

MN/DOT FINANCIAL MANAGEMENT AND LEGISLATIVE BRIEFING PACKAGE 2004



Prepared by:
Office of Finance
February 2004

Published by
Minnesota Department of Transportation
Office of Finance
Mail Stop 230
395 John Ireland Boulevard
St. Paul, MN 55155

MN/DOT FINANCIAL MANAGEMENT AND LEGISLATIVE BRIEFING PACKAGE

MINNESOTA DEPARTMENT OF TRANSPORTATION 2004 LEGISLATIVE SESSION

Contents

Introduction.....	5
--------------------------	----------

I CAPITAL BUDGET

A. Introduction.....	8
B. General Obligation Bonding Requests.....	8
C. Trunk Highway Fund Bond and Appropriation Requests...	8
D. Non-Mn/DOT Transportation Related Projects.....	9
E. Table of All Mn/DOT Requests and Governor's Recommendations.....	10

II LEGISLATIVE INITIATIVES AND ISSUES

A. Mn/DOT 2004 Legislative Proposals.....	12
B. Potential 2004 Legislative Issues.....	17

III FINANCIAL AND HIGHWAY USE INFORMATION

A. Revenues and Expenditures for Transportation Purposes: All Sources of Funds.....	22
B. History of Mn/DOT Revenue Changes.....	23
C. Minnesota's Highway Finances.....	26
D. Highway Use and Financing – Selected Charts and Facts...	29

INTRODUCTION

The Office of Finance prepared this briefing package to provide basic information on Mn/DOT's finances and transportation-related legislative issues.

It provides a summary for this legislative session about proposed policy initiatives, gives an orientation to certain issues facing Mn/DOT, and provides background on Mn/DOT's financial picture.

There are three sections in this package.

The first section describes the Mn/DOT Capital Budget Request for the 2004 legislative session.

The second section contains a summary of Mn/DOT's proposed 2004 legislative initiatives and key issues that may generate legislative interest.

The third section depicts Mn/DOT's financial picture. It includes information about FY 2003 revenues, expenditures, and funding sources; a history of significant revenue changes over the past 25 years; and some useful financial and non-financial data.

I. Mn/DOT Capital Budget

INTRODUCTION

This section provides an overview of Mn/DOT's Capital Budget. Capital budget requests are distinct from biennial budget requests in that they:

- 1) represent a program improvement or expansion, such as local bridge replacement projects;
- 2) extend the life or enhance the value of a building, such as asbestos removal and re-insulation;
- 3) are non-recurring in nature, like land acquisition; or
- 4) are project specific, such as new buildings.

Mn/DOT CAPITAL BUDGET REQUESTS

2004 Legislative Session

(\$ in Thousands are the Governor's Recommendations)

General Obligation Bonding Requests:

NORTHSTAR COMMUTER RAIL:

This project will use existing rail lines to transport commuter trains from Big Lake to downtown Minneapolis, a distance of about 40 miles.

Also included in this project is a connection with the Hiawatha Light Rail Transit (LRT) station at First Avenue in Minneapolis. The state share is 33.33% of project cost, the federal government 50% and local and regional rail authorities 16.67%. Currently, the estimated cost of the project is \$265 million.

\$37,500

LOCAL BRIDGE REPLACEMENT PROGRAM:

This program provides funding to replace or rehabilitate deficient local bridges that do not receive federal funding or to provide the local or state matching funds (typically 20% of the project cost) for those bridges that do receive federal funding.

\$28,000

LOCAL ROAD IMPROVEMENT GRANTS:

This program provides funding to provide grants to cities, counties, or townships with local road construction, reconstruction, or reconditioning projects of regional or statewide significance that cannot be funded through existing revenue sources. Local governments will provide a 20% match to the grants. These projects would be directly associated with development of major state road projects. This funding will be provided in accordance with M.S. 174.52, Subdivision 4 (Local Road Improvement Fund – Local Road Account For Routes of Regional Significance).

\$10,000

Total approved General Obligation Bonding Requests

\$75,500

Mn/DOT Trunk Highway Fund (Bond and Appropriation) Requests

MANKATO HEADQUARTERS BUILDING: This request is for Trunk Highway bonding to construct a replacement headquarters building and support facilities on a new site near TH60 and TH22 east of Mankato.

Mn/DOT, State Patrol, and Drivers License Examination employees will jointly occupy the new building.

\$10,000

ANALOG TO DIGITAL CONVERSION:

This project will begin conversion of the existing Mn/DOT analog microwave backbone to digital equipment. This will increase capacity of the network to move towards the goal of a coordinated network to support voice, data, and video needs of customers. Funding will be provided by an appropriation from the Trunk Highway Fund.

\$3,000

SMALL CAPITAL PROJECTS:

This request is for the repair, remodeling or replacement of small truck stations, salt storage facilities, and cold storage buildings to meet program requirements, new equipment demands, or regulatory/building code requirements. Funding will be provided by an appropriation from the Trunk Highway Fund:

\$3,800

Total Mn/DOT Trunk Highway Fund Requests

\$16,800

Trunk Highway Bonds	\$10,000
Trunk Highway Fund Appropriations	\$ 6,800

A complete listing of the department's requested capital projects, funding requests, agency priority ranking, and Governor's Recommendations is shown on page 10.

Non-Mn/DOT Transportation Related Projects

TRANSPORTATION BUILDING EXTERIOR REPAIR (Department of Administration):

This project is to repair the anchoring system for the exterior granite panels on the Transportation Building.

Trunk Highway Bonds \$8,683

CEDAR AVENUE BUS RAPID TRANSIT (Metropolitan Council):

Provides for environmental work, preliminary engineering and shorter term transit improvements for the Cedar Avenue Bus Rapid Transit (BRT).

General Fund Bonds \$10,000

LOCAL GOVERNMENT ROAD WETLAND REPLACEMENT (Water and Soil Resources Board): This money would be used to replace wetlands lost to safety improvements made to public transportation projects as required under M.S. 103G.222, Subd. (1)1.

General Fund Bonds \$4,362

FOREST ROADS AND BRIDGES (Department of Natural Resources):

Replacement, reconstruction or improvements of the state's forest roads and bridges.

General Fund Bonds \$1,000

Project Title	Agency Priority	Strategic Score	Funding Source	Agency Request			Governor's Rec	Governor's Planning Estimates	
				2004	2006	2008		2004	2006
Analog to Digital Conversion	1	290	THF	\$10,000	\$5,000	\$0	\$3,000	\$6,000	\$6,000
Local Bridge Replacement Program	2	385	GO	30,000	70,000	70,000	28,000	28,000	28,000
Mankato Headquarters Building	3	270	THB	15,720	0	0	10,000	0	0
Local Road Improvement Grants	4	180	GO	10,000	20,000	20,000	10,000	10,000	10,000
Small Capital Projects	5	195	THF	9,862	0	0	3,800	0	0
Rail Service Improvement	6	310	GO	6,000	6,000	6,000	0	0	0
Port Development Assistance	7	205	GO	4,000	8,000	8,000	0	0	0
Soo Lock Funding	8	227	GF	6,600	0	0	0	0	0
Northstar Commuter Rail	GOV-1		GO	37,500	49,066	0	37,500	49,066	0
State Bridge Program			THB	0	70,000	70,000	0	0	0
Rochester Truck Station			THF	0	5,000	0	0	0	0
Arden Hills Training Center Addition			THF	0	4,600	0	0	0	0
Maple Grove Truck Station			THF	0	4,500	0	0	0	0
Golden Valley Shop Addition			THF	0	4,000	0	0	0	0
Willmar HQ Addition			THF	0	1,700	0	0	0	0
Duluth HQ Addition/Remodel			THF	0	1,250	0	0	0	0
Shakopee Truck Station			THF	0	0	3,000	0	0	0
Jordan Truck Station			THF	0	0	3,000	0	0	0
Plymouth Truck Station Addition			THF	0	0	3,000	0	0	0
Eden Prairie Truck Station			THF	0	0	2,000	0	0	0
Crookston Truck Station Addition			THF	0	0	1,000	0	0	0

Project Total	\$129,682	\$249,116	\$186,000	\$92,300	\$93,066	\$44,000
General Obligation Bonding (GO)	\$87,500	\$153,066	\$104,000	\$75,500	\$87,066	\$38,000
General Fund Projects (GF)	\$6,600	\$0	\$0	\$0	\$0	\$0
Trunk Highway Fund (THF)	\$19,862	\$26,050	\$12,000	\$6,800	\$6,000	\$6,000
Trunk Hwy Fund Bonding (THB)	\$15,720	\$70,000	\$70,000	\$10,000	\$0	\$0

Funding Sources:	GF = General Fund	THF = Trunk Highway Fund	OTH = Other Funding Sources
	GO = General Obligation Bonds	THB = Trunk Highway Fund Bonding	UF = User Financed Bonding

II. LEGISLATIVE INITIATIVES AND ISSUES

MN/DOT 2004 LEGISLATIVE PROPOSALS

Revised
January 27, 2004

<i>PRELIMINARY-NOT-FINAL</i>	
SUBJECT / STATUTE	DESCRIPTION
1. Acquisition of Right-of-Way From Common Interest Communities. (The statutes to be amended are Minn. Stat. Section 515B.1-107(c), Section 515B.3-102(9), and 515B.3-112(e))	<p>These three proposals were submitted in 2003.</p> <p>The amendment to Section 515B.3-102 would give the unit owner's association power to grant easements for transportation purposes through, over or under the common elements without approval of the resolution by individual condominium unit owners.</p> <p>The amendment to Section 515B.1-107 would provide that in eminent domain actions involving acquisition of the common elements, Mn/DOT would only serve the owners' association and not every individual owner that belongs to the association.</p> <p>The amendment to Section 515B.3-112 would amend the statute to exclude conveyances of the common elements to the State of Minnesota for transportation purposes from the requirement that the association record an amended common interest community plat when it files the instrument of conveyance. It would remove a burden currently placed on the common interest community.</p> <p>The Office of Land Management has asked to have these three proposals pursued again. None were controversial last year. They were not enacted because controversial driver license provisions were amended onto our bill in the Senate Judiciary Committee.</p>
2. Trunk Highway Turnback (jurisdictional transfer) Amend Section 161.115, subd. 199, Route 268.	District 8 intends to turn back a portion of TH 268 in Pipestone County to Pipestone County. This segment will be eligible for CSAH funds under the current funding distribution formula.
3. Sustainable Forest Resource Management Program (Section 290C.10)	The Land Management Office has asked the Department of Revenue to amend Section 290C.10 to authorize the Commissioner of Revenue to allow withdrawal of land from the Sustainable Forest Incentive Act without penalty when the land is acquired by a government entity. The existing statute requires the government entity to put the land into condemnation in order to withdraw it from the Sustainable Forest Incentive Act.
4. Sale of Surplus Mn/DOT Property (Section 161.443,	In the 2003 session, the Legislature directed the Department of Administration to sell surplus state property. This did <u>not</u>

PRELIMINARY-NOT-FINAL

SUBJECT/ STATUTE	DESCRIPTION
proposed new section)	<p>include Mn/DOT property. We attempted to have the State Government Finance bill amended to address the sale of Mn/DOT surplus property, but it was too late in the session to do that. Representative Kuisle and others expressed an interest in exploring this in a full session when hearings could be held on the subject. Mn/DOT now has authority to sell both surplus (Minn. Stat. 161.44) and excess (Minn. Stat. 161.23) property, however, the receipts go back into the Trunk Highway Fund balance. This proposal would appropriate the proceeds from the sale of property to the Commissioner to pay: (1) the cost of selling land and buildings, including salaries and expenses; (2) fees required in existing law in sections 161.23 and 161.44; (3) the cost to purchase additional highway right-of-way; or (4) for trunk highway construction projects.</p>
5. Motor Carrier Legislation (Minn. Stat. Chapter 221)	<p><u>Item A</u> – Amend intrastate motor carrier state statutes that the Federal Highway Administration has found to be incompatible with the Federal Motor Carrier Safety Regulations. These statutes relate to: (1) state laws governing the parts and accessories necessary for safe operation, and (2) reports of hazardous material incidents that must be filed by persons who spill hazardous materials during transport.</p> <p><u>Item B</u> – Amend Minn. Stat. 169.86, subd. 5, relating to special permits to exceed height, width or load restrictions and the fees required. This proposal would allow an annual \$120 permit to be issued to a three vehicle combination consisting of two, empty, newly manufactured cargo, horse or livestock trailers, not to exceed 28 ½ feet per trailer. The Department has been issuing permits like this under its general permitting authority, but the Motor Carrier Office believes it would be better to clearly and completely define the types of vehicle combinations eligible for the annual permit.</p> <p><u>Item C</u> Housekeeping Amendments. Correct provisions of state law having to do with:</p> <ol style="list-style-type: none">(1) hours of service of motor carrier drivers. Conform to federal law.(2) transportation of hazardous materials. Conform to newly renumbered federal regulations with which these statutes must conform.(3) Remove obsolete references to the Transportation Regulation Board, which no longer exists.(4) Amend Minn. Stat. Section 221.605 to include a cross reference to 49CFR part 383, Commercial Driver's License Standards that interstate motor carriers must comply with and that the state must enforce.

PRELIMINARY-NOT-FINAL

SUBJECT / STATUTE	DESCRIPTION
	(5) Amend Minn. Stat. Section 221.602 to conform the language to existing federal regulations for interstate carrier registration by inserting cross references to the applicable federal regulations.
6. Repeal Statute Authorizing Major Transportation Projects Commission	Repeal Minn. Stat. Section 174.55, Major Transportation Projects Commission. The Legislature provided in the Transportation Appropriations Act, Chapter 19, Article II, Section 45, that the Commission expired June 30, 2003.
7. Electronic Bidding (Minn. Stat. 161.32, Section 3, subd. 1b)	This proposal would require that all bids over \$5 million submitted to Mn/DOT must be submitted electronically via the internet. It is expected that this would save Mn/DOT the cost of keying all the large bids, up to \$25,000 a year. It also assures the validity of the bids because the program does not accept bids with blank spaces and has other error reduction features.
8. Modify the Distribution of the County State-Aid Highway Fund to Increase the Amount of Money in the Statewide Administrative Account. Amend Minn. Stat. Section 162.06, subd. 2	This proposal would raise from 1 ½ % to 2% , the amount of county funds that are diverted to the state aid administrative account to fund the cost to Mn/DOT of providing assistance to local governments. The State Aid administration budget would be increased from \$5.5 million to \$7.4 million in the CSAH fund. State Aid Division made this proposal because of increased requests from local governments for assistance with statewide projects and partnership projects, which can be funded through this account. There is also increased oversight of cooperative and bonding programs that do not provide funding for administrative oversight.
9. Perpetuation of Public Land Survey Corners (amend Minn. Stat. 160.15)	<p>This proposal has three parts:</p> <ol style="list-style-type: none"> 1. Change the law that prescribes how property corners in state highways are marked to make the requirements safer and more practical. 2. Require property corner certificates to be filed in the County Land Surveyor's Office (this would be new), if there is one, and if not, then in the County Recorder's Office. This would conform section 160.15 to section 381.12, which requires filing corner certificates with the county surveyor <u>or</u> recorder. 3. Allow only registered land surveyors (not <u>engineers</u>) to establish property corners and do boundary surveys. This will conform section 160.15 to sections 326.02 to 326.15 (licensing statutes for engineers and surveyors), which restrict work involving establishing property corners or property lines to surveyors.
10. Move Appraisal Language Out of the Eminent Domain	Move existing statutes and clarify the appraisal law passed last session. This would clarify who the 'owner' is, or is not, so that

PRELIMINARY-NOT-FINAL

SUBJECT / STATUTE	DESCRIPTION
Chapter (Ch. 117) and into the Transportation Chapter (Ch. 161).	we do not have to share the appraisal with everyone who has a legal interest in the property, nor would we have to provide the \$1500 appraisal reimbursement to everyone with a legal interest in the property. It moves the language into chapter 160, and out of chapter 117, the eminent domain chapter, because the language pertains to our acquisition (including direct purchase) process and not just to eminent domain. It would clarify that the appraisal fee reimbursement that the Condemnation Commissioners can award (now \$500) cannot exceed \$1500 for the parcel when combined with the original reimbursement. It would eliminate the requirement that owners seek reimbursement of their appraisal costs within sixty days (unnecessary) and change the language so that the data does not become 'public' when we share it with the owner.
11. Drainage Amend Minn. Stat. Section 160.27	Explore amending state law to protect Mn/DOT from being forced to accept water from private property as a condition of obtaining watershed district or other environmental permits. This imposes costs and environmental liability on Mn/DOT. Prohibit draining water onto Mn/DOT right-of-way without a permit from Mn/DOT.
12. Reconveyances to Former Owners. Amend Section 161.442	The Legislature amended this law in 2001 after hearing false horror stories from a real estate attorney. The law now allows Mn/DOT to reconvey land to a former owner during an eminent domain proceeding only with the owner's consent. Mn/DOT sometimes settles eminent domain cases by agreeing to acquire less land than was initially put into condemnation. In that case we want to reconvey the land we now won't need.
13. Contracts with Tribal Governments. Amend Section 161.368 to Clarify Law.	Amend the law passed last session to <u>clarify</u> that Mn/DOT may contract with Tribal Governments for purposes of entering into municipal agreements for work done on trunk highways.
14. Truck Stuff. (a) Amend Section 169.832, subd. 11. (b) Extend spring load restrictions on gravel roads by two weeks. Amend 169.87, subd. 2.	Allow counties and cities to establish 10 ton road systems without requiring commissioner to do it or approve it.

PLACEHOLDERS – LEGISLATIVE REPORTS

<i>PRELIMINARY-NOT-FINAL</i>	
SUBJECT/STATUTE	DESCRIPTION
1. Rest Areas – Laws 2003, First Special Session, Article II, Section 67	Mn/DOT reported on January 30, 2004, to the Transportation Committee Chairs on lease agreements at rest areas.

POTENTIAL 2004 LEGISLATIVE ISSUES

A variety of issues are likely to surface that directly affect Mn/DOT and the transportation community of Minnesota.

.08 Blood Alcohol

The FY 2001 US DOT Appropriations Act (Public Law 106-346) requires that states pass a .08 blood alcohol law by the beginning of federal fiscal year 2004 (October 1, 2003) or face sanctions on the Federal Aid Highway Program. In response to this, legislation was introduced in the 2001, 2002, and 2003 legislative sessions to change Minnesota's blood alcohol threshold from .10 to .08. However, no change in Minnesota's .10 blood alcohol level was made in any of those sessions. Because of this Minnesota is now under sanction by the federal government.

These sanctions begin with a 2% penalty (or approximately \$9.45 million) in federal fiscal year 2004 (October 1, 2003 to September 30, 2004) and grow at 2% per year to a maximum of 8% (or approximately \$40.56 million) in federal fiscal year 2007. The estimated amounts of sanctioned dollars are based on projected federal receipts incorporated into the November 2003 Economic Forecast prepared by the Department of Finance. Actual federal receipts in future years may vary from those stated above.

Funds sanctioned during the first four years will be returned to Minnesota, if .08 blood alcohol legislation is passed prior to October 1, 2007. After that, funds will begin to be lost forever, and will be distributed to those states that have passed .08 legislation. In Federal Fiscal Year 2008 (begins October 1, 2007), the funds sanctioned for Federal Fiscal Year 2004 would be permanently lost to Minnesota; in Federal Fiscal Year 2009 the funds sanctioned in Federal Fiscal Year 2005 would be permanently lost; and so forth. Currently, 45 states plus the District of Columbia and Puerto Rico have enacted .08 blood alcohol legislation.

Governor Pawlenty announced his support of passage of the .08 legislation at a press conference in late October 2003.

Bonding

The 2004 session will be dominated by passage of a statewide bonding bill. The governor has recommended the following transportation initiatives, with all but the last four items contained in Mn/DOT's capital budget request:

\$37.5 million*	Northstar Commuter Rail project (see below)
\$28 million*	Local bridges
\$10 million*	Local road improvement grants
\$10 million	Mankato district headquarters building
\$3 million**	Analog to digital conversion for radio communications
\$3.8 million**	Small capital projects (e.g., truck stations, salt storage, cold storage)
\$8.683 million	Central office exterior repair (Department of Administration lead)
\$10 million*	Cedar Avenue Bus Rapid Transit (BRT) [Met Council lead]
\$4.362 million*	Local road wetland mitigation (Water and Soil Resources Board lead)
\$1 million	Forest roads and bridges (DNR lead)

* To be paid from state General Obligation Bonds

** To be paid with Trunk Highway Fund appropriations

For the first time, Mn/DOT is proposing the use of trunk highway bonds, rather than cash appropriations from the Trunk Highway Fund, to pay for two of the items listed above – the Mankato district headquarters building and the central office exterior repair.

See the capital budget section of this document for a more detailed discussion of the Mn/DOT requests referenced above.

Northstar Commuter Rail

Funding for commuter rail between downtown Minneapolis and St. Cloud has been debated at the legislature for the last few years. The proposal in previous years has envisioned commuter rail running from downtown Minneapolis to Rice (west of St. Cloud), and the Federal Transit Administration (FTA) had been supportive of that project. However, changes in the methodology used for rating projects led to a decision by the FTA that it cannot support federal funding of the project beyond Big Lake.

The preliminary cost estimate for commuter rail from Minneapolis to Big Lake, including a connection to light rail in downtown Minneapolis, is approximately \$265 million, although it is expected that this estimate will increase after completion of final design. The governor has included \$37.5 million for the Northstar Commuter Rail project in his 2004 proposed bonding bill. If state funding is secured this session, it is anticipated that the Federal Transit Administration will provide a 50 percent federal match to state and local dollars.

As it relates to the required 50 percent state-local match, the governor's proposal is for the state to pay two-thirds of construction costs and local governments to pay one-third. He has also asked that the Northstar Corridor Development Authority (NCDA) participate with the state in creating an operating subsidy agreement. It is intended that this agreement would limit the state's obligation to 50% of the operating subsidy. The remaining 50% of the operating subsidy would be paid by local governments along the corridor.

Primary Seat Belt

Although past efforts to enact a primary seat belt law in Minnesota have failed, the governor does support this initiative. In addition, there is a proposal in Congress to withhold highway construction funds from states that do not enact primary seat belt legislation. The sanctions would likely be modeled after the .08 blood alcohol law that went into effect on October 1, 2003.

Speed Limits

During the 2003 session, M.S.169.14 was amended to allow local governments to establish a school speed limit within a school zone that is not more than 30 mph below the established speed limit on the street or highway. Formerly, local authorities could establish speed limits that were no more than 20 mph below the established speed limit. Although the department will not be proposing any further changes during the 2004 session, individual legislators have already indicated that they will be attempting to further amend this law. Also, there is continuing legislative interest in raising the speed limit from 55 MPH to 60 MPH on the state's two-lane highways.

Snow and Ice Removal

There have been several stories in the media regarding Mn/DOT's snow and ice removal efforts. Although the department has committed to spending whatever it takes to keep the traveling public safe, some legislators believe that efforts in this area have been reduced to finance the 2003 supplemental funding package. It is possible that there will be legislative hearings on this topic.

Bond Accelerated Projects

The Senate Transportation Committee held an interim hearing on the selection process for the 12 projects that received funding through the 2003 supplemental funding package, as well as the financing mechanisms involved. Trunk highway bonding and advance construction techniques will likely be continued topics of interest to the legislature. In addition, the department prepared a report dated January 15, 2004, in response to the legislative requirement, that addressed several funding issues related to this program. Hearings may be scheduled to discuss this report.

FAST Lanes

The department recently announced its intention to solicit proposals from private companies to construct "FAST" Lanes on Minnesota's highways. FAST lanes are new, publicly-owned lanes paid for by private entities, which are repaid by users of the lanes. They would be added to highly congested corridors, and would be constructed by private companies using a combination of state and private funds. Users would be charged a fee, using non-cash electronic technology, for use of the lanes. Revenues from the fees would be used to retire the bonds sold to finance the construction, as well as various operational costs associated with the lanes. When the bonds are retired, the tolls would be removed. Possible corridors for use of FAST lanes include Interstate Highways 494 and 35W and Trunk Highways 36 and 65.

The FAST Lane initiative is based on authority already existing in Minnesota law (M.S. 160.84-160.92). Thus, the department will not need to request any legislation in order to proceed. However, the concept is new to Minnesotans and to legislators, and is also potentially controversial. Therefore, it is possible the legislative hearings will be scheduled to explore this topic.

Processes For Acquisition of Property

Issues related to Mn/DOT's acquisition of property are likely to be the subject of legislative hearings during the upcoming session. Among the issues that could be addressed are:

- Providing information about Mn/DOT appraisals to property owners
- Reimbursing property owners for the cost of their appraisals (the maximum reimbursement was increased to \$1,500 by the 2003 Legislature, but there may be efforts to further change this limit, especially for commercial property)
- Providing reimbursement to property owners for their attorney fees in certain instances

Local Government Transportation Funding

Local Governments are expected to advance a variety of funding initiatives to address what they believe are significant transportation funding shortfalls. Some possible examples include funding for a statewide town road sign program, funding for a statewide local government safety improvement program for local roads, and additional funding for upgrading some local roads to ten ton status. In addition a proposal to allow municipalities to charge street utility fees may be introduced (this has been proposed in previous sessions). Under the street utility fee concept, charges would be made to property owners based on the traffic generated by the property; it would be a fee rather than a tax. Thus, property that is currently tax exempt would be charged the fee, in addition to property owners that already pay property taxes.

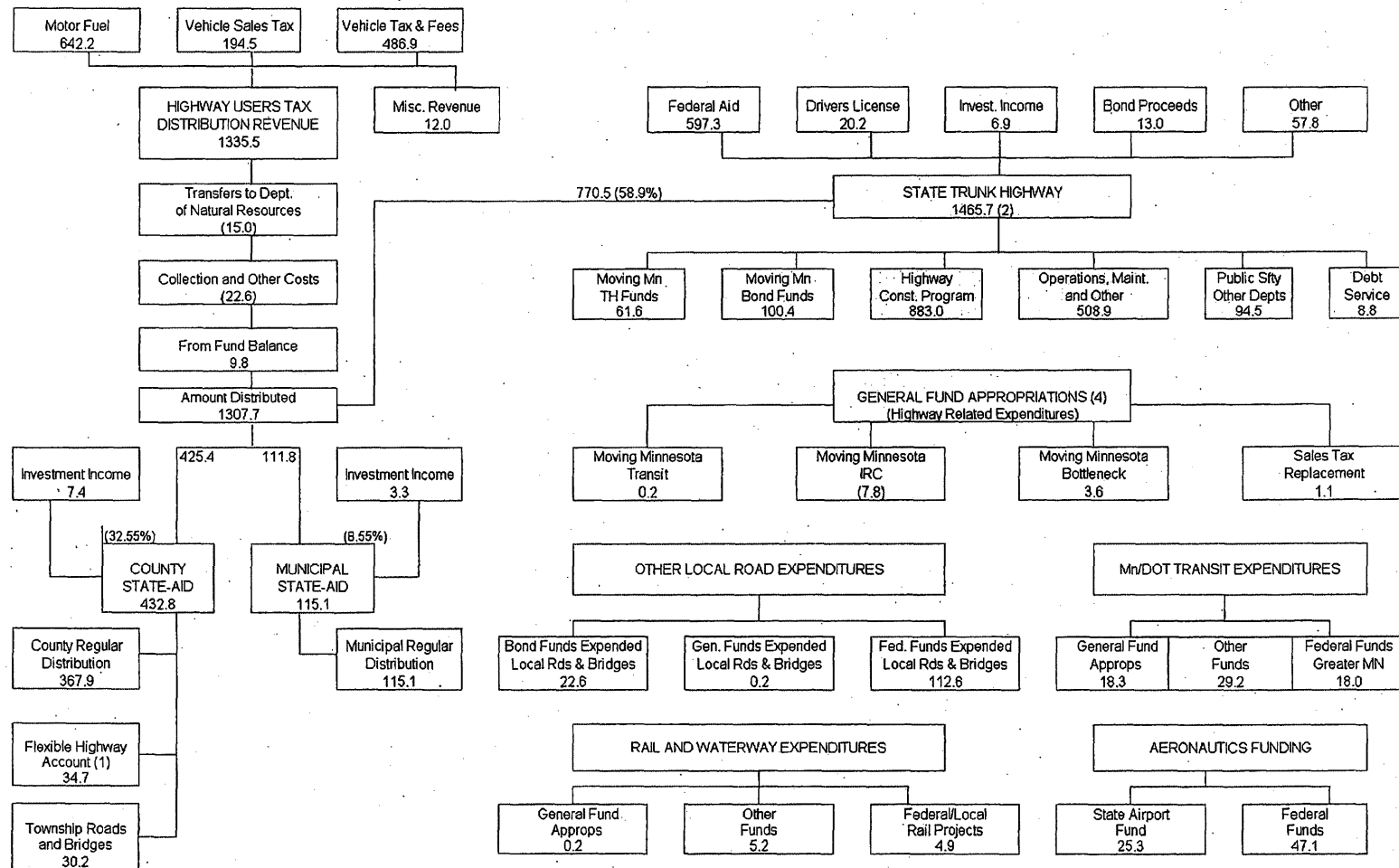
A number of local government transportation requests for funding in the capital budget were received by the Governor, most of which were not funded. The Governor did, however, recommend a statewide redevelopment grant program, to be administered by the Department of Employment and Economic Development, that would be a resource to address some of these requests.

Rest Area Program

The department submitted a required report on its rest area program to the legislature on January 30, 2004. The report addresses the adequacy of funding for the program, describes implemented and planned rest area closings and reductions in hours of service, as well as outlines innovative rest area financing techniques, such as leasing, vending, advertising, and sponsorship. The department expects the legislature to hold hearings on the issues raised in the report.

II. FINANCIAL AND HIGHWAY USE INFORMATION

**MINNESOTA STATE GOVERNMENT
REVENUE AND EXPENDITURES FOR TRANSPORTATION PURPOSES
ALL SOURCES OF FUNDS (Dollars in Millions)
FY 2003 Final**



- (1) - Trunk Highway = \$0, County Turnback = \$32.3, Municipal Turnback = \$2.4
 (2) - Plus \$191.8 from Fund Balance (this number is extremely high due to 1) a very high carryover from FY2 to FY 3 and 2) a large transfer of bond expenditures from the General Fund to the TH Fund.
 (3) - FY 03 and beyond 32% of MVST.
 (4) - At the end of FY 3 expenditures and encumbrances were moved into TH Fund. That resulted in much reduced (and in one case, negative) expenditures for FY 3 in the General Fund.

Prepared by Financial Reporting - December 19, 2003

HISTORY OF Mn/DOT REVENUE CHANGES

Motor Fuel Taxes (Gasoline and Special Fuels)

- 1975 Increased from 7 to 9 cents per gallon.
- 1980 Increased from 9 to 11 cents per gallon.
- 1981 Increased from 11 to 13 cents per gallon.
- 1983 Increased from 13 to 16 cents per gallon (for eight months) and then to 17 cents per gallon beginning January 1, 1984.
- 1988 Increased from 17 to 20 cents per gallon.
- 1994 Phase out of 2 cent gasohol credit over 4 years.

Motor Fuel Tax Rates Per Gallon: Federal, Minnesota, and Neighboring States

	<u>Federal</u>	<u>MN</u>	<u>WI</u>	<u>SD</u>	<u>IA</u>	<u>ND</u>
Gasoline	18.4	20.0	26.4	22.0	20.3	21.0
Diesel	24.4	20.0	26.4	22.0	22.5	21.0
Gasohol (10% blend)	13.1	20.0	26.4	20.0	19.0	21.0

Motor Vehicle Registration Taxes

- 1981 Increase in passenger vehicle registration taxes by phasing in an increased minimum tax. The minimum was increased from \$12 in 1981 to \$35 in 1985, which is the current minimum tax.

- 1986 Increased truck registration taxes for heavier trucks:

<u>Truck Size</u>	<u>Old Tax</u>	<u>New Tax</u>
9 ton	\$1520	\$1595
10 ton	\$1620	\$1760

- 1989 Adjusted schedule for reduction of taxes paid for passenger vehicles as they become older, such that, citizens pay more over the life of the vehicle.
- 2000 Retained the same policy for calculating the tax for passenger vehicles, but provided a maximum tax of \$189 for the first renewal and a maximum tax of \$99 for the second and subsequent renewals.

Motor Vehicle Sales Tax as a Transportation Revenue Source

The Motor Vehicle Sales Tax (MVST) was previously defined as the Motor Vehicle Excise Tax (MVET)

- 1981 Established phase-in of MVST as a transportation revenue source (75% Highways, 25% Transit) over three bienniums (100% by FY 1990).
- 1983 Delayed scheduled phase-in two years.
- 1984 Added one additional year (FY 1985) at the 25% share.
- 1986 Took away FYs 1986 and 1987 (@25% share); left intact the schedule for FY 1988 and beyond.
- 1987 Eliminated the phase-in concept. Allowed 5% transfer for FY 1988 and beyond.
- 1988 Allowed 30% MVST transfer for 1989 and beyond; provided that beginning July 1, 1991 none of the highway share would be distributed to CSAH and MSAS Funds.
- 1989 Allowed 35% MVST transfer for FY 1990 and beyond. All of the highway share (75%) of the additional 5% is transferred to the Trunk Highway Fund.
- 1990 Allowed 30% MVST transfer for FY 1991 and beyond. The 5% reduction was taken from the HUTDF share, resulting in 25% for HUTDF/Transit distribution, and 5% credited entirely to the Trunk Highway Fund/Transit.
- 1991 Eliminated as a transportation revenue source.
- 2001 HIGHWAYS: In FY 2002, 30.86% of MVST revenues were deposited in the Highway User Tax Distribution Fund. In FY 2003, 32% of MVST revenues were deposited in the Highway User Tax Distribution Fund.
- TRANSIT: For FY 2003, 20.5% of MVST was dedicated to the Metropolitan Area Transit Fund and 1.25% of MVST was dedicated to the Greater Minnesota Transit Fund, both for property tax relief. An additional 2% of MVST was scheduled to be dedicated to the "metropolitan area transit appropriation account" beginning on July 1, 2003.

2003

For 2004 – 2007 the distribution was changed to the following:

HIGHWAYS: 30% of MVST revenues will be deposited to the Highway User Tax Distribution Fund, 0.65% to the County State Aid Highway Fund, and 0.17% to the Municipal State Aid Street Fund.

TRANSIT: 21.5% of MVST revenues will be dedicated to the Metropolitan Area Transit Fund and 1.43% to the Greater Minnesota Transit Fund. No money will be deposited to the “metropolitan area transit appropriation account.”

After 2007, the distribution will revert to that which was in effect for FY 2003, except there will no longer be a distribution to the “metropolitan area transit appropriation account.”

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. This would generate \$18 million in revenues to the Trunk Highway Fund. The current tax of 20 cents per gallon yielded \$620 million in FY 2003 after refunds, collection costs and transfers to DNR. The tax was last increased in 1988. In 1994, the Legislature enacted a phase-out of the ethanol tax credit over four years.

Of motor fuel tax revenues, 82% are generated from gasoline sales. The remainder is mostly generated from diesel and special fuel sales.

State law requires transfers of gas tax revenues presumed to be attributed to non-highway uses (e.g., boats, and snowmobiles) to accounts managed by the Department of Natural Resources. About 3% of gasoline tax revenues, or approximately \$15.6 million, are termed "unrefunded" and transferred from the Highway User Tax Distribution Fund to the Department of Natural Resources each year.

Based on Federal Highway Administration Table MF-121T, Tax Rates on Motor Fuel, published October 2002, as well as recent reports from neighboring states, twenty-four states have gas tax rates higher than Minnesota's and five states have gas tax rates the same as Minnesota's. Some states have local option gas taxes and/or levy a sales tax on gasoline sales. These have not been taken into account in the ranking mentioned above. If they were, additional states would have higher gas taxes than Minnesota.

Motor Vehicle Registration Taxes

In FY 2003 motor vehicle registration taxes, after refunds and collection and other costs, yielded \$482 million. Passenger class and pickup truck vehicles generated approximately 80% of total motor vehicle registration tax revenues.

Motor Vehicle Sales Tax

When passenger vehicle registration taxes (tab fees) were reduced in its 2000 session, the Legislature provided replacement revenue for the Highway User Tax Distribution Fund (HUTDF). This consisted of a General Fund transfer (\$162 million) for FY 2001, and specified percentages of revenue from the Motor Vehicle Sales Tax (MVST) in subsequent years.

In FY 2002, the HUTDF received 30.86% of MVST revenues, equal to \$189 million. In FY 2003 the HUTDF received 32% of MVST revenues, equal to \$194 million. The 2003 legislature changed the percentages of revenue from the MVST to the HUTDF to 30% for FY 2004-FY 2007. New distributions were provided for the County State Aid Highway Fund (0.65%) and the Municipal State Aid Street Fund (0.17%). Beginning in FY 2008 the distribution to the HUTDF will return to 32%, and the distributions to the two state aid funds will be discontinued.

Federal Highway Funds

The TEA-21 authorization ended September 30, 2003. The U.S. Congress and Executive Branch were unable to complete work on the next federal transportation authorization bill during the first nine months of 2003. Because of this, Congress and the Executive Branch agreed to maintain the provisions and funding levels of the final year of the previous authorization (TEA-21) through February 29, 2004. In all likelihood, TEA-21 will need to be extended again beyond the current expiration date, because so little time remains to pass a new authorization bill. There is a lot of uncertainty about whether a new authorization bill will be passed by the 2004 Congress.

Highway User Tax Distributions

The Minnesota Constitution provides that 95% of highway user tax revenues are distributed as follows: Trunk Highways - 62%; County State Aid Highways - 29%; and Municipal State Aid Streets - 9%. The remaining 5% 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 made the most recent change in this formula. Since July 1, 1999, all of the five percent set-aside revenues - approximately \$65 million per year - have been transferred to 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%, see below). The most recent allocation of the 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 2004 legislature, since six years have passed since it was last changed.

Flexible Highway Account

The Flexible Highway Account was created by the 1998 Legislature essentially by combining monies from the five percent set aside that were 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 among those funds and accounts mentioned above for each upcoming two-year period, as part of the biennial budget proposal. The following table describes the HUTDF five percent set aside for FY 2002-2005.

		(In Millions of Dollars)			
<u>HUTDF 5% Set-aside Distributions</u>		<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Town Road Account	(30.5%):	19.3	19.8	20.1	20.6
Town Bridge Account	(16.0%):	10.1	10.4	10.5	10.8
Flexible Highway Account:					
County Turn Back Account:		27.4	32.4	20.8	27.8
Municipal Turn Back Account:		6.4	2.4	14.4	8.3
<u>Trunk Highway Fund:</u>		<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
<u>Subtotal Flexible Highway (53.5%):</u>		<u>33.8</u>	<u>34.8</u>	<u>35.2</u>	<u>36.1</u>
GRAND TOTAL 5% HUTDF Set-aside:		63.2	65.0	65.8	67.5

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 bienniums. The 2004 legislature could choose to change the distribution of the HUTDF five percent set-aside monies.

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

Monies in these funds are allocated to 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 money 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 money needs (50%) and population (50%).

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 became greater than 5,000. At each census, some municipalities may stop qualifying for funding because their population fell below 5,000. As we progress through the decade, 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 2000-2003 is shown below:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Total Number of Municipalities Qualifying for MSAS Funds:	127	129	130	133

Bonding

The 2003 legislature authorized the sale of \$400 million of trunk highway bonds to eliminate traffic bottlenecks and improve at-risk interregional corridors in the metropolitan area and outstate Minnesota. In addition a total of \$220 million of trunk highway bonds were recently authorized in accordance with the 2000 funding program. As part of the 2004 Capital Budget request, trunk highway bonds are being proposed for two building projects; approximately \$19 million of trunk highway bonds will be authorized if the Governor's recommendations are approved.. This is the first time that trunk highway bonds have been proposed as a funding source for trunk highway building projects.

Advance Construction

The legislation authorizing \$400 million of trunk highway bonds referenced above also explicitly authorized Mn/DOT to spend federal funding made available using advance construction funding procedures. Advance construction funding, in general, permits recognizing federal revenues scheduled to be received in future years in the current year. There are a number of benefits that are realized using advance construction funding. It should be noted that this is borrowing from future federal revenues to be used in the current or at least earlier years than planned. Thus, careful management of the use of this funding is needed, and Mn/DOT is working hard to put these management techniques in place.

HIGHWAY USE AND FINANCING

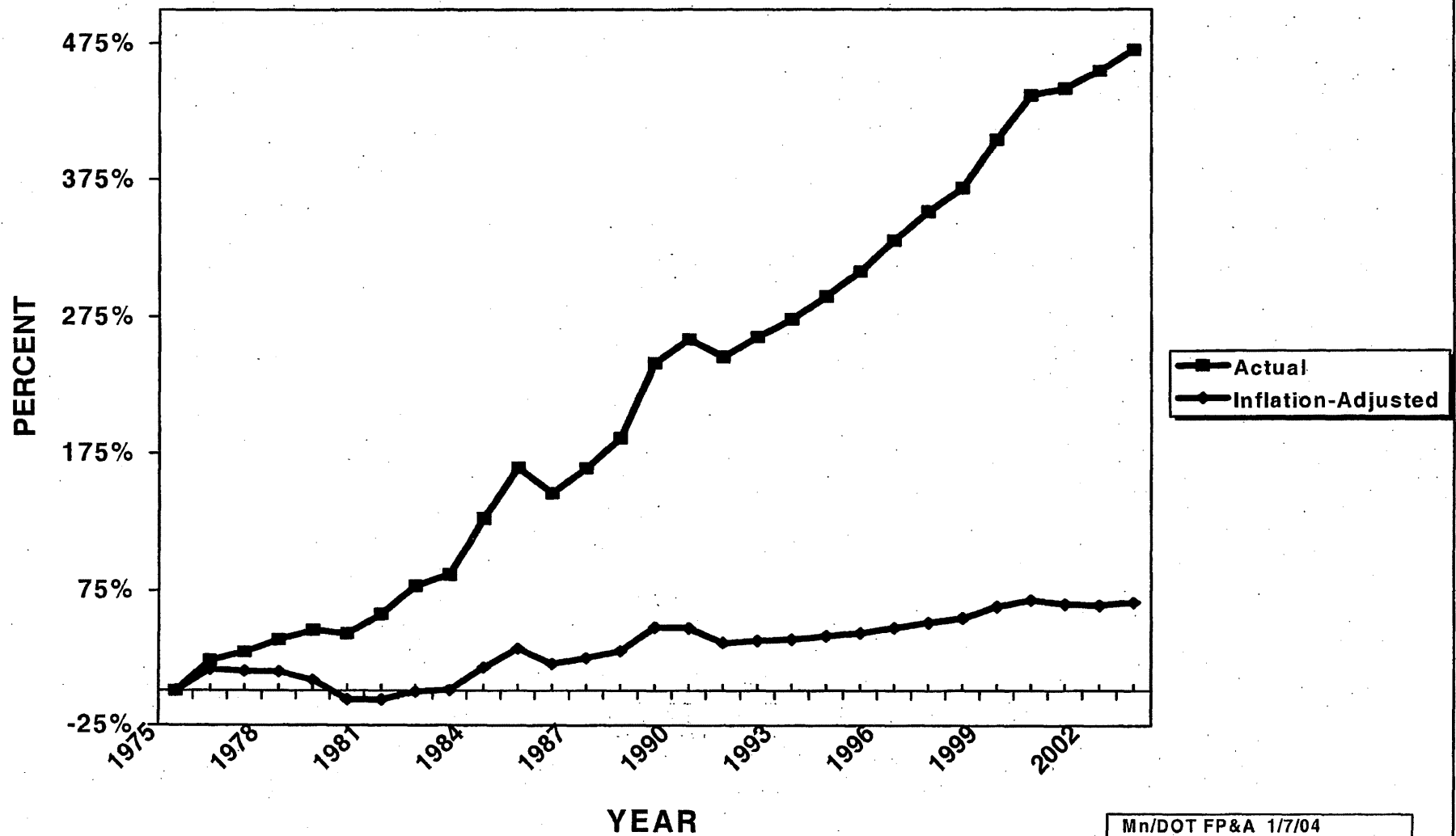
The charts that follow include:

- Cumulative Percentage Increase in Highway User Revenue Since 1975, both actual dollars and adjusted for inflation.
- Vehicles Miles Traveled (VMT) and Motor Fuel Consumption from 1975 through 2001.
- Minnesota Highway User Tax Revenue by major type from 1970 to 2002.
- Price of Minnesota Highways: Minnesota Highway User Taxes Per Vehicle Mile Traveled from 1970 through 2001, as adjusted for inflation.

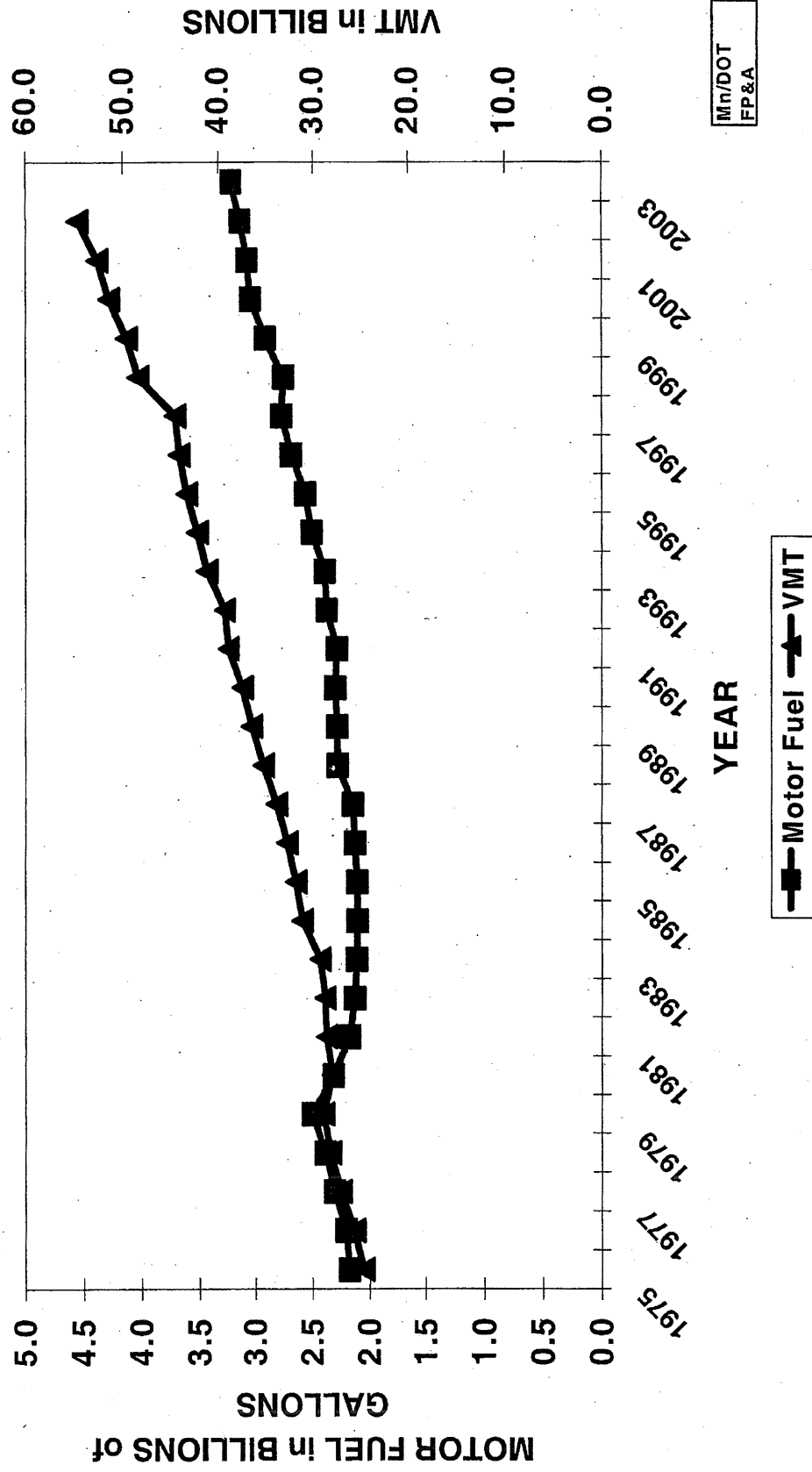
These charts demonstrate that on an inflation-adjusted basis revenues have only increased slightly, even though actual revenues (without taking inflation into account) have increased much more substantially. Use of the highway system, on the other hand, has doubled over a twenty-six-year period. Finally, on an inflation-adjusted basis, Minnesota highway user taxes per vehicle mile traveled have declined dramatically over a thirty-one year period.

The last page discusses various facts relating to transportation users and their use of the transportation system.

CUMULATIVE PERCENTAGE INCREASE IN HIGHWAY USER REVENUE SINCE 1975

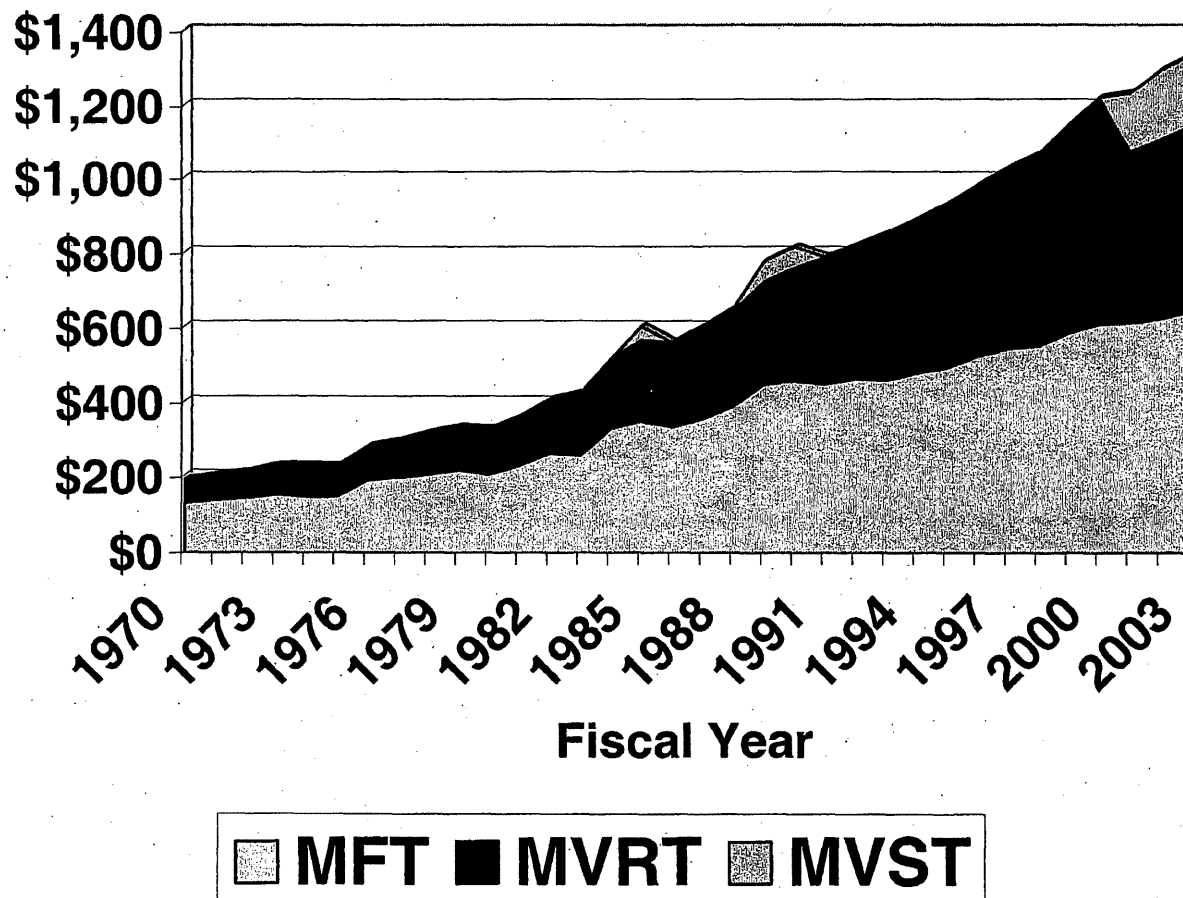


VMT & MOTOR FUEL CONSUMPTION



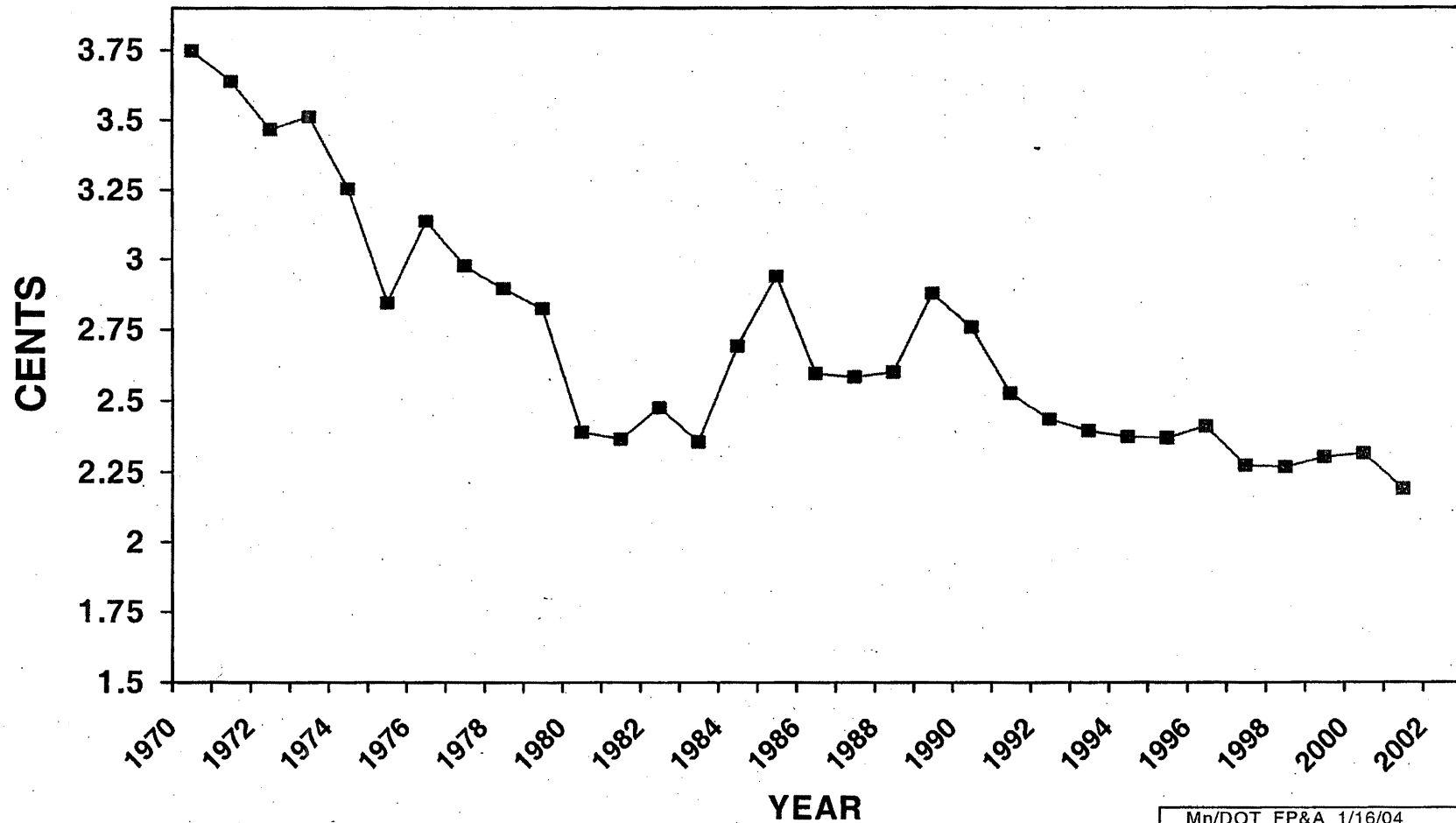
MN Highway User Tax Revenue

(in millions of actual dollars)



PRICE of MINNESOTA HIGHWAYS

MN Highway User Taxes Per Vehicle Mile Traveled
Inflation Adjusted



Mn/DOT FP&A 1/16/04

FACTS RELATED TO TRANSPORTATION USERS AND THEIR USE OF THE TRANSPORTATION SYSTEM

- ❑ Minnesota's motor vehicle registrations in 2002 totaled about 4.5 million. Of those, about 4.0 million were passenger vehicles, including automobiles, pickups, vans, and sport utilities.
(Minnesota Department of Public Safety)
- ❑ There were 3.76 million licensed drivers in Minnesota in 2002.
(Minnesota Department of Public Safety, Minnesota Vehicle Crash Facts, 2002)
- ❑ Use of Minnesota's roads totaled 53.3 billion vehicle miles traveled in 2002.
(Minnesota Department of Public Safety, Minnesota Vehicle Crash Facts, 2002)
- ❑ Since 1992 the number of vehicle miles traveled in Minnesota has increased by 32% and the number of motor vehicles has increased by 26%.
(Minnesota Department of Public Safety, Minnesota Vehicle Crash Facts, 2002)
- ❑ The nation's average fuel efficiency in 2001 for all vehicles was 17.1 miles per gallon, whereas for Minnesota the average was 17.4 miles per gallon. While the fuel economy of all types of motor vehicles in the nation combined increased by 12.6% from 1987 to 1997, it has since leveled off at about 17 miles per gallon from 1997 to 2001. (FHWA Statistics 2001 Table VM-1)
- ❑ Use of Minnesota transit systems in 2001 totaled 93.1 million transit trips. There are 67 separate transit systems in Greater Minnesota employing an estimated 800 people.
(2001 Minnesota Transportation Trivia, compiled by Mn/DOT Office of Traffic Engineering)
- ❑ Minnesota leads the nation in miles of bicycle trails. There are about 1300 miles of trails of which 395 miles are paved state bicycle trails. Minnesota and Wisconsin together have about one-fourth of the nation's bike trails. (Office of Transit, Bicycle Facts, 2003)
- ❑ Minnesota's rail system consists of four major carriers who operate about 2,850 miles of rails. It is the ninth largest state for outbound shipments by weight. Freight movement into or out of Minnesota totaled 548 million tons in 2001. Freight was transported by rail, truck, air, barge, and inter-modal means. (Office of Freight and Commercial Vehicle Operation; Reebie & Associates' Transearch database, 2001 Summary)