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Mn/DOT FINANCIAL MANAGEMENT AND LEGISLATIVE BRIEFING PACKAGE 2005

Prepared by:

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STATE OF MINNESOTA

Office Memorandum

To: Managers
Office and Business Managers
Public Affairs Coordinators

Date: January 28, 2005

From: Scott Peterson, Director
Office of Finance

Phone: 651/296-1363

Subject: 2005 Financial Management and Legislative Briefing Package

Attached is the Financial Management and Legislative Briefing Package for 2005.

Over the years, this document has been a valuable resource for staff who prepare and deliver Mn/DOT's legislative programs. The document also provides general legislative information to Mn/DOT's employees.

This year's package includes:

- Mn/DOT's 2005 legislative initiatives.
- A discussion of transportation-related issues of current department and legislative interest.
- Summary of selected department financial and non-financial data.
- Biennial and Capital budget discussion.

I hope you will find this document to be a helpful overview for this year's legislative session, as well as a useful reference document. I encourage you to share it with your staff.

If you would like additional copies of the package, contact Bruce Briese at 297-1203.

Mn/DOT FINANCIAL MANAGEMENT AND LEGISLATIVE BRIEFING PACKAGE

MINNESOTA DEPARTMENT OF TRANSPORTATION 2005 LEGISLATIVE SESSION

Contents

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 four sections in this package.

The first section describes the Mn/DOT Capital Budget Request for the 2004 legislative session and the Governor's recommendations for action on these items in the 2005 legislative session.

The second section describes the Mn/DOT Biennial Budget Request for the 2005 legislative session.

The third section contains a summary of Mn/DOT's proposed 2005 legislative initiatives and key issues that may generate legislative interest.

The fourth section depicts Mn/DOT's financial picture. It includes information about FY 2004 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 submitted a capital budget request to the 2004 legislature. However, no capital budget bill was passed by the 2004 legislature. The legislature is considering these requests in its 2005 session, and the Governor announced a list of proposed projects on January 4, 2005. The projects listed below were included in the Governor's proposed projects list.

Mn/DOT Capital Projects Included In Governor's Recommendations For The 2005 Session

($ in Thousands)

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 Requests
(all projects to be funded with Trunk Highway Bonds)

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.

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. $4,128

Total Mn/DOT Trunk Highway Fund (Bond) Requests $20,748

Non-Mn/DOT Transportation Related Projects Included in the Governor's Recommendations For the 2005 Session

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 $9,342

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

PHALEN BOULEVARD (St. Paul)
This funding would be part of an ongoing commitment to redevelopment of the Phalen Corridor, including previous appropriations of state funds (General Fund, General Fund bonds, and Trunk Highway Fund), as well as federal funds (High Priority Project funding in TEA-21)

General Fund Bonds	$1,500

HOLMAN FIELD (St. Paul)
This request is to assist in the funding of a permanent flood control perimeter along the east and south edges of the St. Paul Downtown Airport.

General Fund Bonds	$2,000

II. FY 2006-07 BIENNIAL

BUDGET REQUEST

This section provides an overview of the Mn/DOT Biennial Budget Proposal for fiscal years 2006 and 2007.

The fiscal years 2006-07 request was shaped by two significant factors. First, Governor Pawlenty directed that all state agencies prepare a plan depicting the 20% lowest priority spending items, the 60% next priority spending items, and the 20% highest priority spending items, with respect to spending from all state funds. This plan was developed to address the contingency of a possible shortfall in the General Fund, as projected in the November 2004 Economic Forecast. When that forecast was released on December 1, 2004, a shortfall of approximately $700 million (without taking inflation into account) was projected. Thus, these plans were needed and were incorporated into the decision making process of the Governor for the 2006-07 proposal.

A second significant factor was the status of the fund balances in both the Trunk Highway Fund and the State Airports Fund. Unlike most state agencies, Mn/DOT's funding from these two funds is provided by dedicated revenues in these two funds, rather than from the General Fund. As a result, Mn/DOT's budget responsibilities with respect to these two funds include developing revenue forecasts and evaluating the level of expenditures that can be supported by the dedicated revenues.

The fund balances are derived from the Fund Statements that are prepared in conjunction with the November Economic Forecast. These fund statements are based on estimated revenues for the fund, estimated "base" expenditures, the beginning fund balances and any carryforward adjustments. These amounts are used to calculate the estimated ending fund balances for fiscal years 2005, 2006, 2007, 2008 and 2009.

For the State Airports Fund, the fund balance was projected to be a negative $1.6 million at the end of fiscal year 2007. Therefore, the budget request for the 2006-07 biennium must be structured so that the fund balance at the end of fiscal year 2007 is positive.

For the Trunk Highway Fund, the fund balance was projected to be a negative $120 million at the end of fiscal year 2007. Therefore, the budget request for the 2006-07 biennium must be structured so that the fund balance at the end of fiscal year 2007 is positive.

The total Mn/DOT budget request for the 2006-07 biennium is $4,153,206,000. This includes $3,468,164,000 of "direct" appropriations, $53,645,000 of "open" appropriations (for example, spending from the Greater Minnesota Transit Fund for transit assistance, where the amount of spending is based on the actual amount of revenue received in the fund – in this case based on 1.43% of revenues from the motor vehicle sales tax), and $631,397,000 of "statutory" appropriations (primarily federal funds expected for Local Roads, Aeronautics, Transit, Freight, and other purposes). The portion of the budget that receives the most attention from the legislature is the direct appropriations proposal. Therefore, the remainder of this discussion will focus on the direct appropriations.

For Direct Appropriations, the proposal is allocated among the funds in the table shown on the next page:

Fund	Amount (in thousands)	% of Total
General Fund	32,442	1%
State Airports Fund	38,816	1%
Municipal State Aid Street Fund	237,889	7%
County State Aid Highway Fund	895,283	26%
Trunk Highway Fund	2,263,734	65%

The General Fund request is primarily for transit assistance to greater Minnesota counties (97% of the total), although relatively small amounts of funding from the General Fund are also requested for Freight, Electronic Communications, and Buildings). As mentioned previously, transit funding is also provided through an open appropriation from the Greater Minnesota Transit Fund.

The State Airports Fund request is entirely used to fund the operations of the Aeronautics Office.

The requests for the Municipal State Aid Street and County State Aid Highway Funds are to provide the funding that is "apportioned' to the municipalities and counties under the provisions of Minnesota Statutes, Chapter 162.

The request for the Trunk Highway Fund provides the majority of funding for Mn/DOT operations and ongoing highway improvement initiatives. The request is allocated among the programs and activities listed below:

	(000s)
Aeronautics	1,674
Transit	1,590
Freight	9,952
Infrastructure Investment and Planning	1,718,098
Infrastructure Operations and Maintenance	409,492
Electronic Communications	11,912
Department Support	77,948
Buildings	33,068

The direct appropriations request had six specific changes that were recommended by the Governor. These were:

1. A reduction of $1.9 million was recommended for the FY 2005 appropriation for Airport Development and Assistance from the State Airports Fund. This change will eliminate the projected negative fund balance in FY 2007 for the State Airports Fund and therefore permit the request for the FY 2006-07 biennium to be based on existing estimated revenues to the fund.

2. An increase to the Trunk Highway Fund's Debt Service appropriation of $3.3 million ($0.5 million for FY 2006 and $2.8 million for FY 2007) was recommended. This debt service is needed to support the projects that would be funded by Trunk Highway Bonds (approximately $30 million of projects) that have been included in the Governor's proposed capital projects bill.
3. A decrease of $133.5 million for FY 2006 and $29.5 million for FY 2007 in the state road construction appropriation was recommended. $13.5 million of this decrease in each year is proposed in order to fund the three increases described below. The remainder of this decrease is proposed because the department's current spending plan for this program does not require most of the spending authority that was included in the base budget for additional federal advance construction funds for the Governor's Bond Accelerated Program passed in 2003. This is not needed primarily as a result of delays in the receipt of federal funds and increases in projects costs.
4. An increase of $8.625 million for each year is recommended for Infrastructure Maintenance and Operations to assist in preserving the state's investment in bridges and pavement infrastructure, as well as to provide for increased safety for the traveling public.
5. An increase of $4 million for each year is recommended for Small Buildings' projects. The purpose of this request is to support the construction, replacement, or upgrading of small facilities (projects costing less than $1 million). Ongoing funding for this purpose was provided in the 2000-01 biennium and in the 2002-03 biennium; however, no funding was provided for the FY 2004-05 biennium. This request in intended to restore ongoing funding for these projects.
6. An increase of $875,000 for each year is recommended for the Electronic Communications program. The main reason for this additional funding is the growing obligations for system software support and maintenance related to the 800 Megahertz radio system and other new communications technologies statewide.

III. LEGISLATIVE INITIATIVES AND ISSUES

MN/DOT 2005
LEGISLATIVE PROPOSALS

Revised
January 14, 2005

SUBJECT/STATUTE	DESCRIPTION
1. Obsolete Motor Carrier Rules Repeal.	Minnesota Rules 7800.0600--Permit Application; Multiple Copies Required. Minnesota Rules 7800.3200, subpart 1--Timely Presentment of Bills. These two provisions deal with certified regular route common carriers and petroleum carriers, two motor carrier classifications that no longer exist. These two types of carriers became obsolete when the trucking industry was deregulated. The department now uses a system of authority registration instead of the former system of permits and certificates of convenience. Minnesota Rules 7805.0700--Class Determined by Gross Operating Revenues. This provision is obsolete because the department no longer classifies carriers according to their annual gross operating revenues. Minnesota Rules 8850.6900, subpart 20--Definitions. Regular Route Common Carrier. Subpart 20 is obsolete because the definition is based upon the definition of "regular route common carrier" in Minn. Stat. §221.011, subd. 9, which has been repealed. Minnesota Rules 8855.0500, subpart 1. Insurance or bond required. This rule provision is obsolete because only household goods (HHG) carriers are still required to file a bond with the department. Furthermore, the bond requirement for HHG carriers is now provided for in statute under Minn. Stat. § 221.141, subd. 4 and supercedes the bond amount in rule.
2. Clarify and Update M.S. 169.06 Signs, Signals, Markings to be more consistent with the Uniform Vehicle Code (UVC) & Manual of Uniform Traffic Control Devices (MUTCD)	Update the statute to clarify the Traffic Control Signals and Pedestrian Control Signal language and keep it current with the UVC and MN/MUTCD. For example the statute currently refers to pedestrian signals displaying "a word." We need to change this to "word or legend," since many signals now show a walking person/raised hand to indicate walk/don't walk. This is potentially controversial because pedestrian safety is always a controversial topic at the Legislature.

3. Towing Authority for Mn/DOT	This legislation would give "towing authority" to the Minnesota Department of Transportation for removal of abandoned vehicles from state highways. As a "towing authority," Mn/DOT could order custody tows provided by private towing companies for the removal of abandoned vehicles. This "towing authority" would be delegated at the direction of the Commissioner of Transportation to those Mn/DOT employees of the Freeway Incident Response Safety Team (FIRST), maintenance supervisors, and construction workers. This proposal is potentially controversial with opposition expected from some interest groups.
4. Timber Haulers Bill Revisions	In the 2004 session, the Legislature passed a bill permitting timber haulers to carry as much as 90,000 or 98,000 pounds on six axles. In order to tie the overload to truck length and axle spacing, the Mn/DOT Bridge Office proposes that the language be revised to stipulate that these trucks may exceed the legal axle limits shown in the axle weight table in M.S. 169.824 by 12.5% in the summer and 22.5% in the winter. These proposals are intended to improve the ability to administer the provisions that were passed a year ago and therefore allow Mn/DOT to better enforce weight laws. As such they are not intended to be controversial. However, since this new law is just now going into effect and is causing much discussion and confusion because of different interpretations of it, these proposals may re-ignite the debate on weight issues that occurred last session.
5. Railroad Crossings	<u>Railroad Quiet Zones (M.S. 219.166)</u> – State law will be pre-empted by a Federal Railroad Administration (FRA) rule requiring that train whistles be blown at every crossing, unless a waiver has been obtained from the FRA. <u>Railroad Whistles (M.S. 219.567)</u> – This statute will be pre-empted by an FRA rule requiring that train whistles be blown at every crossing between 15 and twenty seconds before reaching the crossing. There is no longer a fixed (80 rods) distance requirement. <u>Exempt Vehicles at Railroad Crossings (M.S. 169.28, subd. 2)</u> – The current statute allows Mn/DOT to exempt certain vehicles from stopping at certain railroad crossings if the crossing has fewer than 5 trains per year. Mn/DOT proposes changing this in order to provide flexibility to grant exemptions on highways where the frequent stopping of vehicles poses a potential collision hazard. Following a diagnostic review of the crossing, and after agreement between Mn/DOT and the operating railroad, a crossing with more than 5 trains per year could be posted as exempt. These provisions are potentially controversial, especially the proposal related to railroad whistles and quiet zones (even though these are federal issues).

6. Household Goods Movers Charity Exemption	Current legislation does not allow for household goods movers to charge rates other than those listed in their published tariffs. This proposal would create an exception in the statute to allow household goods movers to move household goods for a charitable organization at no cost. It would also remove geographic restrictions on household goods movers engaged in charity moves.
7. Data Practices	Employee Mediation Personnel Data – Classify data obtained during the course of internal employee mediation as protected nonpublic or confidential data. This is desired because Mn/DOT is proposing to establish a new mediation service for employees concerning issues of discrimination. MnPASS Data Privacy – The legislature directed Mn/DOT to convert the existing high-occupancy vehicle lanes on I-394 to high occupancy toll (HOT) lanes. The state must be able to keep certain information private on people who purchase MnPASS transponders, especially their financial data. Mn/DOT intends to open the I-394 HOT lanes in the Spring of 2005, making this change necessary during the 2005 legislative session. Design/Build – Classify evaluation criteria and scoring methodologies data as nonpublic until a design-build contract is awarded. Also, the department is proposing designation of certain preliminary engineering information on design-build projects as nonpublic until that information is published as part of the Request For Proposals process.
8. State Aid	State Aid Administrative Increases (M.S. 162.06, subd. 2) – Modify the County State Aid Highway (CSAH) fund distribution to increase the amount of money in the statewide administrative account to fund efforts of counties in statewide partnerships and projects. The proposal would increase from 1.5% to 2.0% the administrative withholding from county state aid funds, thereby increasing the budget from $5.5 million to $7.4 million. Project Termini (M.S. 162) – Allow a county or city to transition a project a short distance across a county, city, or state line to the most logical terminus. Municipal State Aid Street Advance Funds (M.S. 162.14, subd. 6) – This proposal would allow cities to borrow against future state aid apportionments without a statutory limit (current limit is "…shall not exceed the city's total estimated apportionment for the three years following the year the advance is made…") State Aid Rules Variances (M.S. 162.02, subd. 3A and Minnesota Rules 8820.3300, subd. 2) – This proposal is to reduce the period to request comments from interested parties regarding variances from state aid rules from 20 days to 7 days.

	State Aid Rules Adoption Process (M.S. 162.02, subd. 3, 162.09, subd 3, 14.389, Minnesota Rules 8820) – This proposal is to allow State Aid Operations Rules to be adopted under the "Expedited Process" prescribed in M.S. 14.389.
9. Sign Shop Revolving Fund (M.S. 161) and Logo Sign Program (M.S. 160.80, subd. 1a)	This proposal would be patterned after the revolving fund that was established in 2001 for Mn/DOT's pavement striping program. It would allow highway operations units of the department and local governments to be billed for the cost of a centrally management highway sign program (costs including equipment acquisition and rental, labor, and materials). The requirement that an establishment prepare food on the premises in order to qualify for a logo sign would be deleted, thereby allowing coffee shops to be eligible for the program.
10. Land Management	Turnbacks – Trunk Highway 224 Turnback in Becker County; Trunk Highway 104 Turnback in Kandiyohi County; and Trunk Highway 268 Turnback in Pipestone County. All three road segments to be turned back have the necessary local government agreement in order for these projects to be approved by the 2005 legislature. Acquisition of Right-of-Way from Common Interest Communities (M.S. 515B.1-107 (c); 515B.3-102 (9); and 515B.3-112 (e)) – Each of these three proposals would make it easier for Mn/DOT and local units of government to acquire real estate from common interest communities, which most often are condominium associations. Sale of Surplus Property (M.S. 161.44) – This proposal would appropriate the proceeds from the sale of property to Mn/DOT to pay: (1) the cost of selling land and buildings, including salaries and expenses; (2) fees required in sections 161.23 and 161.44; (3) the cost to purchase additional highway right of way, or (4) for trunk highway construction projects. Reconveyances to Former Owners (M.S. 161.442) – Existing law requires the department to obtain an owner's consent before re-conveying land. This change would allow us to re-convey land for good cause and with the consent of a court. Real Property Appraisal Data (M.S. 13.44, subd. 3 (c)) – The proposal changes the law by making appraisals available only to the owner until submitted in condemnation or court proceedings, or when settlement is reached. It also classifies the appraisal obtained by the landowner as private or nonpublic when it is in the possession of the acquiring authority. Appraisal and Negotiation Requirements for Property Acquisition for Transportation Purposes – The proposed changes in this area would do several things: 1. It clarifies that the 'owner' is the fee owner or the purchaser of a contract for deed, so that Mn/DOT is not required to provide the appraisal to anyone who claims any legal interest

	in the property. Nor would Mn/DOT be required to provide the appraisal reimbursement to everyone with a legal interest in the property. 2. It increases from 60 to 90 days, the amount of time that the landowner has to obtain an appraisal of the landowner's property. Mn/DOT believes that landowners need this additional time because of the demand for appraisals. The request for reimbursement must be made at least 30 days prior to a condemnation commissioner's hearing. 3. It gives acquiring authorities 30 days to reimburse the landowner for the appraisal after the landowner submits the payment information. 4. It allows the acquiring authority to pay the landowner's appraiser directly, instead of requiring the landowner to pay the appraiser and seek reimbursement from the government. 5. It requires the landowner to give the acquiring authority a copy of its appraisal if the landowner seeks reimbursement. 6. It requires that a landowner's appraisal be performed in accordance with the Uniform Standards of Professional Appraisal Practice.7. It requires the acquiring authority and the landowner to give the other party a copy of any appraisal it intends to use in a condemnation commissioner's hearing. This disclosure facilitates negotiation.
11. Aviation	<u>Payback of State Airports Fund</u> – This section amends Minnesota Statutes, section 360.305, subdivision 4. It requires that a municipality repay the state airports fund if land acquired with state funds is no longer used for aviation purposes. The payback amount would be based on the percentage participation of the state when the land was acquired. <u>Aircraft Decals</u> - The requirement for aircraft owners to place a decal on their aircraft as evidence of complying with the state's registration requirements is no longer needed. Mn/DOT can use computer systems to check the registration compliance of any aircraft by inputting the aircraft "N" number. This proposal will save the State Airports Fund money and will make it easier and faster for aircraft owners to comply with our registration requirements. <u>Official Mapping for Airports</u> - These sections give official mapping authority to counties and municipalities for airport facilities. This would provide counties and municipalities with a means to preserve their transportation investment and plan for future use of adjacent properties for airport purposes. Some areas are faced with rapidly expanding development that potentially diminishes the viability of their airport by restricting its future growth. Official mapping provides a means of notification of future development to the local unit of government and allows time to review plans and determine if the land will be needed for future airport development or is an area that can be developed for airport compatible land uses.

	<u>Interim Ordinances</u> - The Office of Aeronautics formally requested all airports, except those owned by the Metropolitan Airports Commission, "...to review their current Airport Master Plan..." This notification formalized an ongoing statewide airport Master Plan review process that began earlier this year. The effect of this request to review Master Plans negates the limitation enacted in Laws 2004, Chapter 258, that prevented airport owners from extending interim ordinances that imposed development moratoriums beyond one year. The request applied to reviews requested before August 1, 2004 – otherwise in the future interim ordinances would have been limited to one year. Therefore, the existing limitation is no longer pertinent, and can only cause confusion for airport owners. Due to the operational characteristics of aircraft, an airport has land use impacts well beyond its boundaries. There are requirements for height, and other restrictions in the critical approach/departure zones that extend well beyond airport property. Failure to prevent incompatible land uses near airports can cost millions of dollars for noise mitigation, compensating land owners for the diminution of their property values, or outright land purchases.
12. Hybrids in HOV Lanes	Governor Pawlenty has proposed allowing single-occupant hybrid vehicles to be operated in HOV lanes. Such vehicles produce up to 50% fewer CO2 emissions than traditional passenger automobiles. The increased use of hybrids and other energy efficient vehicles will be a great benefit to our state's air and water quality.
13. Commuter Rail Coordinating Committee	Subdivision 5 of MS15.059 provides that all advisory committees sunsetted on June 30, 2003, unless specifically exempted. Last year Mn/DOT extended most state aid advisory committees. The Revisor's Office brought the commuter rail coordinating committee to Mn/DOT's attention as another entity that was not specifically exempted from the provisions of MS15.059.

POTENTIAL 2005 LEGISLATIVE ISSUES

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

Transportation Funding Increase Initiatives

A number of interest groups have indicated that they will be actively seeking substantial increases to funding for transportation. This includes the Transportation Alliance, the Association of Minnesota Counties, and probably the Minnesota Chamber of Commerce.

The types of elements these groups may include in their proposals include increases in the gasoline tax, providing for indexing of the gasoline tax to inflation, increases in the motor vehicle registration taxes for passenger vehicles (tab fees – generally these proposals advocate moving away from the maximum tax amounts enacted during the Ventura Administration), a one-half cent Metropolitan Area sales tax, additional Trunk Highway Bonding, and increasing the percentage of the motor vehicle sales tax committed to transportation (currently this is nearly 54%).

These interest groups are discussing several items that have not historically been included in proposed funding packages. These include wheelage taxes (a flat amount per vehicle to be collected at the county level), street utility fees (would be based on trip generation formulas for apartment complexes, shopping centers, employment centers, and so on), FAST lanes (additional lanes built on existing freeways or expressways for which a toll would be charged for use), and efficiencies expected from existing expenditures (from Mn/DOT, from the Metropolitan Council, or from both).

One factor certain to be central to the debate over transportation funding increases is Governor Pawlenty's continued commitment to address major policy concerns without raising taxes, since many of the items mentioned above would be tax increases. This policy position may even influence the nature of the funding proposals. For example, the Minnesota Chamber of Commerce is expected to propose a gasoline tax increase that would be linked to a constitutional amendment proposal, such that the electorate would vote to increase the gas tax rather than having a bill that the Governor would have the option to veto or sign.

Another factor likely to influence debate is concern about rural versus urban spending of highway funds. In the past this concern has manifested itself through requirements that new construction spending be allocated 50% to the seven county metropolitan area and 50% to the rest of the state, and by proposals to change the statutory formula for apportioning money in the County State Aid Highway Fund to the 87 counties because of the perception that the current formula (see page 30) provides too much funding to non-urban counties.

Governor Pawlenty has proposed a major transportation funding initiative. The main components of this proposal are a constitutional amendment to dedicate 60% of the revenues from the motor vehicle sales tax to highways and 40% to transit, and a substantial amount of authorized Trunk Highway Bonds. The bonds would be sold over a ten year period beginning in 2008 -- $450 million of bonds per year, with debt service provided by a portion of the expected growth in gasoline tax and tab fee revenues, as well as from increased federal highway revenues expected to the Trunk Highway Fund. The increases to highway and transit funding from the motor vehicle sales tax would also begin in 2008, and would be phased in over a five year period.

Bonding

Since a bonding bill was not passed by the 2004 Legislature, it is expected that a bonding bill will be considered early in the 2005 session. The governor has recommended numerous transportation initiatives, which are described in the Capital Budget section of this document. (see pages 3 to 5).

The Governor's overall capital recommendations were an update to the proposal he made to the 2004 legislature. $28 million was added to the proposal because of higher costs (8.63% inflation has been experienced since last year), and $34 million was added for new projects and enhancements to projects in the 2004 proposal.

For the transportation items, inflation was taken into account for the Mankato district headquarters building proposal ($16.62 million compared with $15.3 million in 2004), for the small capital projects proposal ($4.128 million compared with $3.8 million in 2004) and for the Mn/DOT Building Exterior Repair Proposal ($9.342 million compared with $8.683 million in 2004); these items total $2.3 million of increased costs due to inflation.

The additional transportation projects that were included are proposed funding for the St. Paul Phalen Corridor project ($1.5 million) and for the St. Paul Holman Field dike project ($2 million).

For the first time, the Governor is proposing the use of trunk highway bonds, rather than cash appropriations from the Trunk Highway Fund, to pay for three of the items listed above – the Mankato district headquarters building, the small capital projects initiative, and the Mn/DOT Building Exterior Repair project. The requested amounts for these three projects total approximately $30 million.

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 had 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 2005 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.

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 2005 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 and from 45 MPH to 55 MPH on the parkway portion of I-35E in St. Paul.

Bond Accelerated Projects

The legislation authorizing the bond accelerated projects program required that Mn/DOT prepare a report by January 15 of each year the program is being implemented. The report must describe the geographical distribution of funded projects, address several issues related to the use of federal advance construction funding, and describe the effects of this program on the needs for Mn/DOT staffing versus the use of consultants. Hearings may be scheduled to discuss this report.

FAST Lanes

The department has continued to work on various aspects of a "Fast Lanes" initiative over the past year. The department announced its intention to proceed with this program shortly before the beginning of the 2004 Legislative Session.

FAST lanes would be new, publicly-owned lanes paid for, in part, 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 for 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. Because of this, a variety of legislative proposals were offered in 2004 that would have made proceeding with the FAST Lanes initiative more difficult (most of these were amendments to M.S. 160.84-160.92). These proposals were not enacted by the 2004 Legislature, so it is quite likely that some of the same proposals will be offered for consideration in 2005, especially in the Senate.

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

Legislative proposals dealing with these issues were seriously considered but not passed in 2004. It is likely that this issue will again be at the forefront in 2005.

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 is likely to be introduced (this has been proposed in previous sessions and is part of the Transportation Alliance's funding proposal). 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. Two additional revenue proposals specifically targeted to local government are Wheelage Tax (flat amount of tax per vehicle in a county) and Developer Fees (these would be designed to at least in part pay for things such as new streets or roads, etc.)

Failure of Congress to Pass a New Federal Authorization Bill (successor to TEA-21)

Under federal law, an authorization law must exist for Congress to be able to appropriate money, consistent with the purposes of the authorization law. For highways and transit this authorization has been provided by a law known as TEA-21. TEA-21 provided the needed authorization from 1998 until September 30, 2003. Since September 30, 2003 Congress has provided needed authorizations in the form of several extensions of TEA-21. The current extension will expire on May 31, 2005.

The absence of a successor to TEA-21 authorization law and Congress' inability to pass appropriations bills by the end of fiscal years in the last five years or so has led to numerous instances of only portions of the annual federal funding being received at different points in the year, rather than having the full year's obligation amount being made available early in the new fiscal year. This has created major problems for Mn/DOT's management of federal funds, especially with the extensive use of federal advance construction funding that is incorporated into the bond accelerated projects program. Although there is probably not a great deal that the Minnesota Legislature can do to address this problem, this issue is likely to receive attention in the upcoming Legislative Session.

The absence of a successor to TEA-21 has forced Mn/DOT to make even greater use of advance construction (AC) financing than had previously been planned in order to keep projects on schedule. At the same time this has made use of AC financing more difficult to manage due to the added uncertainty about how much and when federal funds will be available.

Efficiencies In Mn/DOT Operations

External groups proposing additional transportation funding have suggested that Mn/DOT should be able to significantly increase the efficiency of its operations, thereby freeing up funds that could in part pay for increased highway construction. This topic's prominence was demonstrated by the fact that a special work group was convened (as part of the Chair of the Senate Transportation Committee's interim discussion groups on transportation funding) to address various aspects of the efficiencies issue. Funding proposals expected to be offered by the Association of Minnesota Counties and the Minnesota Chamber of Commerce are anticipated to propose efficiency-related contributions to funding packages of $45 million and $60 million per year, respectively. In addition, the Itasca Project suggested that $100 million of "savings from performance improvements" (with over 90% coming from Mn/DOT) be targeted to funding additional transportation improvements. Mn/DOT believes that its operations are already highly efficient, recognizing that there are always additional improvements that can be realized. In fact, $36 million of spending was re-directed to the goal of increased highway construction investments as part of the 2003 Pawlenty-Molnau Plan that was approved by the legislature (the Bond Accelerated Projects Program), so substantial efficiencies were realized at that time.

Performance Based District Plans

Mn/DOT Districts are currently completing their long range transportation plans based on the performance measures and targets established in the Statewide Transportation Plan. The measures address the essential performance features of the highway system, including pavement and bridge condition, interregional corridor mobility, trade center congestion, and safety. Each District Plan sets forth two investment scenarios for the 2008-2030 time frame. The first scenario identifies the investments required to fully achieve and maintain performance standards. The second scenario sets forth priorities for investment of projected funding given current federal and state revenue sources. Mn/DOT has established preservation of pavements and bridges as its top priority and as such, each District Plan has fully funded its pavement and bridge preservation needs in its fiscally constrained scenario. Statewide, this preservation of basic infrastructure requires about 60% of projected available future funds. Planned investments for the remaining anticipated available funding vary by District depending on their performance needs and the priorities of the District and its stakeholders. A preliminary summary of the District Plans indicates that approximately $38 Billion in investments would be required to achieve the essential performance targets statewide compared with projected available funding of about $14 Billion. Of the approximate $24 Billion additional funding that would be required to fully meet performance targets, over 60% may be attributed to congestion in the major trade centers around the state. IRC Mobility and Safety-related improvements comprise about 20% and 16% respectively. The preliminary summary of the District Plans has already been presented at hearings in both the House and Senate Transportation Committees.

Target Formula Evaluation

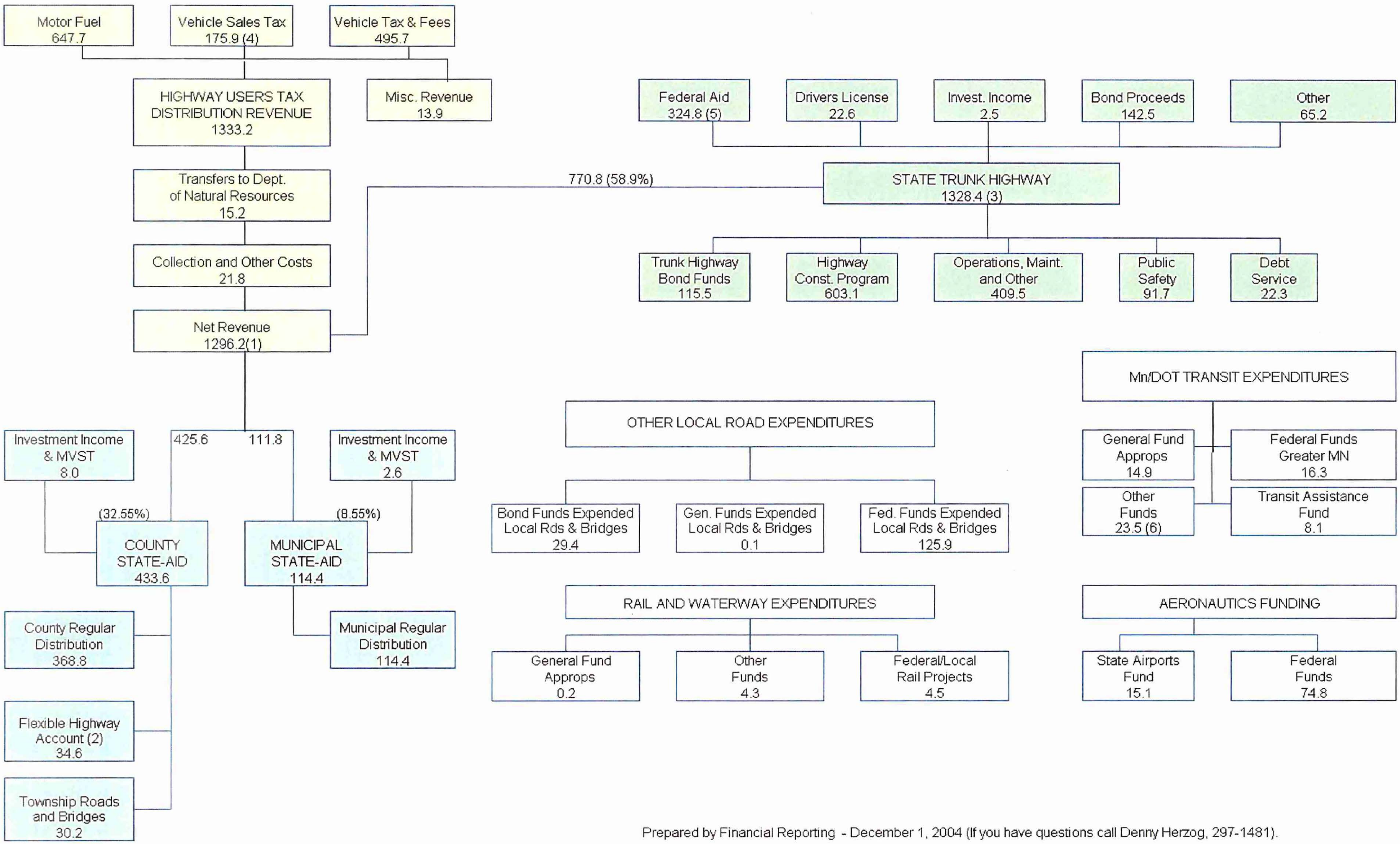
In an effort separate from the Performance Based District Plans but somewhat related to them, a Work Team comprised of District, city, county, and MPO representatives is evaluating the target formula used to allocate state and federal transportation funds to the 8 transportation Districts and Area Transportation Partnerships (ATPs). The goal is to refine the target formula and ATP process to reflect the new goals, policies, and performance measures established in the Statewide Transportation Plan. The current formula, based on system size and usage, does not adequately address system performance in terms of congestion, mobility, or safety, nor does it reflect strategic priorities related to the IRC System, Bottleneck Removal, and Towards Zero Deaths. The current approach to targeting revenues also makes it difficult for any District to fund large projects such as major bridges or major corridor improvements.

Truck Weights

Mn/DOT expects continued requests from special interest groups to allow heavier trucks with additional axles to be allowed on the state's roadways. For example, in the 2004 session a request for timber haulers to be allowed truck weights of 90,000 pounds (98,000 pounds during the winter seasonal weight increases) upon payment of an annual permit fee and their complying with several other provisions was initiated and approved. It is also possible that an initiative will be introduced to repeal the spring weight restrictions that currently exist to protect pavements during the spring thaw period. A primary reason that these requests are brought to the legislature is the expected economic benefits to business and agriculture that would result. These benefits must be evaluated against the need to protect pavements and bridges from the potential damage due to the higher weights. The potential damage to local roads is a part of this issue, because the heavier trucks must almost always travel some distance on local roads to get to trunk highways.

IV. FINANCIAL AND HIGHWAY USE INFORMATION

MINNESOTA STATE GOVERNMENT
REVENUE AND EXPENDITURES FOR TRANSPORTATION PURPOSES
ALL SOURCES OF FUNDS (Dollars in Millions)
FY 2004 Final



Prepared by Financial Reporting - December 1, 2004 (If you have questions call Denny Herzog, 297-1481).

(1) - Plus $12 from Fund Balance
(2) - Trunk Highway = $0, County Turnback = $20.2 , Municipal Turnback = $14.4.
(3) - Expend. don't include another $134.5 of appropriations carried forward to FY 2005.
(4) - FY 04 30% (down from 32% in FY 2003) of MVST.

(5) - Does not include any adjustment for Unbilled Advance Construction (AC).
(6) - Includes $23.1 relating to LRT from the Building Bond Fund

Note - This chart does not include numerous miscellaneous federal fund appropriations (~ $7.5 in FY4).

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

	Federal	MN	WI	SD	IA	ND
Gasoline	18.4	20.0	29.1	22.0	20.3	21.0
Diesel	24.4	20.0	29.1	22.0	22.5	21.0
Gasohol (10% blend)*	13.1	20.0	29.1	20.0	19.0	21.0

*The American Jobs Creation Act (AJCA) of 2004 changed two provisions related to ethanol-blended gasoline (gasohol). One of these provides that the Highway Account of the Federal Highway Trust Fund will receive the same amount of revenue from gasohol as it does from unblended gasoline. Credits will be paid from the Federal General Fund for ethanol blended with gasoline, based on the gallons of ethanol, thus maintaining the federal tax incentive for the use of ethanol. The effect of this change is to increase the federal gasohol (10% blend) tax (as relates to the Federal Highway Trust Fund) to 18.4 cents per gallon. Reauthorization of TEA-21 (see page 29) is needed to fully incorporate this tax change into the federal funding for highways.

Motor Vehicle Registration Taxes

1981 Increase in passenger vehicle registration taxes by phasing in an increased minimum tax. The minimum was increased in 1981 on a phase-in schedule from $23 to $35 in 1985, which is the current minimum tax.

1986 Increased truck registration taxes for heavier trucks:

Truck Size	Old Tax	New Tax
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 $33 million per year to the Highway User Tax Distribution Fund. This would generate $19 million in revenues to the Trunk Highway Fund. The current tax of 20 cents per gallon yielded $630 million in FY 2004 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 $16 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 November 2004, twenty-six states have gas tax rates higher than Minnesota's and three states have gas tax rates the same as Minnesota's. The average national gas tax rate is 20.3 cents per gallon. For gasoline blended with ethanol, twenty-three states have tax rates higher than Minnesota's and five states have tax rates the same as Minnesota's. The average tax rate for ethanol-blended gasoline is 20.35 cents per gallon. 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 rankings mentioned above. If they were, additional states might have higher gas taxes than Minnesota.

Motor Vehicle Registration Taxes

In FY 2004 motor vehicle registration taxes, after refunds and collection and other costs, yielded $486 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 about $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. In FY 2004 the HUTDF received 30% of MVST revenues, equal to approximately $178 million.

Federal Highway Funds

The TEA-21 authorization ended September 30, 2003. The U.S. Congress and Executive Branch have been unable to complete work on the next federal transportation authorization bill since that time. Because of this, Congress and the Executive Branch agreed to maintain the provisions and funding levels of the final year of the previous authorization in several extensions of TEA-21. The current extension will expire on May 31, 2005. There is a lot of uncertainty about whether a new authorization bill will be passed by the 2005 Congress, and if so, what funding levels will be incorporated into the new bill. This is a critical issue for Mn/DOT and for various local governments across the state, because federal funds make up a substantial portion of transportation spending. This is especially critical to Mn/DOT, because the bond accelerated projects program assumed an increase in federal funds for Mn/DOT projects.

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 2005 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 2004-2007, with the 2006 and 2007 amounts being based on the Commissioner's recommendation to the 2005 Legislature.

HUTDF 5% Set-aside Distributions		(In Millions of Dollars) 2004	2005	2006	2007
Town Road Account	(30.5%):	19.7	19.9	20.4	20.9
Town Bridge Account	(16.0%):	10.4	10.4	10.7	11.0
Flexible Highway Account:					
County Turn Back Account:		20.2	26.6	19.7	27.8
Municipal Turn Back Account:		14.4	8.3	5.7	1.5
Trunk Highway Fund:		0.0	0.0	10.4	7.4
Subtotal Flexible Highway (53.5%):		34.6	34.9	35.8	36.7
GRAND TOTAL 5% HUTDF Set-aside:		64.7	65.2	66.9	68.6

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. Also, the 2005 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 2001-2004 is shown below:

	2001	2002	2003	2004
Total Number of Municipalities Qualifying for MSAS Funds:	129	130	133	136

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 Governor's 2005 Capital Budget recommendations, trunk highway bonds are being proposed for three building projects; approximately $30 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

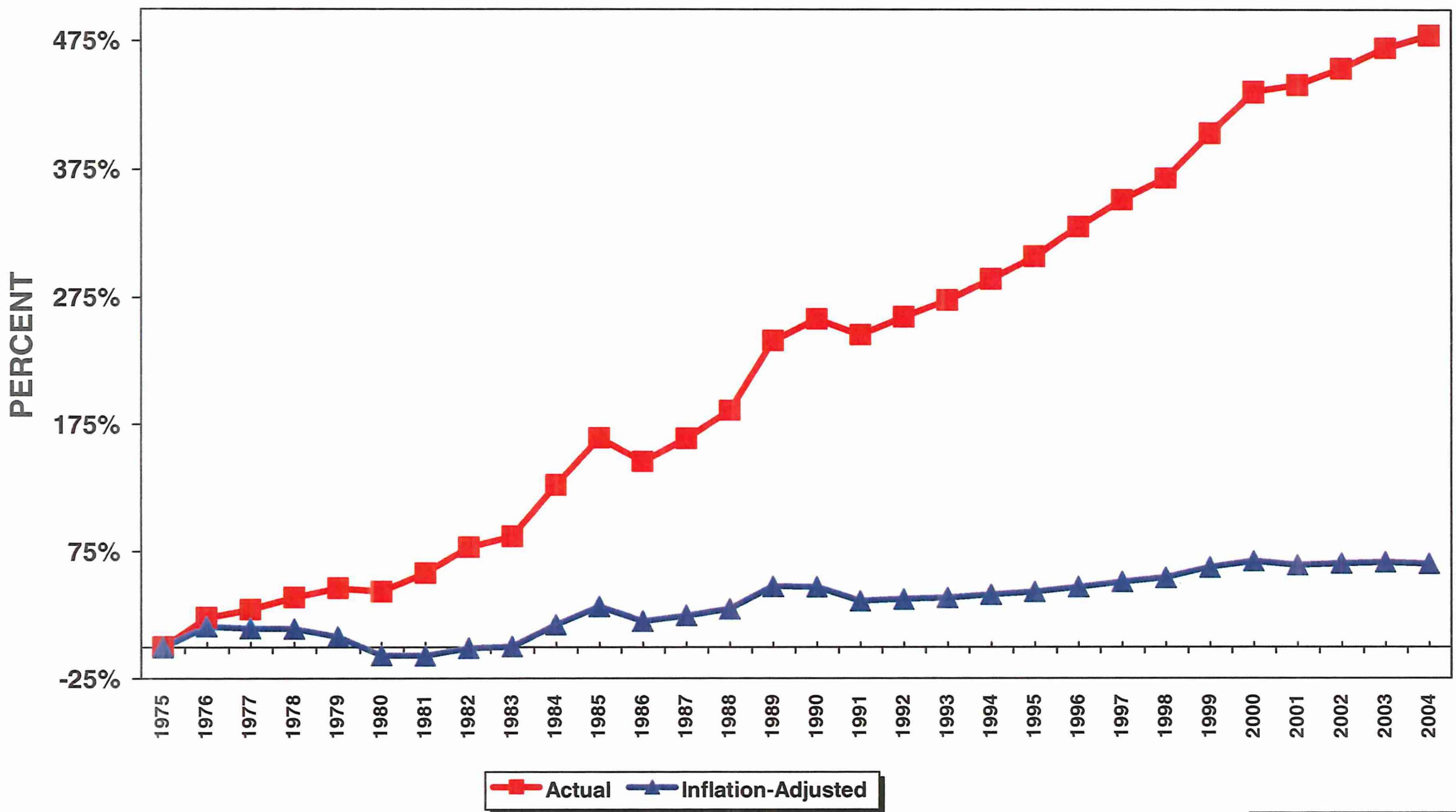
The charts that follow include:

- 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 2004.
- Minnesota Highway User Tax Revenue by major type from 1975 to 2004.
- Price of Minnesota Highways: Minnesota Highway User Taxes Per Vehicle Mile Traveled from 1975 through 2004, 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 more than doubled over a thirty-year period. Finally, on an inflation-adjusted basis, Minnesota highway user taxes per vehicle mile traveled have declined dramatically over a thirty year period.

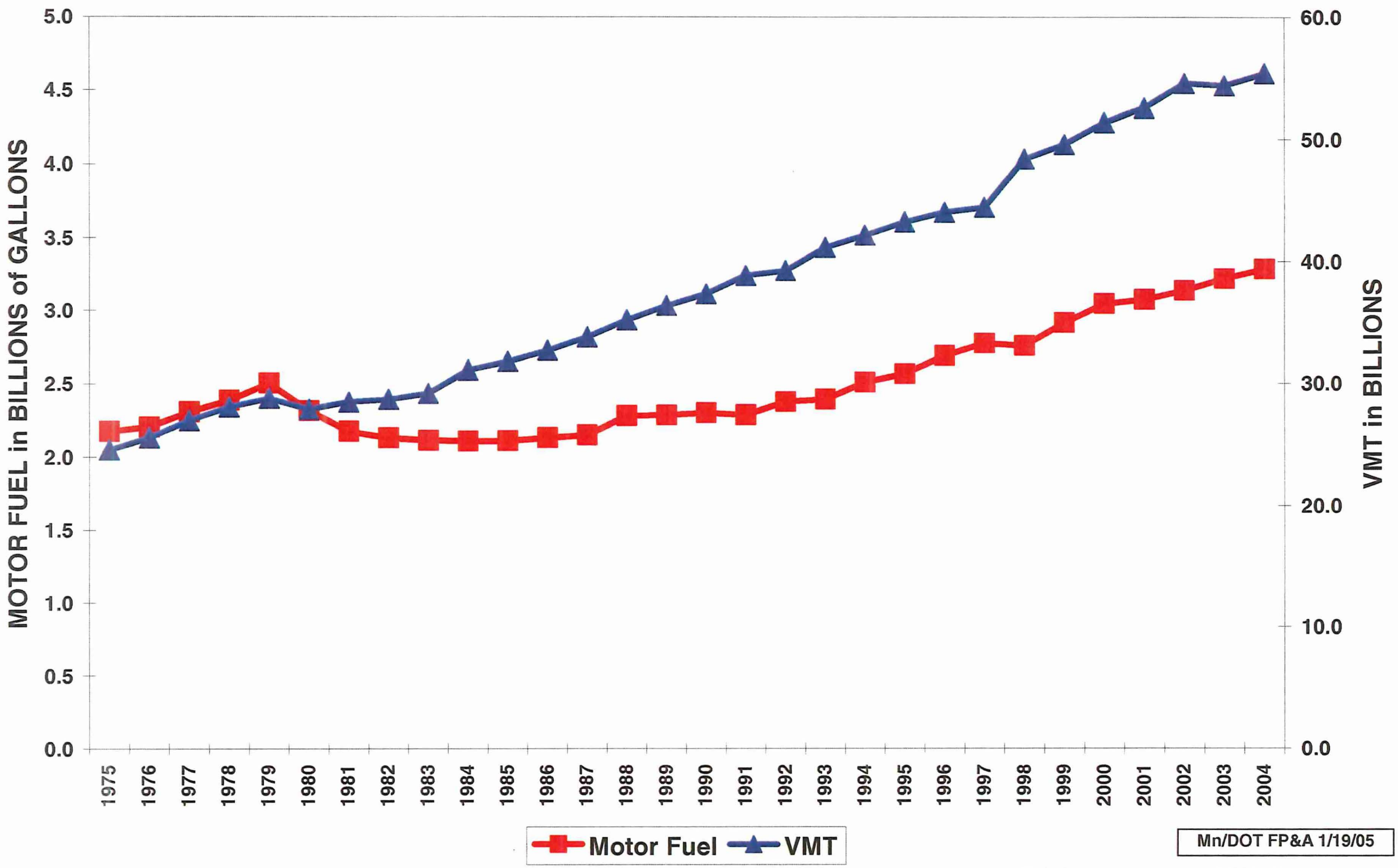
The last page discusses various facts relating to transportation users and their use of the transportation system.

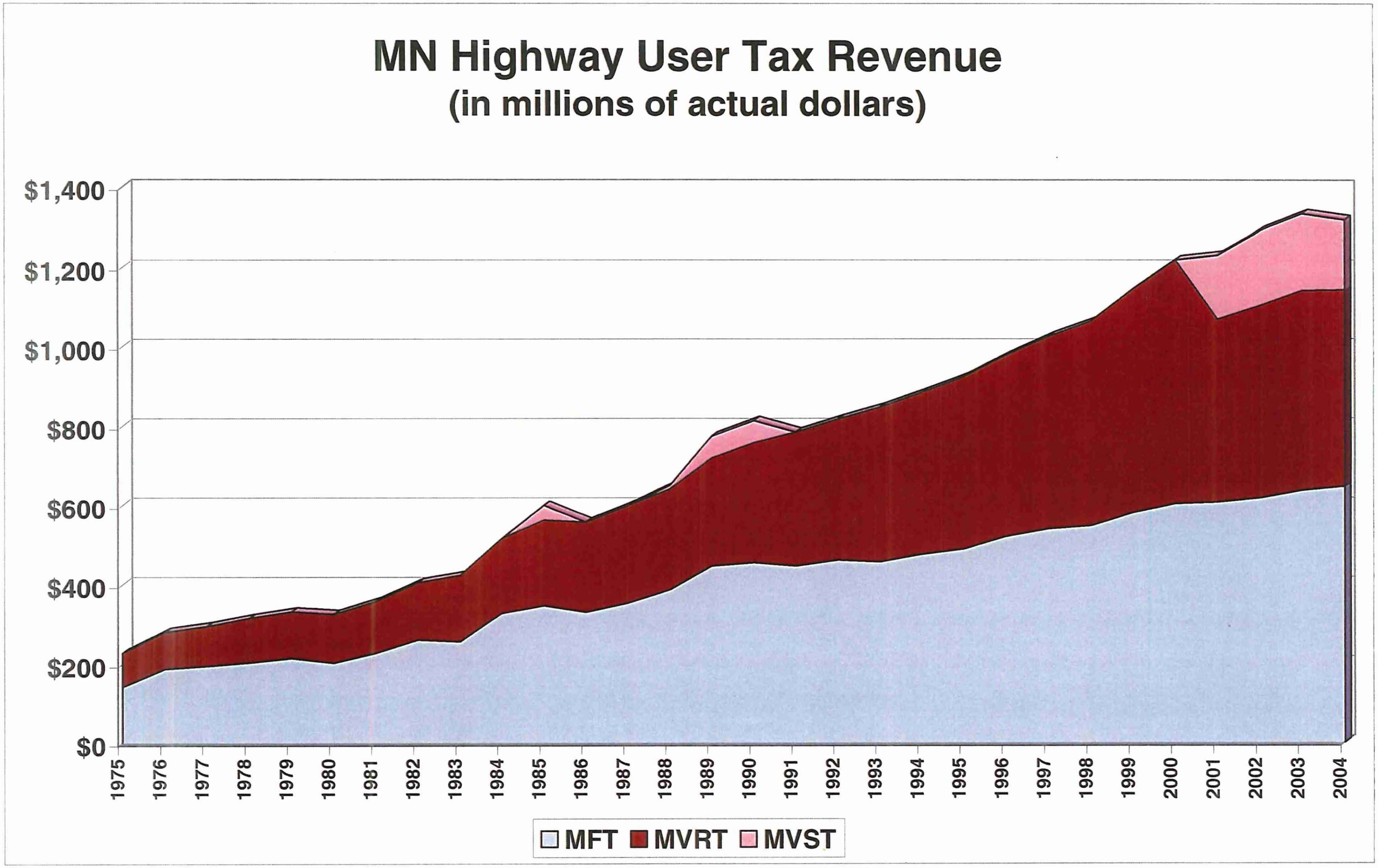
CUMULATIVE PERCENTAGE INCREASE IN HIGHWAY USER REVENUE SINCE 1975



Mn/DOT FP&A 1/18/05

VMT & MOTOR FUEL CONSUMPTION




MN Highway User Tax Revenue
(in millions of actual dollars)
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
1975
1976
1977
1978
1979
1980
1981
1982
1983
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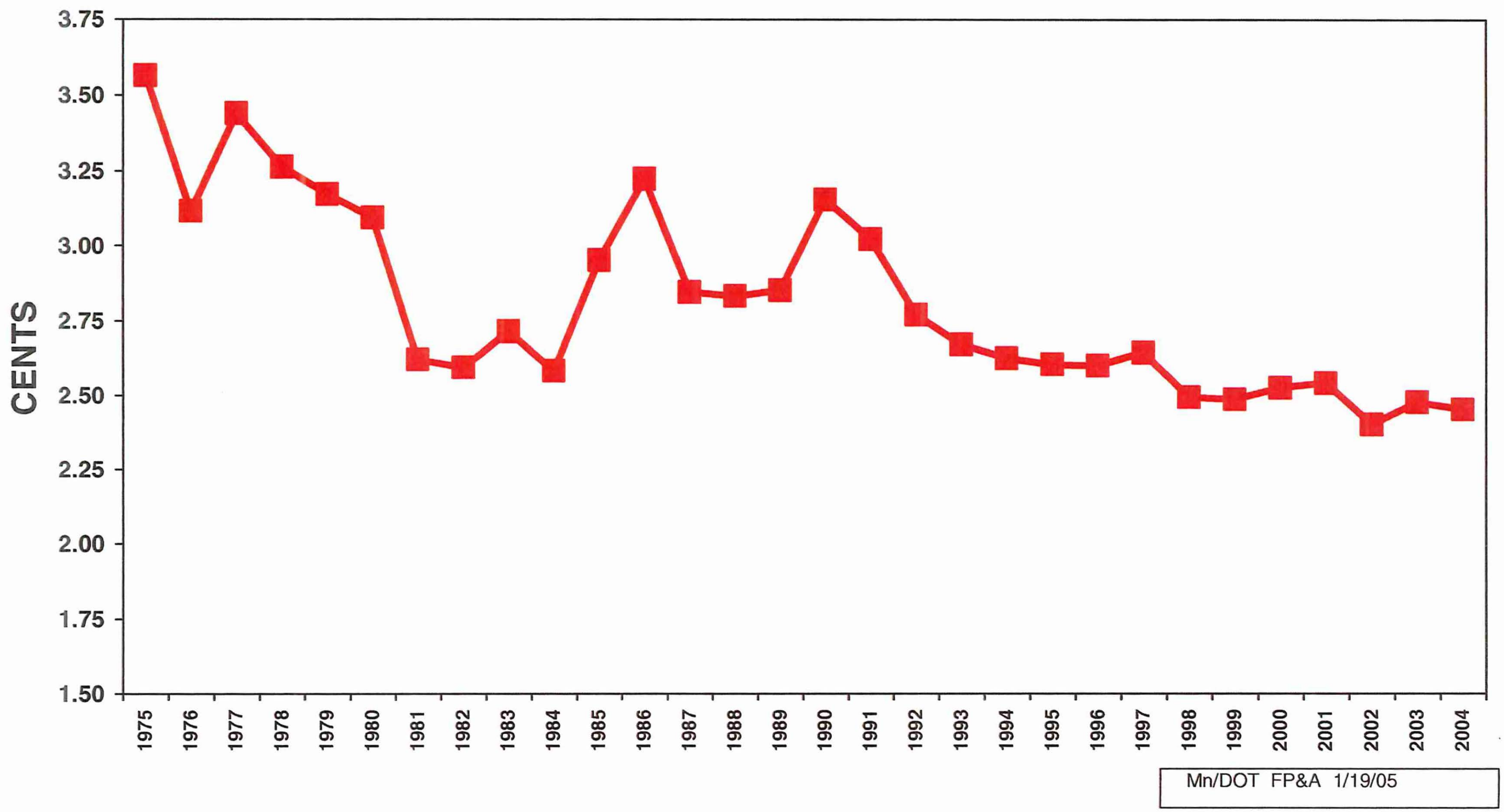
2004
MFT
MVRT
MVST

PRICE of MINNESOTA HIGHWAYS

MN Highway User Taxes Per Vehicle Mile Traveled Inflation Adjusted



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

- Minnesota's motor vehicle registrations in 2003 totaled about 4.6 million; of those, about 4.0 million were passenger vehicles, including automobiles, pickups, vans, and sport utilities. (Minnesota Department of Public Safety)

- There were 3.8 million licensed drivers in Minnesota in 2003.
  (2003 Minnesota Transportation Trivia, compiled by Mn/DOT Office of Traffic Engineering)

- Use of Minnesota's roads totaled 55.4 billion vehicle miles traveled in 2003. There is a 79% seat belt usage among Minnesota drivers.
  (2003 Minnesota Transportation Trivia, compiled by Mn/DOT Office of Traffic Engineering)

- There are over 6,500 registered aircraft and 149 public airports in Minnesota.
  (2003 Minnesota Transportation Trivia, compiled by Mn/DOT Office of Traffic Engineering)

- There are 222 miles of navigable rivers with 58 active river terminals. There are 32 active Lake Superior terminals. 72.7 million tons of freight is moved via ports in Minnesota.
  (2003 Minnesota Transportation Trivia, compiled by Mn/DOT Office of Traffic Engineering)

- Use of Minnesota transit systems in 2003 totaled 91.5 million transit trips.
  (2003 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 about 4,520 miles of railroad track with over 4,600 rail crossings.
  (2003 Minnesota Transportation Trivia, compiled by Mn/DOT Office of Traffic Engineering)