



# Minnesota's Highway Finances

## **Motor Fuel Tax**

At current consumption levels, each one-cent increase in the gas tax would yield about \$32 million per year to the Highway User Tax Distribution Fund and generate \$19 million in revenues to the Trunk Highway Fund. The current tax of 20 cents per gallon yielded \$626 million in FY 2007 after refunds, collection costs, and transfers to the Department of Natural Resources.

Approximately seventy nine percent of motor fuel tax revenues are generated from gasoline sales. The remainder comes mostly from diesel and special fuel sales.

State law requires transfers of non-highway use gasoline tax revenues (e.g., from fuel used in boats and snowmobiles) to accounts managed by the Department of Natural Resources. About 3% of gasoline tax revenues, or approximately \$16 million, are termed "unrefunded" and transferred from the Highway User Tax Distribution Fund to the Department of Natural Resources accounts each year.

Based on information supplied by the American Petroleum Institute, twenty-three states have gasoline tax rates higher than Minnesota's and three states have gas tax rates the same as Minnesota's. Some states have local option gas taxes and/or levy a statewide sales tax or other statewide tax (e.g., an oil franchise tax in Pennsylvania) on gasoline sales. If additional statewide taxes such as a sales tax are taken into account, thirty states have higher gas tax rates than Minnesota.

## **Motor Vehicle Registration Taxes**

In FY 2007, motor vehicle registration taxes, after refunds and collection costs, yielded \$484 million. Passenger class and pickup truck vehicles generated approximately 80% of total motor vehicle registration tax revenues.

## **Motor Vehicle Sales Tax**

The motor vehicle sales tax, a 6.5% tax on the sale of new and used motor vehicles, is partially dedicated to transportation. By 2012 all of this revenue will be dedicated to transportation, with 40% allocated to transit and 60% allocated to highways by state statute. In fiscal year 2008, 38.25% of this revenue will be deposited in the Highway User Tax Distribution Fund; this is estimated to be \$192 million. In fiscal year 2009, 44.25% of this revenue will be deposited in the Highway User Tax Distribution Fund; this is estimated to be \$222 million.

## **Federal Highway Funds**

The level of federal funding is a critical issue for Mn/DOT and for various local governments across the state, because federal funds make up a substantial portion of transportation spending. For the trunk highway fund, which is the principal funding source for Mn/DOT and which also provides significant funding for the Department of Public Safety, approximately \$345 million (November 2007 forecast) of federal funds are forecasted to be received in fiscal year 2008; this is about 27% of the total revenue being estimated. In addition a

substantial amount of federal highway revenue is made available for local government projects. Typically this is about \$100 million per year; \$124 million was received for local government use in fiscal year 2007.

A concern has arisen about the level of federal highway funds that might be expected in the future. Recent forecasts for the federal highway trust fund suggest that the fund will run out of money in the fairly near future, perhaps as early as 2009. This may lead to reduced federal appropriations by Congress.

### **Highway User Tax Distributions**

The Minnesota Constitution provides that 95% of Highway User Tax Distribution Fund revenues are distributed as follows: Trunk Highways - 62%; County State Aid Highways - 29%; and Municipal State Aid Streets - 9%. The remaining 5%, sometimes referred to as the five percent set-aside, is distributed in accordance with a formula established by the Legislature, but the formula may only be changed once every six years. The 1998 Legislature most recently changed this formula.

Since July 1, 1999, all of the five percent set-aside revenues - approximately \$65 million per year - have been deposited in the County State Aid Highway Fund, where they have been further allocated to the Township Roads Account (30.5 %), Township Bridges Account (16%), and Flexible Highway Account (53.5%).

The most recent allocation of the five percent set-aside revenues prior to July 1, 1999 distributed them to the Trunk Highway Fund (28%), the County State Aid Highway Fund (64%), and the Municipal State Aid Street Fund (8%). This formula could be changed by the 2008 legislature as ten years have passed since it was last changed.

### **Flexible Highway Account**

The Flexible Highway Account was created by the 1998 Legislature, essentially by combining money from the five percent set-aside that was previously allocated to the Trunk Highway Fund, the County Turnback Account in the County State Aid Highway Fund, and the Municipal Turnback Account in the Municipal State Aid Street Fund. The commissioner of transportation must recommend allocation of money in the Flexible Highway Account to the Trunk Highway Fund, the County State Aid Highway Fund, and the Municipal State Aid Street Fund for each upcoming two-year period as part of the biennial budget proposal.

The following table describes allocations of the five percent set-aside for fiscal years 2006 through 2009:

5% Set-aside Distributions (\$ in millions)				
Fiscal Year	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Town Road Account @ 30.5%:	19.4	19.3	19.7	20.3
Town Bridge Account @ 16.0%:	10.2	10.1	10.4	10.6
Subtotal Township Funding	29.6	29.4	30.1	30.9
Flexible Highway Account				
County Turn Back Account	18.0	24.9	15.7	17.4
Municipal Turn Back Account	5.7	1.5	6.0	2.8
Trunk Highway Fund	10.4	7.4	12.9	15.3
Subtotal Flexible Highway (53.5%):	34.1	33.8	34.6	35.5
Total Distributions of Five Percent Set Aside	63.7	63.2	64.7	66.4

Since the distribution of money in the Flexible Highway Account is subject to decisions made in the biennial budget process, the relative amounts in the preceding table could be different in future biennia. Also, the 2008 legislature could choose to change the distribution of the five percent set-aside money, or the allocation of money in the Flexible Highway Account. A change to this provision was considered but not enacted in the 2006 and 2007 legislative sessions.

### **County State Aid Highway Fund and Municipal State Aid Street Fund Spending**

Money in these funds is allocated to all counties and to municipalities with populations greater than 5,000, based on statutorily defined apportionment formulas. For the County State Aid Highway (CSAH) Fund, the counties' respective shares are based on monetary needs (50%), relative shares of lane miles of roads (30%), relative shares of motor vehicle registrations (10%), and equal shares to each of the 87 counties (10%). For the Municipal State Aid Street (MSAS) Fund, the municipalities' respective shares are based on monetary needs (50%) and population (50%). 2008 legislation changed the apportionment formula for the County State Aid Highway Fund such that for the new money the apportionment is based on relative shares of motor vehicle registrations (40%) and monetary needs (60%).

As a result of each decennial census, or as a result of the annual state demographer's estimate, additional municipalities may qualify for funding because their population grew beyond 5,000. At each census, some municipalities may stop qualifying for funding because their population fell below 5,000. As the decade progresses, additional municipalities may qualify for funding due to incorporation, consolidation, or by state demographer's estimate. Municipalities may also appeal their census counts.

The total number of municipalities qualifying for MSAS funds from 2003-07 is shown below:

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Total Number of Municipalities Qualifying for MSAS Funds	133	136	138	138	142