

INFORMATION BRIEF

Research Department

Minnesota House of Representatives

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Transportation Budgets

This information brief reviews legislative budgets for transportation. It provides background information on the structure of transportation finance in Minnesota, outlines some features of transportation budgeting, summarizes the categorization within budgetary legislation, and addresses some recurring questions.

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Key Finance and Budget Features

Constitutional Framework

The Minnesota Constitution is integral to understanding the structure of transportation finance and therefore a legislative budget. The constitution creates accounting funds, authorizes three core transportation funding sources, dedicates the sources to transportation purposes, and sets a largely formula-based framework for allocating funding across state roads, local roads, and transit.

The constitution establishes several accounting funds that are separate from the state's general fund. They consist of:

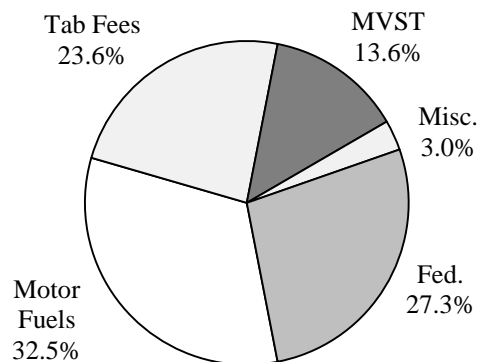
- the highway user tax distribution (HUTD) fund, which functions as a collector for allocating to other funds for state and local roads (and a few appropriations are made directly from it);
- the trunk highway fund, for the state's trunk highway system (which consists of the Interstate system and other highways under the jurisdiction of the Minnesota Department of Transportation);
- the county state-aid highway (CSAH) fund as well as municipal state-aid street (MSAS) fund for state assistance to local units of government; and
- the transit assistance fund, which contains separate accounts for transit in Greater Minnesota and the Twin Cities metropolitan area. [Minn. Const. art. XIV](#).

While not constitutionally established, the state airports fund contains funding for the state's airport system. The special revenue fund contains a few accounts for transportation purposes. Finally, the general fund is used for some appropriations (primarily for purposes that must be funded outside of constitutionally restricted funding streams).

Key transportation revenue sources have a constitutional basis. The primary sources of state funding for transportation consist of (1) a motor fuels tax, (2) a motor vehicle sales tax (MVST), and (3) a tax on motor vehicle registration (also known as tab fees). All three are identified in constitutional provisions. [Minn. Const. art. XIV](#).

Federal aid constitutes another significant source of transportation funding. It comes primarily from a federal tax on motor fuels.

State & Federal Funding Sources
FY 2013 (\$2.64 billion)



Note: chart excludes bond proceeds.

The constitution constrains allocation of most transportation-related tax revenue. Revenue from the registration tax as well as the motor fuels tax is dedicated under the Minnesota Constitution (with some exceptions) to state and local highways. Furthermore, the distribution of funds must follow a constitutional formula. As a result there is limited flexibility to shift funding from these sources between state and local roads, or between highways and transit.

MVST revenue is also constitutionally directed. Under the constitution, revenue must go entirely to transportation and there are conditions on the division of funds between roads and transit. A specific allocation is established in state statute following the constitutional requirements. [Minn. Const. Art. XIV](#), sec. 13; [Minn. Stat. § 297B.09](#). Subject to political and policymaking considerations, there is potential for modifying MVST revenue allocation (although this funding source, too, involves constitutional constraints).

The most flexible funding streams are the general fund and revenue from the motor vehicle lease sales tax.¹

Uses of trunk highway fund dollars are constitutionally limited. Related to the previous discussion, money in the trunk highway fund is constitutionally restricted to trunk highway purposes. Purposes include various core functions performed by MnDOT (including the design, engineering, and construction work on trunk highway projects, as well as highway maintenance, traffic safety, and general administration) and by the Department of Public Safety (in traffic enforcement through the State Patrol). While most MnDOT agency functions are considered trunk highway purposes, some nontrunk highway activities (such as support of transit in Greater Minnesota, ports, aviation, and local road systems) must be funded through sources outside of the trunk highway fund.

¹ The portion of motor vehicle lease sales tax revenue allocated to transportation purposes in recent years amounts to a relatively small share of overall transportation funding, but can be significant for fiscally smaller budget activities like Greater Minnesota transit.

Forms of Spending Authority

Major state agencies such as the Minnesota Department of Transportation (MnDOT) are authorized to expend funds through state law. This spending authority takes two basic forms: (1) appropriations in a budget or other fiscal legislation, and (2) appropriations made in state statutes.

Biennial Budget Appropriations

The transportation budget is established through finance legislation typically authored by transportation finance committee chairs. The budget sets authorized spending levels for various programs and functions. The authority found in a budget normally contains “direct appropriations,” which provide spending authority for a specific purpose, in specific fiscal years, and in specified amounts.

Each budget is biennial, covering the two fiscal years following the session of enactment. For instance, a budget covering fiscal years 2016-2017 is expected to be enacted in the 2015 session. (The state’s fiscal year runs from each July 1 through the following June 30.) However, adjustments, or supplemental budgets, may be subsequently enacted. In practice, transportation budget legislation tends to closely resemble the budget recommendations submitted to the legislature by the governor.

Statutory Appropriations Outside the Budget

A second form of spending authority is through “statutory appropriations,” also known as standing appropriations, which create ongoing authority to expend funds through provisions in state statute. The spending authority does not need to be renewed as part of the budget process. [Minn. Stat. § 16A.88](#). (In some cases the statutory appropriation does not specify a dollar amount at all, making it an “open” appropriation.) For transportation, statutory appropriations have not normally been identified in most legislative budget tracking spreadsheets (which identify direct appropriations rather than all sources of state aid and funding).

In transportation finance there are a couple of notable statutory appropriations that exist outside of the transportation budget.

- **MVST.** As noted earlier, revenue from MVST goes to both highways and transit following a combination of constitutional and statutory provisions. The transit portions—both in the Twin Cities metropolitan area and in Greater Minnesota—are made available through statutory appropriations. From MVST revenue in fiscal year 2013, just over \$239.1 million was appropriated by statute for transit assistance (and was further allocated roughly \$215.2 million to the Twin Cities metropolitan area and \$23.9 million to transit systems in Greater Minnesota).² [Minn. Stat. § 16A.88](#). As a significant funding stream, the performance of MVST collections is a consideration in crafting the budget, but the funds might not be apparent from bill language or budgetary documents.

² Total revenue in fiscal year 2013 amounted to nearly \$598 million.

- **Motor vehicle lease sales tax.** Similar to MVST, a portion of the motor vehicle lease sales tax revenue is allocated to Greater Minnesota transit and is statutorily appropriated. [Minn. Stat. § 297A.815](#), subd. 3. The transit share of revenue from the tax was around \$14.4 million in fiscal year 2013.
- **Funding for opt-outs.** Suburban transit providers in the Twin Cities metropolitan area, or “opt-outs,” are funded through MVST and therefore outside of most transportation budget legislation. Opt-outs receive a portion of MVST funds, which is administered by the Metropolitan Council. The council regularly distributes additional funding beyond the formula-based minimum identified in statute. [Minn. Stat. § 473.388](#), subd. 4.

Other Fiscal Characteristics

Highlighted below are some additional features of the transportation fiscal structure.

- **General fund appropriations are minimal.** Unlike other areas of state budgeting, the vast majority of transportation funds come from sources that are outside of the state’s general fund (namely transportation-related taxes, user fees, and federal aid). As a result, a typical transportation budget contains a relatively small amount in appropriations from the general fund. General fund appropriations are made primarily to fund transit service and multimodal systems. Transportation finance bills usually set the trunk highway fund as the default fund from which appropriations are made.
- **The budget includes funding for capital projects.** A substantial portion of each transportation budget goes to capital projects as opposed to day-to-day operations. This reflects how the transportation system largely consists of publicly owned physical infrastructure with a large share of ongoing costs that are capital in nature, unlike many other governmental programs.
- **Funding for transportation capital is regularly provided through both a transportation budget and capital investment legislation.** The structure of the Minnesota Legislature typically includes a capital investment committee. This results in transportation capital project financing through both (1) transportation budget legislation, which contains direct appropriations as well as in some cases bonding authorizations; and (2) capital investment legislation, which regularly funds various transportation projects and programs that can include transit facilities, rail lines, ports, airport, and local road systems.
- **There are multiple types of bonds used to finance transportation capital projects.** “Trunk highway bonds” are a specialized form of general obligation bonding. They are constitutionally limited to capital projects on the trunk highway system, and the debt service on such bonds is paid through the trunk highway fund. “General obligation bonds”—also known as “G.O. bonds”—are available for local roads and bridges as well as other transportation capital such as rail lines and transit facilities. They cannot be used on the trunk highway system. Repayment of G.O.

bonds is through general fund appropriations (typically made in capital investment legislation). [Minn. Const. arts. XI, § 5; XIV, § 11](#).

For more background and fiscal information on highway finance, see other House Research publications including [Highway Finance](#) and [Trunk Highway System](#) (www.house.mn/hrd).

Frequently Asked Questions on Transportation Budgets

This section addresses some common questions about a typical transportation budget. Following an overview of the structure of typical legislation, questions are largely divided based on the agencies receiving appropriations—which consist of the Minnesota Department of Transportation (MnDOT), the Metropolitan Council, and the Minnesota Department of Public Safety.

Budget Legislation Structure

Biennial budget legislation, along with corresponding tracking spreadsheets, organize the appropriations by each recipient, program, and budget activity. Within a budget:

- appropriations are grouped by state agency receiving spending authority;
- each “program” is a major categorization area for the agency; and
- each “budget activity” is a primary unit within a program.

Transportation appropriations are made for budget activities as well as programs, with riders to an appropriation specifying additional requirements for use of specific amounts of funds. In many cases there are statutory requirements in place surrounding use of the funds.

Note that for the Metropolitan Council and the Department of Public Safety, only a portion of the budget is under the legislative jurisdiction of transportation committees. Other committees address other portions of these agency’s respective budgets, generally within separate finance legislation.

Department of Transportation

Department of Transportation – Legislative Budget Summary

Program	Budget Activity	Description
Multimodal Systems	Aeronautics	General statewide aviation support, aid, and technical services; excludes the Metropolitan Airports Commission
	Transit	Support for transit service in Greater MN (MnDOT is not a direct provider of transit)
	Passenger Rail	Planning and analysis of passenger rail lines

Program	
Budget Activity	Description
Freight	Programs in freight, rail, and ports; includes commercial vehicle regulation activities
State Roads	
Operations & Maintenance (O&M)	Trunk highway system road and bridge maintenance; includes snow plowing and road clearance as well as ongoing items like roadway repairs, maintaining traffic safety infrastructure (such as guard rails and signs), and day-to-day preservation
Program Planning & Delivery	Activities in support of road and bridge construction, including project development, project management, and planning
State Road Construction (SRC)	Actual contracts and agreements for road construction projects; right-of-way acquisition; and purchasing materials
Debt Service	Principal and interest on trunk highway bonds (used to finance previous trunk highway construction work)
Electronic Communications	Agency and public safety communications systems
Local Roads	
County State-Aid Roads	Assistance to counties for the county state-aid highway system
Municipal State-Aid Roads	Assistance to cities for the municipal state-aid street system
Agency Management	
Agency Services	Internal services that extend across the department, including the commissioner's office, human resources, accounting, financial management, and some centralized purchasing
Building Services	Design, construction, and management of MnDOT facilities, such as district headquarters and truck stations

1) Why are trunk highway funds included in the Aeronautics – Aviation Support and Services appropriation?

MnDOT's aeronautics office functions include providing air transport services for state agencies (via state-owned planes), using an internal and cross-agency billing method to account for the transportation costs. The appropriation from the trunk highway fund is primarily for the costs of MnDOT staff to utilize the service. A portion also covers personnel costs of pilots employed by the agency.

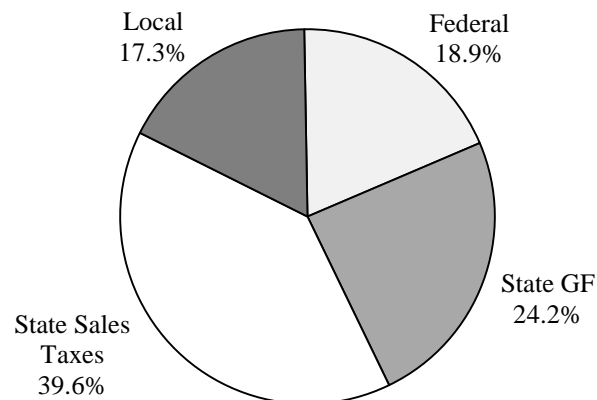
2) Why are trunk highway funds included in the Transit appropriation?

The transit appropriation provides for transit service and programs in Greater Minnesota (MnDOT administers allocation of transit aid outside of the Twin Cities metropolitan area, and the Metropolitan Council takes the lead on transit issues within the Twin Cities metro). Funding from the trunk highway fund largely goes towards (1) bicycle and pedestrian facilities on trunk highways, and (2) planning for multimodal integration of roads and transit.

3) Is the Transit appropriation a significant funding source for Greater Minnesota transit?

This appropriation is one of several transit funding sources that include a portion of state sales taxes (MVST as well as motor vehicle lease sales tax revenue, which as discussed previously are both provided through a statutory appropriation), federal funds, and local funding like passenger fares and property taxes. The following chart provides a breakdown of budgeted funding sources, combined across all Greater Minnesota transit providers for calendar year 2013.³

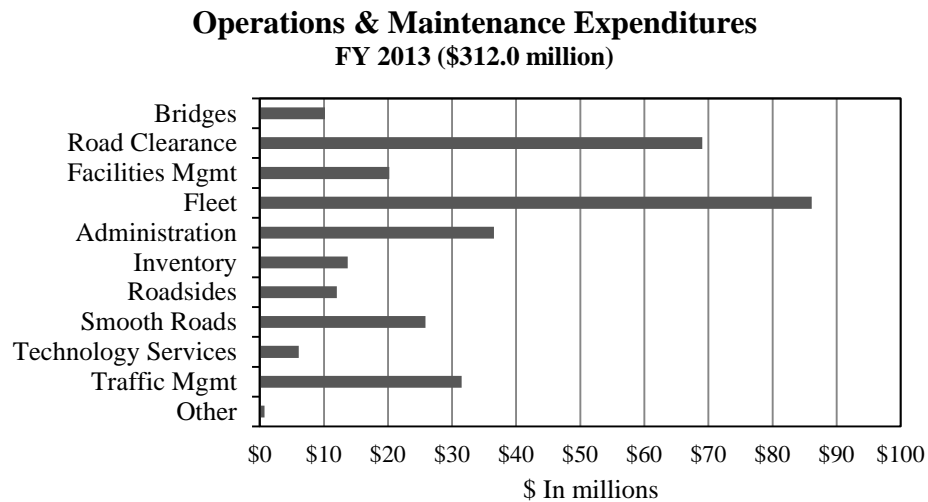
Greater MN Transit Funding - Operating Budgets
CY 2013 (\$58.6 million)



³ Data is from Minnesota Department of Transportation, *2013 Transit Report*, February 2014.

4) What makes up the Operations and Maintenance appropriation?

This is one of the largest appropriations in each budget. Uses are summarized below.⁴



5) What makes up the Program Planning and Delivery appropriation?

This, too, is among the major appropriations made. The department uses the funds for a variety of activities, ranging from establishing performance goals and targets to setting long-range plans to project design and development work. Key functions include:

- **project development**, consisting of steps to prepare projects for construction through tasks like scoping, design and engineering, and environmental analysis
- **construction project management**, which involves oversight of projects through activities such as materials testing and field inspections
- general **statewide transportation system planning** and policymaking, such as annual updates to the Statewide Transportation Improvement Program (STIP) that identifies a listing of intended projects in the upcoming four years

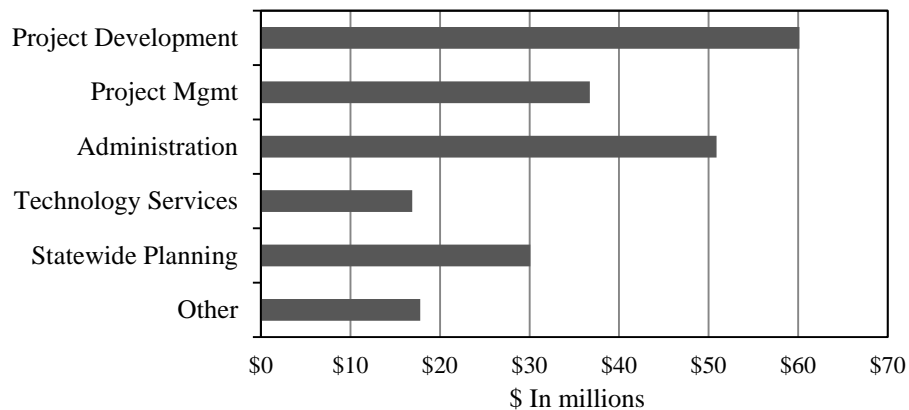
The work performed with this funding supports other parts of the State Roads area of the budget, particularly State Road Construction.

Uses are summarized in the following chart.⁵

⁴ Data is from Minnesota Department of Transportation, Office of Financial Management.

⁵ Data is from Minnesota Department of Transportation, Office of Financial Management.

Program Planning & Delivery Expenditures
FY 2013 (\$212.6 million)



6) How is funding for a specific trunk highway project determined?

The appropriations under Program Planning and Delivery as well as State Road Construction determine the level of available expenditure for road construction and repair projects. These appropriations do not typically specify particular road projects, which is instead left to agency discretion. In determining what projects to fund, MnDOT uses a process that includes: strategic and long-term planning around transportation system goals; planning specific to different transportation modes (such as transit and freight rail); analysis of system performance measures; stakeholder input; and regional project decision-making.

7) What is the difference in construction work performed under the State Road Construction and Operations and Maintenance budget activities?

There is not a specific type of project that is always funded under the appropriation for State Road Construction versus that for Operations and Maintenance. In general, projects funded using the State Road Construction appropriation are larger in scope and include ones under contract with a private road contractor. Projects under the Operations and Maintenance appropriation tend to be smaller in scope, and the appropriation typically funds work performed by MnDOT staff (as opposed to work through a road contractor).

8) How are the allocations of state aid to counties and cities determined?

A transportation budget does not normally distribute assistance among the various counties and cities receiving funds, but there are allocation formulas (as well as state-aid program requirements) established in state statutes. [Minn. Stat. §§ 162.07, 162.13](#). Distribution to counties and cities is administered by MnDOT following the formulas, which use factors such as construction funding necessary to bring roads up to a uniform standard, as well as proportional shares of population, vehicle registration, and lane-miles. For more information, see House Research publications [County State-Aid Highway System](#) and [Municipal State-Aid Street System](#) (www.house.mn/hrd).

9) Why are the appropriations for highway debt service higher than the amounts specified in the rider for transfer to the state bond fund?

A portion of the Debt Service appropriation is to cover other financial transactions beyond payment for principal and interest on trunk highway bonds, including payment related to the transportation revolving loan fund (TRLF).

Metropolitan Council

Metropolitan Council – Legislative Budget Summary

Program	Description
Bus and Rail Operations	Operations for the council's Twin Cities metropolitan area bus and rail system, including Metro Transit, Metro Mobility, contracted routes, light rail, and commuter rail
Note: Summary reflects the transportation portion of the agency budget.	

10) What does the appropriation for transit system operations cover?

Appropriations to the Metropolitan Council for transit in recently enacted budgets have been for operating costs of a combination of bus and rail service, giving the council discretion to determine how the funds are allocated among the transit modes.

As with assistance for transit in Greater Minnesota, direct appropriations to the Metropolitan Council constitute one of several sources of funds for transit operating costs. Other sources include passenger state funding via the statutory appropriation of MVST revenue, passenger fares, and funds from the Twin Cities metropolitan area transportation sales tax administered by the Counties Transit Improvement Board (see question 12).

11) What are the costs of operating light rail and commuter rail lines?

The total operating budgets for rail service are proposed at:

- Hiawatha light rail transit (Blue Line): \$29.6 million in 2014
- Northstar commuter rail: \$18.2 million in 2014
- Central corridor light rail transit (Green Line): \$34.3 million estimated in 2015 (the first full year of operation)⁶

12) How does the Counties Transit Improvement Board (CTIB) relate to the budget?

CTIB is a joint powers board comprising several Twin Cities metropolitan area counties, statutorily authorized to impose (through those counties) a local transportation sales tax. Tax revenue is administered by the board following requirements set in state law. [Minn. Stat. § 297A.992](#). Revenues in calendar year 2013 amounted to about \$108 million after tax

⁶ Data is from Minnesota Department of Transportation and Metropolitan Council, *Guideway Status Report*, November 2013.

collection costs.⁷ Funding from CTIB has been oriented to developing new regional transitway projects as well as covering part of the operating costs of rail and bus transitways (such as the Hiawatha light rail transit line).

In general, funding allocation decisions are made by CTIB and are independent of state transportation finance legislation, although the two are related. There have been some cases in which a portion of revenue from the transportation sales tax has been legislatively directed to specific transit purposes. See [Laws 2011, 1st spec. sess., ch. 3](#), art. 2, secs. 1-2. This has largely occurred in the context of backfilling other reductions from base transit appropriations.

Public Safety

Department of Public Safety – Legislative Budget Summary

Program	
Budget Activity	Description
Admin & Related Services	
Communications	Communications services, including media relations and assistance to local law enforcement
Public Safety Support	Internal services that extend across the department, including the commissioner's office, human resources, budgeting, accounting, and payroll
Technology and Support Services	Information systems, networking, and technical support
State Patrol	
Patrolling	Law enforcement on the trunk highway system
Commercial Vehicle Enforcement	Enforcement of commercial motor vehicle regulations on the trunk highway system, including truck weight limits; pupil transportation safety
Capitol Security	Security for the Capitol complex
Vehicle Crimes Unit	Law enforcement concerning vehicle-related taxes
Driver and Vehicle Services (DVS)	
Driver Services	Regulation of vehicle drivers, including licensing and exams
Vehicle Services	Regulation of motor vehicles, including vehicle-related tax collection, titling, license plates, and vehicle dealers

⁷ Amount is from Counties Transit Improvement Board, *Annual Legislative Report*, January 31, 2014.

Program	Budget Activity	Description
Traffic Safety		Programs to reduce crashes and increase safety; primarily funded through federal assistance
Pipeline Safety		Regulation of pipeline facilities; primarily funded through inspection fees and federal assistance
Note: Summary reflects the transportation portion of the agency budget.		

13) What committee has jurisdiction over Public Safety administration?

While the funding for administrative functions is found in the transportation budget, various administrative activities fall under the purview of both transportation and public safety committees. In recent biennial budgets, the transportation bill has contained appropriations for the Administration and Related Services program. This area includes agency-wide functions such as the commissioner's office, human resources, and financial management, and information technology. In addition, a couple of Department of Public Safety programs (for public safety officer survivor benefits and body armor reimbursements) are traditionally funded in the transportation budget, as riders within the Public Safety Support budget activity.

14) Why are highway user tax distribution funds appropriated for some Department of Public Safety budget activities?

Many of the appropriations from the HUTD fund generally reflect a method of allocating agency costs among the various direct and indirect beneficiaries of agency functions. One policy rationale reflects how both the state's trunk highway system as well as road systems of local units of government benefit from services provided by the Department of Public Safety.⁸ The following highlights some variations and examples.

- Public Safety Support.** The bulk of the HUTD fund appropriation within Public Safety Support is for transfer to other funds, traditionally made in riders. These reflect repayments for expenditures incurred in the other funds that are "owed" by the HUTD fund. One such traditional transfer from the HUTD fund (along with a parallel transfer from the trunk highway fund) is to ease budget management in the department's agency-wide costs. Such costs are allocated across the general fund, trunk highway fund, and HUTD fund, and are addressed through expenditures initially made against the general fund with repayment—via the transfers—from the other two funds. A second traditional transfer is to cover a portion of the costs of the Criminal Justice Data Communications Network

⁸ Tax revenues that form the core funding sources for the HUTD fund are constitutionally dedicated both to the state's trunk highway system as well as to county and municipal state-aid roadway systems. Absent HUTD fund appropriations, then, counties and eligible cities would receive additional funding through higher allocations via the fund. Put another way, an appropriation from the HUTD fund can be viewed as a technique for allocating costs between the state and local government.

(which is used, among others, by local law enforcement to access motor vehicle information).

- **Vehicle Crimes Unit.** The Vehicle Crimes Unit investigates various illegal motor vehicle-related activity, including failure to register motor vehicles and failure to pay motor vehicle sales tax. A rationale expressed for funding the unit through the HUTD fund is that the unit's investigations can result in increased transportation tax revenue, which in turn would yield increases for both state and local road systems.
- **Vehicle Services.** The Vehicle Services appropriation from the HUTD fund relates to covering agency costs incurred in collecting motor vehicle sales taxes and registration taxes. Both taxes are dedicated to transportation purposes, and much of the revenue is distributed across state, county, and municipal roads. One justification for the appropriation, then, is that the various road systems ultimately receiving the tax revenue bear a portion of the costs of collecting the taxes.

15) Why are the Driver Services and Vehicle Services budget activities primarily funded from the Special Revenue fund?

Driver and Vehicle Services is a division of the Department of Public Safety that administers various aspects of driving, including vehicle registration and titling, taxes, and driver licensing. The division is essentially fee-based. That is, most functions performed by the division, such as transferring a title, include a fee imposed on vehicle owners and license holders. Proceeds go into dedicated accounts (one for driver services and one for vehicle services) for agency operations. The division is then funded via each biennial budget from these accounts.

One aspect to note is that Driver and Vehicle Services does not directly maintain all offices for driver licensing and vehicle transactions throughout the state. Rather, with agency oversight, offices are operated through a system of local government as well as private entities (known as Driver's License Agents for driver licensing activities, and Deputy Registrars in the case of vehicle functions). In many cases, fees imposed for a particular transaction are retained by the office where the transaction occurred (and provide for the operating costs of that office).

Miscellaneous

Miscellaneous Category – Legislative Budget Summary

Program	Description
Tort Claims	Funds for payments resulting from agency lawsuits

16) What is the Tort Claims appropriation for, and what has it been used for in the past?

The appropriation to Minnesota Department of Management and Budget (MMB) provides funds to pay legal costs of civil suits against the state. Such suits are most often the result of property damage. Less frequently, expenditures have covered personal injury and data

practices claims. The claims are typically settled out of court. Most often in recent years, expenditures from this appropriation have been below the appropriated amount.

For more information about transportation finance, visit the transportation area of our website, www.house.mn/hrd/.