TRANSPORTATION FUNDING

March 6, 2007

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 5 (Murphy) / H.F. 23 (Erhardt)

	Fund Impact*			
	F.Y. 2008	**F.Y. 2009**	**F.Y. 2010**	**F.Y.2011**
		(000's)		
Dedication of Sales Tax on Leases (7/1/07)	($30,600)	($36,400)	($41,600)	($48,200)
Appropriation to Met. Council Transit	($138,453)	($83,453)	($83,453)	($83,453)
Appropriation to Greater Minnesota Transit	($27,510)	($20,510)	($20,510)	($20,510)
Transfer to HUTDF	($328,000)	$0	$0	$0
Transfer to Local Road Fund	($10,000)	$0	$0	$0
General Fund Total	($534,563)	($140,363)	($145,563)	($152,163)
Motor Vehicle Registration Tax	$15,415	$59,907	$97,797	$129,742
Motor Fuels Excise Tax (7/1/07)	$303,206	$332,750	$334,740	$336,740
Transfer from General Fund	$328,000	$0	$0	$0
Highway User Tax Distribution Fund	$646,621	$392,657	$432,537	$466,482
Motor Fuels Excise Tax (7/1/07)	$4,024	$4,412	$4,435	$4,457
Special Revenue Fund	$4,024	$4,412	$4,435	$4,457
Motor Fuels Excise Tax (7/1/07)	$3,328	$3,648	$3,666	$3,685
Natural Resources Fund	$3,328	$3,648	$3,666	$3,685
Dedication of Sales Tax on Leases (7/1/07)	$18,360	$21,840	$24,960	$28,920
Transfer from General Fund	$10,000	$0	$0	$0
Local Road Improvement Fund Total	$28,360	$21,840	$24,960	$28,920
Dedication of Sales Tax on Leases (7/1/07)	$12,240	$14,560	$16,640	$19,280
0.5% Local Sales and Use Tax (1/1/08)	$88,600	$222,600	$230,900	$240,000
$20 New Vehicle Excise Tax (1/1/08)	$1,300	$3,200	$3,400	$3,600
Transit Fund Total	$102,140	$240,360	$250,940	$262,880
Total - All Funds	$249,910	$522,554	$570,975	$614,261

**Bonding provisions in Article 7 and Article 11 not included in the table.*

Note: Estimates reflect the November 2006 forecast. Some estimates will change when updated for the February 2007 forecast.

EXPLANATION OF THE BILL

County Wheelage Tax
Article 1 allows counties to levy wheelage taxes of up to $20 per year per vehicle (previously $5 per year per vehicle) to be deposited into the road and bridge fund of each county. The proposal expands the covered area from the seven metropolitan counties to all counties. Other restrictions are removed including the requirement that property taxes be reduced by an equivalent amount. This article does not have direct impact on any state fund.

Motor Vehicle Registration Tax
Article 2 removes the $189 and $99 maximum tax amounts in the motor vehicle registration tax formula and changes the vehicle depreciation schedule on which the tax is based. The proposal includes a provision that "the annual additional tax…must not exceed the annual additional tax that was previously due on that vehicle".

Motor Vehicle Sales Tax
Article 3 provides statutory language for the allocation of motor vehicle sales tax revenue based on the recently-passed constitutional amendment which phases in the dedication of the motor vehicle sales tax for transportation purposes. The allocation assumed for the November 2006 forecast is as follows:

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
General Fund	36.25%	26.25%	16.25%	6.25%	0.0%
HUTDF	38.25%	44.25%	50.25%	56.25%	60.0%
Transit (Assistance) Fund	25.50%	29.50%	33.50%	37.50%	40.0%

The proposal establishes a Transit Fund and three accounts within the Transit Fund - the Greater Minnesota Transit Account, the Metropolitan Area Transit Account, and the Metropolitan Area Transportation Account. The allocations to the Highway User Tax Distribution Fund and to the Transit Fund are the same as was assumed for the November forecast.

Motor Fuels Excise Taxes
Article 4 increases the motor fuel excise tax on gasoline and diesel fuel by 10¢ per gallon, effective July 1, 2007. The tax rates for other types of fuel are also increased. Beginning June 1, 2009, the tax rate for each fuel type is increased annually for inflation.

Article 5 modifies the formula for apportioning money in the county state aid highway fund.

EXPLANATION OF THE BILL (cont.)

Sales Tax on Motor Vehicle Leases
Article 6 redirects the sales tax on motor vehicle leases, which are currently deposited in the general fund, to the local road improvement fund and the new transit fund.

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
General Fund	36.25%	26.25%	16.25%	6.25%	0.0%
Local Road Improvement Fund	38.25%	44.25%	50.25%	56.25%	60.0%
Transit Fund	25.50%	29.50%	33.50%	37.50%	40.0%

Local Transportation Sales and Use Tax and Excise Tax
Article 8 authorizes a newly-created Metropolitan Transportation Area Joint Powers Board to impose a 0.5% general sales and use tax and an excise tax of $20 per new motor vehicle sold in the "metropolitan transportation area" consisting of the seven Twin Cities metropolitan counties and any adjacent county whose board resolves to become a part of the metropolitan transportation area. Tax revenues would be deposited in the state transit fund for credit to the metropolitan area transportation account.

Article 9 creates a Road User Fee Task Force to study the future of highway funding and alternatives to existing highway user tax mechanisms.

Article 10 provides one-time appropriations ($55,000,000 and $7,000,000) and annual base budget adjustments ($83,453,000 and $20,510,000) to Metropolitan Council Bus Transit and Greater Minnesota Transit. Fiscal 2008 transfers from the general fund are also made: $10 million to the local road improvement fund and $328 million to the highway user tax distribution fund.

Bonding – Articles 7 and 11
Article 7 authorizes the sales and issuance of up to $178,265,000 in bonds and provides appropriations to Transportation ($122.5 million) and Met Council ($54 million). These appropriations are supported by bonds and provide for 15 specified projects. Article 7 also provides additional bonding sale authorization of up to $66 million for the Metropolitan Council for capital expenditures related to the council's regional transit master plan and transit capital improvement program. Information for the issuance, receipt of monies, and transfer of monies is not included in this analysis.

Article 11 appropriates $100 million per year from the bond proceeds account in the trunk highway fund to DOT from FY 2008 through FY 2017. One million dollars per year is appropriated to the Commissioner of Finance. The sales and issuance of $1.1 billion in bonds is authorized, with the proceeds being deposited in the bond proceeds account.

REVENUE ANALYSIS DETAIL

Motor Vehicle Registration Tax

- Estimates were provided by the Department of Transportation (DOT). Because the tax on a vehicle cannot exceed the tax previously paid, the revenue gains are limited in the first several years. The revenue gain would exceed $200 million annually when fully phased in.

Motor Fuels Tax

- DOT provided information based on the estimated gallons incorporated into the estimated motor fuel tax revenue included in the November 2006 forecast.

Sales Tax on Motor Vehicle Leases

- The estimate was based on lease payment data from the U.S. Bureau of Economic Analysis for 2002 and 2003. The two numbers were averaged for a fiscal year 2003 base amount. The national personal consumption expenditures on vehicle leasing were $31.5235 billion.
- This figure was increased by 25% to account for leases by businesses.
- The adjusted amount was apportioned to Minnesota at 1.72%, the state portion of new passenger car and truck registrations in 2002.
- Annual growth was based on the November 2006 state revenue forecast and industry data.

Local Transportation Sales and Use Tax and $20 Motor Vehicle Excise Tax

- The sales tax estimate was based on projected fiscal year 2008 sales and use tax receipts according to the November 2006 state revenue forecast. The forecast amount was adjusted to exclude receipts from sources other than the 6.5% general sales and use tax rate. The adjusted amount was converted to a 0.5% tax rate to arrive at a fiscal year 2008 tax base.
- Based on calendar year 2005 sales tax statistics, the seven metropolitan counties accounted for 61.18% of the state sales and use tax. The fiscal year 2008 tax base was multiplied by this percentage to arrive at a revenue estimate for the seven counties.
- Annual growth through FY 2011 was the growth in statewide sales tax revenue according to the November 2006 forecast.
- The estimate of the $20 tax per new vehicle sold was based on national new passenger car and truck registrations in 2006 and on Minnesota data. The estimated number of vehicles at issue in state fiscal year 2006 was 275,000. Data from the 2002 Economic Census indicates that the seven-county area had 59.87% of total Minnesota new vehicle sales. The estimated number of new vehicles sold in the seven-counties was multiplied by the $20 tax rate.
- It was assumed that the taxes would take effect in the seven metropolitan counties on January 1, 2008, the effective date of article 8. The estimate for fiscal year 2008 reflects a January 1 effective date, with five months of impact in the first year.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy