TRANSPORTATION FUNDING

March 21, 2007

Preliminary Analysis

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 1986 (Murphy, As Amended (3/20/07) – Tax Provisions Only

	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)	($29,000)	($34,700)	($39,200)	($45,000)
Commuter Rail Exemption (1/1/07)	($4,600)	($3,100)	$0	$0
General Fund Total	($33,600)	($37,800)	($39,200)	($45,000)
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
Dedication of Sales Tax on Leases (7/1/07)	$14,450	$17,290	$19,550	$22,440
Highway User Tax Distribution Fund	$333,071	$409,947	$452,087	$488,922
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)	$14,550	$17,410	$19,650	$22,560
Transit Assistance Fund	$14,550	$17,410	$19,650	$22,560
0.5% Local Sales and Use Tax (1/1/08)	$83,800	$210,000	$216,400	$224,200
$20 New Vehicle Excise Tax (1/1/08)	$1,300	$3,200	$3,400	$3,600
Metropolitan Transportation Area Fund	$85,100	$213,200	$219,800	$227,800
Total - All Funds	$406,473	$610,817	$660,438	$702,424

**Information on bonding and appropriations not included.*

EXPLANATION OF THE BILL

Motor Fuels Excise Taxes
Article 2 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.

EXPLANATION OF THE BILL (cont.)

Motor Vehicle Registration Tax
Article 3 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”.

Local Transportation Sales and Use Tax and Excise Tax
Article 4, Section 3, 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 metropolitan transportation area fund.

County Wheelage Tax
Article 5 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 Sales Tax
Article 6 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 February 2007 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 Assistance Fund and two accounts within the Transit Fund - the Greater Minnesota Transit Account, and the Metropolitan Area Transit Account. The allocations to the Highway User Tax Distribution Fund and to the Transit Assistance Fund are the same as was assumed for the February forecast.

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 highway user tax distribution fund and the transit assistance fund.

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
General Fund	36.25%	26.25%	16.25%	6.25%	0.0%
HUTDF	31.75%	36.75%	41.75%	46.75%	50.0%
Transit Assistance Fund	32.00%	37.00%	42.00%	47.00%	50.0%

EXPLANATION OF THE BILL (cont.)

2% Additional Fee on Leased and Rented Vehicles
Article 6, Section 2, provides for an additional 2% to be added to the current 3% fee on leases or rental of vehicles. Lease and rental companies charge this fee and hold the revenues until year-end when they complete a reconciliation and remit any difference between what they paid in registration tax and what they collected for the fee. In another part of this bill the registration tax is being increased. While this fee increase has the potential to generate some additional receipts, the interactions have not been estimated.

Sales Tax Exemption – Commuter Rail and Light Rail Transit
Article 6, Section 4, provides an exemption for materials and supplies consumed in and equipment incorporated in the construction, equipment, or improvement of a commuter rail system operated under the commuter rail statutes in Minnesota law. The exemption includes railroad cars, engines, and related equipment. This provision incorporates the light rail transit exemption previously allowed for vehicles purchased by Metropolitan Council (and the separate Met Council provision is deleted).

REVENUE ANALYSIS DETAIL

Motor Fuels Tax
- The Department of Transportation (DOT) provided information based on the estimated gallons incorporated into the estimated motor fuel tax revenue included in the February 2007 forecast.

Motor Vehicle Registration Tax
- Estimates were provided by 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.

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 February 2007 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.
- The estimate was adjusted to exclude sales to local units of government (which are exempt from local sales taxes) and to exclude tax remitted from the counties for sales outside the seven-county area. The adjusted fiscal year 2008 tax base was multiplied by the proposed 0.5% tax rate.
- Annual growth through FY 2011 was the growth in statewide sales tax revenue according to the February 2007 forecast.

REVENUE ANALYSIS DETAIL (cont.)

- 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 estimate for fiscal year 2008 reflects a January 1 effective date, with five months of impact in the first year.

County Wheelage Tax
- It is estimated that there are 4.600,000 motor vehicles statewide to which the $20 wheelage tax would apply.

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 February 2007 state revenue forecast and industry data.

Sales Tax Exemption – Commuter Rail
- It is assumed that the federal provisions relating to the taxation of railroad rolling stock (the Railroad Revitalization and Regulatory Reform Act of 1976) would not apply to this intrastate rail operation. Therefore, without a specific exemption, the property would be subject to sales and use tax.
- For fiscal years 2008-2009, the exemption is expected to apply only to the first phase of the Northstar Corridor. The initial phase of the project is a 40-mile line from Big Lake to downtown Minneapolis. An extension of 42 miles (for an 82-mile line total reaching to St. Cloud) is expected as a later project.
- Information was provided by the Minnesota Department of Transportation (DOT) on estimated project costs and timelines. It is expected that the initial phase of the commuter rail will be operational prior to the end of fiscal year 2009.
- The project cost for the first phase of the Northstar Corridor is estimated to be $301 million (excluding sales tax) with an expected annual operating cost of $11 million. DOT estimates that taxable costs will be $118 million, excluding labor costs and other non-taxable items such as right of way costs and professional services.
- It was assumed that refunds of tax paid prior to enactment of the exemption would be made in fiscal year 2008.

REVENUE ANALYSIS DETAIL (cont.)

- It is assumed that the exemption applies only to construction materials, supplies, and equipment incorporated into the project and not to construction equipment used in completing the project.
- As noted above, it is expected that one commuter rail line will be eligible for the exemption through fiscal year 2009. The fiscal impact of this exemption will apply to future commuter rail corridors after fiscal year 2009 (including the proposed 42 mile extension).

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

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