

**Mn/DOT
FINANCIAL MANAGEMENT
AND LEGISLATIVE
BRIEFING PACKAGE
2008**



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FACTS RELATED TO TRANSPORTATION USERS AND THE TRANSPORTATION SYSTEM

Motor Vehicle Registrations:

- ❑ Minnesota's motor vehicle registrations totaled about 4.76 million in 2006.
(Minnesota Department of Public Safety website -- 2006 "Crash Facts")

Licensed Drivers:

- ❑ Minnesota had 3.87 million licensed drivers in 2006.
(Minnesota Department of Public Safety website -- 2006 "Crash Facts")

Seat Belt Usage

- ❑ Minnesota's seat belt usage was 83% in 2006.
(2007 Crash Facts Publication -- 2006 Figure)

Vehicle Miles Traveled:

- ❑ Use of Minnesota's roads totaled 56.6 billion vehicle miles traveled in 2006.
(Mn/DOT Office of Transportation Data and Analysis)

Aeronautics:

- ❑ Minnesota has over 8,018 registered aircraft and 136 public airports.
(Mn/DOT Office of Aeronautics)

Waterways:

- ❑ The Mississippi River System stretches over 222 miles in Minnesota, and it supports five ports whose combined transported tonnage was 12.1 million tons in 2007. In addition Minnesota has four ports on Lake Superior whose combined tonnage in 2007 was 68 million net tons. This combined tonnage of 80.1 million tons was slightly less than was experienced in 2006 (80.3 million tons).
(Mn/DOT Ports and Waterways website)

Transit:

- ❑ Use of Minnesota transit systems totaled 95.7 million transit trips.
(Mn/DOT Office of Transit website)

Bicycle Trails:

- ❑ Minnesota leads the nation in miles of bicycle trails, with about 500 miles of state paved miles out of a total of about 2,300 miles statewide. Minnesota and Wisconsin have about one-fourth of the nation's bike trails.
(Minnesota Department of Natural Resources)

Rail system:

- ❑ Minnesota's rail system consists of about 4,481 miles of railroad, with 4,339 rail crossings.
(2006 Transportation Trivia, compiled by Office of Traffic Engineering)

SECTION I

Mn/DOT CAPITAL BUDGET

Introduction

The Governor proposes a capital budget in even-numbered years. These typically involve requests for state bonding and non-bond funds for various infrastructure projects. State agencies and local governments submit requests to the Department of Finance, which advises the Governor and assists with deciding on the projects to be included in the request. As part of this process, Mn/DOT submits its requests, which totaled approximately \$184 million for various building projects, local bridge bonding, local roads improvement grants, rail service improvement, port development assistance, greater Minnesota transit buildings, and the needed state match for the federal Urban Partnership Agreement. The paragraphs below describe the projects approved by the Governor for Mn/DOT, as well as transportation-related projects of other requesters.

Mn/DOT Capital Projects Included in Governor's Recommendations for the 2008 Legislative Session

Local Bridge Replacement Program

\$225,000,000 – General Obligation Bonds

This request is for state funds to replace or rehabilitate deficient bridges owned by local governments throughout the state. State bridge replacement funds are used in two ways. The first is to leverage or supplement other types of bridge replacement funding such as federal aid, state aid, and township bridge funds. The second is to provide funds for bridges that have no other source of federal aid or state aid funds.

Local Road Improvement Grants

\$30,000,000 – General Obligation Bonds

This request provides additional funding assistance to local governments for construction, reconstruction, or reconditioning projects on local roads. The funding would be for two existing programs. \$15 million is proposed for the Local Road Account for Routes of Regional Significance. This account provides funding assistance to local government road projects that are significant to the state or region. Such projects may support economic development, provide capacity or congestion relief, provide connections to interregional corridors or other major highways, or eliminate hazards. \$15 million is also proposed for the Local Road Account for Rural Road Safety. This account provides funding for projects on county state-aid highways intended to reduce traffic crashes, deaths, injuries, and property damage. This funding will be administered in accordance with M.S. 174.52.

Urban Partnership Agreement

\$ 9,000,000 – General Fund Cash

\$24,778,000 – Trunk Highway Bonds

The federal government has awarded Minnesota a grant of \$133.3 million for an Urban Partnership Agreement. This project is a joint proposal by Mn/DOT and the Metropolitan Council and requires that both of the proposed state match requests be funded in order to receive the federal funds. The project consists of adding a MnPass-type lane to I-35W, rebuilding two avenues in downtown Minneapolis for better transit use, adding park and ride lots and buses for Metropolitan Transit, and the promotion of telecommuting.

Mankato Headquarters Building

\$23,983,000 – Trunk Highway Bonds

This request is for funding to construct a replacement building and support facilities for the Mankato District Headquarters, including offices, shops, vehicle support, and storage spaces. The new facility would accommodate highway and bridge construction and maintenance services, as well as provide additional space for the State Patrol and the Department of Public Safety's Driver and Vehicle Services Division. The site will also include a new Transportation Operations Communications Center, which will allow coordinated dispatching and incident management throughout the ten counties in southern and southwestern Minnesota.

Carver County Partnership/Chaska Truck Station

\$8,649,000 – Trunk Highway Bonds

This request is to build a new Chaska/Carver County Trunk Station. Carver County will partner with Mn/DOT in the construction and operation of this truck station. This facility will have 49,000 square feet and will contain offices, shops, vehicle support, inventory space, storage spaces, and mechanics work bays. The site will also house salt storage, cold storage, and yard storage facilities. The new location will be ideal to better serve the southwest metro area, including the new trunk highway 212.

Design Fees – Rochester and Maple Grove

\$2,000,000 – Trunk Highway Bonds

Mn/DOT facilities need to be routinely constructed and /or upgraded to provide support for Mn/DOT's mission. This request is for funding for pre-design for two facilities: (1) a new Rochester Truck Station, (schematics, design development, and investigative work); and (2) a new Maple Grove Truck Station (design through construction documents and investigative portions for an 85,000 square foot facility with a small office, shops, mechanics repair bays, and other vehicle storage and support areas).

St. Cloud Airport Property Acquisition

\$2,000,000 – General Obligation Bonds

This funding would allow the St. Cloud Regional Airport to acquire 800 acres of adjacent land. This land would accommodate future growth and allow for safer operation of aircraft into and out of the airport.

Total Mn/DOT Request

The total of the requests described above is \$325,410,000, approximately 30% of the entire amount requested by the governor. This request would be funded from the sources shown below:

General Obligation Bonds	\$257,000,000
General Fund Cash	\$ 9,000,000
Trunk Highway Bonds	\$ 59,410,000

Non-Mn/DOT Transportation-Related Projects Included in the Governor's Recommendations for the 2008 Session

In addition to the amounts recommended for Mn/DOT, three other projects recommended by the governor directly affect Mn/DOT and the transportation community.

Transportation Building Exterior Repair (Department of Administration)

Trunk Highway Bonds -- \$18,197,000

This project is to replace the structural support system, and repair and re-anchor the facade of the Mn/DOT headquarters building located in the capitol complex.

Central Corridor Light Rail Transit (Metropolitan Council):

General Obligation Bonds -- \$70,000,000

This request is for further engineering, design, and construction of the Central Corridor Light Rail Transit (LRT) line. This 11-mile line will serve downtown Minneapolis, the University of Minnesota, the Midway area of St. Paul, the State Capitol Complex, and downtown St. Paul. It will connect with the Hiawatha LRT line at the Metrodome station, and it will terminate at the new Twins Ballpark and Northstar commuter rail line station in Minneapolis.

Urban Partnership Agreement (Metropolitan Council):

General Obligation Bonds -- 16,672,000

General Fund Cash -- 4,003,000

Trunk Highway Bonds -- 400,000

This request is for the same purposes as described earlier for Mn/DOT's Urban Partnership Agreement and represents funding for the portions of the projects encompassed by the federal grant for which the Metropolitan Council is responsible.

The total of the non-Mn/DOT transportation requests described above is \$109,272,000, approximately 10% of the entire amount requested by the governor. This request would be funded from the sources shown below:

General Obligation Bonds	\$86,672,000
General Fund Cash	\$ 4,003,000
Trunk Highway Bonds	\$18,597,000

Total Transportation Request

The dollar amount requested for the Mn/DOT and non-Mn/DOT projects described above totals \$434,682,000, which is approximately 40% of the total amount requested by the Governor. This percentage is much higher than has typically been the case; and according to the Governor's Office, it is the highest level of investment in transportation included in any bonding bill in history. The amount committed to local bridges is more than 4 times greater than the amount provided in previous bonding bills. This total request would be funded from the sources shown below:

General Obligation Bonds	\$343,672,000
General Fund Cash	\$ 13,003,000
Trunk Highway Bonds	\$ 78,007,000

In the past capital projects directly related to the trunk highway system have been paid for with cash appropriations from the trunk highway fund, rather than by trunk highway bonds. If the projects to be funded by trunk highway bonds are approved, this would be the first time that Trunk Highway Bonds have been used in this way.

SECTION II

**LEGISLATIVE INITIATIVES
AND ISSUES**

Mn/DOT 2008 LEGISLATIVE INITIATIVES

A variety of initiatives are included in Mn/DOT's 2008 legislative proposals. This section will address these proposals.

Bridges and Implements of Husbandry

Implements of husbandry (generally, equipment used exclusively in agriculture) are not currently subject to weight limits on bridges. This proposal is to have this equipment be subject to weight limits. If this change in law is not made, approximately 18,000 bridges in the state would have to be posted for maximum allowable weights, at a significant cost, in accordance with federal regulations that require states to post bridges when the maximum unrestricted legal loads exceed the weight allowed by the operating rating of the bridge (implements of husbandry are considered unrestricted legal loads). This proposal may also include enacting maximum gross vehicle weights and maximum axle weights for implements of husbandry.

Trunk Highway Turnbacks

Mn/DOT is proposing turning back Trunk Highways 293 and 333 to the city of St. Peter. The state hospital has installed security gates across these highways, which necessitates removing these sections of roadway from the Trunk Highway System.

Overweight Permits For Harvest Season Loads

Confusion currently exists about whether permit fees are required for overweight vehicles if this occurs in conjunction with statutory provisions allowing overweight vehicles during harvest seasons. This proposal is to add a clarifying sentence to statute to remove this confusion, thus making it clear that payment of the permit fee is required for these vehicles.

Transfer of Trunk Highway Property to Rail Bank

No clear statutory authority exists to transfer trunk highway right of way acquired for highway purposes to the state rail bank. A portion of right of way near trunk highway 210 in the Fergus Falls area was originally acquired for highway purposes in 1995 but now provides approximately one mile of trail as part of the Central Lakes Trail. This proposal is to transfer a portion of this right of way for the purpose of preserving the corridor for use under the state rail bank program.

Advisory Committee on Non-Motorized Transportation

This proposal would codify the existing State Bicycle Advisory Committee in Minnesota Statutes, chapter 174, renaming it the Advisory Committee on Non-Motorized Transportation. The role of the committee would also be expanded to include providing advice on other types of non-motorized transportation such as pedestrians. The existing group is an active, functioning committee established in Chapter 572 of the session laws of 1984. In the 2007 legislative session a seemingly non-controversial bill to abolish obsolete boards and commissions inadvertently included the State Bicycle Advisory Committee in the list of bodies to be abolished. Mn/DOT was able to prevent this from occurring. Transferring this provision of law to statute would prevent this from occurring again.

2008 POTENTIAL 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

Proposals to substantially increase funding for transportation are expected to be a major focus in the 2008 legislative session. Proposals are likely to include increases in the gasoline tax, 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, and additional trunk highway bonding.

Local Government Transportation Funding

In recent legislative sessions local governments have actively pursued transportation initiatives, and this trend is expected to continue in the 2008 legislative session. Changes to current law regarding county wheelage taxes (a specific amount for each vehicle in a county) are expected to be considered. Municipalities may request the authority to charge street “utility fees” (a fee based on traffic generation formulas). Another initiative would be to change the language for distribution of money in the “Flexible Highway Account” (about 2.7% of total Highway User Tax Distribution Fund revenues) to create new accounts specifically for local government use. Currently this money is allocated among county turnbacks, municipal turnbacks, and the Trunk Highway Fund.

Primary Seatbelt Legislation

Minnesota has had a seat belt law since 1986. Currently, this law requires every person in the front seat of every vehicle to use a seat belt, and it requires every person under the age of 11 who is riding in the back seat to also be buckled up. However, people who are not buckled up cannot be stopped and ticketed for their violation unless a police officer observes the driver committing some other traffic violation. Changing this law to allow police officers to stop people for seat belt violations only is often referred to as “primary seatbelt legislation.”

There is likely to be continued interest in this legislation in 2008, because the SAFETEA-LU federal authorization bill provides funding for incentive grants to states that either have primary seatbelt legislation or have 85% or higher seatbelt use in the state for three years in a row. Minnesota’s seatbelt compliance is currently less than 85% (~83%), and compliance decreased in the past year. Under this program, Minnesota would be eligible to receive a one-time grant of \$15 million. Current plans, if this funding were available, would be to use \$10

million for rural road safety, \$2 million for cable median barriers, and \$3 million to continue the existing speed management program. Minnesota would also be eligible for a grant to assist with education of the new primary law. This would amount to \$1.6 million in federal FY 2008.

Not only would Minnesota receive additional federal revenue, but safety experts predict that this change in law would save 40 lives and 700 serious injuries per year. The overall societal benefit of enacting primary seatbelt legislation is estimated by the National Highway Safety Administration to be \$114 million per year in Minnesota.

Design-Build Legislation

The news media provided broad coverage to various issues related to the awarding of the design-build contract to reconstruct the I-35W bridge in Minneapolis. Because of this it is possible that bills will be introduced to modify the existing design-build law.

All Terrain Vehicle Funding

A legislatively-mandated study of the relative amount of gasoline that is used in all terrain vehicles was completed in 2006. Mn/DOT participated in the study, which recommended an increase the current percentage of gasoline estimated to be used in all terrain vehicles from 0.15% to 0.27%. Under current law this results in transferring about \$800,000 of gasoline tax revenues to accounts used for all terrain vehicles.

The legislature did not enact any change to the estimated percentage of gasoline attributed to all terrain vehicles in either the 2006 or 2007 sessions. It is expected that legislation to increase the estimated percentage of gasoline used in all terrain vehicles will again be considered in the 2008 legislative session.

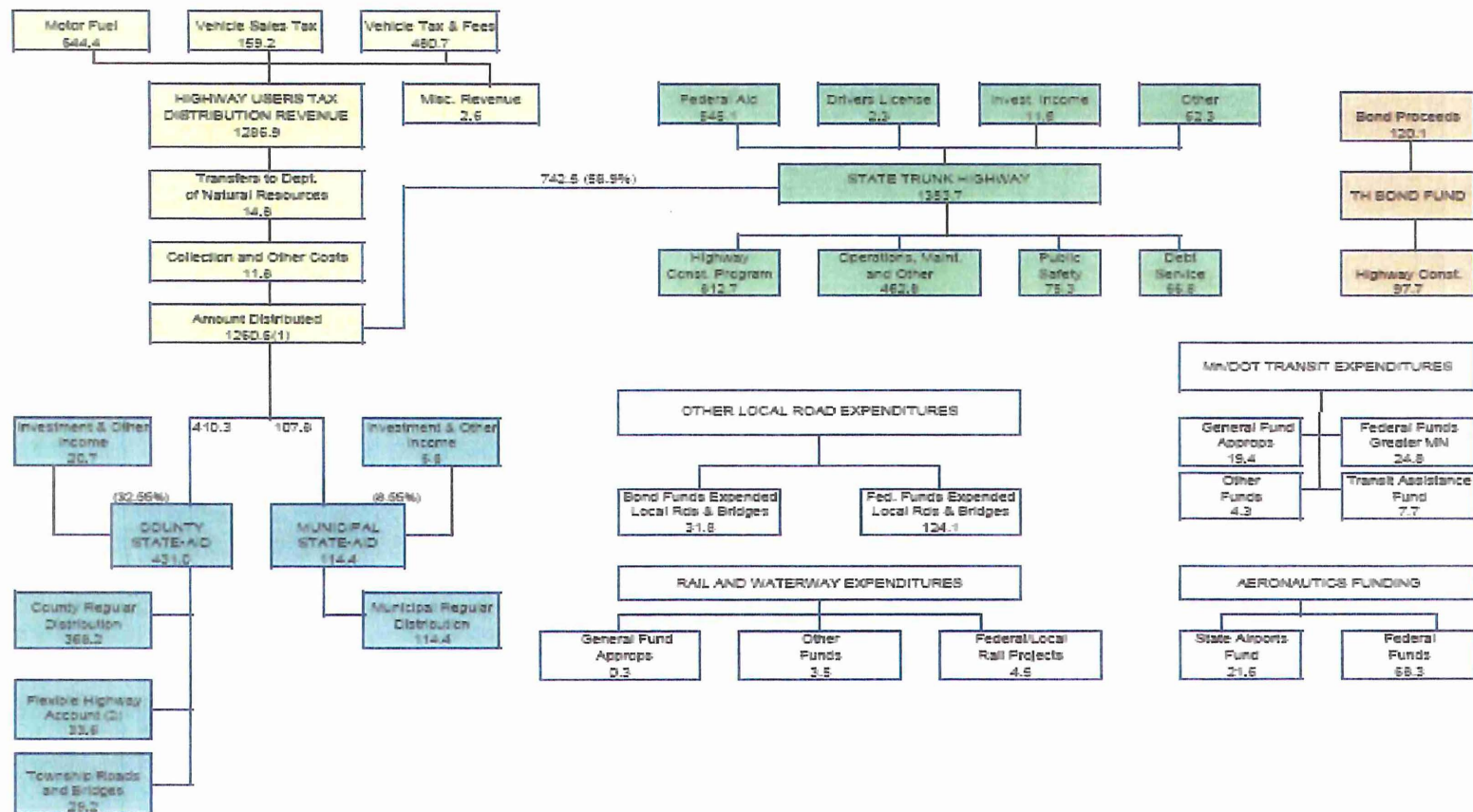
Legislative Oversight of Mn/DOT

In light of the I-35W bridge collapse, there has been more scrutiny of Mn/DOT than in recent years. A transportation contingency appropriations committee held numerous hearings since the bridge collapse to respond to requests for additional appropriations for Mn/DOT to accommodate various costs related to the bridge. On occasion, statements critical of Mn/DOT practices were made at these hearings. The Legislative Audit Commission requested the Legislative Auditor to update its 1997 program audit on Highway Spending with a focus on spending on the state trunk highway system, and its report was issued in February 2008. The legislature has hired an independent law firm to investigate the bridge collapse with a focus on non-technical factors. All of these may lead to hearings and proposals addressing issues related to Mn/DOT policies and related statutes.

SECTION III

**FINANCIAL AND HIGHWAY USE
INFORMATION**

**MINNESOTA STATE GOVERNMENT
REVENUE AND EXPENDITURES FOR TRANSPORTATION PURPOSES
ALL SOURCES OF FUNDS (Dollars in Millions)
FY 2007 Final**



(1) - Net Revenues \$1250.3 plus 3.3 from Fund Balance.
(2) - Trunk Highway = \$7.4, County Turnback = \$24.8, Municipal Turnback = \$1.5.

Prepared by Financial Reporting - December 21, 2007

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 Phased out 2-cent gasohol credit over 4 years
- 2008 Increased gas tax for 5 cents per gallon (2 cents effective April 1, 2008 and an additional 3 cents effective October 1, 2008) and also allowed for gas tax surcharge of up to 3.5 cents per gallon

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	30.9	22.0	20.7	23.0
Diesel	24.4	20.0	30.9	22.0	22.5	23.0
Gasohol (10% blend)	18.4	20.0	30.9	20.0	19.0	23.0

Motor Vehicle Registration Taxes

- 1981 Increased passenger vehicle registration taxes by phasing in an increased minimum tax
- 1986 Increased truck registration taxes for heavier trucks
- 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
- 2008 Modified registration tax policy for passenger vehicles to institute a process similar to what existed prior to 2000

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 - 1991 Numerous changes were made, which first statutorily dedicated this revenue to transportation on a phase-in basis, began the phase-in, delayed the phase-in, and ultimately eliminated this as a transportation revenue source.

2001 - 2004 Allocation of this revenue for highways and transit began. For highways the allocation was intended to offset the reduced revenues from the change in tax policy for passenger motor vehicles made by the 2000 legislature. For transit the allocation was intended to offset a 2001 reduction in local government property taxes due to the law being changed prohibiting levying taxes for transit operations.

2005 A constitutional amendment was passed, providing that by FY 2012 all revenue would be dedicated to transportation as follows: (1) not more than 60% to be deposited in the Highway User Tax Distribution Fund; and (2) not less than 40% to be dedicated to transit. A five-year phase-in schedule is provided in the amendment.

2006 Voters approved the proposed constitutional amendment in the general election held in November 2006.

2007 The legislature provided a statutory allocation of revenues, consistent with the constitutional amendment, which is shown below.

Statutory Allocation of Motor Vehicle Sales Tax Revenues Enacted By the 2007 Legislature Consistent With the Constitutional Amendment Passed By the Voters in November 2006					
<u>Fiscal Year</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Highway User Tax Distribution Fund	38.25%	44.25%	50.25%	56.25%	60%
Metropolitan Transit	24%	27.75%	30%	33.75%	36%
Greater Minnesota Transit	1.5%	1.75%	3.5%	3.75%	4%
Total To Transportation	63.75%	73.75%	83.75%	93.75%	100%

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 and generate \$19 million in revenues to the Trunk Highway Fund. The current tax of 20 cents per gallon yielded \$626 million in FY 2007 after refunds, collection costs, and transfers to the Department of Natural Resources.

Approximately seventy nine percent of motor fuel tax revenues are generated from gasoline sales. The remainder comes mostly from diesel and special fuel sales.

State law requires transfers of non-highway use gasoline tax revenues (e.g., from fuel used in 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 accounts each year.

Based on information supplied by the American Petroleum Institute, twenty-three states have gasoline tax rates higher than Minnesota's and three states have gas tax rates the same as Minnesota's. Some states have local option gas taxes and/or levy a statewide sales tax or other statewide tax (e.g., an oil franchise tax in Pennsylvania) on gasoline sales. If additional statewide taxes such as a sales tax are taken into account, thirty states have higher gas tax rates than Minnesota.

Motor Vehicle Registration Taxes

In FY 2007, motor vehicle registration taxes, after refunds and collection costs, yielded \$484 million. Passenger class and pickup truck vehicles generated approximately 80% of total motor vehicle registration tax revenues.

Motor Vehicle Sales Tax

The motor vehicle sales tax, a 6.5% tax on the sale of new and used motor vehicles, is partially dedicated to transportation. By 2012 all of this revenue will be dedicated to transportation, with 40% allocated to transit and 60% allocated to highways by state statute. In fiscal year 2008, 38.25% of this revenue will be deposited in the Highway User Tax Distribution Fund; this is estimated to be \$192 million. In fiscal year 2009, 44.25% of this revenue will be deposited in the Highway User Tax Distribution Fund; this is estimated to be \$222 million.

Federal Highway Funds

The level of federal funding 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. For the trunk highway fund, which is the principal funding source for Mn/DOT and which also provides significant funding for the Department of Public Safety, approximately \$345 million (November 2007 forecast) of federal funds are forecasted to be received in fiscal year 2008; this is about 27% of the total revenue being estimated. In addition a substantial amount of federal highway revenue is made available for local government

projects. Typically this is about \$100 million per year; \$124 million was received for local government use in fiscal year 2007.

A concern has arisen about the level of federal highway funds that might be expected in the future. Recent forecasts for the federal highway trust fund suggest that the fund will run out of money in the fairly near future, perhaps as early as 2009. This may lead to reduced federal appropriations by Congress.

Highway User Tax Distributions

The Minnesota Constitution provides that 95% of Highway User Tax Distribution Fund revenues are distributed as follows: Trunk Highways - 62%; County State Aid Highways - 29%; and Municipal State Aid Streets - 9%. The remaining 5%, sometimes referred to as the five percent set-aside, 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 most recently changed this formula.

Since July 1, 1999, all of the five percent set-aside revenues - approximately \$65 million per year - have been deposited in 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%).

The most recent allocation of the five percent 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 2008 legislature as ten years have passed since it was last changed.

Flexible Highway Account

The Flexible Highway Account was created by the 1998 Legislature, essentially by combining money from the five percent set-aside that was 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 to the Trunk Highway Fund, the County State Aid Highway Fund, and the Municipal State Aid Street Fund for each upcoming two-year period as part of the biennial budget proposal.

The following table describes allocations of the five percent set-aside for fiscal years 2006 through 2009:

5% Set-aside Distributions (\$ in millions)				
Fiscal Year	2006	2007	2008	2009
Town Road Account @ 30.5%:	19.4	19.3	19.7	20.3
Town Bridge Account @ 16.0%:	10.2	10.1	10.4	10.6
Subtotal Township Funding	29.6	29.4	30.1	30.9
Flexible Highway Account				
County Turn Back Account	18.0	24.9	15.7	17.4
Municipal Turn Back Account	5.7	1.5	6.0	2.8
Trunk Highway Fund	10.4	7.4	12.9	15.3
Subtotal Flexible Highway (53.5%):	34.1	33.8	34.6	35.5
Total Distributions of Five Percent Set Aside	63.7	63.2	64.7	66.4

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 biennia. Also, the 2008 legislature could choose to change the distribution of the five percent set-aside money, or the allocation of money in the Flexible Highway Account. A change to this provision was considered but not enacted in the 2006 and 2007 legislative sessions.

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

Money in these funds is allocated to all 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 monetary 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 monetary needs (50%) and population (50%). 2008 legislation changed the apportionment formula for the County State Aid Highway Fund such that for the new money the apportionment is based on relative shares of motor vehicle registrations (40%) and monetary needs (60%).

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 grew beyond 5,000. At each census, some municipalities may stop qualifying for funding because their population fell below 5,000. As the decade progresses, 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 2003-07 is shown below:

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Total Number of Municipalities Qualifying for MSAS Funds	133	136	138	138	142

Bonding

As of August, 2007 the principal amount of outstanding trunk highway bonds totaled approximately \$535 million. In addition approximately \$236 million of interest must be paid on these bonds, for a total of approximately \$771 million of outstanding debt service.

The legislature also authorized an additional \$20 million in its special session in September 2007, convened primarily to provide assistance related to the floods in southeastern Minnesota. This authorization was to provide funds for reconstruction and repair of trunk highways and trunk highway bridges that are located in the area included areas that suffered flood-related damage in 2007.

The outstanding principal balance, as of August 2007, is comprised of bond authorizations dating back to 2000 totaling approximately \$620 million, less bond principal repaid to date and bonds that have not yet been sold. The most recent bond authorization occurred when the 2003 Legislature approved \$400 million of trunk highway bonds to eliminate traffic bottlenecks and improve interregional corridors that were deemed "at risk." The 2003 Legislature also approved a bond authorization of \$110 million that effectively transferred funding of projects originally appropriated out of the general fund to instead being funded by trunk highway bonds.

The 2002 Legislature, in a special session, approved \$10.1 million of trunk highway bonds used to transfer funding of projects from the general fund to instead being funded by trunk highway bonds. This action freed up general fund dollars, which were used for various flood relief projects in northwest Minnesota. The 2000 Legislature approved \$100 million of trunk highway bonds for highway and bridge construction projects in accordance with a \$459 million transportation funding initiative.

According to the Department of Finance website, the required payments of principal and interest of the outstanding bonds for the upcoming four fiscal years are represented in the following chart. These amounts include the assumptions about the sale of the \$20 million authorized in September 2007. This chart does not include debt service on the additional \$1.8 billion in bonds included in 2008 legislation.

Debt Service Payments On Outstanding Trunk Highway Bonds (\$ in thousands)				
	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Principal	31,960	31,760	31,760	31,760
Interest	<u>26,115</u>	<u>24,519</u>	<u>22,924</u>	<u>21,327</u>
Total	58,075	56,279	54,684	53,087

This total repayment is reduced each fiscal year by the interest earned on the balances in the trunk highway account in the state debt service fund. The current estimate of amounts required to be transferred from the trunk highway fund to the state debt service fund is the following.

Scheduled Debt Service Transfers From the Trunk Highway Fund to the State Debt Service Fund (\$ in thousands) As Shown in the November 2007 Fund Statement				
	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Transfer Amount	52,170	54,622	53,681	52,540

If additional trunk highway bonds were authorized by the legislature, payments of principal and interest on bonds would increase above the levels just shown. For example, if an additional \$100 million of trunk highway bonds were approved, debt service approaching \$140 million over 20 years would result (assuming 4% interest).

Debt service is higher in the earlier years of repayment, because the repayment schedules are based on retiring one-twentieth of the principal each year, unlike repayment requirements for a home mortgage, which are a fixed total of combined principal and interest each year, with the amount of principal being repaid increasing each year.

Assuming 4% interest and ignoring the requirement for the early transfers being larger than the calculated principal and interest due to the legal requirement to build a debt service reserve, the first year's debt service payment for \$100 million of trunk highway bonds would be about \$9 million, and the last year's payment would be a little more than \$5 million. Note that the Governor's recommended capital budget includes authorizing \$78 million of trunk highway bonds.

Advance Construction

The 2003 legislation authorizing \$400 million of trunk highway bonds, referenced above, also explicitly authorized Mn/DOT to spend \$400 million of federal funding using federal advance construction procedures. In general, federal advance construction funding permits

recognizing in the current year, federal revenues scheduled to be received in future years. This results in a number of benefits.

Even though the budgetary revenue is recognized, actual reimbursement (receipt of cash from FHWA) does not begin until the year the advanced construction agreements are “converted” to regular status (the year the federal funds are actually made available through a federal appropriations act).

Because of this, the cash balance in the trunk highway fund is sometimes used to make payments to construction contractors without receiving federal reimbursement (usually at 80% of the amount paid). This reduces the cash balance in the trunk highway fund and reduces investment income earned by the fund. Careful management of the use of this funding is needed to avoid commitment of future federal funds that exceed funds that are eventually appropriated or depleting the cash balance. Mn/DOT has developed and continues to refine, advance construction and cash management techniques.

HIGHWAY USE AND FINANCING

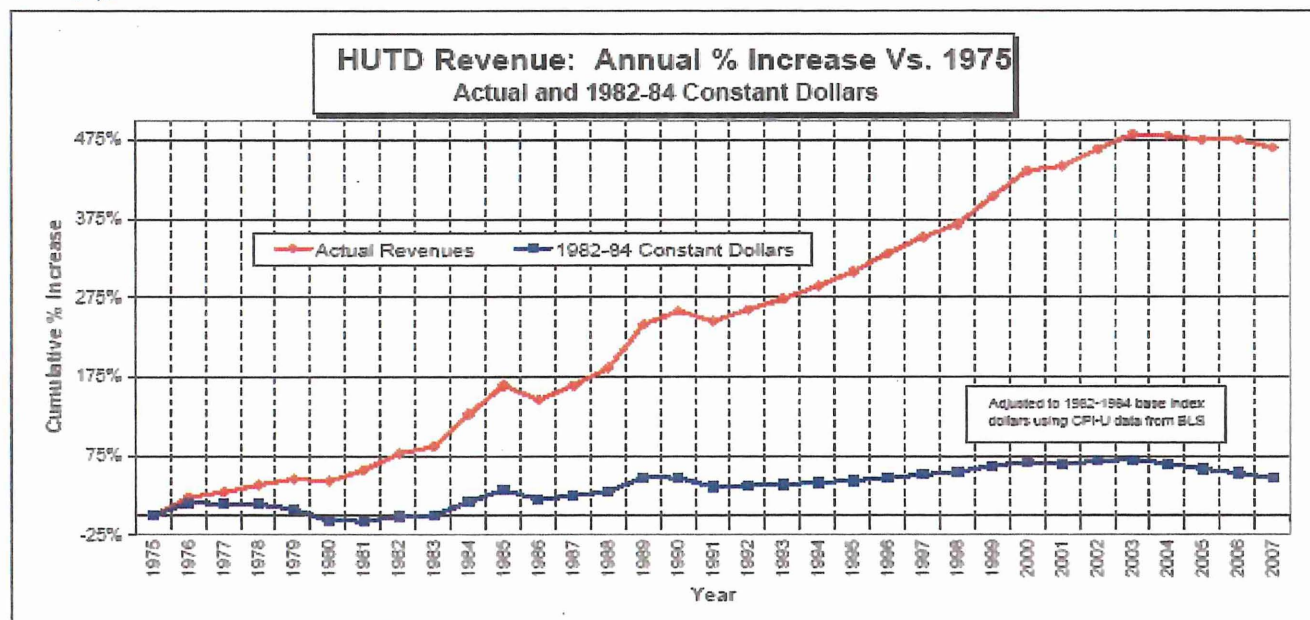
The following charts include:

- 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 to the present.
- Vehicles Miles Traveled (VMT) per Gallon from 1975 to the present, which provides a measure of automobile efficiency (MPG).
- Minnesota Highway User Tax Revenue by major type from 1975 to the present.
- Minnesota Highway User Taxes per Vehicle Mile Traveled from 1975 through the present, as adjusted for inflation.

The charts demonstrate that real, or inflation-adjusted, revenues have only increased slightly even though nominal, or actual, revenues 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 the same thirty year period.

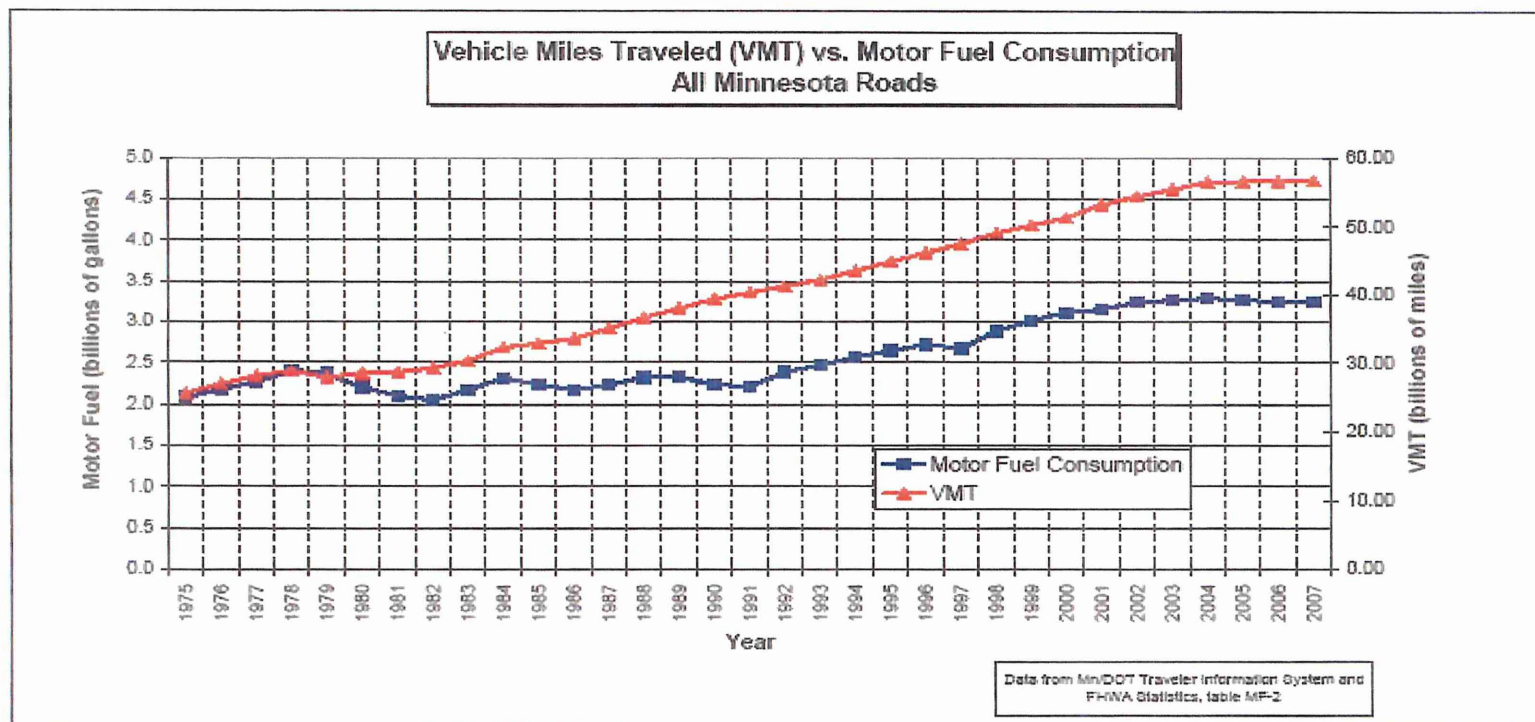


Minnesota Department of Transportation 2007





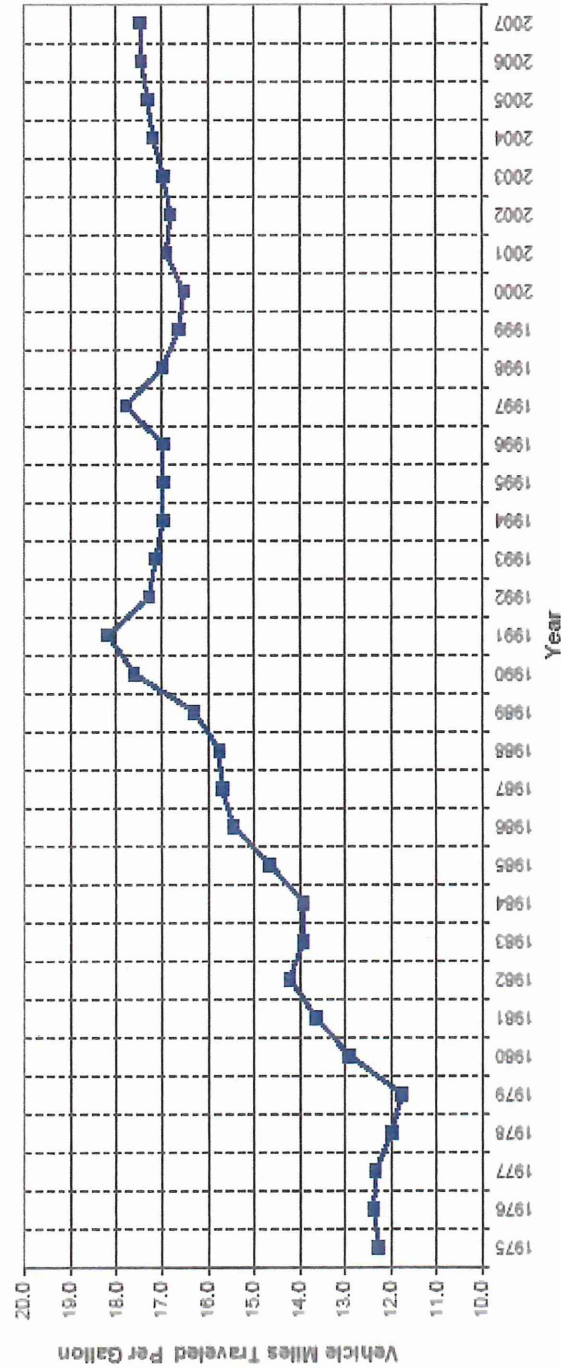
Minnesota Department of Transportation 2007





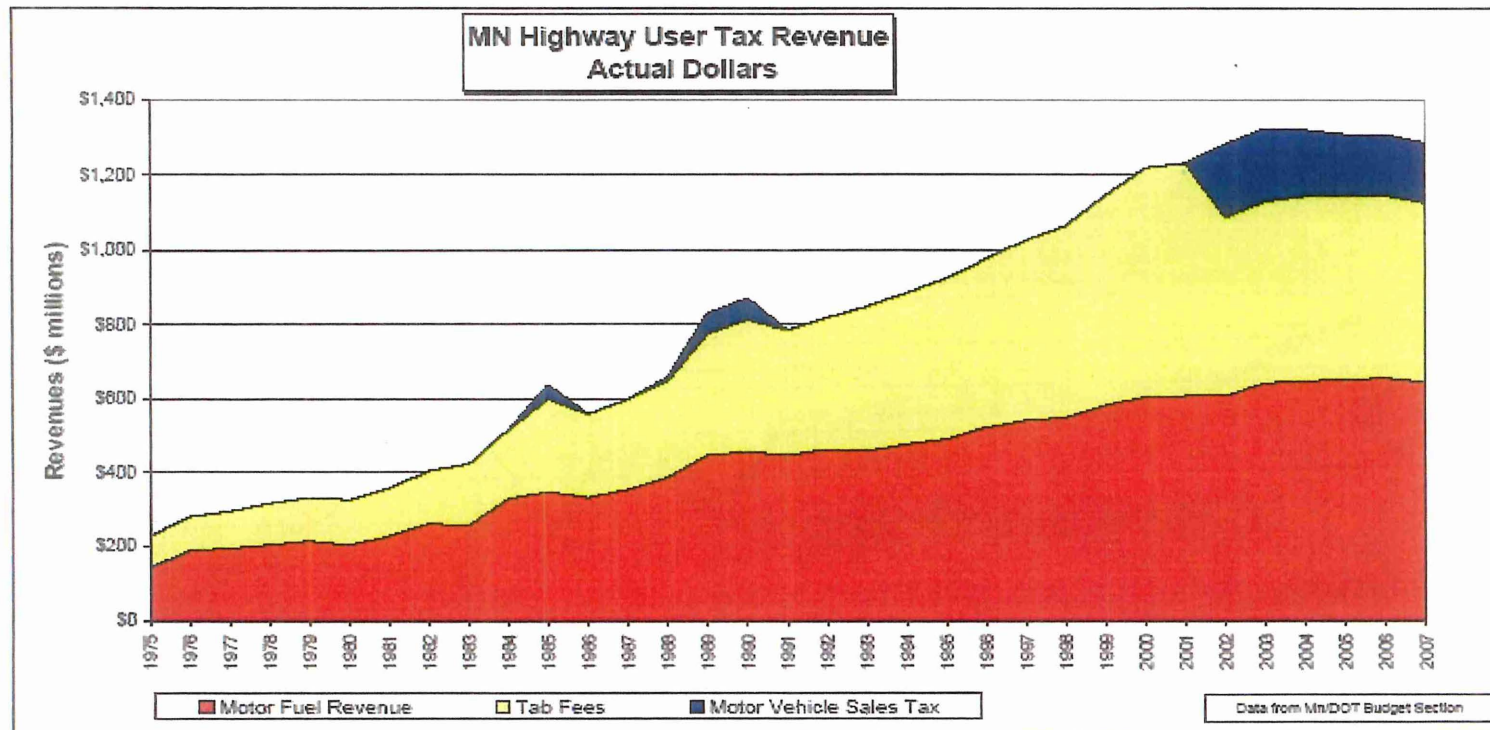
Minnesota Department of Transportation 2007

VMT per Gallon (MPG) 1975-2007





Minnesota Department of Transportation 2007





Minnesota Department of Transportation 2007

