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Minnesota Highway Financing

Highway finance in Minnesota—where the money comes from and where the money goes—is governed by both the Minnesota Constitution and Minnesota laws. This information brief summarizes these provisions.

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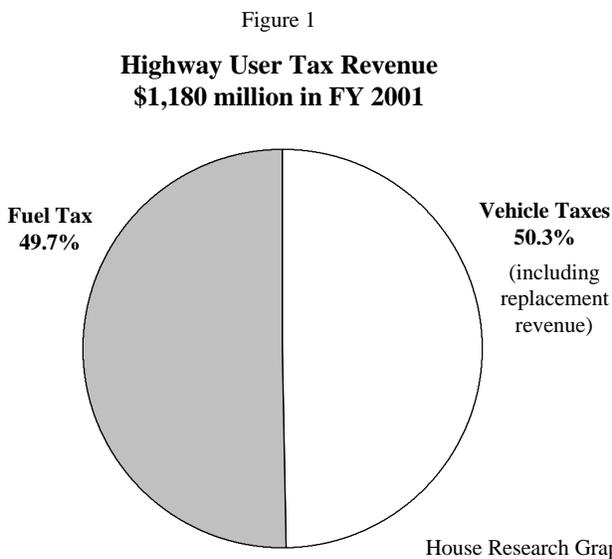
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Where the Money Comes From

Major Revenue Sources. For well over 60 years the main state sources of funding for highways have been motor fuel taxes and motor vehicle registration taxes.

Motor fuel taxes. Minnesota taxes gasoline and diesel fuel at 20 cents per gallon, with rates on alternative fuels set at a proportionate level based on their relative energy content. Fuel used off the public highways (mostly on farms) is exempt from this tax. The state tax subsidies for gasoline-alcohol blends (gasohol) have been eliminated.

Vehicle registration taxes. All vehicles using the public streets and highways must be registered and licensed unless they are tax-exempt (chiefly publicly owned vehicles). Automobiles, including light pickup trucks and vans, are taxed on the basis of value with a maximum tax of \$199 in the second year and \$89 in subsequent years, and a minimum tax of \$35. The value is the manufacturer's suggested retail price for the vehicle without any options, with annual or biennial depreciation according to a statutory schedule. Trucks, buses, and recreational vehicles are taxed on the basis of weight and age. Farm trucks pay a reduced tax.



Deposit of revenues. The state constitution requires the net proceeds from both these taxes to be placed in the Highway User Tax Distribution Fund (HUTDF). From this fund the money is distributed for state, county, and municipal highways and streets (see "Where the Money Goes").

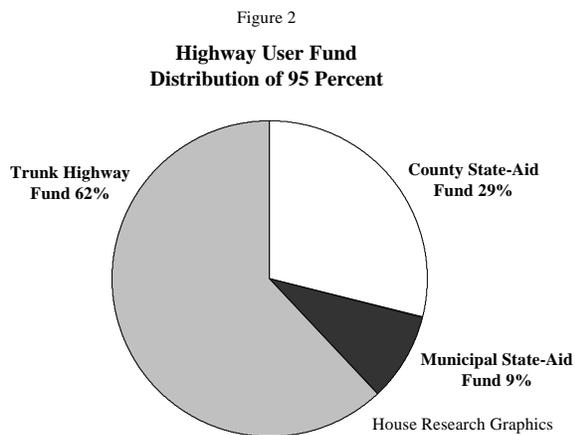
Other Revenue Sources. In addition to HUTDF funds, state highways receive substantial amounts of federal highway aid. State-aid county highways and city streets are funded by both state aids and local property taxes. Local roads and streets not on a state-aid system are funded almost entirely by property taxes, and small amount of federal aid designated for specific projects.

In fiscal years 2001 and 2002 the HUTDF will receive set amounts (\$150 million and \$162 million respectively) from the general fund to make up for revenue lost when automobile license taxes were reduced by the 2000 legislature. In 2003 and subsequent years this makeup revenue will come from a dedicated 32 percent of motor vehicle sales tax revenue.

In fiscal year 2001 the legislature appropriated an additional \$282 million for state highways and \$30 million for state-aid streets and highways, with both appropriations coming from the state's general fund. Such a direct appropriation from general revenues directly for highways is historically very uncommon. State highways can also receive money from the sale of state trunk highway bonds, which are backed by money in the trunk highway fund. The 2000 legislature authorized the sale of \$100 million in trunk highway bonds, the first such bond issue since the early 1980s.

Where the Money Goes

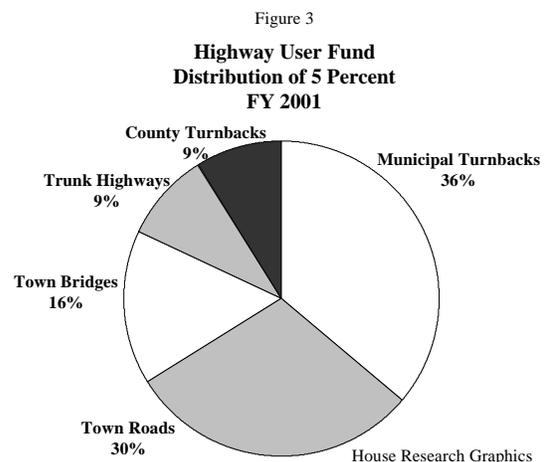
Distributing the Money. Distribution of money in the Highway User Tax Distribution Fund is governed by constitutional provisions. The constitution sets out the formula for distributing 95 percent of the HUTDF, but gives the legislature some leeway in distributing the remaining 5 percent.



Distribution of 95 percent. The constitution specifically prescribes a formula to divide 95 percent of the HUTDF. Sixty-two percent goes to the Trunk Highway Fund, which pays for construction, maintenance, and administration of state trunk highways. Another 29 percent goes to the County State-Aid Fund for the county state-aid highway system. The remaining 9 percent goes to the Municipal State-Aid Fund for state-aid streets in cities with populations of 5,000 or more.

Five Percent Set-Aside. The constitution also provides that 5 percent of the HUTDF may be allocated among these three funds with a different formula written by the legislature, but that this formula can be changed no more than once every six years. The legislature made such a change in 1998, making it effective at least until 2004.

For several years the legislature has used part of the 5 percent set-aside to aid town roads and town bridges and this policy was retained in the new formula, with about 47 percent of the set-aside going to towns. The remainder of the set-



aside was allocated to a new “flexible fund” that will go primarily for restoring former state highways that have been transferred (turned back) to county or city jurisdiction. It is expected that when the current backlog of such turnback projects has been eliminated, much of the flexible fund will go for regular state highway construction projects.

Appropriating the Money. Although the constitution and Minnesota law specify how money in the HUTDF is distributed, the actual appropriation of the money out of the Trunk Highway Fund and the local State-Aid Funds is made biennially by the legislature. Money in the Trunk Highway Fund is appropriated to the Minnesota Department of Transportation (MnDOT) and other agencies for state highway purposes. Money in the local State-Aid Funds is appropriated to MnDOT for counties and cities over 5,000 in population, distributed according to statutory distribution formulas.

The Highway Funds

State Trunk Highway Fund. The State Trunk Highway Fund is constitutionally dedicated to paying the costs of the state trunk highway system. This system (which includes interstate highways) accounts for only about 9 percent of Minnesota’s total highway miles but carries almost two-thirds of the total traffic.

In addition to money from highway user taxes, the Trunk Highway Fund receives revenue from federal highway aids and from state driver’s license fees.

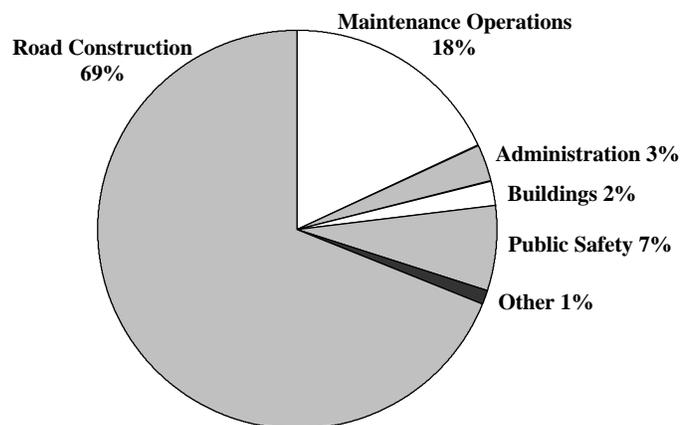
Most of the money in the Trunk Highway Fund is appropriated to MnDOT for constructing, repairing, maintaining, and administering the trunk highway system. The Trunk Highway Fund also pays for all the highway-patrolling costs of the Minnesota State Patrol, which is part of the Department of Public Safety.

County State-Aid Highway Fund. The County State-Aid Highway Fund (CSA) is distributed among the state’s 87

counties to pay for constructing, repairing, and maintaining the county state-aid highway system. County state-aid highways are nominated by counties and approved by MnDOT. They generally are county roads that carry relatively high traffic volumes or provide important connections or access to markets or population or economic centers.

Figure 4

Trunk Highway Fund Spending FY 2001



House Research Graphics

The distribution formula for county state-aids, set by the legislature, divides the fund annually as follows:

- ▶ 10 percent divided equally among the 87 counties
- ▶ 10 percent divided according to each county's vehicle population
- ▶ 30 percent divided according to each county's total state-aid lane-miles (a lane-mile is a single mile of highway multiplied by its number of lanes)
- ▶ 50 percent divided according to each county's money needs (the amount needed to bring the county's entire state-aid system up to state standards)

There are approximately 30,100 miles of county state-aid highways in Minnesota, accounting for about two-thirds of the total mileage of all county highways.

Municipal State-Aid Street Fund. Eligibility for the Municipal State-Aid Street Fund (MSA) is limited to cities of 5,000 or more population. Presently about 125 cities participate in the system. The MSA system consists of about 2,200 miles out of a total of over 16,000 miles of city streets in the state. Each MSA city may have only 20 percent of its total street miles in the state-aid system. Selection criteria for inclusion on the municipal state-aid street system are similar to those for the county system.

The statutory formula for dividing the MSA fund is considerably simpler than the CSA formula. One-half the fund is divided according to population and the other half according to each city's money needs for its MSA streets.

Fairness of the Distribution

The table below compares each level of government's share of highway user taxes with its total highway mileage and the traffic that those highways carry.

A Comparison of HUTDF by Systems

Government System	Total Highway Mileage	Percent of Total	Traffic (VMT*)	Percent of Total	Share of Highway User Taxes FY 2001
State Trunk Highways	11,930	9.1%	29.2	60.7%	59.3%
County Highways	45,287	34.5	11.3	23.5	29.4%
City Streets	18,098	13.8	6.5	13.6	8.9%
Town/Other	56,018	42.6	1.1	2.2	2.3%

*VMT = vehicle miles traveled on each system, in billions, 1998

Even though the constitutional formula that covers 95 percent of highway user tax revenue has not changed since 1956, there is still a reasonably close correlation between how much of that revenue each level of government receives and how much traffic its roads carry.