INFORMATION BRIEF
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The Motor Vehicle Sales Tax Transfer
A Chronology

The use of revenues from the motor vehicle sales tax, also known as the motor vehicle excise tax, for transportation purposes has been a legislative issue for more than two decades. This information brief chronicles the issue from its emergence in 1981 to its reemergence in the 2000s.

Summary

Ever since the enactment of the motor vehicle sales tax (MVST) in the 1960s some people have argued that since its revenue is generated by motor vehicles it should be dedicated to transportation. That concept was finally enacted into law in 1981 but fell victim to several budget crises throughout the next decade, ending entirely in 1991. In 2000 the transfer of MVST revenues to dedicated transportation funds was brought back, but for the purpose of providing motor vehicle tax and property tax relief rather than additional transportation spending. Most recently in 2003 the dedication was reshuffled to provide additional money for transit assistance.

1981-1993: An On-Again, Off-Again Policy

The legislature enacted the state sales tax in 1967 and made it applicable to the sale of new and used motor vehicles. In 1971 the legislature put the sales tax on motor vehicles into a separate chapter of the statutes and renamed it the motor vehicle excise tax. (The tax was later renamed the motor vehicle sales tax, or MVST, the acronym that will be used here.) It was levied at the same rate as the sales tax on the sale price of motor vehicles, minus any trade-in allowance. Its revenue, like sales tax revenue, was directed into the state's general fund.

For years many people argued that the motor vehicle excise tax was really a highway user tax like the gas tax and the motor vehicle license tax, and that the revenue from it should be treated like the revenue from those other taxes—that is, dedicated to highways. The final report of the legislature's Select Committee on Transportation in 1980 adopted this approach by recommending that MVST revenues be gradually transferred out of the general fund and into the dedicated highway fund along with gas tax and license tax revenues.

1981

The highway financing bill the legislature passed in 1981 contained the first effort to transfer MVST revenues out of the general fund. The transfer would not take place immediately but would be phased in according to the following schedule:

Biennium	General Fund	Transportation
1982-83	100%	0%
1984-85	75	25
1986-87	50	50
1988-89	25	75
1990-91 and after	0	100

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As the use of the word "transportation" indicates, the money transferred out of the general fund would not be used solely for highways but would be divided between highways and transit. Seventy-five percent of the transportation share would go to the dedicated highway fund while 25 percent would go to a new transit assistance fund. The money in the highway fund would be divided among the state, counties, and cities in the same manner as other highway user taxes (62 percent state, 29 percent counties, 9 percent cities) while the transit assistance fund would be allocated 80 percent to transit in the seven-county metropolitan area and 20 percent to transit in the rest of the state.

1983

State budget problems in the 1983 session forced the legislature to delay for two years the scheduled transfer of revenues from the general fund to the transportation funds. The revised schedule read:

Biennium	General Fund	Transportation
1984-85	100%	0%
1986-87	75	25
1988-89	50	50
1990-91	25	75
1992-93 and after	0	100

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The 75-25 percent division of transportation share between highways and transit remained.

1984

An easing of budget problems allowed the legislature in 1984 to shorten the delay prescribed in 1983. Transfer would begin to take effect in fiscal year 1985 instead of fiscal year 1986. This was a year behind the original 1981 schedule but a year ahead of the revised 1983 schedule. The new schedule would be:

Fiscal Year	General Fund	Transportation
1984	100%	0%
1985	75	25
1986	75	25
1987	75	25
1988-89	50	50
1990-91	25	75
1992-93	0	100

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1986

The on-again, off-again transfer was off again for the 1986-87 biennium, as the 1986 Legislature again responded to overall budget problems. The cancellation was made retroactive to the beginning of fiscal year 1986. The scheduled transfer for the 1988-89 biennium and subsequent years was left in the law.

1987

The legislature restored the MVST transfer for fiscal year 1988 but at a drastically reduced level—5 percent instead of the planned 50 percent. At the same time it reduced the highway share of MVST by the amount needed to fund state subsidies to ethanol producers under a program begun in 1986 and previously paid for from the general fund.

1988

The MVST transfer percentage was raised from 5 percent to 30 percent of total revenues for fiscal year 1989.

For the first time a change was made in the distribution of the highway share, which had always previously gone into the highway user tax distribution fund for allocation to the state, counties, and cities. The highway share of the first 25 percent of the transfer would continue to be divided this way but the highway share of the last 5 percent would go entirely to the state trunk highway fund. This division would continue until fiscal 1992, when the counties and cities would be eliminated permanently from the MVST transfer and the entire highway share would go to state trunk highways.

1989

The legislature again increased the percent of MVST going to transportation, this time from 30 percent to 35 percent. The 75 percent highway share from this additional 5 percent went to the state trunk highway fund rather than to the highway user tax distribution fund.

1990

In the 1990 legislative session there were again budget problems, and again among the first places where the legislature looked for a solution was the MVST transfer. The percentage was reduced back to 30 percent.

1991

A budget crisis even more serious than those of the late 1980s engulfed the 1991 legislative session, and among other things, it sank the MVST transfer. Gov. Arne Carlson's budget called for an elimination of the transfer to help make up a substantial general fund shortfall, and seemingly the only question to be answered was whether the transfer would be eliminated permanently or only suspended for another two years. The legislature could not bring itself to end the transfer permanently, but it did suspend the transfer for another two years, returned $52 million in fiscal year 1991 revenue from MVST to the general fund, and then restored the transfer for the 1994-95 biennium at just 10.6 percent.

Even this transfer was too high for the governor, who was generally opposed to dedicated funds.

He vetoed the legislature's statutory change in the allocation of MVST revenues, an action that was questioned at the time as possibly exceeding the governor's line-item veto power. No court action was taken against it, however, and the veto stood throughout the 1990s.

The 1991 legislative session also saw the final report of the Transportation Study Board, a body of legislators and nonlegislators who made a comprehensive study of the state's transportation needs. The board's recommendations included a proposal to dedicate 50 percent of MVST to transportation, with a portion going specifically for transit, the rest to a multi-modal "transportation services fund." It was indicative of the coming deadlock over transportation funding that the study board's financing recommendations not only were not enacted but were not even introduced in the legislature.

The rejection of the Transportation Study Board's recommendations did not mean that the legislature had lost interest in the issue of the MVST transfer. Rather, it began a period during which the House and Senate each proposed and sometimes passed legislation to restore the transfer. The deadlock arose from the fact that no two proposals were ever quite alike. Not only were the two houses unable to agree on a distribution of MVST revenues, but they disagreed on whether the transfer should be provided only in law (meaning it could continue to be changed at any time) or be made permanent by being written into the constitution.

1994-1999: Much Talk, Little Action

1994

In 1994 the House passed a wide-ranging transportation funding package that included indexing of the state gasoline tax to inflation and a constitutional amendment that would have dedicated at least 40 percent of MVST revenues exclusively to transit assistance. In the same session the Senate passed its own finance bill that also included gas tax indexing but dedicated only 23 percent of MVST revenues to transit, with the dedication in statute rather than in the constitution. The two sides could not come together on a common plan and no action was taken.

1996

Two years later the House passed not one but two proposals for MVST dedication. One would have dedicated 30 percent of the revenue exclusively for transit, first as a statutory dedication and eventually as a constitutional one. This proposal was part of an overall transportation finance bill that also would have raised the gasoline tax by 5 cents. An unrelated proposal (added to the omnibus tax bill) would have restored the original 1981 timetable for transferring MVST revenue to highways and transit at the rate of 25 percent per biennium, beginning in the 1998-99 biennium. The Senate could not be persuaded to accept either proposal and another biennium went by with no action.

1998

In 1998 the Senate reversed course and passed a bill proposing a constitutional amendment to dedicate 25 percent of MVST revenues to a new multi-modal surface transportation fund. The bill was never heard in the House.

Instead, the House went off in an entirely different direction with a bill to create a new "Minnesota ISTEA Fund." This would have consisted of all of the revenue from motor vehicle license taxes, plus 20 percent of MVST. After guaranteeing local governments their existing share of license tax revenues it would have distributed the remainder of the fund to provide the state and local match for all federal transportation funds coming to Minnesota. The bill passed the House Transportation Committee but died in the Taxes Committee.

2000: The MVST Transfer Revived

In the 2000 session the legislature acted for the first time in a decade to dedicate MVST funds for transportation. But in another indication that the longstanding deadlock over transportation funding still had not been resolved, the transfer was made for reasons having nothing to do with increased spending for either transit or highways.

As part of the 2000 omnibus tax bill, the legislature adopted a modified version of Gov. Jesse Ventura's proposal to make substantial reductions in Minnesota's license taxes on automobiles, capping those taxes at $189 in the second year of vehicle life and $99 in subsequent years. Since the revenue from these taxes goes into the highway user tax distribution fund, the tax reduction left a considerable hole in that fund.

The legislature chose to fill that hole by transferring money directly from the general fund to the highway user fund—$149 million in fiscal year 2001 and $166 million in fiscal year 2002. For fiscal year 2003 and after, the tax bill replaced a direct transfer from the general fund to the highway user fund with a dedication of 32 percent of MVST to the highway user fund.

2001: Transfer Increased

The 2001 Legislature increased the transfer of MVST revenues out of the general fund, beginning in fiscal year 2003. But only a small part of this transfer was meant to increase transportation spending, and as in 2000, the bulk of the transfer went to tax relief.

MVST Transfer
FY 2002 and Beyond

	Fiscal Year		
	2002	**2003**	**2004 and after**
Highway user tax distribution fund (to replace revenue from vehicle license taxes)	30.86%	32%	32%
Metropolitan area transit fund (to replace metro-area transit property taxes)	0	20.5	20.5
Greater Minnesota transit fund (to replace greater Minnesota transit property taxes)	0	1.25	1.25
Metropolitan area transit appropriation account (for metro-area transit operations)	0	0	2
General fund	69.14	46.25	44.25

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The money going to the metropolitan and greater Minnesota transit funds beginning in fiscal 2003 was intended to reimburse local governments and the Metropolitan Council for revenue lost when the legislature prohibited the use of property taxes for metropolitan transit operations. The metropolitan area transit appropriations account was intended to be used for new transit operating costs such as those for the Hiawatha Avenue light rail transit corridor.

The share of MVST revenues going to the highway user fund to replace lost vehicle license tax revenue remained approximately the same, but the transfer was changed from a cash amount to a percentage.

2003: Moving Money Around

In the 2003 session the legislature made another significant change in the MVST distribution by increasing the percentages going to dedicated transit funds.

The increase in the transit funds' shares of MVST was intended not just to replace property tax revenue but also to make up for other transit revenue that was being lost. Overall budget cuts resulted in a reduction in general fund appropriations for both metropolitan and greater Minnesota transit assistance, as well as in the elimination of the 2 percent of MVST that would have gone into a metropolitan transit appropriations account beginning in fiscal year 2004. To make up for these cuts and to provide the state's share of operating costs for the Hiawatha light rail transit line, the legislature increased the transit funds' share of MVST.

Since the state's budget situation precluded taking the additional money from the general fund's share of MVST, the money was taken from the MVST share going to the trunk highway fund.

MVST Dedication FY 2004 and beyond		
	2004-07	**2008 and after**
Highway user tax distribution fund (HUTDF)	30%	32%
County state-aid highway fund	0.65	0
Municipal state-aid highway fund	0.17	0
Metropolitan Transit Fund	21.5	20.5
Greater MN Transit Fund	1.43	1.25
General Fund	46.25	46.25

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The share of MVST going to the highway user tax distribution fund for state, county, and city streets and highways will be reduced from 32 percent to 30 percent until the end of fiscal year 2007. This loss will come entirely at the expense of the state trunk highway fund, since the percentages going to the county and municipal state-aid funds are intended to keep them from suffering any reduction in their total revenue from MVST.

For more information about transportation funding, visit the transportation area of our web site, www.house.mn/hrd/issinfo/trans.htm.