

Transportation Policy Changes Introduced in the 2025 Legislation in Minnesota

Roadway Funding Updates



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In June 2025, the Minnesota Legislature passed a comprehensive omnibus bill, which, among others, approved changes to roadway funding for the upcoming years and established a working group to facilitate the use of electricity as vehicle fuel (Omnibus Bill, 2025). Changes to the roadway funding include modifications to electric vehicle (EV) registration fees, the addition of a hybrid vehicle registration fee, the addition of a tax per kilowatt hour (kWh) of electric vehicle charging, setting the motor fuel tax rate for 2026, an update to the exemptions in the retail delivery fee, the creation of the local government road funding gap assistance account, changes to the cost participation policy, modifications to the revenue distribution of the automotive parts sales tax, and one-time appropriations for the John A. Blatnik Bridge. This document discusses the major legislative changes regarding transportation funding. Minor changes may not be encompassed in this report.

1 Changes to Roadway Funding

1.1 Changing electric vehicle surcharge fees and taxation

The bill approved changes to the state’s electric vehicle surcharge fees and taxation. An electric vehicle is defined in statute as a vehicle that is solely able to be powered by an electric motor drawing current from rechargeable storage batteries, fuel cells, or other portable sources of electrical current (Minn. Stat. § 169.011 subd. 1a). Hybrid vehicles are not included in this definition.

Starting January 1, 2026, instead of a \$75 electric vehicle surcharge (as defined under Minn. Stat. § 168.013 subd. 1m (2017)), an EV is subject to either a flat-rate registration fee or a charge based upon the retail price of the vehicle, whichever is greater.

1. *Percentage of retail price:* 0.5 percent of the manufacturer’s suggested retail price multiplied by the percentage specified under Minn. Stat. § 168.013, subd. 1a, paragraph (e), clauses (1) to (10) (described in Table 1) for the vehicle’s year of life, or ten percent for a vehicle in its 11th and each succeeding year of life.

Table 1: Percentage of retail price for tax calculation

Year	Percent of Vehicle Price	Year	Percent of Vehicle Price
1	100%	6	60%
2	95%	7	50%
3	90%	8	40%
4	80%	4	25%
5	70%	10	10%

Note: For the 11th and each succeeding year, the amount under paragraph (a), clauses (1) and (2), must be calculated as \$20.

2. *Flat-rate fee:* \$150 for a registration period between January 1, 2026 and June 30, 2027 or \$100 for a registration period beginning on July 1, 2027.

Changes to the electric vehicle surcharge go into effect on January 1, 2026. The funds collected from this surcharge are deposited into the highway user tax distribution fund (HUTDF).¹

1.2 Introducing the surcharge on hybrid vehicles

The legislature also approved the addition of a surcharge on hybrid vehicles under Minn. Stat. § 168.013, subd. 1n. Hybrid vehicles are defined in Minn. Stat. § 169.011, subd. 54a as “an electric vehicle that (1) contains an internal combustion engine and also allows power to be delivered to the drive wheels by a battery-powered electric motor; (2) when connected to the electrical grid via an electrical outlet, is able to recharge its battery; and (3) has the ability to travel at least 20 miles powered substantially by electricity.”

The total amount of the hybrid surcharge is either calculated as a percentage of a manufacturer’s suggested retail price or a flat rate fee. The vehicle is subject to whichever fee is greater.

1. *Percentage of retail price:* The lesser of 0.25 percent of the manufacturer’s suggested retail price of the vehicle multiplied by the percentage specified under under Minn. Stat. § 168.013, subd. 1a, clauses 1 to 10 (described in Table 1) or 10 percent of the vehicle’s retail value in its 11th and each succeeding year of life.
2. *Flat-rate fee:* \$75 for a registration period between January 1, 2026, and June 30, 2027, or \$50 for a registration period beginning on or after July 1, 2027.

This hybrid vehicle surcharge is in addition to the tax under Minn. Stat. § 168.013, subd. 1a, and goes into effect on January 1, 2026. The funds collected from this surcharge are deposited into the HUTDF.

¹This fund is used for the construction and maintenance of highways, county state aid highways, municipal state aid streets, and township roads statewide (Minn. Const. art. XIV, sec. 5).

1.3 Introducing the electricity as vehicle fuel tax

The legislature also approved an electricity as vehicle fuel tax. The tax applies to all operators of public charging stations at the rate of 5 cents per kilowatt hour. Exceptions include chargers at a private residence that use electric power paid for by the owner or occupant of the residence (supplied by an electric utility), public charging stations with a charging capacity of less than 50 kilowatts, and public charging stations that do not require payment for the delivery of electricity as vehicle fuel.

The electric fuel tax for all public charging stations will go into effect on July 1, 2027. The charge for legacy chargers, which are defined as chargers in operation before October 1, 2023, will go into effect on January 1, 2032.

The funds collected from this surcharge are deposited into the HUTDF.

1.4 Setting the motor fuel tax rate for 2026

The 2025 legislature also sets the motor fuel tax rate for 2026. The tax rate for 2026, \$0.326 per gallon, is effective on January 1st, 2026.

This tax is authorized under Minn. Stat. § 296A.07 (Gasoline Tax) and Minn. Stat. § 296A.08 (Special Fuel Tax).² Changes to the tax implemented in 2023 require that taxes imposed on gasoline, diesel, and special fuels be indexed to the Minnesota Highway Construction Cost Index (Minn. Stat. § 296A.07, subd. 3). The annual percentage change in tax rate may not exceed 3 percent, beginning in 2025 (Minn. Stat. § 296A.07, subd. 3). Every year on August 1st, the commissioner in the Department of Revenue determines the rate applicable to all gasoline beginning on January 1 of the upcoming year.

1.5 Introducing exemptions for the retail delivery fee

Changes in the session also include new exemptions under Minn. Stat. § 168E.05, subd. 1 (2024), the statute that established a retail delivery fee. In addition to the previous exemptions outlined in statute, the Omnibus Bill (2025) passed new exemptions to the fee for the following instances:

1. A retail delivery resulting from a retail sale of fuel products purchased by and delivered to a political subdivision or a trade or business.
2. A retail delivery resulting from a retail sale of road construction materials purchased by and delivered to a political subdivision or a trade or business.

²The tax does not apply to transit services, providers of medical assistance home care, ambulance services, “providers of medical or dental services by a federally qualified health center”, or “a licensed distributor to be delivered to a terminal for use in blending.”

The funds received from the retail delivery fee are used first to administer the program. Any remaining money beyond administration costs is deposited into the state Transportation Advancement Account (TAA) (Minn. Stat. 168E.09, subd. 1). These changes are effective for retail deliveries made after June 30, 2025.

1.6 Establishing the local government road funding gap assistance account

A local government road funding gap assistance account was established in the transportation bill in the special revenue fund. The funding is available to any political subdivision with all of the following characteristics:

1. Has a directly elected governing board;
2. Maintains sole jurisdiction over a roadway system;
3. Does not receive direct dedicated funding under Minn. Stat. § 16A.88 (transit assistance fund), Minn. Stat. § 162.07 (apportionment of money to counties), Minn. Stat. § 162.13 (apportionment of money to cities), Minn. Stat. § 51.20 (repealed), Minn. Stat. § 162.145 (small cities assistance account), Minn. Stat. § 162.146 (larger cities assistance account), or Minn. Stat. § 297A.9915 (regional transportation sales and use tax);
4. And either: has a population greater than 10,000 according to the last two federal decennial censuses; or is contained within a city of the first class (with more than 100,000 inhabitants).

The account consists of funding that is money donated, allotted, transferred, or otherwise provided to it. Resources in the account are annually appropriated to the commission of transportation, and the commissioner cannot use any funds for administrative costs. The funds will be equally distributed among all eligible recipients and can be used for the design, engineering, construction, reconstruction, and maintenance of roads solely under the jurisdiction of the recipient (Minn. Stat. § 162.175).

In fiscal year 2026, \$250,000 will be transferred from the general fund to this account.

1.7 Changing the cost participation policy

The 2025 session also introduced changes to the cost participation policy (Laws of Minnesota 2025, art. 2, sec. 113). The cost participation policy provides a framework for the Minnesota Department of Transportation (MnDOT) to determine the potential expenditure of trunk highway funds on cooperative construction projects (MnDOT, 2025). The legislation requires that the commissioner adopt a new cost participation policy by March 1, 2026. The updated policy must identify the circumstances where local units of government will not be responsible for any trunk highway fund-eligible construction project costs. The legislation indicates that they may consider a local unit of government's ability to pay as a factor when determining the amount of local contribution.

1.8 Changes to the distribution of revenues from the automotive parts sales tax

Under Minn. Stat. § 297A.94, a percentage of the Automotive Parts Sales Tax (imposed under Minn. Stat. § 297a.62, subd. 1) must be deposited into the HUTDF. Table 2 provides the revenue distribution for the years 2024 to 2037, and thereafter. Starting in fiscal year 2026, there is a progressive reduction in the percentage of revenue distributed to HUTDF that ends in 2034. Starting in fiscal year 2035, the percentage of revenue distributed to HUTDF increases until reaching 43.5% again in fiscal year 2037 and thereafter. The reduction in the percentage distributed to the HUTDF is offset by an increase in the percentage distributed to the General Fund.

Table 2: Distribution of revenues from the automotive parts sales tax

Fiscal Year	Highway User Tax Distribution Fund	Transportation Advancement Account	General Fund
2024	43.5%	3.5%	53.0%
2025	43.5%	4.5%	52.0%
2026	43.0%	5.5%	51.5%
2027	41.0%	7.5%	51.5%
2028	36.0%	14.5%	49.5%
2029	30.0%	21.5%	48.5%
2030	36.0%	28.5%	35.5%
2031	36.0%	36.5%	27.5%
2032	36.0%	44.5%	19.5%
2033 (1)	36.0%	56.5%	7.5%
2034	36.0%	56.5%	7.5%
2035	38.5%	56.5%	5.0%
2036	41.0%	56.5%	2.5%
2037 and thereafter	43.5%	56.5%	0.0%

Notes: (1) The amount distributed to the Transportation Advancement Account is 56.5% in fiscal year 2033 and thereafter. **Source:** Minn. Stat. § 297A.94.

1.9 One-time appropriations for the John A. Blatnik Bridge from State Road Construction

Of the \$2,247,807,000 appropriated for fiscal year 2026 for State and Road Constructions, there is a one-time appropriation of \$650,000,000 for the John A. Blatnik Bridge between Duluth, Minnesota, and Superior, Wisconsin (Laws of Minnesota 2025, art. 1, sec. 2). The commissioner may use up to 17% of the funding for program delivery, and the funding is available until June 30, 2033.

2 Establishing a Working Group for the study of electricity as a vehicle fuel

2.1 Establishing the electricity as a vehicle fuel working group

The 2025 legislation also established a new working group, the Electricity as Vehicle Fuel Working Group (Laws of Minnesota 2025, art. 2, sec. 118). This addition requires the commissioners of transportation, public safety, management and budget, revenue, and commerce to convene a working group to facilitate the use of electricity as vehicle fuel throughout multiple sectors.

The working group consists of 30 members, including legislative and executive branch leaders. In particular, the working group includes two members of the Senate, two members of the House, and the commissioners of administration, commerce, management and budget, public safety, revenue, and transportation. It also includes two representatives appointed by the governor, federally recognized tribes, League of Minnesota Cities, Minnesota Transportation Alliance, Minnesota Grocers Association, two members appointed by Minnesota Building and Construction Trades Council, Associated General Contractors of Minnesota, Minnesota Chamber of Commerce, public utilities,³ electricity providers, Minnesota Trucking Association, convenience stores or fueling stations, Minnesota Automobile Dealers Association, Drive Electric Minnesota, Fresh Energy, EV manufacturers, and two members appointed by an association with interest in residential electric charging.⁴

The working group is charged to “evaluate, promote, and provide recommendations to facilitate the development and integration of electricity used as vehicle fuel within the state’s transportation, energy, commercial, industrial, and residential sectors” (Laws of Minnesota 2025, art. 2, sec. 118). It is also required to submit a report to the governor and the chairs and ranking minority members of the legislative committees with jurisdiction over transportation. The report is required to summarize the activities of the working group and provide findings and recommendations adopted by the working group, and will be due February 13, 2026.

³The legislation indicates that the working group should have “one member appointed by each public utility that owns a nuclear-powered electric generating plant in this state”. Xcel Energy is the only public utility in the state with a nuclear powered facility.

⁴One member must live in multifamily housing.

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