2023 Transportation Finance Legislation: Laws 2023, Chapter 68

January 2024

Executive Summary

Laws 2023, chapter 68, makes a number of modifications to transportation finance. This brief outlines some of the major fiscal elements in the legislation. However, it is not comprehensive. The law contains a wide variety of budget and policy provisions, while the brief focuses on some of the major and most notable changes that impact transportation funding and the general fiscal structure. This includes:

- modifications to rates and structure of existing transportation-related taxes, which include (1) increasing the rate and revising the revenue allocation formula for the motor vehicle sales tax, (2) indexing the rate on the motor fuels tax, and (3) increasing the rate and modifying the tax calculation for the motor vehicle registration tax;
- establishment of two additional revenue streams—a retail delivery fee and a regional transportation sales tax;
- redirection of revenue from the state general sales tax attributed to automotive parts;
- establishment and revisions to tax assessments related to railroads and pipelines;
- increases to various driver and vehicle-related fees;
- allocation of the new revenue, including through new accounts and distribution formulas; and
- restructuring of funding for transitways in the Twin Cities metropolitan area.

Contents

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Overview

Minnesota Laws 2023, chapter 68, encompasses a wide range of transportation finance and policy provisions. Among its topics, the law establishes the biennial transportation budget for fiscal years 2024-25, including over $1 billion in above-base General Fund spending; authorizes and appropriates a total of $599.2 million in trunk highway bonding; establishes and revises a number of taxation provisions related to transportation; and makes changes in numerous transportation policy areas. For further details on the provisions, see the House Research act summary.[1]

Rather than provide a comprehensive review, this brief only discusses some fiscal aspects of the 2023 legislation. It focuses on significant funding and structural changes in transportation finance, which involve modifications to existing transportation-related taxes, establishment of new taxes, and revisions as well as additions to the transportation finance structure. For additional background information, see the House Research publications *Highway Finance*, January 2021, and *Motor Vehicle Sales Tax*, January 2021.

Throughout the brief, the amounts shown are based on preliminary estimates developed during the 2023 legislative session (along with February 2023 forecast numbers), and the amounts have not been updated for the latest forecast. The amounts therefore reflect predicted fiscal impacts at the time of enactment rather than actuals.

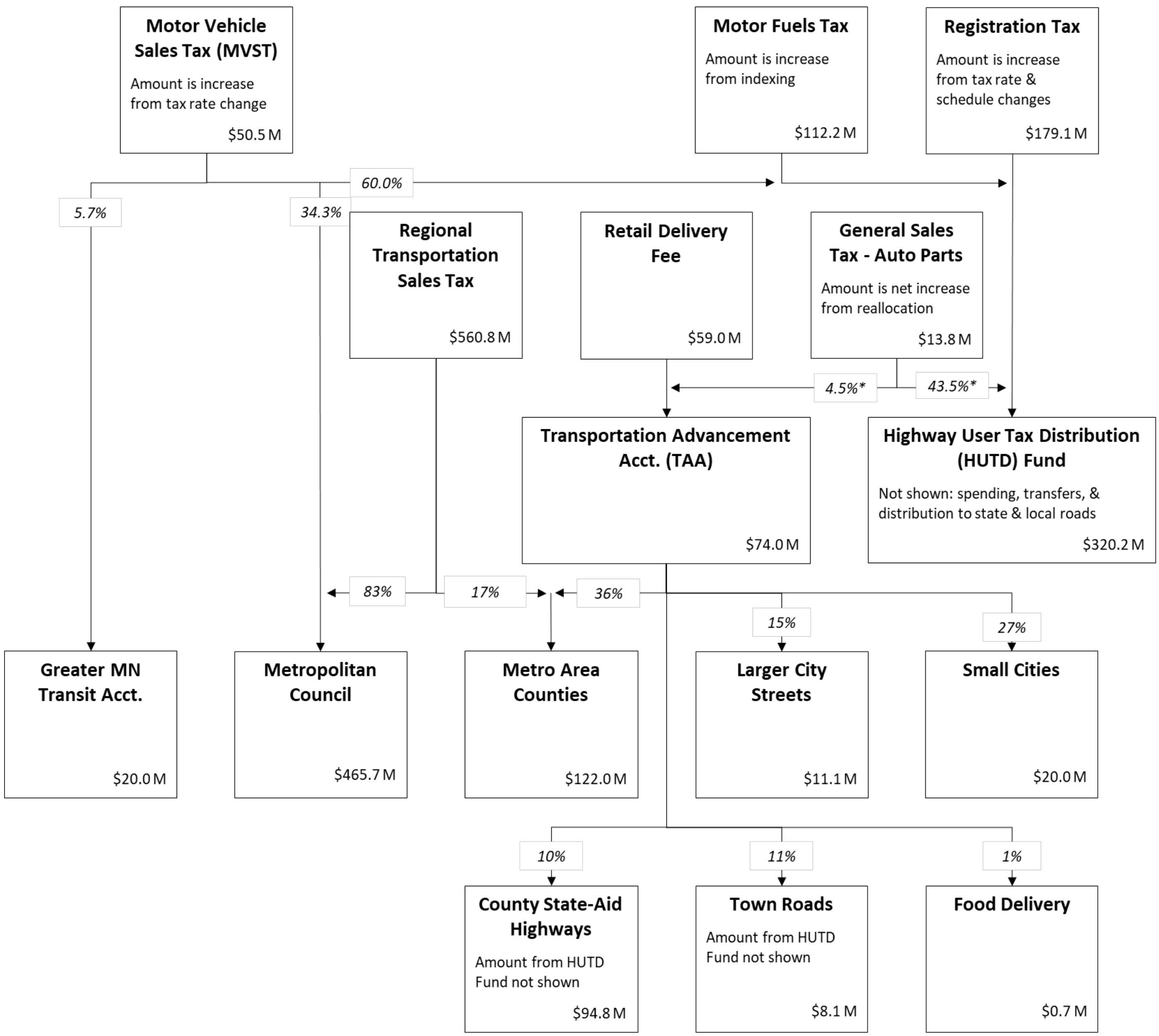
Summary of Major Changes

The following chart provides a high-level summary of funding and finance modifications. As a preface, the chart:

- shows the amounts of **additional revenue** or funding resulting from the changes, while totals from some sources such as the core transportation-related taxes are not shown;
- includes percentages that identify **statutory distribution formulas** for all revenue from the respective sources; and
- uses preliminary estimates for revenue in **fiscal year 2025** (selected to provide anticipated funding impacts once new taxes come into effect).

[1] This is available at: https://www.house.mn.gov/hrd/as/93/as068.pdf.

Major Changes in Revenue and Finance Flow, FY 2025



Notes:

* The percentage to the transportation advancement account is for FY 2025 only and will increase under a ten-year phase-in (to 56.5% in FY 2033 and after). Due to prior and restructured distributions, these percentages do not convey distribution of the revenue increase and actual net impact to HUTD Fund is not shown.

Amounts are in millions. Amounts are from fiscal year 2025 estimates at the end of the 2023 legislative session. Some amounts are net of exemptions or deductions. The chart does not show: (1) base or total revenue from existing sources; (2) General Fund direct appropriations; (3) assessments related to rail and pipelines; (4) fees related to driver and vehicle services; and (5) trunk highway bonds.

Modifications to Taxes and Fees

Motor Vehicles Sales Tax

The motor vehicle sales tax (MVST) is imposed on motor vehicle sales instead of the state general sales tax and is calculated on the purchase price. Under the changes, the MVST rate is increased from 6.5 percent to 6.875 percent. Minn. Stat. § 297B.02, subd. 1. The resulting MVST rate matches the total rate of the general sales tax.[2] It is effective July 1, 2023.

The allocation of tax revenue is also modified to:

- increase the share for Greater Minnesota transit, from 4 percent to 5.7 percent; and
- reduce the share for transit in the metropolitan area, from 36 percent to 34.3 percent. Minn. Stat. § 297B.09, subd. 1.

The combined changes have the effect of directing much of the additional transit share of revenue to Greater Minnesota transit, although increased funding is also anticipated for Twin Cities metropolitan area transit after the first couple of years (due to the overall tax rate increase). The portion directed to the Highway User Tax Distribution (HUTD) Fund is unchanged.

Estimated revenue impacts are outlined in the following table.

MVST Revenue Estimates ($ in 1,000s)

Category	FY 2024	FY 2025	FY 24-25	FY 2026	FY 2027	FY 26-27
Prior law	988,400	1,000,890	1,989,290	1,036,690	1,075,710	2,112,400
2023 changes						
HUTD Fund	31,020	31,380	62,400	32,580	33,900	66,480
Greater MN transit	19,750	19,996	39,746	20,718	21,508	42,226
Metro area transit	930	924	1,854	1,002	1,092	2,094
Total	**1,040,100**	**1,053,190**	**2,093,290**	**1,090,990**	**1,132,210**	**2,223,200**
Percent change	*5.2%*	*5.2%*	—	*5.2%*	*5.3%*	—

Notes
Amounts are from 2023 February forecast and 2023 session estimates. Subsequent estimates are not shown.

Motor Fuels Tax

The 2023 legislation establishes indexing on the motor fuels tax imposed on gasoline, diesel, and special fuels (like E85). It requires an annual adjustment to each tax rate that is based on increases in the Minnesota Highway Construction Cost Index. The adjusted rate must be

[2] Unlike the state general sales tax, though, there is not a portion of MVST revenue constitutionally directed to “legacy” purposes (i.e., outdoor heritage, clean water, parks and trails, and arts and cultural heritage).

calculated each August 1 and goes into effect the following January 1 for the next 12 months. Starting in 2025, the annual percentage change in tax rate is capped at 3 percent. Minn. Stat. §§ 296A.07, subd. 3; 296A.08, subd. 2.

The following tables provide estimates of tax rate increases and resulting revenue from indexing. They use estimates at the time of enactment of the legislation (and are not adjusted for subsequent executive branch interpretation and implementation).[3]

Gasoline and Diesel Tax Rate Estimates (in cents/gallon)

Category	CY 2024	CY 2025	CY 2026	CY 2027
Prior law	28.5	28.5	28.5	28.5
2023 changes	3.3	0.8	0.3	0.6
Adjusted tax rate	**31.8**	**32.6**	**32.9**	**33.5**

Notes
Rates are not shown for special fuels, petroleum tank release cleanup fee, and inspection fee.
Amounts are from 2023 session estimates. Subsequent estimates are not shown.

Motor Fuels Tax Revenue Estimates ($ in 1,000s)

Category	FY 2024	FY 2025	FY 24-25	FY 2026	FY 2027	FY 26-27
Prior law	913,412	901,538	1,814,950	889,818	878,250	1,768,068
2023 changes	42,789	112,170	154,959	128,240	137,760	266,000
Total	**956,201**	**1,013,708**	**1,969,909**	**1,018,058**	**1,016,010**	**2,034,068**
Percent change	*4.7%*	*12.4%*	—	*14.4%*	*15.7%*	—

Notes
Amounts are from 2023 February forecast and 2023 session estimates. Subsequent estimates are not shown.

Motor Vehicle Registration Tax

The motor vehicle registration tax is determined for most passenger vehicles based on a combination of the vehicle's original value and its age. The tax formula is a flat $10, plus the amount resulting from (1) a tax rate applied against the manufacturer's suggested retail price (MSRP) of the vehicle, multiplied by (2) a percentage-based factor from a depreciation schedule that reduces the tax due as the vehicle ages. For vehicles that are 11 years old or older, though, a minimum value amount replaces the part of the calculation that is based on MSRP.

[3] The estimates in the table are based on interpretation and information from the 2023 session (for consistency with other estimates in this document). Of note, the Department of Revenue has subsequently expressed an interpretation of the indexing requirements in a manner that shifts the expected rate increases. The differences are not discussed further.

The 2023 legislation modifies multiple aspects of the tax calculation, to:

- raise the base tax rate, from 1.285 percent to 1.575 percent of the vehicle's MSRP (excluding accessories and options)[4];
- revise the factors used in a depreciation schedule; and
- lower the minimum value amount for older vehicles, from $25 to $20. Minn. Stat. § 168.013, subd. 1a.

For most vehicle ages, the 2023 modifications shift the factor applied in the tax calculation to use a higher percentage of MSRP compared to the prior law. For instance, the factor for a vehicle in its second year is increased from 90 percent to 95 percent of the MSRP (which therefore increases the tax imposed). Changes to the factor are outlined below.

Registration Tax Depreciation Schedule Changes

Vehicle Year of Life	Prior Factor	Revised Factor
1st	100%	100%
2nd	90%	95%
3rd	80%	90%
4th	70%	80%
5th	60%	70%
6th	50%	60%
7th	40%	50%
8th	30%	40%
9th	20%	25%
10th	10%	10%

While registration taxes increase in numerous situations, notable exceptions are that:

- the total tax on a vehicle age 11 or older is reduced from $35 to $30 (excluding other transaction fees), which is due to the reduced minimum value amount; and
- a "grandfather clause" remains in effect so that the registration tax cannot increase in any year on a vehicle previously registered in Minnesota, which applies regardless of the date of initial registration in the state as well as changes in vehicle ownership.

The changes are effective January 1, 2024 (for registration periods starting on or after that date).

[4] For passenger vehicles first registered in Minnesota before November 16, 2020, the rate is instead increased from 1.25 percent to 1.54 percent of the sum of MSRP and the destination charge. (This reflects a 2020 change in the tax calculation methodology that was basically designed to be revenue neutral.)

The table below provides initial estimates of revenue impacts from the changes.

Registration Tax Revenue Estimates ($ in 1,000s)

Category	FY 2024	FY 2025	FY 24-25	FY 2026	FY 2027	FY 26-27
Prior law	874,994	909,994	1,784,988	937,294	956,039	1,893,333
2023 changes	60,799	180,779	241,578	257,830	288,400	546,230
Total	**935,793**	**1,090,773**	**2,026,566**	**1,195,124**	**1,244,439**	**2,439,563**
Percent change	*6.9%*	*19.9%*	—	*27.5%*	*30.2%*	—

Notes
Amounts are from 2023 February forecast and 2023 session estimates. Subsequent estimates are not shown.

Railroad and Pipeline Assessments

A couple of tax-related increases specifically involve railroads and pipelines. First, the complement of inspector positions in the State Rail Safety Inspection program is increased from four to six. The program is administered by the Minnesota Department of Transportation (MnDOT). It is funded through an assessment on Class I and Class II rail carriers (proportionally based on route miles operated in Minnesota) that is determined based on staffing, so the 2023 staffing change has the effect of increasing the amount to be paid by the railroads. It is effective July 1, 2023. Minn. Stat. § 219.015, subd. 2.

Second, the legislation reinstitutes an expired assessment on railroad and pipeline companies, with the funds directed to various railroad and pipeline incident response preparedness activities. Among the associated changes, the law:

- sets the assessment at $4 million annually, with (1) 70 percent of the assessed amount divided proportionally among Class I and Class II rail carriers based on route miles in Minnesota, and (2) 30 percent split among pipeline companies proportionally based on yearly gallons of oil and other hazardous substances transported by pipeline in the state;
- broadens the recipients and uses of the funds;
- revises the prioritization of uses; and
- creates an annual transfer of funds to a grade crossing safety account, along with an additional conditional transfer depending on account balance. Minn. Stat. § 299A.55.

The following table outlines preliminary estimates of revenue from the assessments.

Railroad and Pipeline Assessment Revenue Estimates ($ in 1,000s)

Category	FY 2024	FY 2025	FY 24-25	FY 2026	FY 2027	FY 26-27
Inspection program	300	300	600	300	300	600
Incident response preparedness						
Railroads	2,800	2,800	5,600	2,800	2,800	5,600
Pipelines	1,200	1,200	2,400	1,200	1,200	2,400

Notes
Amounts are from 2023 session estimates. Subsequent estimates are not shown.

Other Taxes and Fees

The law increases multiple driver and vehicle-related fees. This includes:

- a $1 increase in filing fees imposed on motor vehicle transactions such as vehicle registration renewals (to $8 or $12, depending on the transaction type);
- a new $1 surcharge on in-person vehicle transactions handled by a deputy registrar;
- a $3 or $8 filing fee increase for driver's license and Minnesota identification card transactions (to either $11 for new applications or $16 for renewals); and
- a $6 or $6.75 credential fee increase for driver's license and identification cards (to various amounts). Minn. Stat. §§ 168.33, subd. 7; 171.06, subd. 2; 171.061, subd. 4.

New Taxes and Fees

In addition to modifying existing taxes and fees, the 2023 Legislature established two new substantial revenue streams: a retail delivery fee and a regional transportation sales tax.

Retail Delivery Fee

The retail delivery fee is a new $0.50 charge on the delivery of most tangible personal goods purchased from a retailer. Minn. Stat. §§ 168E.01–168E.09. Broadly speaking, the fee is generally imposed in the same situations when the general sales tax applies, but there are both additions and exceptions.

The key addition compared to the general sales tax is that delivery of retail purchases of clothing (other than diapers) is subject to the fee. Exemptions from the delivery fee include:

- purchases in which the total on a transaction is below a $100 threshold (excluding state and local sales taxes);
- some specified items such as prepared food and various baby products;
- sales from bars and restaurants;
- purchases by an entity who is exempt from paying state sales tax;

- purchased items that are delivered on vehicles for which a permit is issued by MnDOT or a road authority (e.g., for some overdimensional loads); and
- purchases from (1) a business that made retail sales totaling below $1 million in the previous calendar year; or (2) a marketplace provider when facilitating a sale for a retailer that made retail sales under $100,000 using that marketplace provider.

The fee is only imposed once per transaction regardless of how many items are purchased or the number of shipments made. The delivery fee goes into effect July 1, 2024 (that is, at the start of fiscal year 2025). Estimated revenue is outlined below.

Retail Delivery Fee Revenue Estimates ($ in 1,000s)

Category	FY 2024	FY 2025	FY 24-25	FY 2026	FY 2027	FY 26-27
2023 changes	—	59,000	59,000	64,800	65,300	130,100

Notes
Amounts are from 2023 session estimates. Subsequent estimates are not shown.

Regional Transportation Sales Tax

Chapter 68 directs the Metropolitan Council to impose a sales and use tax in the seven-county Twin Cities metropolitan area. The rate is 0.75 percent on taxable retail sales and uses in the metropolitan area or to a destination in the area. The tax is administered by the Department of Revenue in a manner that parallels other local sales taxes. It went into effect October 1, 2023. Minn. Stat. § 297A.9915.

Revenue from the regional transportation sales tax is distributed by formula, so that:

- 83 percent goes to the Metropolitan Council for transit purposes; and
- 17 percent is allocated by formula among Twin Cities metropolitan area counties for various categorized uses.

Portion to the Metropolitan Council. State statute provides the Metropolitan Council with general latitude to expend its share of the sales tax revenue for transit system purposes, but subject to some requirements and limitations.

First, from the portion of revenue allocated to the Metropolitan Council, 5 percent is identified for active transportation grants. The money is directed to the Transportation Advisory Board (TAB) to implement grantmaking. Minn. Stat. § 473.4465, subds. 2 and 3.

Second, while the council has discretion on the remaining 95 percent of the funds allocated to it, legislation requires the council to expend some of the revenue in each of several listed priorities related to transit systems and service. The priorities list includes: regular route service level improvements; transit safety activities; capital projects as well as operations and maintenance for specific modes of transit, like arterial bus rapid transit; zero-emission bus procurement; assistance to suburban transit providers; and employee wages. Minimum funding or amounts are not specified (providing the council with authority to determine spending levels). Minn. Stat. § 473.4465, subd. 2 (b). Other provisions in the law also direct the council to use part of the sales tax revenue for specific onetime grants and short-term projects. Laws 2023, ch. 68, art. 4, §§ 118, 119 and 122.

The Metropolitan Council is also authorized to issue revenue bonds or other forms of debt that are backed by the portion of the sales tax revenue allocated to it. The funds can be used for transit capital projects or to refund prior bonds issued under the provision. Sale and issuance of the bonds is generally performed following the same procedures that govern municipal debt (under Minnesota Statutes, chapter 475). However, approval of the voters is not required for the bonds and there is not an explicit debt limitation. Minn. Stat. § 297A.9915, subd. 5.

Portion to metropolitan area counties. The sales tax revenue provided to Twin Cities metropolitan counties is distributed by formula, with:

- 50 percent of the money allocated proportionally based on county population (compared to all counties receiving the aid); and
- 50 percent allocated proportionally based on each county's road construction needs (determined the same way that is used for distribution of municipal state-aid street funds). Minn. Stat. §§ 174.49, subd. 5; 473.4465, subd. 4.

State statute also designates how each county must use their respective funds by setting out spending categories. The funds must be expended:

- 41.5 percent for active transportation and corridor safety studies;
- 41.5 percent for transportation system repair, preservation, and replacement activities (which generally cannot add roadway capacity); and
- 17 percent on a flexible basis for specified activities including transit, complete streets, and greenhouse gas emissions mitigation (in conjunction with requirements established for some trunk highway projects).[5] Minn. Stat. § 174.49, subds. 5 and 6.

Revenue estimates. Preliminary revenue estimates from the sales tax are outlined below.

[5] The same allocation requirements apply to other revenue that is also distributed to Twin Cities metropolitan area counties. See the Transportation Advancement Account, page 12.

Regional Transportation Sales Tax Revenue Estimates ($ in 1,000s)

Category	FY 2024	FY 2025	FY 24-25	FY 2026	FY 2027	FY 26-27
Metropolitan Council	300,333	465,462	765,795	479,886	493,730	973,616
Metro counties	61,514	95,336	156,850	98,290	101,125	199,415
Total	**361,847**	**560,798**	**922,645**	**578,176**	**594,855**	**1,173,031**

Notes
Amounts are from 2023 session estimates. Subsequent estimates are not shown.
"Metro counties" refers to the counties in the seven-county Twin Cities metropolitan area.

Finance Structure Changes

In addition to increasing revenue, chapter 68 modifies existing distribution of some funds and establishes new mechanisms for transportation finance.

General Sales Tax – Auto Parts

Chapter 68 includes modifications to the distribution of general sales tax revenue that is attributed to automobile repair and replacement parts. Prior to 2023, a flat amount from this source (at $145.6 million per year) had been directed to the HUTD Fund with the remainder going to the General Fund. The legislative changes phase in the entire revenue stream to transportation purposes over a ten-year period, so that:

- 43.5 percent of the revenue is annually directed to the HUTD Fund; and
- the remainder is phased in to a new account—the transportation advancement account (or TAA, discussed below)—in annually increasing percentages over FY 2024-33, with corresponding General Fund reductions. Minn. Stat. § 297A.94 (g).

The schedule for sales tax revenue phase-in to the TAA is below.

General Sales Tax – Auto Parts Revenue Phase-in to TAA

Fiscal Year	Share to TAA
2024	3.5%
2025	4.5%
2026	5.5%
2027	7.5%
2028	14.5%
2029	21.5%
2030	28.5%
2031	36.5%

Fiscal Year	Share to TAA
2032	44.5%
2033 and after	56.5%

Notes
43.5 percent of the revenue is annually allocated to the HUTD Fund, and the remaining portion is directed to the General Fund.

The following table outlines preliminary estimates of reallocation impacts.

General Sales Tax – Auto Parts Revenue Reallocation ($ in 1,000s)

Category	FY 2024	FY 2025	FY 24-25	FY 2026	FY 2027	FY 26-27
Prior law						
HUTD Fund	145,644	145,644	291,288	145,644	145,644	291,288
General Fund	175,959	186,596	362,555	197,019	206,858	403,877
2023 net changes						
HUTD Fund	(5,747)	(1,120)	(6,867)	3,414	7,694	11,108
TAA	11,256	14,951	26,207	18,846	26,438	45,284
General Fund	(5,509)	(13,831)	(19,341)	(22,261)	(34,132)	(56,393)
Total	**321,603**	**332,240**	**653,843**	**342,663**	**352,502**	**695,165**

Notes
Amounts are from 2023 February forecast and 2023 session estimates. Subsequent estimates are not shown. Negative amounts, shown in parentheses, reflect reductions in revenue received.

Transportation Advancement Account

The transportation advancement account is established in the Special Revenue Fund as the repository for proceeds from (1) the retail delivery fee, and (2) a portion of general sales tax revenue attributed to automotive parts. Revenue in the account is distributed by formula for several purposes, using a combination of account transfers and statutory appropriations. Minn. Stat. § 174.49. The allocation is summarized in the table below.

Transportation Advancement Account Revenue Allocation ($ in 1,000s)

Recipient	Share	FY 2024	FY 2025	FY 24-25	FY 2026	FY 2027	FY 26-27
Metro counties	36%	4,052	26,622	30,675	30,113	33,026	63,138
CSAH Fund	10%	1,126	7,395	8,521	8,365	9,174	17,538
Larger cities	15%	1,688	11,093	12,781	12,547	13,761	26,308

Recipient	Share	FY 2024	FY 2025	FY 24-25	FY 2026	FY 2027	FY 26-27
Small cities	27%	3,039	19,967	23,006	22,584	24,769	47,354
Town roads	11%	1,238	8,135	9,373	9,201	10,091	19,292
Food delivery	1%	113	740	852	836	917	1,754
Total	**100%**	**11,256**	**73,951**	**85,207**	**83,646**	**91,738**	**175,384**

Notes
Amounts are from 2023 session estimates. Subsequent estimates are not shown.
"Metro counties" refers to the counties in the seven-county Twin Cities metropolitan area.
Aid is provided to small cities from collections across multiple fiscal years, so anticipated annual aid distributions do not match the revenue amounts shown.

In some cases, money from the TAA is in addition to other sources. As examples, metropolitan counties also receive a portion of regional transportation sales tax dollars, and the County State-Aid Highway (CSAH) Fund is primarily funded through the core transportation-related taxes. For other purposes the TAA serves as the sole funding source, namely for:

- the Small Cities Assistance program; and
- the food delivery support account (also established in the 2023 law).

The funds directed to Twin Cities metropolitan counties are distributed using the same formula calculation in place for revenue from the regional transportation sales tax (discussed previously). The limitations and requirements on uses of the money are also the same across the funding sources. Minn. Stat. § 174.49, subds. 4–6.

Larger Cities Assistance Account

A new account for aid to larger cities is also created in the Special Revenue Fund. As outlined above, the account receives a portion of funds allocated from the TAA. The money is distributed to those cities that are eligible for municipal state-aid street (MSAS) funds. Aid is distributed by formula, with:

- 50 percent of the money allocated proportionally based on city population; and
- 50 percent allocated proportionally based on street construction needs (determined the same way that is used for MSAS assistance). Minn. Stat. § 162.146.

The eligibility and aid distribution requirements are quite similar between the larger cities assistance account and MSAS aid. A key distinction is that aid from the account is not limited to streets that form part of the state-aid system. That is, cities can direct the funds towards any streets under their jurisdiction. Moreover, there are no explicit statutory restrictions on uses of funds for other transportation (or nontransportation) purposes.

Twin Cities Metropolitan Area Transit Finance

Chapter 68 makes structural changes related to Twin Cities transit operating and capital maintenance costs. Taken together, the changes can be viewed as clarifying some funding requirements and shifting funding expectations away from the counties. In particular:

- specific funding sources are mandated for transitway costs;
- the regional transportation sales tax is specified as a primary funding source;
- funding no longer comes from counties and other local units of government; and
- operating cost coverage agreements between the Metropolitan Council and other local units of government are canceled.

Prior law. Before the 2023 changes, state statutes generally did not lay out a fiscal framework for transitway project development and construction. Similarly, for the most part statutes did not specify how ongoing transitway operations and maintenance costs are funded, although a couple of requirements governed state funding for light rail transit (LRT) operations.[6] Each major transit project has involved a distinct funding approach, using various combinations of sources that have included federal funds, state direct appropriations, state bond proceeds, and authorized local sales tax revenue such as county transportation sales taxes. (However, state law does establish various state programs, authorization for locally imposed taxes, and project development process requirements.)

2023 capital costs changes. 2023 changes on transit capital costs are specific to the Southwest light rail transit (Green Line extension) project.

- The Metropolitan Council is restricted from expending funds from the regional transportation sales tax for the Southwest LRT project. However, the ban expires in conjunction with expiration of the Metropolitan Governance Task Force on June 30, 2024. Minn. Stat. § 473.4465, subd. 5.

- The Metropolitan Council is also prevented from using federal money from the Coronavirus Response and Relief Supplemental Appropriations Act for the Southwest LRT project. Laws 2023, ch. 68, art. 4, § 115.

Another existing restriction is that state funds cannot be used to pay more than 10 percent of the total capital costs of an LRT project. Minn. Stat. § 473.4051, subd. 3. This remains in place, as it was unmodified in the 2023 legislation. There also is a parallel limitation for county regional railroad authorities, which applies to both LRT and commuter rail; it too is unchanged. Minn. Stat. § 398A.10, subd. 1.

2023 operating cost changes. The 2023 legislation makes several modifications to operating and capital maintenance costs of guideways and busways—that is, transit service operated (1)

[6] The requirements on LRT costs were: (1) state dollars were directed to cover 50 percent of the net operating costs for light rail transit (where "net" refers to remaining costs after farebox recovery and federal funds are used); and (2) no state dollars could be used for operations or capital maintenance on the Southwest light rail transit (Green Line extension) line. Minn. Stat. § 473.4015, subd. 2 (2022).

on rails, such as light rail transit and commuter rail; (2) in dedicated right-of-way; or (3) through distinct modes from regular route bus service, including highway and arterial bus rapid transit. The changes are generally effective October 1, 2023.

- The law eliminates the operating funding requirements and limitations specific to light rail transit (which is replaced by a more general funding provision).
- It specifies funding sources for operations. After farebox revenue, federal sources, and any state funds, the remaining operating costs for guideways and busways must come from the regional transportation sales tax. As a result, funding for operations no longer comes from counties or other local units of government. Minn. Stat. § 473.4051, subd. 2.
- Similarly, it requires capital maintenance costs to be covered from any combination of the regional transportation sales tax, federal funds, or debt financing (like bonds). This specification has the effect of removing the state along with counties and other political subdivisions as funding sources for maintenance. Minn. Stat. § 473.4051, subd. 2a.
- Chapter 68 terminated agreements between the Metropolitan Council and local units of government regarding payments to the council for guideway or busway operating costs, so that the local unit of government, such as a county, is no longer obligated to cover a portion of operating costs. It also directed local units of government to make any outstanding payments to the Metropolitan Council for guideway and busway operating costs from prior years and up until October 1, 2023. Laws 2023, ch. 68, art. 3, § 35.

Passenger Rail

The legislation establishes ongoing funding for passenger rail, but it uses a delayed start. A new passenger rail account is created in the Special Revenue Fund, along with a statutory appropriation to MnDOT. Starting in fiscal year 2028, a state statute directs an annual transfer from the General Fund to the account. The funds are available for passenger rail operations and capital maintenance.

The amount set to be transferred into the account each year is equal to half of the railroad property tax levy in the prior calendar year. Because the start date for transfers is beyond the current forecast period, there is not an estimate of amounts anticipated to be transferred. However, a sense of scale might be inferred based on a 2023 property tax revenue estimate, which would yield a transfer of roughly $9.1 million.

Other Changes

Some highlights of additional structural changes in transportation finance follow.

Statutory appropriations. The legislation establishes several statutory appropriations—that is, ongoing spending authority provided outside of biennial budget legislation—including:

- to MnDOT from existing accounts for the Active Transportation program as well as the Small Cities Assistance program;
- to MnDOT from transportation advancement account funds allocated by formula to Twin Cities metropolitan area counties, for distribution to those counties;
- to MnDOT from the larger cities assistance account, for formula-based distribution;
- to MnDOT from the passenger rail account, for passenger rail operating and maintenance costs (once the funding mechanism goes into effect);
- to the Department of Public Safety from multiple donation accounts created in conjunction with special plates, for administrative costs and to disburse the funds;
- to the Department of Human Services from the food delivery support account, for grants to nonprofit organizations for food transportation services; and
- to the Office of the Legislative Auditor from an existing data security account, for state data system security oversight. Minn. Stat. §§ 3.9741, subd. 5; 162.145, subd. 2; 162.146, subd. 1; 168.1258, subd. 5; 168.1259, subd. 5; 168.1288, subd. 5; 174.38, subd. 3; 174.49, subd. 4; 174.634, subd. 2; 256.9752, subd. 1a.

MnDOT central office building. The 2021 Legislature prohibited spending from the Trunk Highway Fund or the HUTD Fund for the central office building of the Department of Transportation. It also established a statutory appropriation from the General Fund for central office building operational costs. The changes carried a delayed effective date of July 1, 2025. Minn. Stat. §§ 161.045, subd. 3; 167.45 (2022).

The 2023 changes altered the funding approach for central office building expenses, to (1) eliminate restrictions on spending from the Trunk Highway Fund or HUTD Fund; (2) repeal the statute making an appropriation from the General Fund; and (3) create a replacement funding provision that requires:

- 25 percent of costs to come from the General Fund, with a statutory appropriation to MnDOT established for this portion; and
- 75 percent of central office building costs to be paid from the Trunk Highway Fund. Minn. Stat. §§ 161.045, subd. 3; 174.59; Laws 2023, ch. 68, art. 4, § 129 (a).

The revised funding mechanism is also effective July 1, 2025.

Merger of accounts. Two operating accounts used by the Department of Public Safety for driver and vehicle related programs and services are merged into the driver and vehicle services operating account. (Chapter 68 contains a number of conforming changes to effectuate the merger.) Minn. Stat. § 299A.705.

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