House Research
Act Summary

CHAPTER: 152 **SESSION:** 2008 Regular Session

TOPIC: Transportation Finance Package

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Overview

This act makes several changes to transportation finance, which include:

- Appropriating $284.4 million to the Department of Transportation (MnDOT) and the Department of Public Safety for transportation;
- Authorizing $1.8 billion in trunk highway bonds for fiscal years 2009 to 2018, $60 million in bonding for local roads and bridges, and funding several transportation projects;
- Phasing in a five cent gas tax increase (by two cents on April 1, 2008, and three cents on October 1, 2008), and raising the tax on other motor fuels proportionally;
- Establishing a gas tax debt service surcharge phased in to up to 3.5 cents, based on the amount needed to repay trunk highway bonds;
- Amending the motor vehicle registration tax to (1) eliminate the tax caps, and (2) accelerate the yearly decrease in a vehicle's taxable value;
- Creating a $25 motor fuels tax credit, starting for calendar year 2009 tax returns;
- Allocating motor vehicle lease sales tax revenue starting in fiscal year 2011, so that in fiscal year 2013 (after a phase-in), the revenue will first go to the motor fuels tax credit, with the remainder allocated: 50 percent to greater Minnesota transit, and 50 percent to certain metropolitan counties based on population;

- Increasing a short term motor vehicle rental fee from 3 percent to 5 percent;

- Authorizing metropolitan counties to impose a metropolitan transportation sales tax of 0.25 percent and a motor vehicle sales excise tax of $20 under a joint powers agreement, and specifying powers and revenue uses;

- Authorizing counties in greater Minnesota to impose a local transportation sales tax of 0.5 percent and a motor vehicle sales excise tax of $20;

- Establishing a new trunk highway bridge improvement program for repair and replacement of bridges, which is funded through trunk highway bonds;

- Amending the county state-aid highway fund allocation formula;

- Amending allocation requirements for funds in the flexible highway account;

- Creating a task force on transportation strategic management and operations; and

- Making other changes related to transportation finance.

Article 1: Transportation Appropriations

Overview

The article contains appropriations totaling $284.4 million for fiscal years 2008-2009 to the Department of Transportation (MnDOT) and the Department of Public Safety.

1 **Summary of appropriations.** Summarizes the appropriations by fund.

2 **Transportation appropriations.** Establishes that appropriations are from the trunk highway fund, unless another is named, for the agencies and purposes specified.

3 **Transportation.** Appropriates $148.4 million in fiscal year 2009 to the Minnesota Department of Transportation (MnDOT).

Subd. 1. Total appropriation. Summarizes MnDOT appropriations by fund.

Subd. 2. Multimodal systems. Appropriates money for greater Minnesota transit, rail, and port development.

Subd. 3. State roads. Appropriates money in fiscal year 2009 for the state trunk highway system:

- $41.4 million for operations and maintenance;
- $34 million infrastructure investment support (which includes $250,000 for a grant to the Humphrey Institute); and
- $7.2 million for debt service on bonds.

Subd. 4. Local roads. Appropriates $50.2 million in fiscal year 2009 for the county state-aid highway system, and $13.2 million in fiscal year 2009 for the municipal state-aid street system. Allows adjustments to the appropriations based on fund balance.

Subd. 5. Transfers. Directs and allows transfer of money across certain funds.

4 **Public safety.** Appropriates $3.7 million in fiscal year 2009 to the Department of Public Safety for additional State Patrol troopers.

5 **Appropriation; transportation emergency relief.** Appropriates $55 million in fiscal year 2008 and $77 million in fiscal year 2009 for federal grants and aids related to the I-35W bridge collapse.

6 **Value capture study; appropriation.** Appropriates $325,000 from the general fund to the Center for Transportation Studies to evaluate financing transportation through capturing increased value related to transportation projects, provide a report to the legislature, and conduct informational workshops. Note that the appropriation was subsequently reduced to $300,000. Laws 2008, ch. 363, art. 11, § 11.

Article 2: Trunk Highway and Local Road and Bridge Bonding

Overview

This article authorizes and appropriates $1.8 billion in trunk highway bonds; specifies trunk highway bonding projects, including MnDOT facilities and the trunk highway bonding portion of the Urban Partnership Agreement (UPA); appropriates $60 million in general obligation bonds for local roads and bridges; and, establishes a debt service surcharge of up to 3.5 cents based on bond repayment.

1 **Debt service surcharge.** Requires that the Department of Revenue annually impose a surcharge on motor fuels to cover debt service on trunk highway bonds. Establishes a schedule of surcharge amounts for fiscal years 2009 to 2012 starting at 0.5 cents on August 1, 2008. Caps the surcharge in fiscal year 2013 after that at the lower of 3.5 cents or an amount necessary to pay off the total debt service on the trunk highway bonds. The surcharge initially goes into effect August 1, 2008, and is updated annually going into effect each July 1.

2 **Trunk highway bond appropriations.** Summarizes the appropriations by agency.

3 **Department of Transportation.** Appropriates $1.84 billion in bond proceeds to MnDOT.

Subd. 1. Total appropriation. Identifies the total MnDOT appropriation.

Subd. 2. State road construction. $1.72 billion for trunk highway construction, divided $417.7 million in fiscal year 2009, $500 million in fiscal year 2010, and $100 million per year for fiscal years 2011 through 2018. Specifies that:

- **$40 million in fiscal year 2009 is for construction involving interchanges;**
- **In each of fiscal years 2009 and 2010, $300 million is for the trunk highway bridge improvement program (created in the bill); and**
- **$50 million is for accelerating transit facility improvements on trunk highways; and**

- **Of the funds allocated to District 7, projects meeting certain criteria must be performed first.**

Subd. 3. Great River Road. $4.299 million for historic property along the Great River Road.

Subd. 4. Urban Partnership Agreement. $24.8 million for part of the local match of the federal Urban Partnership Agreement.

Subd. 5. Mankato District Headquarters Building. $24 million for a new district headquarters.

Subd. 6. Chaska truck station. $8.6 million for a new truck station in Chaska, in partnership with Carver County.

Subd. 7. Rochester and Maple Grove truck stations. $2 million for design of new trucks stations.

Subd. 8. Local bridge replacement and rehabilitation. $50 million for replacement and rehabilitation of local bridges.

Subd. 9. Local road improvement program. $10 million for rural road safety projects on county state-aid highways.

4 **Metropolitan Council.** $400,000 for part of the local match of the federal Urban Partnership Agreement.

5 **Department of Administration.** $18.2 million for renovation of the MnDOT building exterior.

6 **Department of Finance.** $1.9 million for bond sales expenses.

7 **Bond sale authorization.** Authorizes the sale of trunk highway bonds and state transportation bonds.

8 **Effective date.** Makes the article effective the day after enactment.

Article 3: Highway User Taxes

Overview

This article makes various changes to highway user taxes to: restructure the motor vehicle registration tax, eliminating the caps and changing the vehicle's decreased valuation over time for tax purposes; establish a $25 tax credit for motor fuels; phase in a gas tax increase by five cents, with proportional increases in other types of motor fuel; increase a short term motor vehicle rental fee by 2 percent; and, allocate motor vehicle lease sales tax revenue to transportation starting in fiscal year 2011.

1 **Passenger automobile; hearse.** Restructures the motor vehicle registration tax, as follows:

- Eliminates the caps of $189 in the first registration renewal and $99 in subsequent renewals;

- Amends the vehicle depreciation schedule, which is the basis for a vehicle's valuation in collecting the tax (it is a decreasing percentage of the vehicle's original value as the vehicle gets older);

- Limits the tax so that the amount owed for vehicles previously registered in

Minnesota does not increase from the amount paid in past years.

2 **Lower income motor fuels tax credit.** Establishes a refundable tax credit of $25, for filers meeting certain criteria with a total taxable income (the amount taxed after deductions) that is in the lowest income tax rate for that type of filer. The credit is $12.50 each for married couples filing separately. The provision is effective starting for calendar year 2009 tax returns.

3 **Rate of tax.** Raises the gas tax by a total of five cents (including the transitional increase in the next section), with proportional increases for other types of motor fuel. It is effective October 1, 2008.

4 **Gasoline excise tax; transition provision.** Raises the gas tax by two cents on April 1, 2008, with proportional increases for other types of motor fuel.

5 **Rate of tax.** Raises the tax on special fuels proportional to the October 1, 2008, five cent gas tax increase.

6 **Special fuel excise tax; transition provision.** Raises the tax on special fuels on April 1, 2008, proportional to the gas tax increase in section 4.

7 **Fee imposed.** Increases the fee on rentals and short-term leases of vehicles from three to five percent of the sale price. The fee is first used to reimburse the rental agency for its motor vehicle registration fees, with the excess revenues going to the highway user tax distribution fund.

8 **Motor vehicle lease sales tax revenue.** Modifies the allocation of motor vehicle lease sales tax revenues, which currently go to the general fund. Starting in fiscal year 2013 (after a phase-in), after deducting an amount that matches the estimated motor fuels tax credit, the remainder (based on the previous year's revenue) is transferred as follows:

- 50 percent goes to greater Minnesota transit; and
- 50 percent to metropolitan counties, excluding Hennepin and Ramsey, to be distributed based on population.

Article 4: Local Option Taxes

Overview

This article deal with local option taxes. It authorizes counties in the metropolitan area as well as in Greater Minnesota to impose transportation sales and use taxes, and establishes requirements governing the taxes.

1 **Authorization; scope.** Makes a technical change to clarify that local units of government are authorized to impose a sales tax under the metropolitan and greater Minnesota transportation sales tax provisions established in this article.

2 **Metropolitan transportation sales tax.** Authorizes metropolitan counties to form a joint powers board and impose a 0.25 percent transportation sales and use tax, and establishes requirements for the board, and identifies uses of the revenue.

Subd. 1. Definitions. Defines terms.

Subd. 2. Authorization; rates. Authorizes participating counties to impose a 0.25 percent sales tax, and a $20 excise tax on vehicles sold at retail, that is in addition to any other local sales taxes. The provision is effective after formation of the joint powers board.

Subd. 3. Joint powers agreement. Requires that all eligible counties seeking to participate must enter into a joint powers agreement that creates the joint powers board. The counties that can join are those in the seven-county metropolitan area. Specifies requirements for the joint powers agreement.

Subd. 4. Joint powers board. Specifies powers, restrictions, and duties for the joint powers board.

Subd. 5. Grant application and awards; Grant Evaluation and Ranking System (GEARS) Committee. Establishes requirements for the grant application and award process, so that the joint powers board must establish a timeline and procedures for award of grants, establish criteria for grant awards, create a grant evaluation committee. Identifies grant committee membership, and creates a provision governing review by the Metropolitan Council. Requires that $30.783 million go to the Metropolitan Council in fiscal year 2009.

Subd. 6. Allocation of grant awards. Requires that grants be distributed for transit purposes, including capital improvements for transitways; park-and-ride facilities; feasibility studies, engineering, and construction of transitways; and transitway operations. Up to 1.25 percent of the total grants for bicycle and pedestrian programs.

Establishes a "minimum guarantee" provision. For each county that participates in the joint powers board and contributes up to three percent of the total sales tax revenue, the joint powers board must allocate an amount to that county that is at least equal to that county's sales tax contribution.

Subd. 7. Bonds. Authorizes the joint powers board, a county that is part of the joint powers agreement, or a county regional rail authority in the metropolitan transportation area to issue bonds that are backed by the sales tax or a county's other taxation powers. Specifies requirements governing the bonds.

Subd. 8. Allocation of revenues. Directs the Department of Revenue to remit sales tax proceeds, less collection costs, on a quarterly basis as directed by the joint powers board.

Subd. 9. Administration, collection, enforcement. Applies the general local sales tax administration, exemption, notification, and revenue collection requirements to the metropolitan transportation sales and use taxes.

Subd. 10. Termination of taxes. Requires that counties withdrawing from the joint powers agreement must meet their share of outstanding obligations. Specifies that if the joint powers agreement is ended, the taxes under this provision terminate when all obligations are met.

Subd. 11. Report. Requires that the joint powers board for the metropolitan area to report annually to the legislature by February 1 on the grant allocations and expenditures associated with the tax.

Subd. 12. Grant awards to Metropolitan Council. Specifies that grants provided to the Metropolitan Council cannot replace state operating assistance.

Effective date. Makes the provision effective the day following enactment, but the tax is not imposed until 90 days after the formation of the joint powers board and must start on the first day of a calendar quarter (i.e., January 1, April 1, July 1, or October 1). The provision expires on October 2, 2008, if the sales tax has not yet been imposed.

3 **Greater Minnesota transportation sales and use tax.** Authorizes a county outside of the metropolitan transportation area to impose a 0.5 percent transportation sales tax.

Subd. 1. Authorization; rates. Authorizes a county outside of the metropolitan transportation area, or more than one working under a joint powers agreement, to impose a 0.5 percent sales tax and $20 excise tax on motor vehicles sold at retail. This is in addition to any other local sales taxes. Imposition of the tax is only allowed if it is approved by the majority of voters who vote on that ballot question in a general election.

Subd. 2. Allocation; termination. Requires the tax to be for specific transportation projects, which terminates once the project is completed.

Subd. 3. Administration, collection, enforcement. Applies the general local sales tax administration, exemption, notification, and revenue collection requirements to the transportation sales and use taxes.

Article 5: County State-Aid Highway Fund Distribution

Overview

This article amends the county state-aid highway (CSAH) fund apportionment formula, to create separate formulas for current revenues and new revenues from changes in the act to the gas tax, motor vehicle sales tax, and registration tax.

1 **Accruals to county state-aid highway fund; accounts.** Clarifies county state-aid highway (CSAH) that funding for MnDOT administrative costs, a disaster account, research account, and state park road account comes out of both the “apportionment sum” (old revenue) and the “excess sum” (new revenue). Makes technical changes.

2 **Apportionment sum.** Identifies the formula for distributing the apportionment sum, which is the same as current CSAH apportionment formula.

3 **Apportionment sum and excess sum.** Defines the “excess sum” (new revenue) as the amount in the CSAH fund that comes from (1) new revenue from the gas tax above 20 cents per gallon, (2) new revenue from the registration tax above the inflation-adjusted amount collected in fiscal year 2008, and (3) new revenue from motor vehicle sales tax above the percentage collected in fiscal year 2007.

Defines the "apportionment sum" (old revenue) as the amount available in the CSAH fund minus the excess sum.

4 **Excess sum.** Establishes the formula for distribution of the excess sum, as follows:

- **40 percent is based on each county's proportion of motor vehicle registration; and**
- **60 percent is based on each county's proportion of construction needs.**

5 **Revisor instruction.** Instructs the Revisor to renumber a section.

Article 6: Other Transportation Finance

Overview

This article contains various provisions related to transportation finance, including limiting tolling and privatization, modifying the uses of flexible highway account funds, establishing a trunk highway bridge improvement program, allowing installment payments on driver's license reinstatement, limiting county regional railroad authority expenditures on transit projects, and directing the Metropolitan Council to start negotiations with the Federal Transit Administration on a comprehensive transit funding arrangement.

1 **Scope.** Expands the scope of certain terms defined in relation to tolling provisions, to cover new provisions in the act.

2 **Restrictions on toll facility.** Restricts road authorities from imposing tolls on streets, bridges, and highways, except for:

- Tolling facilities that were already in place September 1, 2007;
  - Any additional lane added after September 1, 2007; and
  - Any other lane that adds capacity to a highway.

3 **Prohibition on road and bridge privatization.** Prohibits road authorities from selling or leasing transportation infrastructure if it will continue to be used for transportation purposes.

4 **Flexible highway account; turnback accounts.** Amends the uses of the portion of five percent set-aside from the highway user tax distribution fund that goes into the flexible highway account, to:

- allocate a portion of the new revenue to metropolitan counties; and
- exclude funding for trunk highways (except for work done for a turnback) and to include (1) safety improvements on local roads, and (2) routes of regional significance.

5 **Trunk highway bridge improvement program.** Establishes a new program for repair and

replacement of trunk highway bridges.

Subd. 1. Definition. Defines terms.

Subd. 2. Program created. Creates the program.

Subd. 3. Program requirements. Specifies requirements governing the program, including an inventory of bridges that must include all fracture-critical or structurally deficient ones, and may include other priority projects identified by MnDOT. Identifies information that must be collected on each bridge.

Subd. 4. Prioritization of bridge projects. Establishes tier 1, tier 2, and tier 3 classifications for the bridges, and requires that all bridge projects in a higher tier (starting with tier 1) must be commenced before starting on bridges in a lower tier, if feasible. Requires that repair or replacement projects on all tier 1 and tier 2 bridges must be started by June 30, 2018, or the reasons for not starting one must be provided by MnDOT. The tier classifications are:

- Tier 1: bridges with an average daily traffic count above 1,000 and a sufficiency rating at or below 50, or are a priority project;
- Tier 2: bridges that have a sufficiency rating at or below 80 or is a fracture-critical bridge not classified as tier 1; and
- Tier 3: all other bridges in the program.

Subd. 5. Statewide transportation planning report. Requires a report on the program in conjunction with each update to MnDOT's Statewide Transportation Plan, and specifies items to include.

Subd. 6. Annual report. Requires an annual report to the legislature by January 15 that summarizes the bridges in the program and assesses bridge project prioritization.

6 **Reinstatement fees and surcharges allocated and appropriated.** Allows a person whose driver's license was revoked under certain circumstances to pay the reinstatement fee (at $250) and surcharge (at $430) in two installments, with other requirements specified. This provision is effective July 1, 2009.

7 **Transit funding.** Limits county regional rail authority expenditures for light rail or commuter rail projects, to be no more than ten percent of capital costs, and none of the operating and maintenance costs. The provision only applies to counties that have imposed the new metropolitan sales tax.

8 **Funding for rail transitways.** Requires that the Metropolitan Council start negotiations with the Federal Transit Administration to explore federal funding for a comprehensive program of light rail transit and commuter rail projects.

9 **Transportation strategic management and operations advisory task force.** Creates a task force to identify strategies and make recommendations on improving efficiency, management, and operations in construction and maintenance projects as well as transportation infrastructure management. Specifies membership appointment, staffing, administration, and reporting requirements.