

## Minnesota Roadway Funding: Where Does it Come From and Where Does it Go?

Understanding Minnesota's road financing structure is crucial for anticipating and addressing future transportation challenges. The state highway system alone is projected to fall \$18 billion short of necessary funding between 2018 and 2037 (MnDOT, 2017). What's more, the impacts of Covid-19 are expected to reduce vehicle-miles traveled, which will significantly reduce gas-tax revenues. TPEC researchers have conducted an in-depth exploration of how roadway funding is generated in order to paint a clearer picture of roadway funding sources and distribution in Minnesota.

### THREE FUNDING SOURCES

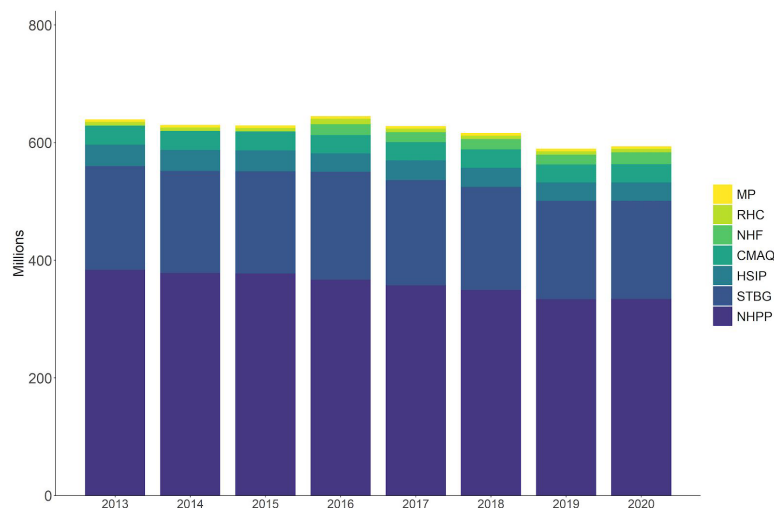
Minnesota roadway funding comes from a combination of federal, state, and local sources, which are used to maintain and expand the state's 141,000-mile roadway network.

"Our state's network of highways and local roads is essential to the state's economy and the daily activities of Minnesota residents, yet generating sufficient revenue to maintain, operate, and expand this infrastructure remains a major challenge," says principal investigator Jerry Zhirong Zhao.

### FEDERAL FUNDING

The vast majority of federal roadway revenue is generated from the federal motor-fuel tax. Additional small portions are raised through taxes on large trucks, trailers, and tires. This revenue is distributed through separate accounts in the Highway Trust Fund (HTF) for highways and transit; most federal highway funding is awarded to states through different programs in the apportionment process.

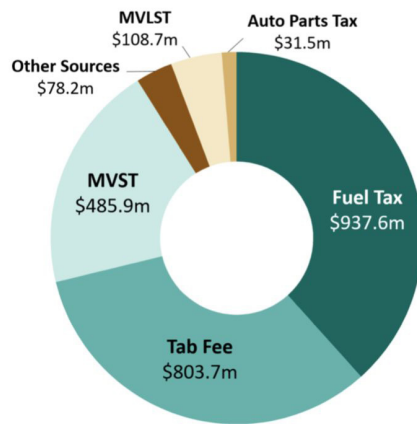
Overall, federal highway revenue has stagnated since the federal motor-fuel tax was last increased in 1992, and the HTF has received transfers of \$140 billion in general revenues since 2008 to maintain its solvency.



Federal highway funds allocated by program. Data presented in constant 2019 dollars. MP: Metropolitan Planning; RHC: Railway-Highway Crossings; NHFP: National Highway Freight Program; CMAQ: Congestion Mitigation and Air Quality Improvement; HSIP: Highway Safety Improvement Program; STBG: Surface Transportation Block Grant; NHPP: National Highway Performance Program. Sources: FHWA, Apportionment and Obligation Notices.

## STATE FUNDING

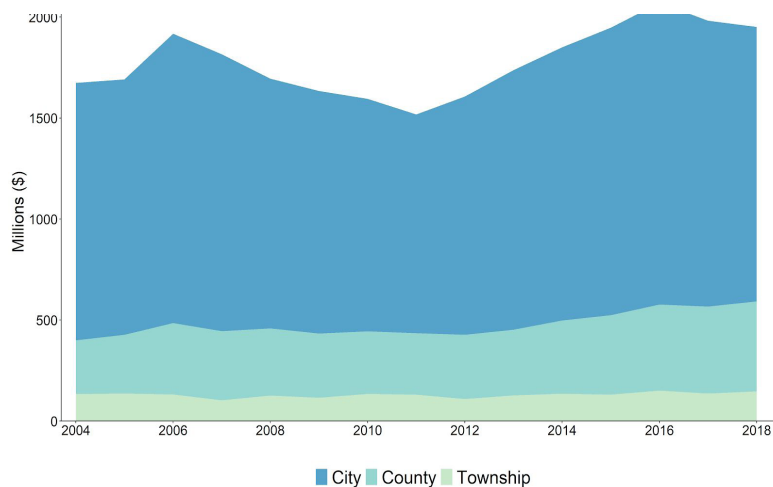
The largest sources of state roadway revenue are the state motor-fuel tax, the registration tax (tab fee), and the motor vehicle sales tax (MVST). Smaller amounts of state transportation revenue are generated from the motor vehicle lease sales tax and auto parts sales taxes. Nearly all state roadway revenue passes through the Highway User Tax Distribution Fund (HUTDF) and flows to roadways under state, county, and city jurisdiction across the state. More than \$2.3 billion was distributed from the HUTDF in 2019, guided by constitutional requirements.



*Minnesota state highway funds (2019)*

## LOCAL FUNDING

Most local roadway funding comes from the general funds of counties, cities, and townships—primarily property taxes and special assessments. Local governments in Minnesota, particularly counties, also have some dedicated transportation taxes that raise roadway revenue, such as local option sales taxes, excise taxes, wheelage taxes, and gravel taxes. Minnesota cities, counties, and townships combined to spend about \$1.95 billion on roadways in 2018.



*Local highway funding in Minnesota (2018)*

### For more information and additional analyses:

TPEC welcomes public engagement and encourages you to contact us with your questions, comments, and research needs.

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## CONCLUSION

*"Federal, state, and local governments all generate significant roadway funding in Minnesota. However, the stagnation in federal motor-fuel tax rates has led to more reliance on other funding sources. Today, Minnesota's three highway user taxes contribute most state highway revenue—and local revenue is also a key contributor to highway funding in the state."*

— Professor Jerry Zhirong Zhao