Minnesota Roadway Funding

Revenue Sources & Distribution

July 2020

TPEC TRANSPORTATION POLICY AND ECONOMIC COMPETITIVENESS

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9. Abstract Minnesota roadway funding comes from a combination of federal, state, and local sources. Federal funding comes primarily from the federal motor fuel tax, while most state funding comes from the three state highway user taxes: the state motor fuel tax, the registration tax, and the motor vehicle sales tax. These funds support the state trunk highway system that includes interstates and state highways, in addition to providing aid to local governments. Local highway funding comes from general funds, made up primarily of property taxes and assessments, in addition to a few dedicated local transportation taxes. This revenue is used to support highways and streets under the jurisdiction of counties, cities, and townships. The network of highways and local roads is essential to the state's economy and the daily activities of Minnesota residents. Maintaining, expanding, and operating this infrastructure is a major expense for the state and local governments inside Minnesota. Generating sufficient revenue for highways and streets remains a major challenge, and recent revenue projections estimate a shortfall of $18 billion in necessary funding between 2018 and 2037, for the state highway system alone. Understanding Minnesota's road financing structure is important to anticipate and address future transportation changes. This report details federal, state, and local government funding for the roadway system in Minnesota. It explores how roadway funding is generated and distributed, as well as the history of current funding mechanisms. Statistics from the Minnesota Transportation Finance Database are used throughout this paper.	
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Jerry Zhao, Camila Fonseca, Nate Bean, and Adeel Lari

TPEC, Transportation Policy and Economic Competitiveness

IURIF, Institute for Urban and Regional Infrastructure Finance

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Contents

List of Acronyms

Acronym	Meaning
ATP	Area Transportation Partnership
ATV	All-Terrain Vehicle
CMAQ	Congestion Mitigation and Air Quality Program
CSAH	County State-Aid Highway
DNR	Department of Natural Resources
DPS	Department of Public Safety
DVS	Driver and Vehicle Services
FAST	Fixing America's Surface Transportation Act
FHWA	Federal Highway Administration
HSIP	Highway Safety Improvement Program
HTF	Highway Trust Fund
HUTDF	Highway User Tax Distribution Fund
MnDOT	Minnesota Department of Transportation
MnSHIP	Minnesota State Highway Investment Plan
MSAS	Municipal State-Aid Streets
MVLST	Motor Vehicle Lease Sales Tax
MVRT	Motor Vehicle Registration Tax (Tab Fee)
MVST	Motor Vehicle Sales Tax
NHPP	National Highway Performance Program
NHS	National Highway System
SPP	Statewide Performance Program
SRC	State Road Construction Program
STBG	Surface Transportation Block Grant Program
STIP	State Transportation Investment Plan
TAF	Transit Assistance Fund

1 Introduction

Minnesota roadway funding comes from a combination of federal, state, and local sources. Federal funding comes primarily from the federal motor fuel tax, while most state funding comes from the three state highway user taxes: the state motor fuel tax, the registration tax (tab fee), and the motor vehicle sales tax (MVST). These funds support the state trunk highway system that includes interstates and state highways, in addition to providing aid to local governments. Local highway funding comes from general funds, made up primarily of property taxes and assessments, in addition to a few dedicated local transportation taxes. This revenue is used to support highways and streets under the jurisdiction of counties, cities, and townships.

Minnesota boasts 141,000 miles of roadways, one of the largest state road systems in the country. The network of highways and local roads is essential to the state's economy and the daily activities of Minnesota residents. Maintaining, expanding, and operating this infrastructure is a major expense for the state and local governments inside Minnesota. Generating sufficient revenue for highways and streets remains a major challenge, and recent revenue projections estimate a shortfall of $18 billion in necessary funding between 2018 and 2037, for the state highway system alone (MnDOT, 2017). Understanding Minnesota's road financing structure is important for anticipating and addressing future transportation changes.

This report details federal, state, and local government funding for the roadway system in Minnesota. It explores how roadway funding is generated and distributed, as well as the history of current funding mechanisms. Statistics from the Minnesota Transportation Finance Database[1] are used throughout this paper. This database was developed as part of the Transportation Policy and Economic Competitiveness Program and features data about most of the federal, state, and local revenue used to fund roadways in Minnesota.

This report is structured as follows. The next section explores the revenue sources and distribution of federal highway funding in Minnesota. Section 3 examines the constitutional and statutory dedication of state highway revenue in Minnesota as well as the distribution of the funding. Section 4 provides an overview of local transportation funding in Minnesota. Finally, in Section 5 we present a summary of roadway funding sources and distribution in Minnesota.

[1] Accessed at http://tpec.umn.edu/research/finance/MNTF/data/index.html

2 Federal Highway Funding

2.1 Federal Highway Funding Sources

Federal transportation funding comes from the motor fuel tax and taxes on heavy trucks, trailers, and truck tires, which are deposited in the Highway Trust Fund (HTF). These dedicated HTF revenue sources raise around $40 billion per year (Congressional Budget Office, 2018).

The federal motor fuel tax is the most important source of HTF revenue, accounting for eighty-five to ninety percent of annual funding. The tax on gasoline and related fuels raised $25.7 billion in 2018, while taxes on diesel and kerosene generated $9.9 billion (Peter G. Peterson Foundation, 2018). In 2019, the federal excise tax was 18.4 cents per gallon of gasoline and 24.4 cents per gallon of diesel, while the tax rate for special fuels varied between 9.25 and 24.3 cents per gallon (Lowry, 2015).

Taxes on heavy-trucks, trailers, and truck tires provide the remaining HTF funding. Retailers must pay a 12 percent federal tax on the sale price of trucks over 33,000 pounds and trailers over 26,000. Heavy-trucks over 55,000 pounds must pay an annual tax of $100 plus an additional $22 per 1,000 pounds over 55,000. This tax is capped at $550 (Federal Highway Administration, 2017). Finally, the federal sales tax on tires applies to all tires over 3,500 pounds, and is imposed at a rate of 9.45 cents per 10 pounds in excess of 3,500.

The purchasing power of the federal gas tax has decreased by over 40 percent since it was last raised in 1993 (Peter G. Peterson Foundation, 2018). Because of this trend, HTF revenue raised through dedicated revenue sources has become insufficient to meet transportation obligations. In consequence, since 2008 Congress has authorized supplementing fuel tax revenues with transfers from the U.S. Treasury general fund. The trust fund has received $140 billion in general revenues since then to maintain its solvency (Tax Policy Center, 2018).

2.2 Federal Highway Funding Distribution

Funds in the HTF are distributed for highway and transit purposes through the highway and mass transit accounts. The highway account receives about 85 percent of the total funding (Congressional Budget Office, 2018) including the majority of the proceeds from gasoline and special fuel taxes, and all revenue from the taxes on trucks, trailers, and truck tires. About 80 percent of general fund transfers since 2008 also went to the highway account. The mass transit account receives the remaining 2.86 cents per gallon of the gasoline tax (Kirk, 2019).[2] Typically, 85-87 percent of Minnesota's HTF funding comes from the Highway Account, although its share dipped to 80 percent

[2] 0.1 cents per gallon of the motor fuel tax is allocated to the Leaking Underground Storage Tank Fund (Kirk and Mallett, 2019). This funding is used to fund cleanups of petroleum leaks from underground storage tanks and conduct inspections (U.S. Environmental Protection Agency, 2018).

for several years around 2000 (see Figure 1).

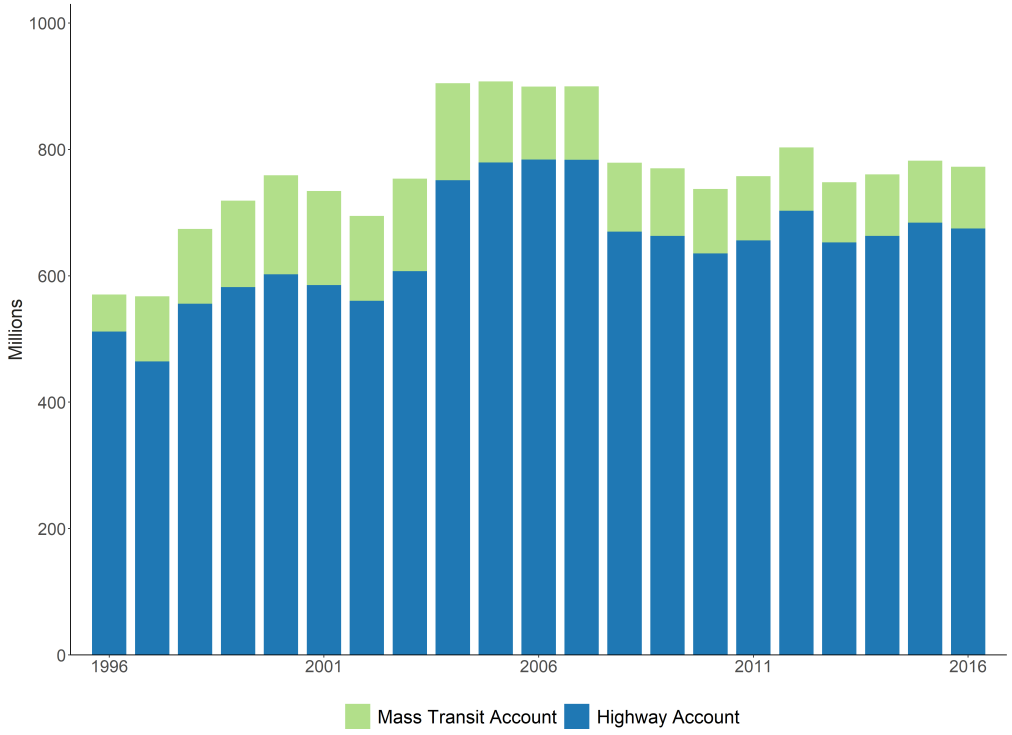

Figure 1: Funds from Highway and Mass Transit Accounts

Notes: *All data is presented in constant 2019 dollars.* ***Source****: Minnesota Transportation Finance Database.*

Federal funding from the highway account is awarded to states through the apportionment process (92 percent) and allocation (8 percent). The Fixing America's Surface Transportation (FAST) Act authorizes the apportionment of HTF funds until the end of FY2020 (Federal Highway Administration, 2016a). Apportioned funds are distributed to states through several formula programs, and under the FAST Act Minnesota received an average of $688 million in annually apportioned funds. The Federal Highway Administration (FHWA) allocates highway funds for projects either based entirely in law or using discretionary grants. Funding distributed through this method comes from programs such as Nationally Significant Freight and Highway Projects and the Transportation Infrastructure Finance and Innovation Act (Federal Highway Administration, 2017). Federal funding from the mass transit account is used for transit programs authorized by the Federal Transit Administration. Funding for these programs is distributed using a mix of discretionary and formula methods.

The FAST Act apportions highway funding to states through several programs: the National Highway Performance Program (NHPP), the Surface Transportation Block Grant (STBG)

Program, the Congestion Mitigation & Air Quality Improvement Program (CMAQ), the Highway Safety Improvement Program (HSIP), the Railway-Highway Crossings Program (RHC), the Metropolitan Planning Program, and the National Highway Freight Program (NHFP) (Federal Highway Administration, 2016a). States receive their total federal aid award as a lump sum using a formula based on their FY 2015 apportionment (FAST Act §§ 1101, 1104; 23 U.S.C. 104, 130). This amount is adjusted, if necessary, so that each state receives an award equal to at least 95 percent of its contribution to the Highway Account. Each state's total award is then divided between different programs according to law.

Figure 2 shows the amount of apportioned funds received by each state in 2020. Minnesota ranked 23rd in federal funding that year, and many of the states that received the most federal funding are located in the eastern U.S. Federal aid received by each state is primarily determined by previous allocations, which in turn reflected factors such as interstate and federal-aid highway mileage, vehicle miles traveled, and HTF contributions by residents of each state (Davis, 2019).

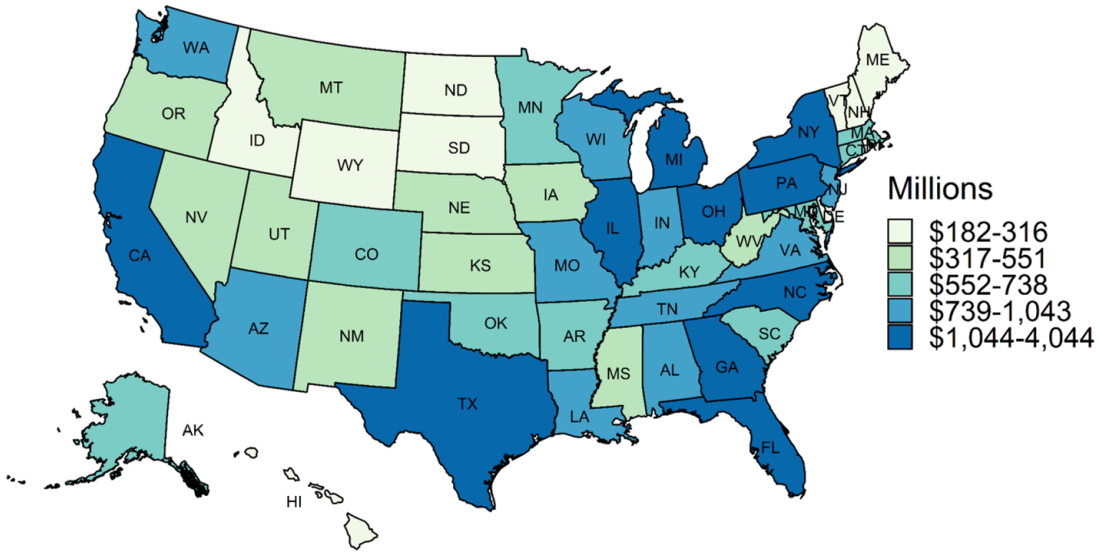

Figure 2: Federal Highway Funding by State in 2020

Note: *Data is presented in 2020 dollars.* ***Source:*** *Federal Highway Administration, Apportionment and Obligation Notices*

Federal funding apportioned to Minnesota under the FAST Act was about $704 million in 2020, using constant 2019 dollars (FHWA, 2019). Figure 3 presents the division of the Minnesota's federal highway funding between programs. Minnesota receives about 85 percent of its federal highway funding through the NHPP and STBG. The HSIP is the next largest and accounts for around 5 percent of total federal highway funding.

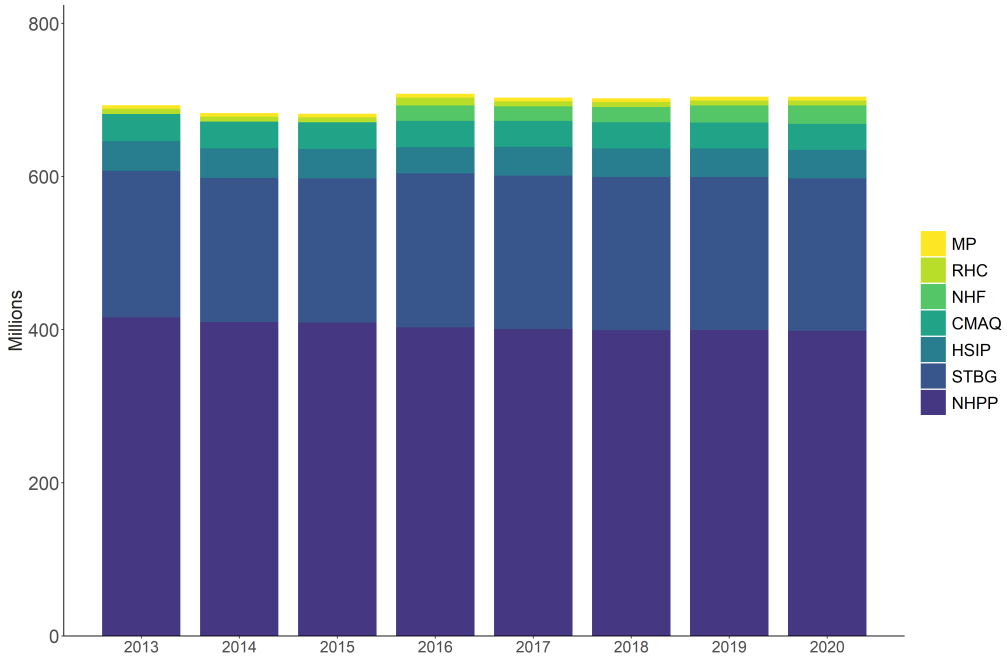

Figure 3: Federal Highway Funds allocated by Program

Note: *All data is presented in constant 2019 dollars. An inflation rate of 2.0 percent is assumed for 2020. Funding amounts are prior to post-apportionment set asides, penalties, and sequestration. MP: Metropolitan Planning, RHC: Railway-Highway Crossings Program, NHFP: National Highway Freight Program, CMAQ: Congestion Mitigation and Air Quality Improvement, HISP: Highway Safety Improvement Program, STBG: Surface Transportation Block Grant, and NHPP: National Highway Performance Program.* ***Sources****: Federal Highway Administration, Apportionment and Obligation Notices.*

The use of federal highway revenues apportioned to Minnesota varies by federal program. Projects must be included in the State Transportation Improvement Plan (STIP) or Capital Highway Investment Plan (CHIP) to receive federal funding. Some state and local projects are awarded federal funds through submission to an Area Transportation Partnership (ATP),[3] while MnDOT centrally awards federal funds for others, depending on the program. ATPs include representatives from local governments, regional development commissions, Metropolitan Planning Organizations (MPOs), tribal governments, and MnDOT and were introduced to ensure a collaborative project selection process between MnDOT districts and local stakeholders (Metropolitan Council, 2019).

NHPP funds support the National Highway System (MnDOT, 2017). Ninety-eight percent of NHPP funds MnDOT's Statewide Performance Program (SPP) and two percent is used for planning and research (MnDOT, 2019). SPP funds are used for pavement preservation, bridge rehabilitation and replacement, and projects to improve the performance of the National Highway System (NHS). Few NHS roadway miles are under the jurisdiction of local governments, so this

[3]The Metropolitan Council and Transportation Advisory Board serve as the ATP in the seven-county Twin Cities metro area.

funding is directed by MnDOT to meet national performance measures. Project selection is determined by collaboration between MnDOT's district offices, specialty offices, and central office (Southwest Area Transportation Partnership, 2016).

The STBG program provides flexible funding for state and local transportation needs. Two percent of STBG funding is used for research purposes and other portions (that vary by state) go to the Transportation Alternatives set-aside and off-system bridges as mandated by federal law. Nationwide, about seven percent of STBG funding goes to Transportation Alternatives (Federal Highway Administration, 2016d), which focuses on non-highway related transportation activities such as walking and biking. About $17.3 million in Minnesota's STBG funding was reserved for Transportation Alternatives in 2019. That year, MnDOT made $6.2 million in Transportation Alternatives funding available to Greater Minnesota, while the Metropolitan Council awarded these funds in the seven-county metro area (MnDOT, 2019b). The amount dedicated to bridges outside of the Federal Aid Highway system is required to be at least 15 percent of a state's FY 2009 Highway Bridge Program apportionment, barring exemption. About $5.9 million was set aside for this purpose in Minnesota in 2020 (Federal Highway Administration, 2016c). After those deductions, 55 percent[4] of STBG funding flows to cities and counties according to federal STBG rules and 45 percent goes to MnDOT. The funding awarded to local governments is managed by ATPs, which select projects from counties and cities. Most federal funding available to local agencies comes from the STBG program. Several types of projects are eligible for this funding, but the largest expenditures are for highway and bridge construction (23 U.S. Code § 133). MnDOT's portion funds District Risk Management Program, which also receives state funding and supports pavement and bridge projects on non-NHS state highways. MnDOT distributes these program funds to ATPs for project selection using a formula (MnDOT, 2019).

HSIP received by MnDOT is intended to achieve a reduction in traffic fatalities and accidents on all public roads (Federal Highway Administration, 2016b). These program funds are awarded centrally by the MnDOT Office of Traffic Safety and Technology. Projects are solicited from MnDOT district offices and local governments for funding (Southwest Area Transportation Partnership, 2016).

A portion of funding from some federal highway programs is considered "flexible funding" and can be transferred by states between programs, to the Federal Transit Administration, or to local partners. This type of funding is intended to give states the ability to address their transportation needs using the methods they consider most effective for them. The CMAQ and STBG programs are the two main sources of flexible federal funding that can be used for transit. Previous research concluded that about 3 percent of federal highway funding (29 percent of available flexible funding) was transferred to transit projects between 2007 and 2011, although there was significant variation between states (Government Accountability Office, 2012). According to MnDOT's Annual Transit

[4]This percentage increases annually by 1 percent under the FAST Act. It was 51 percent in FY 2016 and 55 percent in FY 2020 (Federal Highway Administration, 2016c).

Report, a total of $209 million of flexible federal highway funds were used for transit capital projects in Minnesota between 2010 and 2017, using constant 2019 dollars (see Figure 4).

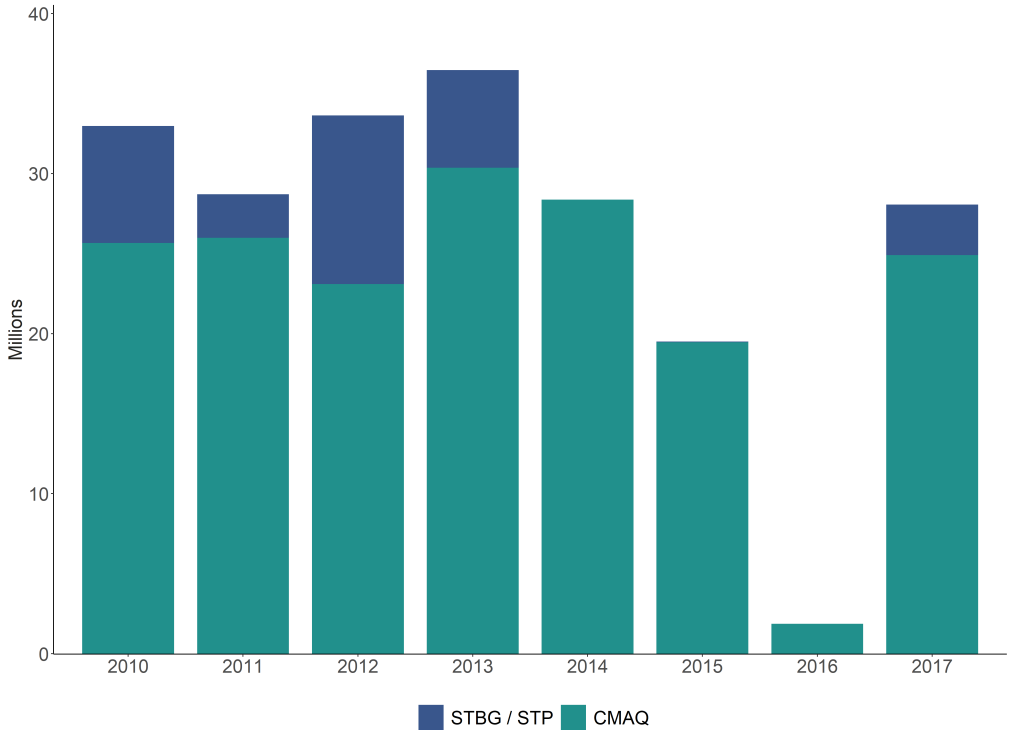

Figure 4: Minnesota Flexible Funding for Transit Projects (2010-2017)

Note: *All data is presented in constant 2019 dollars.* ***Source:*** *MnDOT Annual Transit Reports 2010-2017.*

3 State Roadway Funding

3.1 State Roadway Funding Sources

The largest sources of state roadway revenue are the state motor fuel tax, the registration tax (tab fees) and the motor vehicle sales tax (MVST) (see Figure 5). Additional funding sources such as the state sales tax on leased and rental vehicles (MVLST) and several vehicle-related sales taxes are also partially dedicated to highway purposes (Burress, 2018). Other revenue comes from general fund allocations and MnDOT activities including construction work performed for local governments and various fees, sales, and fines (Burress, 2020). Recent legislative changes in Minnesota have dedicated more funding exclusively to highway purposes. State highway revenue is deposited into the Highway User Tax Distribution Fund (HUTDF) and then distributed to specific transportation accounts.

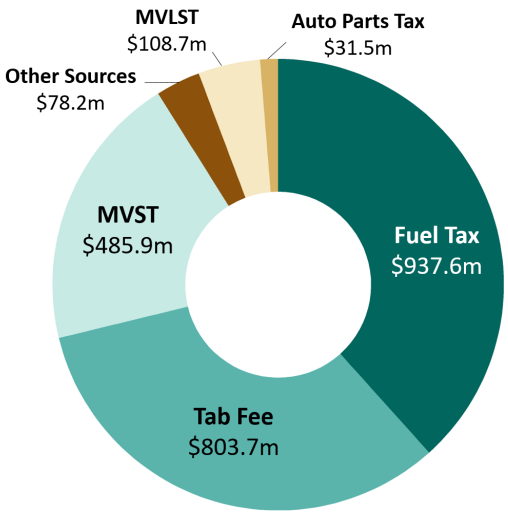

Figure 5: Minnesota State Highway Funds (2019)

Source: *Burress (2020)*

3.1.1 State Motor Fuel Tax

The state motor fuel tax is levied on gasoline, diesel fuel, compressed natural gas, and a variety of other special fuels. As of 2020, the motor fuel tax is imposed at 28.5 cents per gallon and includes a surcharge of 3.5 cents per gallon tied to debt service on trunk highway bonds (Burress, 2020).[5] Motor fuel taxes are are collected at the wholesale level by the Department of Revenue.[6] The Constitution (Minn. Const. art. XIV, § 10) dedicates revenues from the motor fuel tax to the HUTDF. However, about 3 percent of the total fuel tax revenue is attributed to fuel used in non-highway activities, such as operating all-terrain vehicles (ATVs) and motorboats (Minn. Stat. § 296A.18) (see Table 1). This revenue is transferred from the HUTDF to designated accounts within the Natural Resources Fund managed by the Minnesota Department of Natural Resources (DNR). The transferred motor fuel tax revenue is most commonly used for the acquisition, creation, and maintenance of trails; administration of related statues; and grants to local law enforcement agencies.

3.1.2 Motor Vehicle Registration Tax

The motor vehicle registration tax or tab fee is an annual tax imposed on all motor vehicles registered in Minnesota that use public streets and highways (Minn. Stat. § 168.013). The tax

[5]The most recent changes to the motor fuel tax rate resulted from the 2008 legislation that increased the tax by 8.5 cents. The transition occurred gradually over the fiscal years 2008 to 2013.

[6]Collection costs are small due to the small number of organizations being billed. In Minnesota collection costs were 0.252% of the total proceeds in 2017 (Minnesota Management and Budget, 2017).

Table 1: Funds Attributed to non-Highway Activities

Activity	**Designated Account**	**Percentage**
Motorboat	Water recreation	1.50%
Snowmobile	Snowmobile trails and enforcement	1.00%
All-terrain vehicle	All-terrain vehicle	0.27%
Off-highway motorcycles	Off-highway motorcycle	0.046%
Off-road vehicle	Off-road vehicle	0.164%
Forest road	State forest road	0.116%
Total		**3.096%**

Source: *Minn. Stat. § 296A.18*

applies to all passenger vehicles, motorcycles, trucks, buses, and other vehicles registered in the state and is collected by Driver and Vehicles Services (DVS) of the Department of Public Safety (DPS). Every vehicle pays a different amount depending on characteristics such as type, base value, weight, and year. For instance, passenger automobiles pay a tax of $10 plus an additional tax equal to 1.25 percent of the vehicle's value,[7] while trucks and tractors pay a tax based on gross weight and age. The state imposes an additional fee of $75 on all electric vehicles. All proceeds from the tab fee and electric vehicle fee are statutorily dedicated to the HUTDF.

3.1.3 Motor Vehicle Sales Tax

The motor vehicle sales tax is a 6.5 percent tax on the sale of new and used motor vehicles. The tax is paid to a deputy registrar or Driver and Vehicle Services of the Department of Public Safety (Minnesota Department of Revenue, 2020). A 2008 law dedicated 60 percent of MVST proceeds to the Highway User Tax Distribution Fund (HUTDF) and 40 percent to the Transit Assistance Fund (TAF) (Minnesota Department of Transportation, 2018b). The change was phased-in between 2008 and 2012 (Burress, 2020). In the year before the phase-in began, 30 percent of MVST revenue went to the HUTDF and 23 percent went to transit, while over 46 percent was deposited into the general fund (Zhao et al., 2010). As a result, the legislation increased dedicated highway and transit revenue.

[7]The tax decreases over time through the 10th year of registration. After the 10th year, the additional tax is $25 ($35 in total).

3.1.4 Other State Transportation Sales Taxes

The 2017 transportation funding bill (Laws 2017, 1st spec. sess., chapter 3) allocated additional revenue from multiple transportation-related sales taxes to the HUTDF. These transfers were expected to create $102.6 million in additional revenue starting in FY 2018 which would increase to $222.2 million by FY 2020 (Burress, 2018). Each of the taxes is collected by the Department of Revenue (Minn. Stat. 297A.94).

Motor Vehicle Lease Sales Tax

All motor vehicle leases are subject to the motor vehicle lease sales tax (MVLST). Leases of more than 28 days have a sales tax of 6.875 percent, which includes the 6.5 percent general sales tax and a 0.375 percent additional tax. The additional sales tax was enacted to support natural and cultural services, and does not provide transportation funding (Dalton, 2017). There have been multiple recent legislative changes to the distribution of MVLST revenue from the 6.5 percent general sales tax. Prior to 2008, all MVLST revenues were non-dedicated and deposited into the general fund. The 2008 transportation funding bill set aside $32 million in annual revenue for the general fund, but dedicated 50 percent of the remainder to the Greater Minnesota transit account and the other 50 percent to the County State Aid Highway (CSAH) fund (Burress and Zewers, 2008).[8] Later, 2017 legislation dedicated all MVLST revenues (from the 6.5 percent general sales tax) to transportation, with 38 percent dedicated to the Greater Minnesota transit account, 38 percent to the CSAH fund, 11 percent to the HUTDF, and 13 percent to the Local Bridge Replacement Program (Burress, 2020).

Short-term Rental Tax

Short-term leases of 28 days or less carry an additional 9.2 percent tax and 5 percent fee in addition to the 6.875 percent general tax, resulting in total taxes and fees of 21.075 percent. Small vehicle lessors can opt out of charging the extra fee. Revenue from all three sources is allocated entirely to the HUTDF. Taxes and fees on short-term rentals generated $43.6 million in 2018 (Dalton, 2017).

Automotive Parts Sales Taxes

Automotive parts sales taxes are defined as those collected on parts, tires, accessories, and equipment incorporated into or affixed to the motor vehicle as part of vehicle maintenance and repair, plus paint, oil, and other fluids that remain on or in the vehicle as part of maintenance or repair (Minnesota Statute §297A.94). Since 2017, a fixed amount of revenue from 6.875 percent

[8]The county highway funds are distributed among the metro counties, minus Hennepin and Ramsey.

general state sales tax on auto parts has been dedicated to the HUTDF. It had previously been dedicated to the general fund. In 2018 and 2019, $31.4 million of this revenue was dedicated to the HUTDF. Beginning in 2020, this amount increased to $145.6 million annually (Minnesota House Fiscal Analysis Department, 2019).

3.1.5 Other State Highway Revenue Sources

Some highway funding can come from the state general fund, although it is not a consistent source of highway funding in Minnesota. $15 million was transferred from the general fund in 2018 to support the Small Cities Assistance program, town roads, and county roads in the Twin Cities metro area. A smaller general fund transfer of $1.1 million in 2019 provided funding for highway corridor and bridge improvement studies (Burress, 2020). HUTDF revenues from various other MnDOT activities also totaled $78.2 million in 2019. These activities included construction work performed for local government agencies as well as various fees, sales, and fines.

3.2 State Roadway Funding Distribution

State highway funds discussed in the previous section flow into the HUTDF (see Figure 6). One exception is the 38 percent of MVLST revenue that is allocated straight to the CSAH fund. This section discusses how highway funds are allocated after being collected in the HUTDF and to what extent this funding is diverted away from highways.

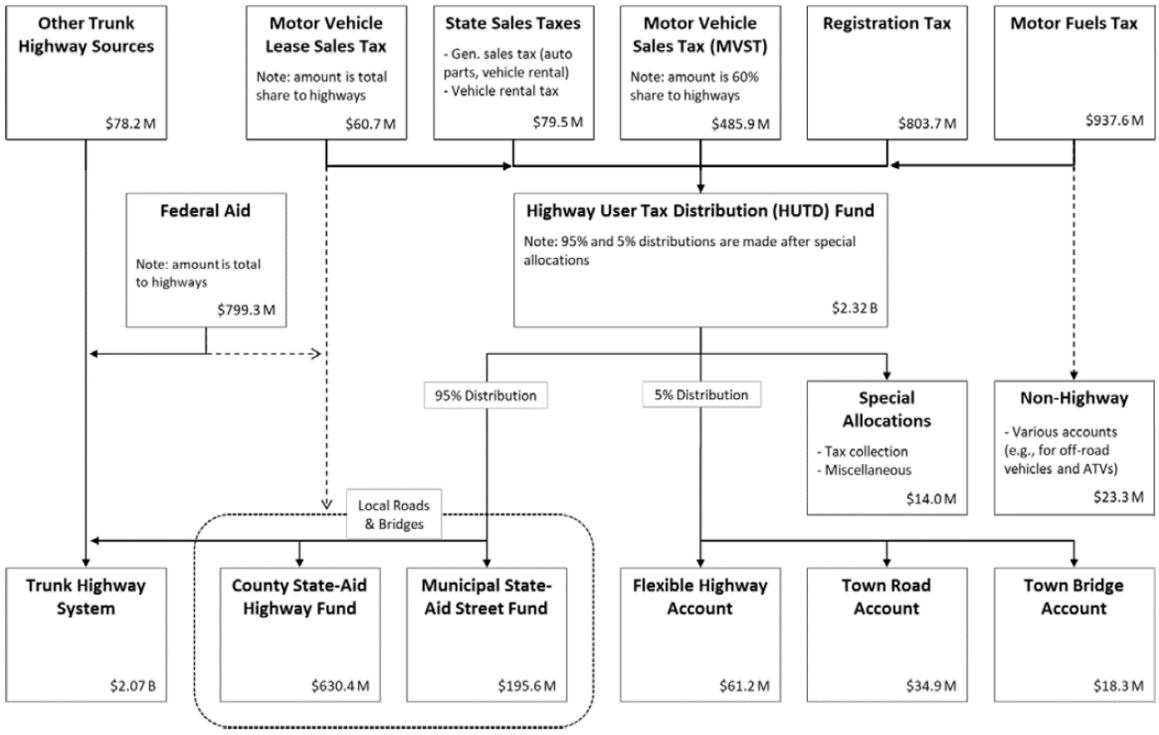

Figure 6: Distribution of Minnesota State Highway Funds
Source: *Originally published in Burress (2020).*

3.2.1 Highway User Tax Distribution Fund

Revenues from the state fuel tax, tab fees, and 60 percent of the MVST are dedicated to the HUTDF along with other previously mentioned revenue sources. Funds collected in the HUTDF are to be used solely for highway purposes (Minn. Const. art XIV, sec. 5) and are apportioned in two parts after some funding is deducted for collection costs, transfers, and refunds to agencies such as the DNR, Department of Public Safety, and Department of Revenue. In 2019, $37 million was deducted from the HUTDF, of which about two-thirds were from transfers of fuel tax revenue as described in Section 3.1.1. Ninety-five percent of the remaining funds are disbursed through a constitutional formula that distributes 62 percent of the formula funds to the Trunk Highway Fund, 29 percent to CSAH fund, and 9 percent to the Municipal State-Aid Street (MSAS) fund. The remaining 5 percent is "set aside" and can be apportioned by law to one or more of the three foregoing funds. Following Minn.Stat.§161.081, these funds are currently distributed into the CSAH fund and divided between the flexible account (53.5 percent), the town road account (30.5 percent), and the town bridge account (16 percent).

Funds in the *Trunk Highway Fund* are used for MnDOT's operation and construction programs. The construction program is referred to as the State Road Construction Program (SRC) and the funds can only be spent on transportation projects within the state trunk highway right.of-way.

3.2.2 County State-Aid Highway (CSAH) Fund

Funds in the *County State-Aid Highway Fund* are distributed among counties on a formula basis for the construction, improvement and maintenance of highways included in the state-aid system (Minn. Const. art. XIV, sec. 7). Revenues include both those from the HUTDF formula distribution (29 percent of the HUTDF) and 38 percent of the MVLST according to Minn. Stat. § 297A.815. Counties that receive this funding are required to spend 60 percent on construction and 40 percent on maintenance. In addition, counties must spend a share of the aid on stretches of state-aid highways located within "small cities" – populations under 5,000 – proportional to the share of construction needs for county state-aid highways segments located in those cities (Burress, 2019a). CSAH funds are allocated as follows:

(*i*) Two percent of the funds are deducted for MnDOT administrative costs. One percent is subtracted from the remaining balance to a disaster account. Counties can request money from this account to pay for work on the CSAH system stemming from disasters or unforeseen events. In addition, no more than one-half of one percent is subtracted for the research account. Three-quarters of one percent is subtracted for the state park roads account after the previous deductions have been made. This funding is dedicated to CSAHs, city streets, and town roads that provide access to outdoor recreation opportunities (Minn.Stat. § 162.06). These deductions totaled $21.8 million in the calendar year 2019 (Burress, 2019a).

(*ii*) MVLST funding is allocated by formula to Twin Cities metropolitan area counties, excluding Hennepin and Ramsey, in proportion to their populations (Minn.Stat. § 297A.815).

(*iii*) The 5 percent set-aside from the HUTDF is allocated as follows: 1) The portion deposited in the Town Bridge Account is allocated to counties based on deficient bridge needs. 2) The portion deposited in the Town Road Account is allocated based on township road mileage. 3) The portion of the set-aside deposited in the flexible highway account is allocated to individual agencies for municipal or county road turn-backs (MnDOT, 2019a).

(*iv*) Core aid from the HUTDF that includes the apportionment sum and the excess sum is distributed by formula (see Table 3).

Table 3: Distribution of Core Aid

Core Aid	**Percentage**	**Distribution Basis**
Apportionment Sum	10%	Equal distribution to all counties
	10%	Proportionally based on vehicle registration
	30%	Proportionally based on county's state aid lane-miles
	50%	Proportionally based on construction needs
Excess Sum	60%	Proportional to county's share of construction needs
	40%	Proportional to county's share of total motor vehicles registered

Note: *Apportionment Sum corresponds to 68% of the Core Aid and Excess Sum to 32% of Core Aid.*

3.2.3 Municipal State-Aid Street (MSAS) Fund

Funds in the *Municipal State-Aid Street* (MSAS) *Fund* are distributed among cities with populations greater than 5,000 for the construction and maintenance of city state-aid roads (State Constitution, Article XIV Public Highway System, Section 8 Municipal State-Aid Street Fund). Funds are allocated as follows:

(*i*) Two percent of the funds are deducted for MnDOT administrative costs. Two percent of the remaining balance is subtracted for the disaster account. Next, no more than one-half percent of the remaining balance is subtracted for the research account

(*ii*) The remaining funds are allocated through a formula. Fifty percent of funds are distributed proportionally based on population and 50 percent are distributed proportionally based on the MSAS construction needs of each city (Burress, 2019b).

Cities can request a minimum of $1,500 per improved mile or up to 35 percent of their total allocation be deposited into their maintenance account. The rest of the MSAS fund allocation goes to the construction account (Minnesota Department of Transportation, 2018a).

4 Local Roadway Funding

Most local roadway spending is supported by general fund revenues, primarily made up of proceeds from property taxes, special assessments, and sales taxes. While federal and state revenue is almost exclusively generated through highway-related activities, most local roadway funding comes from these general tax revenues. Figure 7 shows the trend in roadway funding from local governments between 2004 and 2018. Local funding fell by about $360 million between 2006 and 2011, but increased significantly afterward. Since 2004, cities have been responsible for the majority of local roadway funding. Units of local government spent $1.95 billion in total on roadways in 2018, using constant 2019 dollars.[9]

[9]Local governments also raised $141.4 million in bond proceeds during 2017, although bonds do not generate revenue so they were not included in Figure 7.

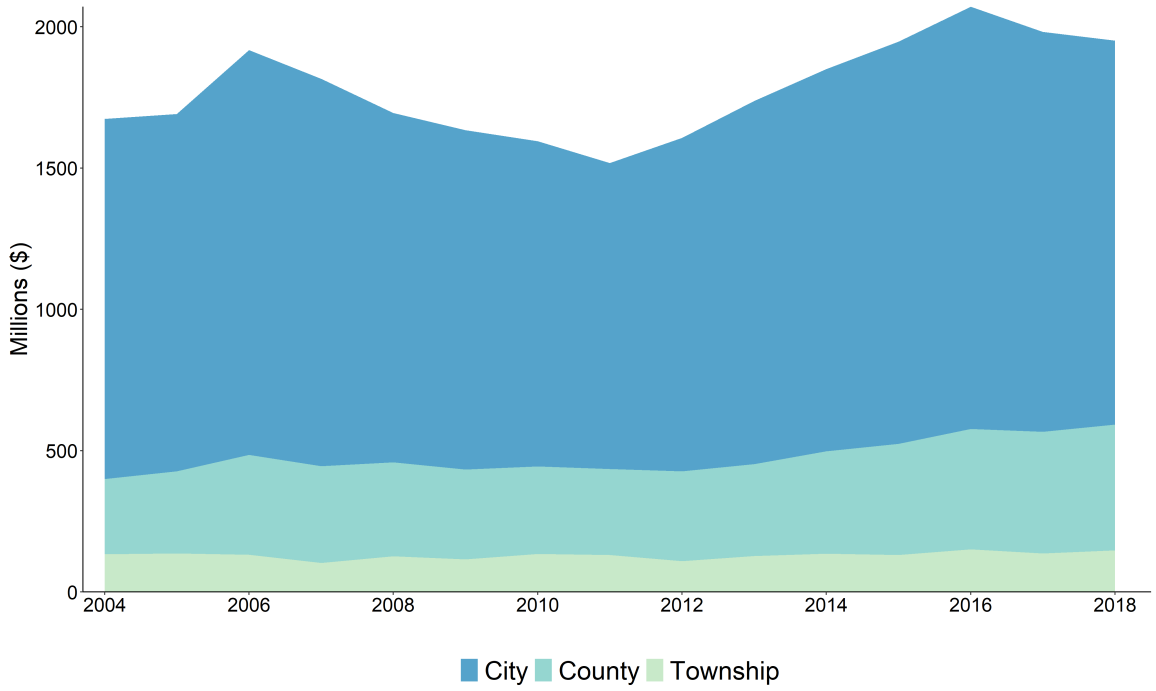

Figure 7: Local Highway Funding in Minnesota

Notes: *All data is presented in constant 2019 dollars.* ***Source:*** *Minnesota Transportation Finance Database.*

In addition to revenue collected through property taxes and other general funds sources, counties are authorized to collect local option sales taxes, vehicle excise taxes, wheelage taxes, and gravel taxes to raise additional highway funding. Many of these taxes have been authorized over the last two decades and they present an increasingly important option for local governments to generate transportation revenue.

4.1 Local Option Sales Taxes

Minnesota Statute 287A.993 authorized Minnesota counties to levy a local option sales tax for transportation in 2008. The statute specifies a maximum rate of 0.5 percent and proceeds from the tax must be dedicated to a specific transportation project, or list of projects. Eligible expenses are capital costs for a specific transportation project or improvement, capital or operating costs of a specific transit project or improvement, capital costs of the Safe Routes to School program, or transit operating costs. Unless the tax is used to support transit operating costs, it terminates when the designated project is completed. The tax is collected by the Department of Revenue. Fifty-three counties imposed a local option sales tax for transportation as of October 2019 (Dalton, 2019).[10] Of them, forty-eight imposed a 0.50 percent rate and five imposed a 0.25 percent rate.According

[10]The Metropolitan Transportation Area sales tax was also created in 2008. This allowed all metro counties to form a joint powers agreement and charge a 0.25 percent sales tax across the participating counties. Five metro counties eventually joined the agreement, but it ended in 2017.

to data from the Minnesota Transportation Finance Database, counties generated $333.6 million in revenue from local transportation sales taxes in 2018.[11]

4.2 Excise Taxes

Minnesota Statute 287A.993 also grants counties the ability to levy an excise tax of $20 on motor vehicle purchases. Excise tax revenue may be used for the same purposes as proceeds from local option sales taxes. Twelve counties generated $7.7 million in excise tax revenue during 2018, according to the Minnesota Transportation Finance Database. Local vehicle excise taxes are also collected by the Department of Revenue.

4.3 Wheelage Taxes

Minnesota Statute 163.051 authorizes counties to collect a flat tax, called a wheelage tax, added onto the tab fee each time a vehicle's registration is renewed (MN Association of Counties, 2019).[12] Proceeds from the wheelage tax are paid to the county where the vehicle is primarily stored when not in use. Fifty-two counties currently collect a wheelage tax, and according to data from the Minnesota Transportation Finance Database, it generated $43.5 million for roadway projects in 2018.

Counties in the seven-county metro area were first authorized to collect a $5 wheelage tax in 1972 (Minnesota Transportation Alliance, 2019). However, the tax was never adopted because counties were required to reduce their property tax levy by the amount collected through the tax. In 2008, the legislature removed this restriction and five metro counties adopted wheelage taxes. Greater Minnesota counties were granted this authority in 2013 and the tax was set at a higher rate of $10. Beginning in January 2018, the tax changed to have a statutory minimum of $10 and a statutory maximum of $20. Eleven counties increased their tax to $20 in 2018 and two increased their tax to $15 (Department of Vehicle Services, 2019).

All wheelage tax revenue is collected by the DVS. Counties can administer the tax themselves, but none have currently chosen to. DVS deducts a portion of the total revenue to recover the cost of administering the tax, which was about $145,000 across all counties in 2018. Counties are statutorily mandated to deposit wheelage tax revenue in their road and bridge funds to be used for highway purposes.

[11] Only 41 counties collected the tax by the end of 2018.

[12] Motorcycles and mopeds, trailers and semi-trailers, collector vehicles, and tax-exempt and state-owned vehicles are not subject to wheelage taxes.

4.4 Gravel Taxes

Gravel taxes are imposed on aggregate material mined in the state including silica sand, gravel, limestone, and granite. All counties are authorized to administer and collect the tax by Minnesota Statute 298.75. A few townships in St. Louis and Ottertail counties are also authorized to collect gravel taxes by special legislation, although only one did so in 2017. A gravel tax rate of 21.5 cents per cubic yard or 15 cents per ton is required by state law. According to data from the Minnesota Transportation Finance Database, 35 counties authorized the tax in 2017 and collectively raised $3.3 million. Counties may deduct up to five percent of this revenue for administrative fees, but the remainder must be spent as follows (Kleman, 2018):

- 42.5 percent must be added to the county road and bridge fund for the maintenance, construction, and reconstruction of roads, highways, and bridges
- 42. percent must be added to the general fund of the city or town in which the mine is located, or to the county where the mine is located in an unorganized town, for maintenance, construction, and reconstruction of roads, highways, and bridges
- 15 percent must be put into a reserve fund dedicated to the restoration of abandoned pits, quarries, or deposits located within the county

5 Summary

The federal government, state government, and local governments all generate significant roadway funding in Minnesota. The sources of federal revenue, and the federal motor fuel tax rate, have remained the same over recent decades. The stagnation in the federal motor fuel tax rate has led to more reliance on other funding sources. Minnesota receives most of its federal highway funding through programs included in the appropriations process, and must spend it according to federal program requirements. Projects are selected for federal funding through one of Minnesota's Area Transportation Partnerships, MnDOT offices, or MPOs.

Minnesota's three highway user taxes contribute most state highway revenue. State fuel tax is the largest contributor, although its purchasing power has declined since the tax rate was last raised between 2008 and 2013. Since 2008, new legislation has increased the number of dedicated state highway funding sources. While only 60 percent of the MVST currently flows into the HUTDF, around just 30 percent did before MVST distributions were altered in 2008. The portion of MVLST revenue deposited into highway-related accounts also increased to 60 percent after changes in 2008 and 2017. Prior to 2008, all MVLST revenue was deposited in the general fund. The 2017 transportation bill also newly dedicated set portions of multiple transportation-related sales taxes to the HUTDF, which will equal $145.6 million annually beginning in 2020.

Local funding is also a key contributor to highway funding in Minnesota. Cities, counties, and townships combined to spend about $1.95 billion on roadways in 2018, mostly from their general funds. Local governments have begun to use a number of new roadway financing tools in the last two decades including local option sales taxes and wheelage taxes to supplement existing roadway revenue.

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