MINNESOTA GO

2022 MINNESOTA STATE HIGHWAY INVESTMENT PLAN REVENUE SCENARIOS DRAFT

The 20-year Minnesota State Highway Investment Plan is a fiscally constrained plan, meaning it sets investment priorities only for the revenues that are forecasted over the next 20 years. MnDOT expects to be able to invest $26.2 billion from 2023-2042 for state road construction.

While MnDOT identifies anticipated revenue, these projections are based on current federal and state law, trend analysis and other assumptions. New federal or state laws, trends and other funding factors could change the anticipated revenue in the future.

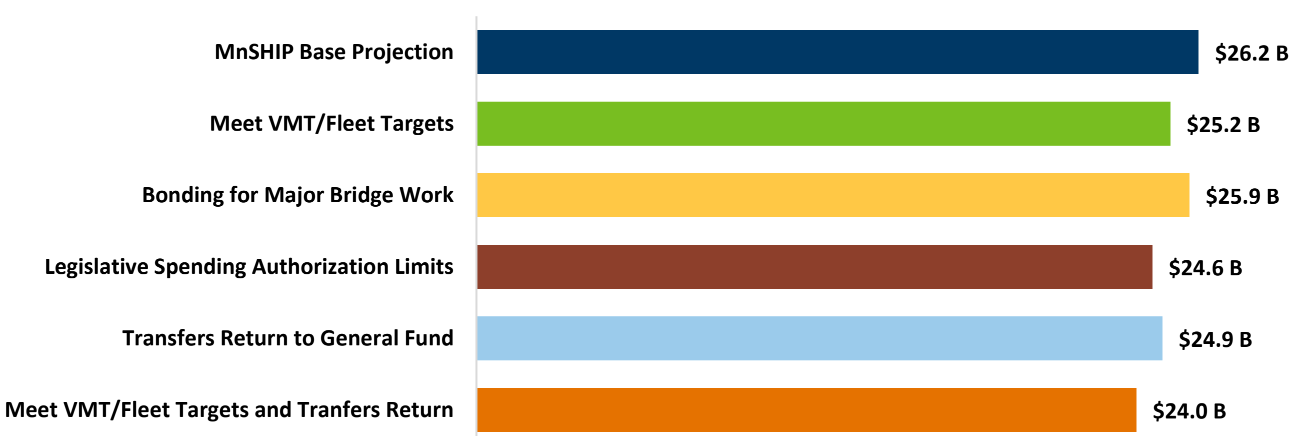
After a draft investment direction is set later in 2021, MnDOT will seek input during a second public engagement period in early 2022 to identify priorities for adjustments to the investment direction if revenue trends or other funding factors change. To inform this discussion, MnDOT has identified several revenue scenarios based on different factors and assumptions and how they could impact the amount of funding available for state road construction. These scenarios were identified by the MnSHIP project management team with the input from MnDOT leadership, finance and planning staff. These scenarios are separated into increasing and decreasing revenue scenarios.

DECREASING REVENUE SCENARIOS

MnDOT staff identified five scenarios that would result in less revenue over the 20 years.

- Meeting Vehicle Miles Travelled reduction and fleet goals
- Bonding for major bridge work
- Legislative spending authorization limits
- Transferred transportation related taxes returning to the General Fund
- Both meeting VMT reduction and fleet goals and transferred transportation related taxes returning to the General Fund

Figure 1: Revenue Reduction Scenarios Overview



SCENARIO 1: MEETING VMT REDUCTION AND FLEET GOALS

In 2007, the State passed the bi-partisan Next Generation Energy Act (NGEA) that established goals for Minnesota to reduce greenhouse gas (GHG) emissions by 15% below 2005 levels by 2015, 30% by 2025, and 80% by 2050. The Pathways to Decarbonizing Transportation[1] project began a conversation about moving Minnesota towards a low-carbon transportation future. The project was a collaboration between the Minnesota Department of Transportation, Department of Commerce, Department of Agriculture, Minnesota Pollution Control Agency, the Environmental Quality Board, and the McKnight Foundation. One of the goals identified in the Pathways report is for 40% of all vehicles sales to be battery or plug-in electric vehicles by 2030 and 80% by 2050.

In addition to Pathways, MnDOT created the Sustainable Transportation Advisory Council[2] to make recommendations to the MnDOT Commissioner to help the agency reduce carbon pollution for transportation. One of the council's recommendations is to support a 20% reduction in vehicles miles traveled by 2050. For the purposes of this scenario, MnDOT used 2019 as a baseline year.

The projected impact of meeting these goals would be a 20-year funding total of $25.2 billion—a reduction of $1 billion (-3.8%) from the baseline. In this scenario, the biggest impact would be to the federal and state motor fuels tax as Minnesotans would be driving less and using less gas with a higher portion of vehicles being electric. This would be partially offset by annual surcharges currently imposed on electric vehicles collected with annual registration fees (tab fees).

SCENARIO 2: BONDING FOR MAJOR BRIDGE WORK

While the baseline revenue projection includes only existing trunk highway bonds, this scenario shows the impact of a new bonding package in the early years of MnSHIP. MnDOT anticipates several major state highway bridges will need major rehabilitation or reconstruction work over the next 10 years. This bridge work will require more than the anticipated annual funding available. In this scenario, it is assumed the Minnesota Legislature authorizes $1 billion in new bonds to address this need.

While bonding provides additional funding in the near term, MnDOT will need to repay these new bonds over time with interest. Overall, MnDOT would see an additional $1 billion total between 2025 and 2027. However, debt service would increase over the remaining years and reduce projected revenue by $0.3 billion (-1.1%) to $25.9 billion over the next 20 years.

SCENARIO 3: LEGISLATIVE SPENDING AUTHORIZATION LIMITS

While MnSHIP forecasts available funding in the State Trunk Highway Fund, MnDOT requires spending authority from the Minnesota Legislature to actually use the funding. MnDOT does not always receive authorization to spend the full amount in the State Truck Highway Fund, leaving a balance. MnDOT may be authorized to spend the balance of the State Trunk Highway Fund in the future. There have also been instances where the fund balance has been used for Legislative priorities such as the Corridors of Commerce Program and not on the general State Road Construction budget.

[1] http://www.dot.state.mn.us/sustainability/pathways.html
[2] http://www.dot.state.mn.us/sustainability/advisory-council.html

This can make planning future state trunk highway projects difficult if the anticipated spending authority level fluctuates. In this scenario, MnSHIP would plan an investment direction on the assumption that MnDOT is only authorized to spend 93% of anticipated State Trunk Highway Funds. This has been the historic level of spending authority in Years 3 and 4 of the State Transportation Improvement Program during the past three Minnesota Legislative budget sessions. This does not preclude MnDOT from receiving the remaining fund balance at a future date. However, in this scenario MnDOT assumes the balance would not be available to plan state highway projects long term.

The impact to MnSHIP revenues would be a 20-year funding total of $24.6 billion—a reduction of $1.6 billion (-6.1%).

SCENARIO 4: TRANSFERRED TRANSPORTATION RELATED TAXES RETURNING TO THE GENERAL FUND

In 2017, sales tax on auto parts, motor vehicle rental and sales tax, and motor vehicle lease sales tax were transferred from Minnesota's General Fund to the Highway User Tax Distribution Fund by the Minnesota Legislature. These taxes are different than the other three state revenue sources, because they are not constitutionally dedicated to transportation and could be transferred back to the General Fund by the Legislature. This scenario assumes these transfers return to the General Fund beginning in 2026. The impact to revenues would be a reduction of $1.3 billion (-5.0%) resulting in a 20-year funding total of $24.9 billion.

SCENARIO 5: COMBINING SCENARIOS 1 AND 4

MnDOT also looked at the impact to revenues if two of these scenarios were to occur. In this scenario, Minnesota would meet the VMT and fleet goals and see the transferred transportation related taxes moved back to the General Fund. The impact of this scenario would be a reduction $2.2 billion (-8.4%) for a 20-year total of $24.0 billion, the largest reduction of any scenario.

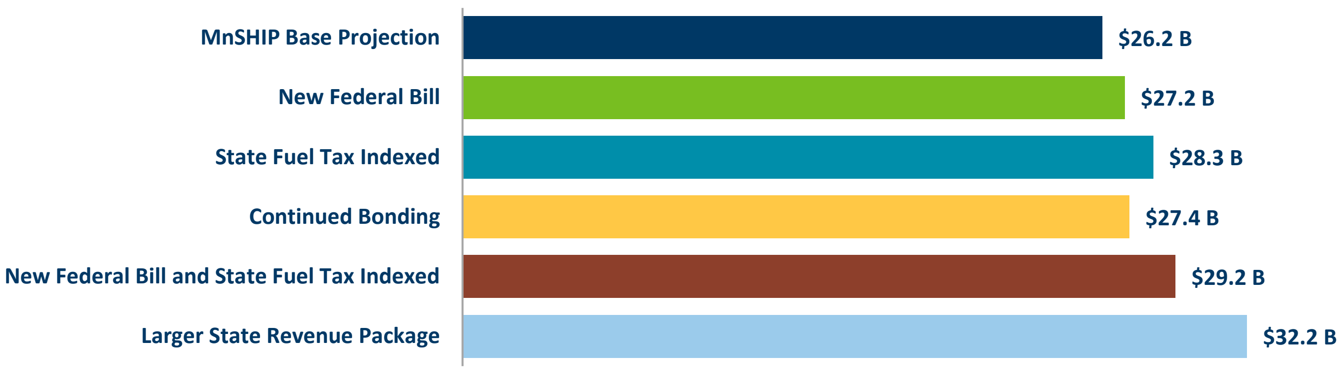
INCREASING REVENUE SCENARIOS

MnDOT staff identified four revenue scenarios that would result in more revenue over the 20 years covered by this updated plan.

- New federal transportation bill
- State Fuel Tax indexed to inflation
- Continued bonding at near capacity
- New federal transportation bill and State Fuel Tax indexed to inflation
- A larger state revenue package

MnDOT staff are currently working on an additional scenario modeling a larger funding package similar to past proposals from the Governor.

Figure 2: Increased Revenue Scenarios Overview



SCENARIO 6: NEW FEDERAL TRANSPORTATION BILL

The most recent federal transportation bill, the Fixing America's Surface Transportation Act, originally set to expire in 2020, has been extended through September 2021. Without a new federal transportation bill, MnDOT assumes Federal-Aid funding holds flat for the first four years of the MnSHIP revenue projection (2023-2026) and then grows annually at a 2% rate for the remainder of the plan years.

In this scenario, MnDOT would assume a new federal transportation bill would be passed by 2023. MnDOT would assume Federal-Aid Highway funding increases beginning in 2023 instead of holding flat in the MnSHIP revenue projection. This scenario could provide an increase of $1 billion (+3.8%) for a 20-year total of $27.2 billion.

SCENARIO 7: STATE FUEL TAX INDEXED TO INFLATION

Over the past few years, several proposals have been discussed by the Minnesota Legislature to provide increased transportation funding. Indexing the State Fuel Tax to inflation is one of the proposed mechanisms to provide increased transportation funding. The state gas tax rate currently does not increase or decrease with the price of gas. Under this scenario, the state gas tax rate would be linked to the same rate of increase or decrease as the price of gas. Indexing the gas tax to inflation would provide an additional $2.1 billion (+8.0%) for a 20-year total of $28.3 billion.

An additional benefit of this scenario is that both the State Road Construction budget and the Planning, Operations and Maintenance budget would be able to keep pace with future anticipated inflation.

SCENARIO 8: CONTINUED BONDING AT NEAR CAPACITY

While the baseline revenue projection includes existing bonds, this scenario shows the impact of the state continuing to bond into the future. By policy, debt service is limited to no more than 20% of annual state revenues to the Trunk Highway Fund. In this scenario, MnDOT assumes the Minnesota Legislature authorizes $4 billion in new bonds over the next 20 years and these bonds would be available to the State Road Construction budget. The bonds begin at $50 million in 2024 and increase to a peak of $500 million in 2038. Additional debt service would also increase starting in 2024 and structured to use existing bonding capacity while remaining within MnDOT current bonding level policy. Debt service is also assumed to continue beyond the end of MnSHIP in 2042. The difference between the bond revenues and additional debt service would increase the funding available in MnSHIP by a net total $1.2 billion (+4.6%) for a 20-year total of $27.4 billion.

The largest effect from bonding is that more funding would be available in the near term. However, towards the end of the 20 years, the increased funding from bonds is limited by the rising annual debt service payments.

SCENARIO 9: NEW FEDERAL TRANSPORTATION BILL AND STATE FUEL TAX INDEXED TO INFLATION

MnDOT also looked at the impact of new funding at the federal and state levels. In this scenario, MnDOT sees both a new federal transportation bill by 2023 and State Fuel Tax is indexed to inflation. This scenario results in an additional $3 billion (+11.5%) for a 20-year total of $29.2 billion.

SCENARIO 10: A LARGER STATE REVENUE PACKAGE

Over the past several years, various long-term transportation increased revenue proposals were discussed during the Legislative sessions. These proposals included various combinations of increase to existing tax and fee rates as well as bonding. Using the assumptions from a recent increased revenue proposal, MnDOT created this scenario to model the anticipated impact if a long-term transportation revenue proposal were to pass the legislature. This scenario assumes:

- The Gas Tax would increase by 5₵ and be indexed to inflation
- The Registration Fee would see a moderate change to the depreciation schedule
- The Motor Vehicle Sale Tax would increase from 6.5% to 6.875%
- $1 billion in Trunk Highway Bonding would be approved

This scenario results in an additional $6 billion (+22.9%) for a 20-year total of $32.2 billion.

SUMMARY

Through these nine scenarios, MnDOT shows a range of factors and assumptions that can influence the amount of funding available over the next 20 years. On the high end, a larger state revenue package could increase the amount of investment by an additional $6 billion. While on the low end, a scenario where needed steps to reduce greenhouse gas emission from transportation and limit the effects of climate change combined with the General Fund Transfers returning to the State General Fund could reduce available revenues by more than $2 billion. The range that these scenarios produce will help MnDOT frame the discussion around what investments should be prioritized if projected revenues were to change after MnSHIP is adopted and how the MnSHIP investment direction may need to be adjusted.