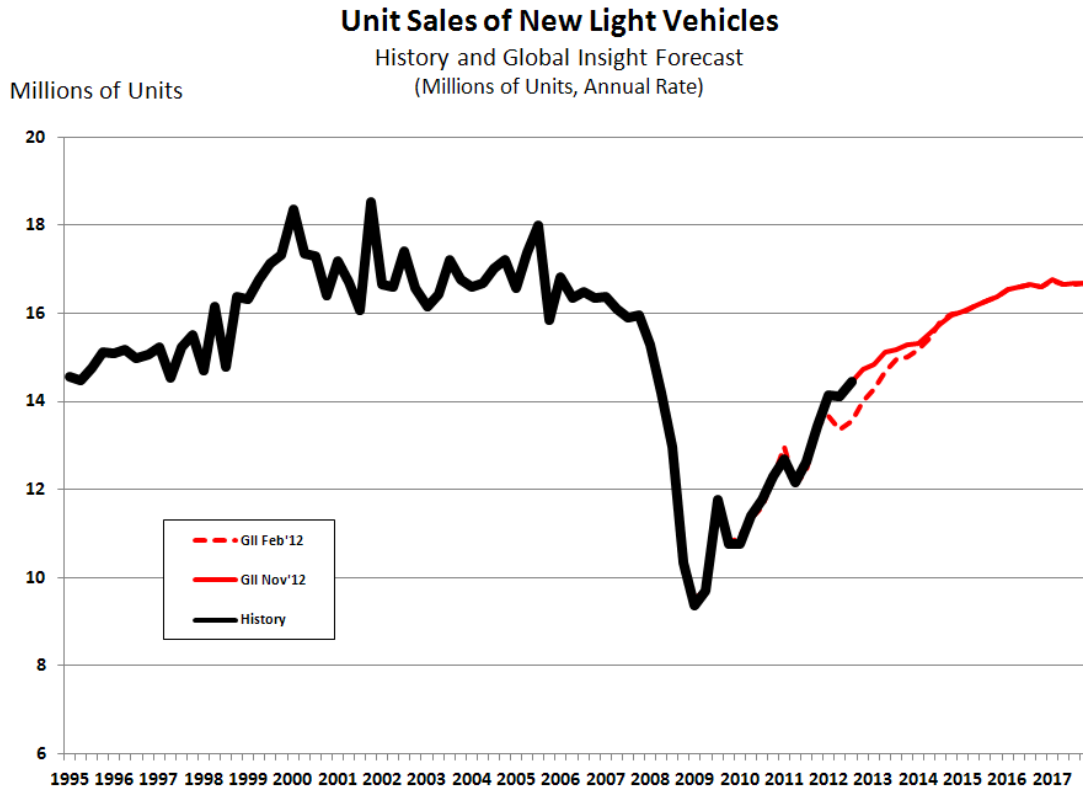
Motor Fuel Tax Revenues (\$ in millions)			
State Fiscal Year	Nov '12 Fcst	EOS '12 Fcst	\$ Change
2012 (prelim act)	\$847 M	\$864 M	-\$17.8 M
2013	875	877	-1.7
2014	876	875	0.8
2015	870	\$870 M	\$0.1 M
2016	865		
2017	\$863 M		

### Motor Vehicle Registration Tax Forecast

Revenue from the taxes on passenger motor vehicles, which is described in M.S. 168.013, subdivision 1a, comprise about 80% of the total revenue from motor vehicle registration taxes. Vehicles are taxed based on \$10 plus 1.25% of the vehicle's value, depreciated over time until the 10<sup>th</sup> year of registration, after which the tax is \$35. This policy was instituted in 2008, and included a provision that the tax on any passenger vehicle when calculated using the new policy would not be greater than paid previously; this provision resulted in a phase-in of the full impact of this policy change.



The following chart depicts the unit sales rate for new light vehicles, from 1995 through the forecast period. All data are provided by GII and reflect national levels. The solid red line reflects the current forecast, which has increased slightly since the End of Session 2012 forecast (the dashed red line).



MnDOT has a model to forecast revenue from passenger vehicles that is largely based on forecasts of the purchase of new passenger vehicles. Forecasts of the sales of new vehicles are provided by GII. The chart suggests that new vehicle sales will be slightly greater than was assumed in GII's prior forecast. However, due to slightly below forecast FY2012 actual results and a small timing shift in MnDOT's forecast model, estimated revenue is 0.8% less for all four years. This is a reduction of approximately \$19 million. MnDOT assumes that an additional \$105 million per year of motor vehicle registration tax revenue is received from taxes on various other types of vehicles, primarily on heavy trucks. This assumption is unchanged from the End of Session 2012 forecast.

The estimated revenue for both passenger vehicles and non-passenger vehicles included in the November 2012 forecast from the motor vehicle registration taxes is shown on the next page:





## Motor Vehicle Registration Tax Revenues

(\$ in millions)

State Fiscal Year	Nov '12 Fcst	EOS '12 Fcst	\$ Change
2012 (prelim act)	\$580 M	\$580 M	-\$0.7 M
2013	593	593	0.4
2014	601	607	-5.9
2015	608	\$621 M	-\$12.8 M
2016	618		
2017	\$630 M		

### Fiscal Years 2016 and 2017 Planning Estimates

The estimate for fiscal years 2016 and 2017 is for modest growth in revenue compared with revenue for fiscal years 2014 and 2015. Revenue for fiscal years 2016 and 2017 is estimated to be 3.3% greater than the forecast for fiscal years 2014 and 2015. An increase of 1.7% is expected in fiscal year 2016, compared with fiscal year 2015, and an increase of 1.9% is expected in fiscal year 2017 compared with fiscal year 2016. The total additional revenue for the FY 2016-17 biennium is approximately \$40 million, compared with revenue forecasted for the FY 2014-15 biennium.

### Motor Vehicle Sales Tax Forecast

As mentioned previously, the HUTD Fund receives 60% of the revenue from the motor vehicle sales tax. This is a 6.5% tax on the sale of new and used motor vehicles. The Department of Management and Budget (MMB) prepares the official forecast of this revenue, which is largely based on input provided by GII. Similar to the forecast for passenger motor vehicles, this forecast is largely based on estimates of sales of passenger vehicles, so the trend is similar to that described previously for motor vehicle registration tax revenue.

Compared with the End of Session 2012 forecast, estimated revenue in the November 2012 forecast is 0.5% less for all four years combined of the forecast period, a reduction of approximately \$8 million. The estimated revenue included in the November 2012 forecast that will be received by the HUTD Fund from the motor vehicle sales tax is shown below:

## Motor Vehicle Sales Tax Revenues

(\$ in millions)

State Fiscal Year	Nov '12 Fcst	EOS '12 Fcst	\$ Change
2012 (prelim act)	\$335 M	\$336 M	-\$0.8 M
2013	353	355	-1.3
2014	370	373	-2.9
2015	395	\$398 M	-\$2.7 M
2016	422		
2017	\$447 M		



**Fiscal Years 2016 and 2017 Planning Estimates**

The estimate for fiscal years 2016 and 2017 is for moderate growth in revenue compared with revenue for fiscal years 2014 and 2015. Revenue for fiscal years 2016 and 2017 is estimated to be 13.6% greater than the forecast for fiscal years 2014 and 2015. An increase of 6.7% is expected in fiscal year 2016, compared with fiscal year 2015, and an increase of 6.1% is expected in fiscal year 2017 compared with fiscal year 2016. The total additional revenue for the FY 2016-17 biennium is \$104.1 million, compared with revenue forecasted for the FY 2014-15 biennium.

**Total HUTD Revenue**

When the three revenue sources described above are combined, in addition to other smaller revenue sources, revenue to this fund is estimated to be 0.7% less than was forecasted in the End of Session 2012, a reduction of approximately \$48 million. The total estimated revenue for the HUTD Fund is shown below:

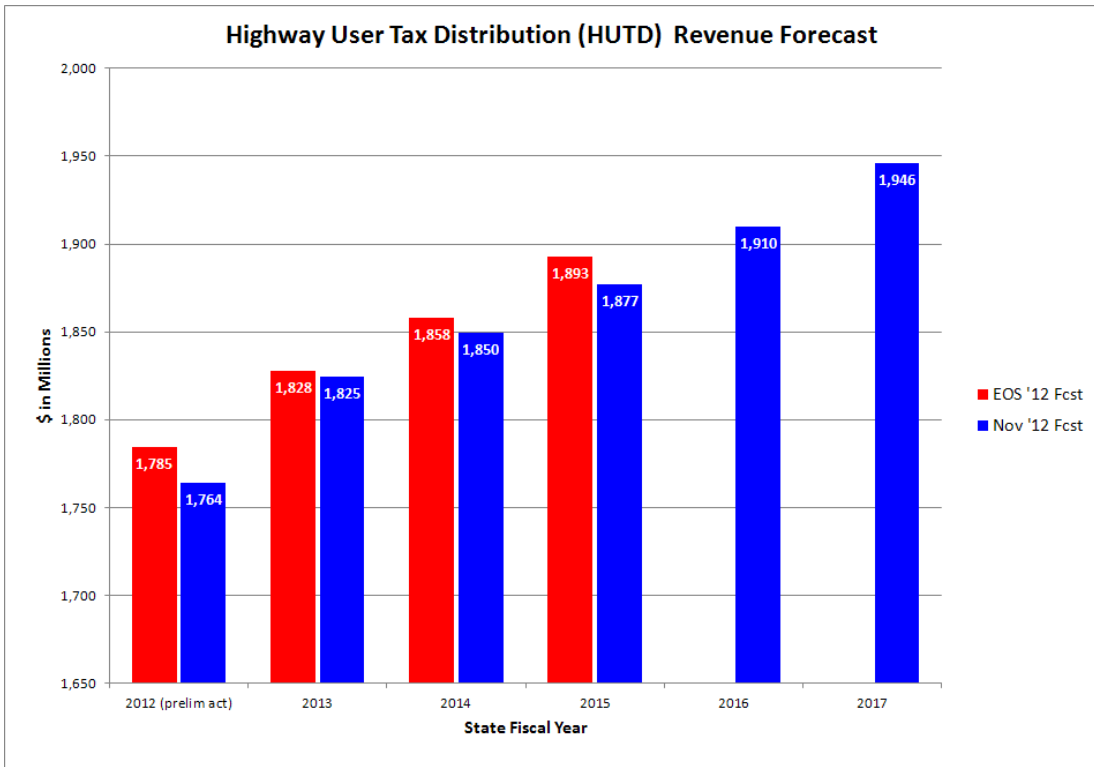
<b>HUTD Revenues</b>			
(\$ in millions)			
<u>State Fiscal Year</u>	<u>Nov '12 Fcst</u>	<u>EOS '12 Fcst</u>	<u>\$ Change</u>
2012 (prelim act)	\$1,764 M	\$1,785 M	-\$20.3 M
2013	1,825	1,828	-3.1
2014	1,850	1,858	-8.5
2015	1,877	\$1,893 M	-\$16.1 M
2016	1,910		
2017	\$1,946 M		

**Fiscal Years 2016 and 2017 Planning Estimates**

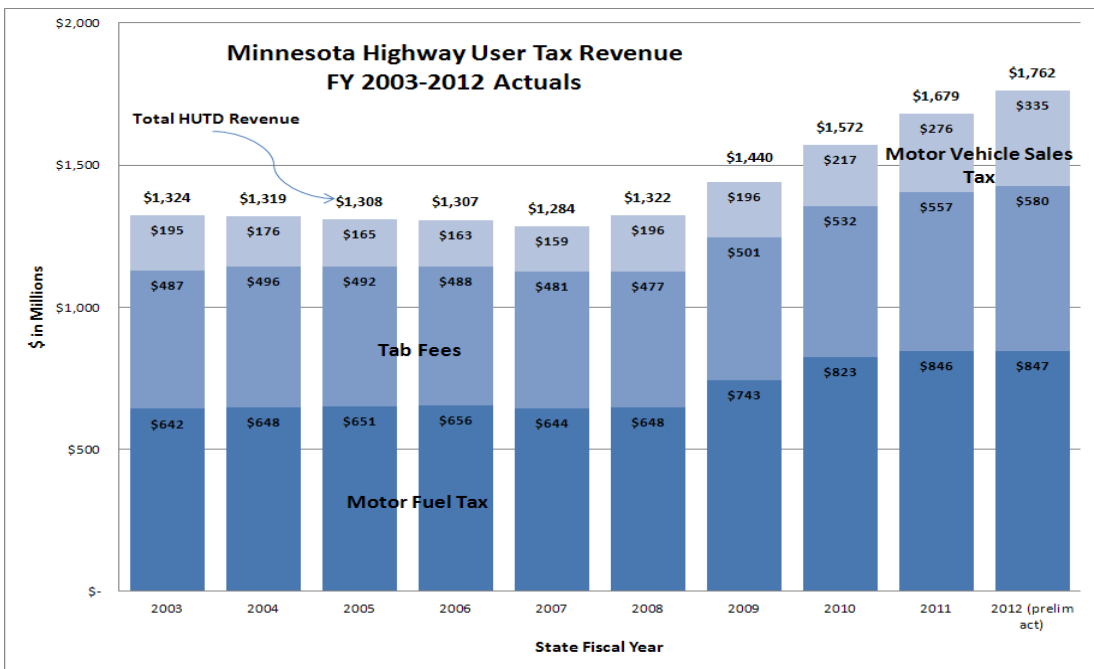
The estimate for fiscal years 2016 and 2017 is for modest growth in revenue compared with revenue for fiscal years 2014 and 2015. Revenue for fiscal years 2016 and 2017 is estimated to be 3.5% greater than the forecast for fiscal years 2014 and 2015. An increase of 1.7% is expected in fiscal year 2016, compared with fiscal year 2015, and an increase of 1.9% is expected in fiscal year 2017 compared with fiscal year 2016. The total additional revenue for the FY 2016-17 biennium is \$129 million, compared with revenue forecasted for the FY 2014-15 biennium.

Below is a chart that summarizes total HUTD revenues for FY 2012-17, for both the End of Session forecast and the current November forecast:





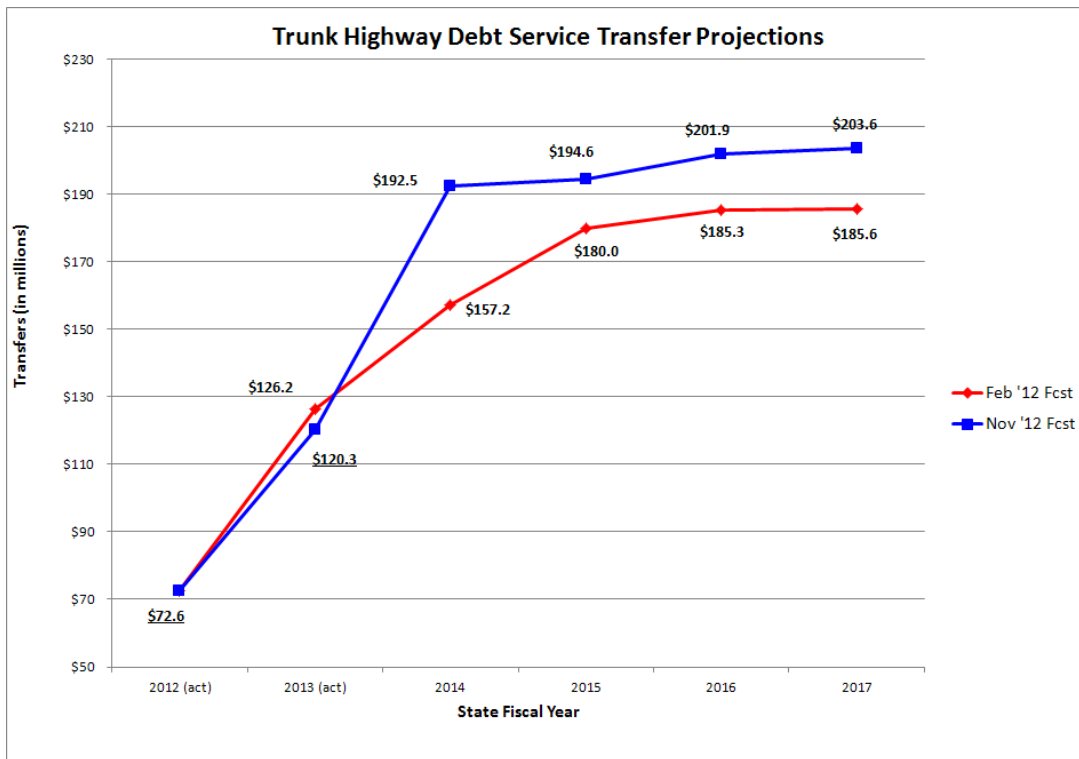
The chart below provides a 10 year history of actual revenues to the HUTD fund, for the 3 principal taxes (gas, tab fees, MVST):



## Trunk Highway Fund

The Trunk Highway Fund receives revenue from various sources. Across FY 2012-17, transfers from the HUTD Fund comprise approximately 70% of revenue, federal aid agreements comprise approximately 26% of revenue, and other sources, such as investment income, comprise approximately 4% of revenue.

The Trunk Highway Fund has unique constitutional authority (see Article XIV, section 11 of the Minnesota Constitution) to sell authorized trunk highway bonds. The debt service on these bonds (payment of principal and interest) is specified as the first obligation of the fund. In recent years the amount of debt service expenditures (transfers to the state Debt Service Fund) has been substantial and is forecasted to become even greater in the future. The debt service transfer in fiscal year 2012 was approximately \$73 million and is forecasted to grow to nearly \$195 million by fiscal year 2015, or approximately 17% of revenues to the fund, not counting federal aid agreements. Compared with the End of Session 2012 forecast, forecasted debt service has increased significantly – an increase of nearly \$41 million for the combination of fiscal years 2013, 2014, and 2015. This is an increase of 8.7% over the three year period. Below is a chart that summarizes these changes to the estimated debt service transfer:



There were several significant changes incorporated into the November 2012 forecast, compared with the End of Session 2012 forecast for the Trunk Highway Fund. First, the estimated debt service transfer cost increased, as described above. This is largely due to the acceleration of scheduled lettings for major bridge construction projects, compared with the estimated use of bond proceeds included in the End of Session 2012 Forecast.



Second, revenue received by this fund via transfer from the HUTD Fund is estimated to be 0.7% less than was forecasted in the End of Session 2012 statement for the same reasons as described earlier for the HUTD Fund. This is a decrease of approximately \$27 million over the four year period.

Third, there was a significant shift of federal aid agreements in fiscal year 2012, which are now forecast to be obligated in fiscal year 2013, along with additional revenue expected as a result of the new federal reauthorization law (MAP-21). There was a corresponding reduction in MnDOT expenditures in fiscal year 2012, partly due to the change in federal aid agreements, which were carried forward into fiscal 2013 and are forecast to be obligated in the current year. The overall net effect of these changes for fiscal years 2012 and 2013 combined is an increase in revenue of \$37.4 million and an increase in expenditures of \$27 million.

The forecasted changes for FY 2012-13 compared with FY 2014-15, along with the total impact on fund balance, are shown in the table below:

### Trunk Highway Fund Balance Changes

2012 Nov vs. 2012 EOS

(\$ in millions)

	<u>FY12-13</u>	<u>FY14-15</u>
State Revenues (HUTD)	(\$12.9) M	(\$14.3) M
Federal Aid Agreements	57.0	0.0
Other Revenue	(6.6)	1.9
Prior Year Adjustments	4.6	0.0
<b>Total Revenue Impact</b>	<b>42.1</b>	<b>(12.4)</b>
Transportation Expenditures	27.8	9.7
Other Agencies	(0.4)	0.2
Debt Service Transfer	(6.1)	46.8
<b>Total Expenditure and Transfer Impact</b>	<b>21.3</b>	<b>56.7</b>
<b>Fund Balance Change</b>	<b>20.7</b>	<b>(69.2)</b>
<b>Total Cumulative Change</b>	<b>\$20.7 M</b>	<b>(\$48.4) M</b>
Fund Balance		
EOS 12 Forecast	\$197.9	\$216.4
Nov 12 Forecast	218.7	168.0
<b>Change</b>	<b>\$20.7 M</b>	<b>(\$48.4) M</b>

MnDOT's Trunk Highway Fund is governed by four financial policies. The two most relevant to this forecast are the debt service and fund balance policies. The debt policy states that debt service (which includes repayments of Local Government Advances in accordance with M.S. 161.361 and transportation revolving loan repayments in accordance with M.S. 161.04, subdivision 4, in addition to the debt service transfers described in this discussion) should not exceed 20 percent of annual state revenues to the Trunk Highway Fund. The



debt service percentage and comparison to 20 percent debt service policy is shown below for the forecast period. The percentage is expected to increase in subsequent years. Both policies are included in the Appendices at the end of this document.

**Minnesota Department of Transportation  
Debt Management Policy  
(S in millions)**

Year	Total Debt Service <sup>(1)</sup>	Estimated Current %	Variance from 20% Policy Limit <sup>(2)</sup>
2012	\$80.5 M	7.5%	\$133.6 M
2013	129.8	11.7%	93.0
2014	202.0	17.9%	23.5
2015	204.1	17.8%	24.7
2016	211.4	18.0%	23.3
2017	\$213.1 M	17.6%	\$28.5 M

<sup>(1)</sup> Includes bond debt transfers, transportation revolving loans, and local area advances

<sup>(2)</sup> Represents amount of additional debt service to reach 20% limit

**Fiscal Years 2016 and 2017 Planning Estimates**

Estimated revenues for fiscal years 2016 and 2017 are slightly greater than the amounts forecasted for fiscal years 2014 and 2015. Transfers from the HUTD for fiscal years 2016 and 2017 combined are estimated to be \$76 million more than is forecasted for fiscal years 2014 and 2015 combined, an increase of 3.5%. Fiscal year 2016 is estimated to be 1.8% greater than the amount for fiscal year 2015, and the amount for fiscal year 2017 is estimated to be 1.9% greater than the amount estimated for fiscal year 2016.

In total changes to other sources of revenue for the THF are estimated to be slightly less in fiscal years 2016 and 2017 combined than is forecasted for fiscal years 2014 and 2015 combined, by approximately \$8 million (0.9%). This change occurred primarily in investment income, which is estimated to increase significantly in fiscal years 2016 and 2017 compared with fiscal years 2014 and 2015, by approximately \$33 million, and federal aid agreements, which are estimated to be approximately \$42 million (5%) less in the FY 2016-17 biennium, compared with the FY 2014-15 biennium. Note there is a high degree of uncertainty about the estimates of federal aid agreements.

Expenditure forecasts are generally based on the current law budget, with expenditures in fiscal years 2016 and 2017 being the same as those in fiscal years 2015. This is not the case with projected debt service expenditures (transfers to the state debt service fund), which are based on estimated cash flow for projects to be funded with bond proceeds, which in turn are the basis for the amount of bonds that are projected to be sold. Total debt service is forecasted to be \$18.5 million (4.8%) greater in the FY 2016-17 biennium than in the FY 2014-15 biennium.



## County State Aid Highway (CSAH) Fund

The County State Aid Highway Fund receives almost all of its revenue through transfers from the HUTD Fund. The CSAH Fund also receives a share of revenue from the sales tax on motor vehicle leases (see below) and investment income. This revenue is distributed annually through the Commissioner's Order process, as governed by M.S. Chapter 162.

The forecasted revenue in November 2012 estimated to be transferred from the HUTD Fund is 0.7% less than was estimated in End of Session 2012 for the same reasons as was described previously in the HUTD section. This is a decrease of approximately \$15 million over the four year forecast period.

The forecast for investment income is lower than in the End of Session 2012 forecast. This estimate is developed using interest rates provided by the Department of Management and Budget and projections of cash balances in the fund. The forecast for investment income was reduced by slightly more than \$2 million for the entire four year period.

In 2008 the Legislature statutorily dedicated a new source of revenue to transportation – revenue from the sales tax on motor vehicles leases. One-half of this revenue greater than \$32 million in fiscal year 2013 and beyond (\$31.1 million in fiscal year 2012) is allocated to the CSAH Fund, and one-half is allocated to the greater Minnesota transit account in the Transit Assistance Fund. The forecast for the motor vehicle lease sales tax is provided by the Department of Revenue and projects an increase of nearly \$22 million over the four year period as compared with the End of Session 2012 forecast. This is an increase of approximately 82% for FY 2012-15. This revenue is allocated to five of the seven metropolitan counties, not including Hennepin and Ramsey counties.

Of the revenue transferred from the HUTD fund, 95% is allocated to apportionments for highway construction and maintenance to Minnesota's 87 counties and 5% is allocated for purposes described in M.S. 161.081: 30.5% is allocated to Township Roads, 16% is allocated to Township Bridges, and 53.5% is allocated to the Flexible Highway Account, which has a number of prescribed uses. This forecast will result in slightly less revenue being available for these three areas.

### Fiscal Years 2016 and 2017 Planning Estimates

Estimated revenues for fiscal years 2016 and 2017 are greater than the amounts forecasted for fiscal years 2014 and 2015 in each of the three revenue sources.

First, transfers from the HUTD for fiscal years 2016 and 2017 combined are estimated to be \$42 million more than is forecasted for fiscal years 2014 and 2015 combined, an increase of 3.4%. Fiscal year 2016 is estimated to be 1.8% greater than the amount for fiscal year 2015, and the amount for fiscal year 2017 is estimated to be 1.9% greater than the amount estimated for fiscal year 2016.

Second, revenue from one-half of the motor vehicle lease sales tax is estimated to be nearly \$7 million greater in the FY 2016-17 biennium than in the FY 2014-15 biennium, an increase of 25%. Fiscal year 2016 is estimated to be 14.5% greater than the amount for fiscal year 2015, and the amount for fiscal year 2017 is estimated to be 3.5% greater than the amount estimated for fiscal year 2016.



Third, investment income in fiscal years 2016 and 2017 combined is estimated to be nearly \$18 million more than is forecasted for fiscal years 2014 and 2015 combined, more than a four-fold increase. Fiscal year 2016 is estimated to be 237% greater than the amount for fiscal year 2015, and the amount for fiscal year 2017 is estimated to be 94% greater than the amount forecasted for fiscal year 2016.

## **Municipal State Aid Street (MSAS) Fund**

The Municipal State Aid Street Fund receives almost all of its revenue through transfers from the HUTD Fund. In addition this fund receives investment income revenue. This revenue is distributed annually to municipalities with population greater than 5,000 through the Commissioner's Order process for street construction and maintenance, as governed by M.S. Chapter 162.

The forecasted revenue in November 2012 estimated to be received from the HUTD Fund is 0.7% less than was estimated in End of Session 2012 for the same reasons as was described previously. This is a decrease of nearly \$5 million over the four year forecast period.

The forecast for investment income is lower than in the End of Session 2012 forecast. As previously described, this estimate is developed using interest rates provided by the Department of Management and Budget and projections of cash balances in the fund. The forecast for investment income was reduced by about \$1.3 million over the four year period.

### **Fiscal Years 2016 and 2017 Planning Estimates**

Estimated revenues for fiscal years 2016 and 2017 are greater than the amounts forecasted for fiscal years 2014 and 2015. There are two revenue sources, both of which are projected to be greater in the FY 2016-17 biennium than in the FY 2014-15 biennium.

First, transfers from the HUTD for fiscal years 2016 and 2017 combined are estimated to be \$11 million more than is forecasted for fiscal years 2014 and 2015 combined, an increase of 3.4%. Fiscal year 2016 is estimated to be 1.8% greater than the amount for fiscal year 2015, and the amount for fiscal year 2017 is estimated to be 1.9% greater than the amount estimated for fiscal year 2016.

Second, investment income in fiscal years 2016 and 2017 combined is estimated to be nearly \$6 million more than is forecasted for fiscal years 2014 and 2015 combined, more than a four-fold increase. Fiscal year 2016 is estimated to be 237% greater than the amount for fiscal year 2015, and the amount for fiscal year 2017 is estimated to be 94% greater than the amount estimated for fiscal year 2016.

## **Transit Assistance Fund**

The Transit Assistance Fund was created (M.S. 16A.88) to provide a fund to receive the transit portion of the constitutionally dedicated revenue (currently 40%) from the motor vehicle sales tax. By statute (M.S. 297B.09), 36% of motor vehicle sales tax is allocated to the metropolitan area transit account (administered by the Metropolitan Council) and 4% is allocated to the greater Minnesota transit account (administered by MnDOT).

The forecast for this fund was affected by two factors. First, the decrease in the forecast for revenue from the motor vehicle sales tax already discussed resulted in a revenue decrease compared with the End of Session





2012 forecast of more than \$5 million for the four years of the forecast period, a decrease of approximately 0.5%. Of this reduction, \$4.7 million impacts the metropolitan area transit account (administered by the Metropolitan Council), and \$0.5 million impacts the greater Minnesota transit account (administered by MnDOT).

Second, the forecast for the motor vehicle lease sales tax is provided by the Department of Revenue and projects an increase of nearly \$22 million over the four year period as compared with the End of Session 2012 forecast. This is an increase of approximately 82% for FY 2012-15. Current law provides that the actual receipt of this revenue does not occur until after the close of a specific fiscal year. Because of this, all of the estimated revenue from this source is assigned as a balance forward to the subsequent fiscal year on the fund statement.

The overall effect of these two factors is an increase in revenue of \$16.6 million for the entire Transit Assistance Fund for the four year forecast period. The total estimated revenue for the Greater Minnesota portion of the Transit Assistance Fund is shown below:

### Greater Minnesota Transit Revenues

(\$ in millions)

State Fiscal Year	Nov '12 Fcst	EOS '12 Fcst	\$ Change
2012 (prelim act)	\$32 M	\$28 M	\$3.5 M
2013	35	29	5.8
2014	38	31	6.4
2015	41	\$36 M	\$5.7 M
2016	45		
2017	\$47 M		

#### Fiscal Years 2016 and 2017 Planning Estimates

Estimated revenues for fiscal years 2016 and 2017 are greater than the amounts forecasted for fiscal years 2014 and 2015. There are two revenue sources, both of which are projected to be greater in the fiscal years 2016-17 biennium than in the FY 2014-15 biennium.

First, Motor Vehicle Sales Tax revenue is estimated to be approximately \$69 million greater for the FY 2016-17 biennium than in the FY 2014-15 biennium, an increase of nearly 14%. Fiscal year 2016 is estimated to be 6.7% greater than the amount for fiscal year 2015, and the amount for fiscal year 2017 is estimated to be 6.1% greater than the amount estimated for fiscal year 2016.

Second, revenue from one-half of the motor vehicle lease sales tax is estimated to be nearly \$7 million greater in the FY 2016-17 biennium than in the FY 2014-15 biennium, an increase of 25%. Fiscal year 2016 is estimated to be 14.5% greater than the amount for fiscal year 2015, and the amount for fiscal year 2017 is estimated to be 3.5% greater than the amount estimated for fiscal year 2016.



## State Airports Fund

The State Airports Fund was statutorily created (M.S. 360.017) to carry out statutory aviation functions. This includes costs for airport development and assistance grants, aeronautic planning, administration, and operations. Three funds make up the total consolidated State Airports Fund:

- State Airports Fund
- Hangar Revolving Loan Fund
- Air Transportation Services Revolving Fund

Ending balances in the two revolving funds are not included in the consolidated fund statement ending balance since their receipts are dedicated to their specific functions.

The remainder of the section only addresses the individual State Airports Fund.

The State Airports Fund receives most of its revenue from three primary sources: airflight property tax (47%), aircraft registration tax (34%), and aviation fuel tax (19%) for the four year forecast period.

Compared with the End of Session 2012 forecast, the estimated revenue for the three sources of revenue mentioned above are all lower by a combined \$1.7 million, which is a reduction of 2%.

For the aviation fuel tax forecast MnDOT relies on forecasts made by the Federal Aviation Administration and the General Aviation Manufacturers' Association. The current guidance is for an increase of 2% per year in consumption; the previous forecast was based on an annual increase of 3%. The Aircraft Registration Tax forecast is based on MnDOT estimates, which take into account assumptions about the number and value of purchases of new airplanes. The Airflight Property Tax is based on a certification made by MnDOT to the Department of Revenue in accordance with M.S. 270.075. This law requires MnDOT to determine the property tax portion of revenue for the State Airports Fund, which is defined as the difference between the "...total fund appropriation and the estimated total fund revenues from other sources for the state fiscal year in which the tax is payable..." In December 2011 \$8.0 million was certified, and the same amount was certified in December 2012. However, a shortfall of \$713,000 was experienced in fiscal year 2012 due to nonpayment by two airlines in bankruptcy proceedings.

Two additional factors contributed to changes in the fund statement for this fund. First, the forecast for investment income forecast was reduced by about \$100,000 over the four year period. Second, MnDOT reduced expenditures in fiscal year 2012 and is expecting additional reductions in fiscal year 2013 due to efficiencies in operations. The total estimated revenue for the State Airports Fund is shown below:



## State Airports Revenues (State Airports Fund Only)

(\$ in millions)

State Fiscal Year	Nov '12 Fcst	EOS '12 Fcst	\$ Change
2012 (prelim act)	\$17 M	\$19 M	-\$1.1 M
2013	22	23	-0.8
2014	18	19	-0.8
2015	18	\$19 M	-\$1.2 M
2016	18		
2017	\$19 M		

### Fiscal Years 2016 and 2017 Planning Estimates

Estimated revenues for this fund for fiscal years 2016 and 2017 are for slightly greater revenue than the amounts forecasted for fiscal years 2014 and 2015. An increase of \$570,000 is estimated for the FY 2016-17 biennium compared with the FY 2014-15 biennium, an increase of 1.6%. The amount for fiscal year 2016 is estimated to be 1.4% greater than the amount for fiscal year 2015, and the amount for fiscal year 2017 is estimated to be 1.7% greater than the amount estimated for fiscal year 2016.



## Appendices

- Appendix 1: Highway User Distribution (HUTD) Fund Statement
- Appendix 2: Trunk Highway Fund Statement
- Appendix 3: Transit Assistance Fund Statement
- Appendix 4: State Airports Fund Statement
- Appendix 5: County State Aid Highway Fund Statement
- Appendix 6: Municipal State Aid Street Fund Statement
- Appendix 7: Debt Management Policy
- Appendix 8: Fund Balance Policy

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Appendix 1

(\$ in thousands)

**November 2012 Forecast-Transportation**

**Highway User Tax Distribution Fund**  
November 2012 Forecast  
Comparison to End of Session 2012

	November 2012 Forecast						Change from End of Session 2012			
	Prelim Close	Budget	Budget	Budget	Planning Est	Planning Est	Prelim Close	Budget	Budget	Budget
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2012	FY 2013	FY 2014	FY 2015
Balance Forward from prior year	\$1,848	\$2,024	\$0	\$0	\$0	\$0	\$0	\$2,024	\$0	\$0
<b>REVENUE</b>										
Gasoline and Special Fuel Taxes	846,741	874,963	875,745	870,382	865,313	862,729	-17,751	-1,680	792	65
Motor Vehicle License Tax	579,619	593,034	600,826	608,128	618,482	630,307	-695	399	-5,922	-12,781
Motor Vehicle Sales Tax	335,351	353,233	369,792	395,096	421,632	447,360	-817	-1,349	-2,910	-2,740
Other	\$2,690	\$3,370	\$3,378	\$3,397	\$4,325	\$5,652	-\$1,085	-\$428	-\$419	-\$600
<b>Total Revenue</b>	<b>1,764,401</b>	<b>1,824,600</b>	<b>1,849,742</b>	<b>1,877,003</b>	<b>1,909,752</b>	<b>1,946,048</b>	<b>-20,349</b>	<b>-3,058</b>	<b>-8,459</b>	<b>-16,055</b>
<b>ACTUAL &amp; ESTIMATED USES</b>										
Appropriations to MnDOT, Revenue, DPS	\$10,866	\$11,457	\$11,457	\$11,457	\$11,457	\$11,457	-\$591	\$0	\$0	\$0
Transfers--DNR	21,196	22,124	22,595	22,515	22,447	22,282	-500	-394	-97	-76
Transfers--5% Set-Aside	86,542	89,586	90,718	92,085	93,726	95,549	-1,064	-32	-418	-799
Transfers--County State-Aid Highway	476,846	493,618	499,857	507,390	516,431	526,476	-5,863	-176	-2,304	-4,402
Transfers--Municipal State-Aid Highway	147,987	153,192	155,128	157,466	160,272	163,389	-1,820	-55	-715	-1,366
Transfers--Trunk Highway	1,019,463	1,055,321	1,068,660	1,084,765	1,104,093	1,125,568	-12,535	-377	-4,926	-9,412
Other	1,326	1,326	1,326	1,326	1,326	1,326	0	0	0	0
<b>Total Uses</b>	<b>1,764,226</b>	<b>1,826,624</b>	<b>1,849,742</b>	<b>1,877,003</b>	<b>1,909,752</b>	<b>1,946,048</b>	<b>-22,372</b>	<b>-1,034</b>	<b>-8,460</b>	<b>-16,055</b>
<b>Ending Balance</b>	<b>\$2,024</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$2,024</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Appendix 2

(\$ in thousands)

**November 2012 Forecast-Transportation**

**Trunk Highway Fund**  
 November 2012 Forecast  
 Comparison to End of Session 2012

(\$ in thousands)	November 2012 Forecast						Change from End of Session 2012			
	Prelim Close FY 2012	Budget FY 2013	Budget FY 2014	Budget FY 2015	Planning Est FY 2016	Planning Est FY 2017	Prelim Close FY 2012	Budget FY 2013	Budget FY 2014	Budget FY 2015
Balance Forward from prior year	\$199,967	\$387,408	\$218,666	\$187,106	\$168,024	\$164,116	\$0	\$196,805	\$20,739	-\$24,224
Prior year adjustments	4,639	0	0	0	0	0	4,639	0	0	0
<b>Adjusted Balance Forward</b>	<b>204,606</b>	<b>387,408</b>	<b>218,666</b>	<b>187,106</b>	<b>168,024</b>	<b>164,116</b>	<b>4,639</b>	<b>196,805</b>	<b>20,739</b>	<b>-24,224</b>
<b>REVENUE AND TRANSFERS</b>										
Transfer from HUTD	1,019,463	1,055,321	1,068,660	1,084,765	1,104,093	1,125,568	-12,535	-377	-4,926	-9,412
Federal aid agreements	393,993	500,607	392,480	373,480	361,980	361,980	-138,143	195,127	0	0
Other income	51,041	58,564	58,755	59,153	69,222	82,629	-8,200	1,565	1,806	100
<b>Total Revenue and Transfers</b>	<b>1,464,497</b>	<b>1,614,492</b>	<b>1,519,895</b>	<b>1,517,398</b>	<b>1,535,295</b>	<b>1,570,177</b>	<b>-158,878</b>	<b>196,315</b>	<b>-3,119</b>	<b>-9,312</b>
<b>ACTUAL &amp; ESTIMATED USES</b>										
Transportation Department	1,124,521	1,571,066	1,270,459	1,253,362	1,248,760	1,247,662	-347,200	375,000	7,923	1,826
Public Safety and Other Depts.	84,573	91,863	88,544	88,519	88,544	88,519	-3,843	3,447	128	103
Debt service	72,601	120,305	192,452	194,599	201,900	203,617	0	-6,066	33,792	12,960
<b>Total Uses</b>	<b>1,281,694</b>	<b>1,783,234</b>	<b>1,551,455</b>	<b>1,536,480</b>	<b>1,539,204</b>	<b>1,539,798</b>	<b>-351,044</b>	<b>372,381</b>	<b>41,843</b>	<b>14,889</b>
Balance before reserves	387,408	218,666	187,106	168,024	164,116	194,495	196,805	20,739	-24,224	-48,424
Reserved for approp. carried forward	0	0	0	0	0	0	0	0	0	0
<b>Ending Balance</b>	<b>\$387,408</b>	<b>\$218,666</b>	<b>\$187,106</b>	<b>\$168,024</b>	<b>\$164,116</b>	<b>\$194,495</b>	<b>\$196,805</b>	<b>\$20,739</b>	<b>-\$24,224</b>	<b>-\$48,424</b>

Appendix 3

(\$ in thousands)

**November 2012 Forecast-Transportation**

**Transit Assistance Fund**  
 November 2012 Forecast  
 Comparison to End of Session 2012

(\$ in thousands)

	November 2012 Forecast						Change from End of Session 2012			
	Prelim Close	Budget	Budget	Budget	Planning Est	Planning Est	Prelim Close	Budget	Budget	Budget
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2012	FY 2013	FY 2014	FY 2015
Balance Forward from prior year	\$6,010	\$15,622	\$11,465	\$12,855	\$14,900	\$17,065	\$0	\$9,847	\$5,895	\$6,545
<b>REVENUE</b>										
Metropolitan area transit account	201,210	211,940	221,875	237,058	252,979	268,416	-491	-831	-1,746	-1,644
Greater Minnesota transit account	22,357	23,549	24,653	26,340	28,109	29,824	-55	-92	-194	-183
Motor Vehicle Sales Tax	223,567	235,488	246,528	263,398	281,088	298,240	-545	-924	-1,940	-1,826
Leased Vehicle Sales Tax	9,299	11,465	12,855	14,900	17,065	17,655	3,524	5,895	6,545	5,900
<b>Total Revenue</b>	<b>232,866</b>	<b>246,953</b>	<b>259,383</b>	<b>278,298</b>	<b>298,153</b>	<b>315,895</b>	<b>2,979</b>	<b>4,971</b>	<b>4,605</b>	<b>4,074</b>
<b>ACTUAL &amp; ESTIMATED USES</b>										
Metropolitan Council	201,210	211,940	221,875	237,058	252,979	268,416	-491	-831	-1,746	-1,644
Transportation Department	22,043	39,171	36,118	39,195	43,009	46,889	-6,378	9,755	5,701	6,363
<b>Total Uses</b>	<b>223,254</b>	<b>251,111</b>	<b>257,993</b>	<b>276,253</b>	<b>295,988</b>	<b>315,305</b>	<b>-6,869</b>	<b>8,924</b>	<b>3,955</b>	<b>4,719</b>
Less Appropriation Carryforward		11,465	12,855	14,900	17,065	17,655	-5,775	5,895	6,545	5,900
<b>Ending Balance</b>	<b>\$15,622</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$15,622</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Appendix 4

(\$ in thousands)

**November 2012 Forecast-Transportation**

**State Airports Fund**  
November 2012 Forecast  
Comparison to End of Session 2012

	November 2012 Forecast						Change from End of Session 2012			
	Prelim Close	Budget	Budget	Budget	Planning Est	Planning Est	Prelim Close	Budget	Budget	Budget
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2012	FY 2013	FY 2014	FY 2015
Balance Forward from prior year	\$2,902	\$2,651	\$3,661	\$2,400	\$914	-\$326	\$0	\$1,715	\$1,495	\$1,351
Prior Year Adjustments	526	0	0	0	0	0	526	0	0	0
Adjusted Balance Forward	3,428	2,651	3,661	2,400	914	-326	526	1,715	1,495	1,351
<b>REVENUE</b>										
Airline Flight Property Tax	7,287	12,233	8,000	8,000	8,000	8,000	-713	0	0	0
Aircraft Registration Tax	6,496	6,500	6,500	6,200	6,200	6,200	296	-17	-17	-317
Gasoline & Special Fuel Tax	3,470	3,539	3,610	3,682	3,756	3,831	-162	-201	-243	-286
Departmental Earnings	648	510	510	510	510	510	138	0	0	0
Investment Income	56	68	69	72	243	473	-18	-12	-11	-58
Other Income	493	753	753	753	753	753	403	663	663	663
<b>Total Revenue</b>	<b>18,450</b>	<b>23,603</b>	<b>19,442</b>	<b>19,218</b>	<b>19,463</b>	<b>19,767</b>	<b>-55</b>	<b>432</b>	<b>392</b>	<b>1</b>
<b>ACTUAL &amp; ESTIMATED USES</b>										
Transportation Department	19,227	22,593	20,702	20,702	20,702	20,702	-1,243	652	536	536
Revenue Department	0	1	1	1	1	1	-1	0	0	0
<b>Total Uses</b>	<b>19,227</b>	<b>22,594</b>	<b>20,703</b>	<b>20,703</b>	<b>20,703</b>	<b>20,703</b>	<b>-1,244</b>	<b>652</b>	<b>536</b>	<b>536</b>
Less Appropriation Carryforward	1,521	1,521	1,685	1,849	2,013	2,177	1,521	1,521	1,685	1,849
<b>Ending Balance</b>	<b>\$1,130</b>	<b>\$2,139</b>	<b>\$714</b>	<b>-\$935</b>	<b>-\$2,339</b>	<b>-\$3,439</b>	<b>\$194</b>	<b>-\$26</b>	<b>-\$334</b>	<b>-\$1,033</b>

This fund statement consists of three funds: State Airports Fund, Hangar Revolving Loan Fund, and Air Transportation Services Fund. Ending balances in the two revolving funds are not included in the consolidated fund statement ending balance since their receipts are dedicated to their specific functions.









# Mn/DOT POLICY

**Date:** July 1, 2010

**Reference:** Debt Management  
Financial Administration  
No. 2.6

## Position Statement:

- I. Debt service for the trunk highway fund should not exceed 20 percent of annual state revenues to the trunk highway fund.
- II. Additional debt service should not reduce the adopted statewide transportation improvement program.
- III. Use of trunk highway bonds will be in accordance with statewide policies as to limits and purpose, and shall also only be used for capitalizable assets with useful lives exceeding the term of the bonds.
- IV. Actions:
  - A. Mn/DOT shall not propose additional bonding that would exceed this debt service limit.
  - B. If any forecast projects that this debt limit shall be exceeded within 10 years after the fiscal year of the forecast and:
    1. More than five years later, the commissioner shall formally notify Minnesota Management and Budget and advise the Legislature, providing options to bring the debt service into compliance with the policy;
    2. More than two years but five or fewer years later, the commissioner shall formally notify Minnesota Management and Budget, consider actions to bring the debt service into compliance with the policy, and advise the Legislature of actions taken or provide the reasons for not so doing;
    3. Two or fewer years, the commissioner shall propose or take actions to bring debt service into compliance by the end of the next legislative session.
    4. In all cases, Mn/DOT will restrict usage of the fund balance by an amount estimated for the future debt service funding shortfalls for years where debt service is projected to exceed 20 percent of annual state revenues.

## Guideline:

Debt service and state revenue to the trunk highway fund shall be estimated with each state forecast in November and February, and after any legislative session that changes debt authorizations or revenue estimates. The time period for this estimate shall extend beyond the formal forecast period to a total of 10 years for purposes of this policy. Responsible party: chief financial officer.

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**Background:**

The state of Minnesota is authorized to issue general obligation bonds for trunk highway purposes under Article XIV of the constitution. Mn/DOT is also authorized to enter into loan agreements using the transportation revolving loan fund under M.S. 161.04, and to enter into local advance agreements under M.S. 161.361. This policy sets limits on the overall obligations that these uses of debt financing should place on the state revenues into the trunk highway fund for the next 10-year period, but long-term planning should aim for debt service to not exceed 15 percent of state revenues. Mn/DOT is exploring financing mechanisms other than obligation bonds. Before using any new financing mechanism, Mn/DOT, in consultation with Minnesota Management and Budget, will evaluate its applicability to and impact on this and other state capital investment policy, as well as any amendments to these policies. All applicable related state and federal policies must also be followed, and guidelines set by Mn/DOT’s fund balance and cash forecast policies must also be considered.

**Statutory or Other References:**

See Background section above.


**Definitions:**

**Debt service** – required annual payments of interest and principal to fully amortize the loan according to the loan agreement. Debt service includes future obligations for trunk highway bonds, borrowings from the transportation revolving loan fund, advances from local governments and any other similar obligations on the trunk highway fund.

**Trunk highway bonds** – bonds sold to investors to acquire funds for construction of trunk highway improvements. These general obligation bonds must be repaid from the trunk highway fund.

**Trunk highway fund** – constitutionally dedicated source of revenue that must be used for the trunk highway system.

**State revenues** – revenue into the trunk highway fund from sources created by Minnesota statute or constitution, such as motor fuel tax, motor vehicle registration tax and motor vehicle sales tax.

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**Khani Sahebjam, Deputy Commissioner  
and Chief Engineer**

**Any questions regarding this policy should be directed to:**

Chief Financial Officer, MS 120, Transportation Building  
395 John Ireland Blvd., St Paul, MN 55155  
651-366-4816

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# Mn/DOT POLICY

**Date:** July 1, 2010

**Reference:** Financial Administration  
No. 2.3  
Fund Balance

## Position Statement:

- I. The trunk highway fund should maintain an undesignated, unreserved fund balance of not less than the sum of:
  - a. 6 percent of annual projected state revenues to the fund, plus
  - b. 2 percent of authorized but unissued debt, plus
  - c. An amount estimated for the future debt service funding shortfalls for years where debt service is projected to exceed 20 percent of annual state revenues.
  
- II. If any forecast projects that the fund balance target shall not be met, Mn/DOT shall propose actions, including biennial budget submissions that achieve the target by the end of the next biennium, unless the commissioner finds that an emergency warrants a longer period of adjustment.

## Guideline:

The trunk highway budgetary fund balance shall be estimated with each state forecast in November and February, and after any legislative session that materially changes fund balance components. The time period should cover each biennium included in the state forecast. Responsible party: chief financial officer.

## Background:

The state's trunk highway fund is the principal operating fund for Mn/DOT. The trunk highway fund is a governmental fund that accounts for public monies used to construct, maintain, and operate most of the Minnesota trunk highway transportation infrastructure. It also accounts for transfers to pay trunk highway debt. In governmental funds, undesignated, unreserved fund balance is a reserve to allow for emergencies (natural and financial), and permit orderly adjustment to revenue fluctuations.

Maintaining an unreserved fund balance while planning for spending of funds creates a reserve that can be used to mitigate significant deviations from expected future events. Revenue forecasts and projected spending levels are all subject to significant uncertainty due to several economic, operating, and legal uncertainties concerning the future operating environment. The state of Minnesota (MS 16A.152) requires its general fund to maintain reserves for cash flow and budget reserves, and includes other fund balance guidelines.

**Statutory or Other References:**


See Background section above.

**Definitions:**

**State revenue** – Revenue into the trunk highway fund from sources created by Minnesota statute or constitution, such as motor fuel tax, motor vehicle registration tax and motor vehicle sales tax.

**Fund balance** – The amount of revenues less appropriations, reserves and other uses in the trunk highway fund at the end of a fiscal year and year end balances forecast in the trunk highway fund budgetary fund statement for future years.

**Federal funds** – Federal appropriations for transportation purposes received on a reimbursable basis through the Federal Highway Administration.



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