APPENDIX C – FINANCIAL SUMMARY

The 20-year Minnesota State Highway Investment Plan (MnSHIP) is a fiscally constrained plan, meaning it sets investment priorities only for the revenues that are expected to be available during the next 20 years. MnDOT identifies anticipated revenue based on current federal and state law, trend analysis and other assumptions. Based on these factors, MnDOT initially identified a baseline revenue projection of $31.5 billion over the 20-year planning horizon (state fiscal years 2023-2042) for state road construction.

20-year projections inherently have a high degree of uncertainty. To account for potential new federal or state laws, trends and other funding factors that could change the anticipated future revenue, MnDOT developed a series of different revenue scenarios. These revenue scenarios present a range of possible funding over the 20-year planning horizon, but do not represent all possible combinations or possible futures. Based on these revenue scenarios, MnDOT used a range of $30 to $33 billion to inform the development of a draft investment direction

In 2023, after the revenue projections had been completed and a draft investment direction had been developed, the Minnesota legislature passed a bill providing additional funding for transportation. This increased the anticipated capital funding for state highways by $5.2 billion over the next 20 years. The sections below describe the process for developing the original MnSHIP revenue scenarios as well as changes due to the 2023 legislation.

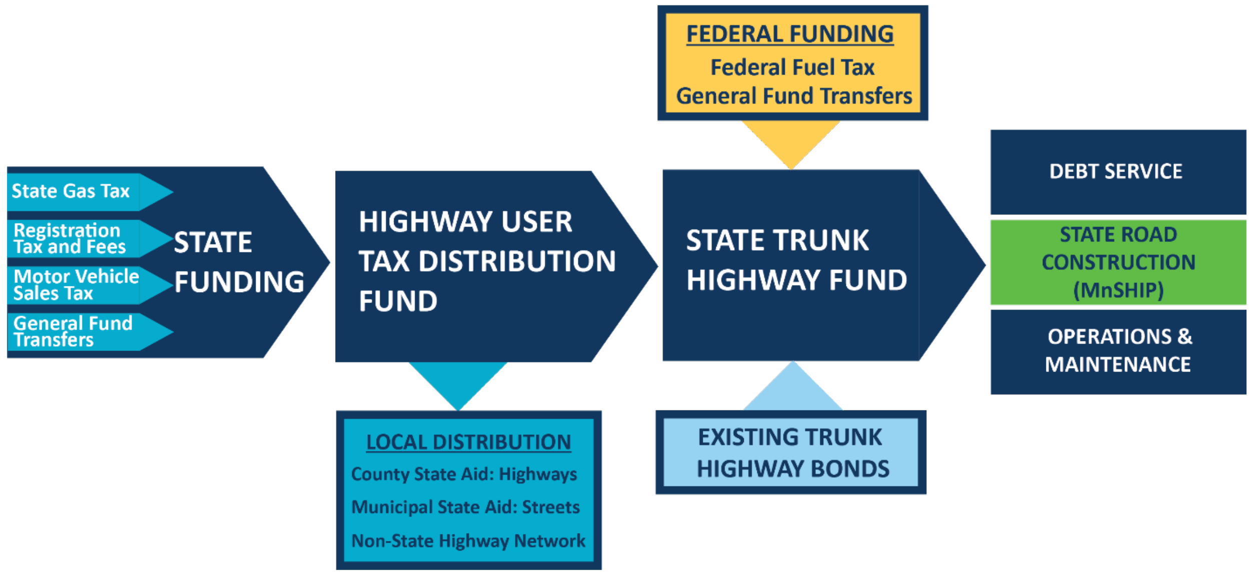
REVENUE PROJECTIONS

Several state and federal revenue sources provide dedicated transportation funding including for construction projects on the state highway system (*Figure C-1*). Four primary sources provide funding to the Highway User Tax Distribution Fund, which in turn provides funding to the State Trunk Highway Fund. These sources are:

- Federal Motor Fuel Tax and General Funds
- State Motor Fuel Tax (commonly referred to as the State Gas Tax)
- Motor Vehicle Registration Tax
- Motor Vehicle Sales Tax which are dedicated in Minnesota’s constitution to transportation.

In 2017, the Minnesota Legislature provided additional funding through statutorily transferring some existing transportation related revenue (e.g., sales tax on auto parts) to the Highway User Tax Distribution Fund. These transfers are assumed to continue. Federal revenue sources include the Federal Fuel Tax and other general fund transfers to the federal highway trust fund. Existing state trunk highway bonds (i.e., bonds authorized by the Minnesota Legislature at the time MnDOT developed the revenue projections) are also included in the MnSHIP revenue projections.

Figure C-1: Minnesota's Primary Transportation Funding Sources for State Highways



INITIAL STATE REVENUE TRENDS

STATE GAS TAX

The 28.5 cents-per-gallon state gas tax was fixed and has not increased or decreased with the price of gas. This has changed with the 2023 legislation. Those changes are detailed in the Final 20-year Revenue Projection section.

Recently, state gas tax revenues fell slightly due to less travel during the COVID-19 pandemic. While the forecast anticipates state gas tax revenues to rebound post-pandemic, improvements in vehicle fuel efficiency mean that a tank of gas will go farther in the next 20 years. The overall impact is a slight annual decline of -0.5% in state gas tax revenue, turning what was, before the pandemic, the number one contributor to state highway funding into the 3rd largest source of state revenue by the mid-2030s.

MOTOR VEHICLE REGISTRATION TAX

Popularly known as “tab fees”, revenue growth is based on the growing average vehicle prices and increasing numbers of vehicles registered in the state. Tab renewal fees, based on initial vehicle pricing, provide an ongoing revenue boost. Electric vehicles also pay an additional $75 surcharge in registration tax. The motor vehicle registration tax (including the EV surcharge) is predicted to be the largest revenue source in the State Trunk Highway Fund by 2025. The method for calculating the annual fee for vehicles was changed by the 2023 Legislature.

MOTOR VEHICLE SALES TAX

While new vehicle sales have slowed recently, higher vehicle prices are driving the growth of revenues. Motor Vehicle Sales Tax is predicted to rise at a higher rate than anticipated in the previous revenue projections for the 2017 MnSHIP. The 2023 Minnesota Legislature also increased the sales tax rate on motor vehicles, which will increase the amount of revenue generated by the tax.

GENERAL FUND TRANSFER REVENUES

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 funds provided a modest boost to transportation funding. These transfers are assumed to continue and grow slightly over the next 20 years. However, 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 Minnesota Legislature.

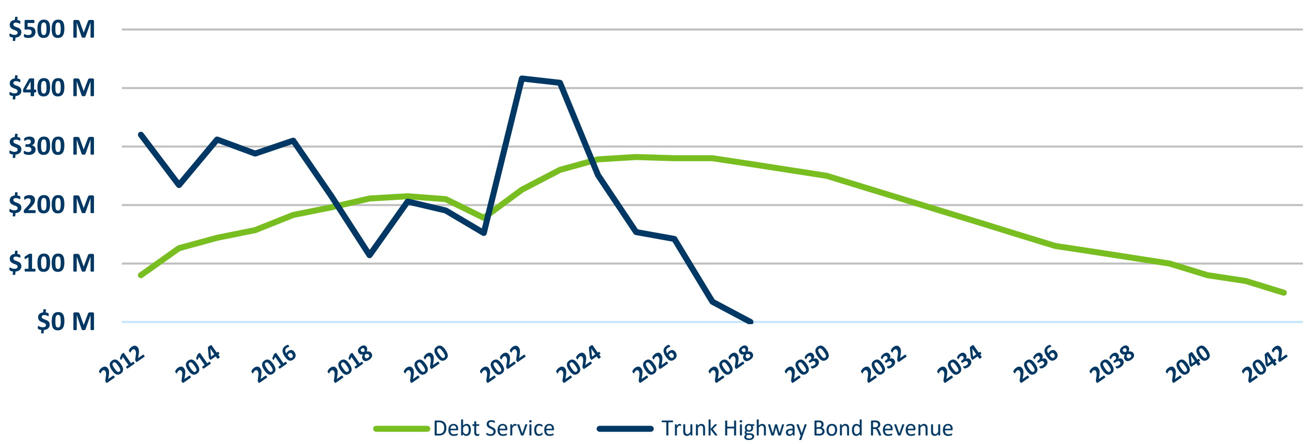
STATE BONDING

In addition to the four main sources of funding, Minnesota also sells transportation bonds to support highway improvements. The primary purpose of these and other transportation bonds is to enable MnDOT to accelerate the delivery of projects and avoid construction cost increases due to inflation. However, bonds should be understood as a financing approach, as they must be repaid with interest from state trunk highway funds.

Since 2017, the Minnesota Legislature has authorized $1.2 billion in trunk highway bonds for improvements to the state highway system and $900 million in bonding for the Corridors of Commerce program. It is anticipated that $1.4 billion of these bonds will fund projects in the first 4-5 years of this MnSHIP.

Only existing state trunk highway bonds are considered a part of the MnSHIP revenue projections. Any potential bonding that comes after the adoption of this plan is not reflected in the investment direction in MnSHIP.

Figure C-2: Trunk Highway Bond Revenues (currently authorized) and Debt Service Trends through 2042



FEDERAL REVENUE TRENDS

Federal funding of state highways comes primarily through taxes on the sale of gasoline and diesel fuel which are collected in the Highway Trust Fund. The federal gas tax remains at 18.4 cents-per-gallon and was last raised in 1993. Additionally, since 2008 more than $140 billion has been transferred within the federal budget from the Treasury's unrestricted-use General Fund to the dedicated Highway Account. This federal revenue is then distributed to Minnesota and other states, for use on eligible state and local roads, by a formula that takes into account factors including the size and usage of each state's highway network.

INFRASTRUCTURE INVESTMENT AND JOBS ACT

The Infrastructure Investment and Jobs Act (IIJA), also known as the Bipartisan Infrastructure Law, was signed into law in November 2021. For the purposes of MnSHIP, IIJA provides federal formula funding from 2022 to 2026 for highways and bridges as well as competitive grant funding. After the bill ends in 2026, MnDOT must make some assumptions about the levels of future federal funding. MnDOT anticipates several federal formula program funding for highways to continue past the IIJA years. However, the future of two new programs remains unclear.

The new PROTECT Program provides funding to make infrastructure more resilient to natural hazards, including climate change, flooding, extreme weather events, and other natural disasters. It is funded through the Highway Trust Fund, the main source of federal infrastructure funding. Historically, programs funded through the Highway Trust Fund were more likely to continue to be funded in future federal infrastructure bills. MnDOT is assuming that this program will continue past the end of IIJA.

The new Bridge Replacement, Rehabilitation, Preservation, Protection, and Construction Program is funded through the General Fund and not the Federal Highway Fund. That may signify that the program may not continue past IIJA.

Two other new programs are not included in the MnSHIP Federal Revenue assumptions. The Carbon Reduction Program and National Electric Vehicle Infrastructure Formula Program funding are eligible to be used on the state highway system and local system. With information about these new programs still emerging, decisions on how these funds are used and what the breakdown of funding will be between the state highways and local system will be made separate from the MnSHIP process.

FEDERAL DISCRETIONARY GRANT PROGRAMS

IIJA also includes an unprecedented amount of competitive grant funding (more than $100 billion) to states that strive to improve outcomes in areas of safety, asset preservation, carbon reduction, climate resiliency, restorative justice, and technology and more. Minnesota will be eligible to compete for this funding and is well positioned to add new programs, plans and funding for carbon reduction, climate resiliency, restorative justice, broadband, and electric vehicle infrastructure into our transportation system.

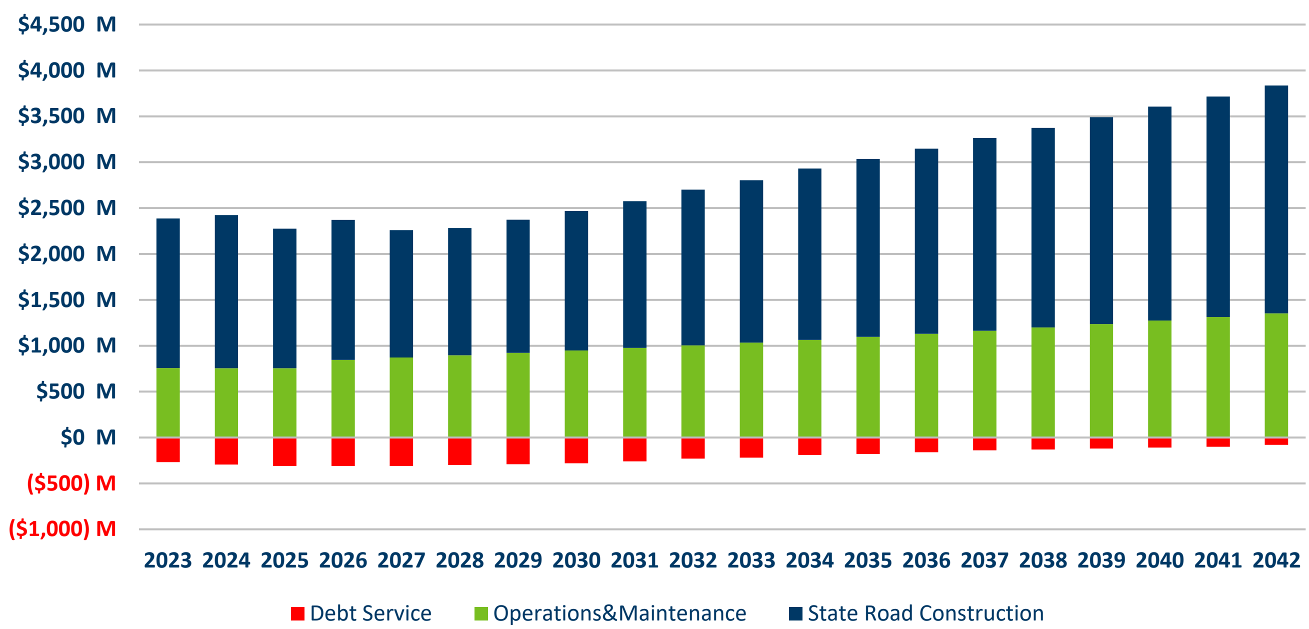
STATE TRUNK HIGHWAY FUND BREAKDOWN

MnDOT manages the State Trunk Highway Fund to support three broad types of expenditures related to the state highway system:

- **Debt Service**, for bond repayment
- **Planning, Operations and Maintenance**, combining traffic management, snow removal, pavement patching, design and engineering work and other agency management expenses
- **State Road Construction**, representing the capital program for new construction and reconstruction of state highways and bridges

Minnesota state law requires MnDOT to make its annual debt repayments prior to making any other investments. The split between State Road Construction and Operations and Maintenance was determined by assuming the impacts of inflation are shared equally between the two expenditures. Figure 4 shows the divide between these three expenditures over the next 20 years.

Figure C-3: State Trunk Highway Fund Projected Revenues by Expenditures from 2023 to 2042



INITIAL BASELINE REVENUE PROJECTION

Analysis of current federal and state revenue trends presented in this section informed MnDOTs baseline revenue projection. Based on these revenue trends and other assumptions, MnDOT identified a baseline revenue projection of $31.5 billion over the 20-year planning horizon (state fiscal years 2023-2042) for state road construction.

For federal revenues, this projection assumes there would not be a new federal bill right away after IIJA but a series of resolutions continuing forward the funding levels of IIJA. [1] While history suggests a future federal reauthorization will likely increase funding, assuming flat federal funding for the years immediately following a federal authorization matches Minnesota's programming practice and helps to ensure future programming decisions align with this MnSHIP. This projection also assumes the new federal bridge program would not continue past IIJA given it is funded by General Funds. The PROTECT program is assumed to continue in this projection since it is funded by the Highway Trust Fund.

REVENUE SCENARIOS

While MnDOT identifies a baseline revenue projection based on current factors, there could be new federal or state laws, trends or other funding factors that change the anticipated revenue. To account for changes in projected revenue MnDOT developed nine different revenue scenarios. These scenarios were used to develop the draft investment direction. In 2023, MnDOT received additional state funding for transportation that changed those revenue estimates. The final revenue numbers are described in the Final 20-year Revenue Projection section.

MnDOT identified these revenue scenarios based on different factors and assumptions and how they could impact the amount of funding available for state road construction. The revenue scenarios present a range of possible funding from $29.7 billion on the low end to $37.5 billion on the high end over the 20-year planning horizon. The scenarios are separated into decreasing and increasing revenue scenarios in this section.

DECREASING REVENUE SCENARIOS

MnDOT staff identified three scenarios that would result in less revenue than the baseline over the next 20 years.

- Legislative Spending Authorization Limits
- Meeting Vehicle Miles Travelled Reduction and Fleet Goals (no tax changes)
- Bonding for Major Bridge Work

[1] See Scenario 5 below for a discussion of how the revenue projection would change without this assumption

SCENARIO 1: LEGISLATIVE SPENDING AUTHORIZATION LIMITS

While MnSHIP forecasts available funding in the State Trunk Highway Fund, MnDOT requires spending authority from the Minnesota Legislature to 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.

This can make planning future state trunk highway projects difficult if the anticipated spending authority level fluctuates or is less than what MnDOT planned for. In this scenario, MnDOT assumes that the Legislature only authorizes spending 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 projected 20-year funding total for Scenario 1 is $29.7 billion—a reduction of $1.8 billion (-5.7%) from the baseline revenue scenario.

SCENARIO 2: MEETING VMT REDUCTION AND FLEET GOALS (NO TAX CHANGES)

MnDOT's recently adopted 2022 Statewide Multimodal Transportation Plan (SMTP) provides updated VMT reduction and electric vehicle sales targets in alignment with state goals and agency priorities. The goals identified in the SMTP are for a 14% reduction in per capita VMT by 2040 and for 100% of light duty vehicle sales to be battery or plug-in electric vehicles by 2040. For the purposes of this scenario, MnDOT used the SMTP electric vehicle and VMT reduction targets, and 2019 as a baseline year.

The projected impact of meeting these goals would be a 20-year funding total of $30.2 billion—a reduction of $1.3 billion (-4.1%) from the baseline revenue scenario. In this scenario, the biggest impact would be to the 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). This scenario assumes no changes are made to taxes or fees to offset any of these revenues.

SCENARIO 3: 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 replacement 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.

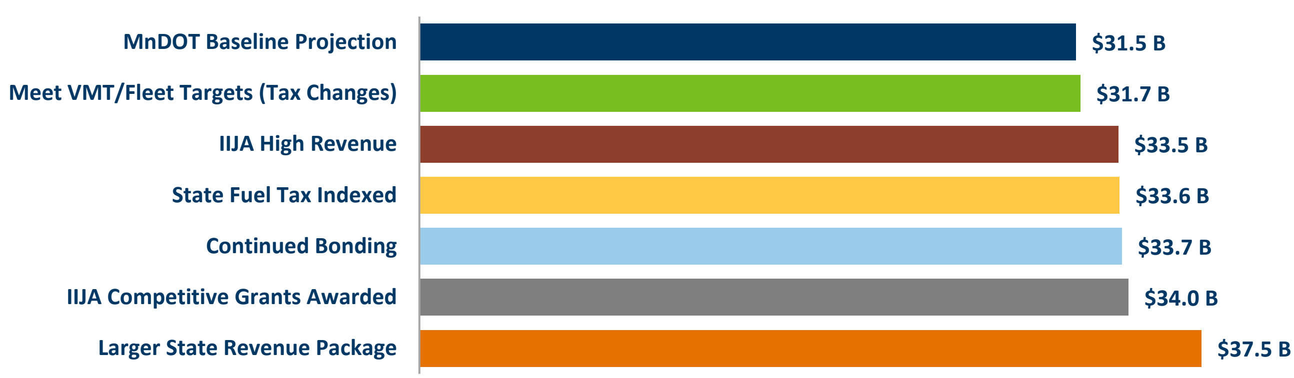
While bonding provides additional funding in the near term, MnDOT will need to repay these new bonds over time with interest. Overall, MnDOT would see an additional $1 billion total between 2025 and 2027. However, debt service would increase over the remaining years and reduce overall projected revenue by $0.1 billion (-0.3%) to $31.4 billion over the next 20 years.

INCREASING REVENUE SCENARIOS

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

- Meeting Vehicle Miles Travelled Reduction and Fleet Goals (tax changes)
- IIJA High Revenue
- State Fuel Tax Indexed to Inflation
- Continued Bonding at Near Capacity
- IIJA Competitive Grants Awarded
- Larger State Revenue Package

Figure C-5: Increased Revenue Scenarios Overview



SCENARIO 4: MEETING VMT REDUCTION AND FLEET GOALS (TAX CHANGES)

MnDOT looked at the impact to revenues if both Scenario 2 and increases to annual fees for battery electric vehicles and plug-in hybrid electric vehicles were to occur. Annual fees for BEVs would increase from $75 to $229 and PHEVs would have a new annual fee of $115. These dollar amounts are based on proposed state legislation in the 2022 legislative session.

In this scenario, Minnesota would meet the VMT and fleet goals and see increased fees for BEVs and PHEVs. This scenario increases projected revenue by $0.2 billion (+0.6%) above the baseline revenue scenario for a 20-year total of $31.7 billion.

SCENARIO 5: IIJA HIGH REVENUE

While MnDOT identified $14.6 billion in federal funding for the baseline revenue projection, there are possibilities for increased federal funding based on different assumptions about what happens at the end of IIJA. This higher IIJA revenue scenario assumes that the new federal bridge program continues beyond 2026 and that federal aid will increase by 2% starting in 2027. This scenario increases the federal projected revenue by $2 billion (+6.3%) above the baseline revenue scenario for a 20-year total of $33.5 billion.

SCENARIO 6: 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 motor fuels excise tax to inflation is one of the proposed mechanisms to provide increased transportation funding. The rates for this tax currently do not increase or decrease with prices at the pump. Under this scenario, rates would be linked to regional retail gasoline and diesel prices. Motor fuels price indexing would provide an additional $2.1 billion (+6.7%) above the baseline revenue scenario for a 20-year total of $33.6 billion.

SCENARIO 7: CONTINUED BONDING AT NEAR CAPACITY

While the baseline revenue projection includes existing and currently authorized 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 $15 million in 2024 and increase to a peak of $480 million in 2037. Additional debt service would also increase starting in 2024 and is 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 $2.2 billion (+7%) above the baseline revenue scenario for a 20-year total of $33.7 billion. Note debt service would extend beyond the 20 years, but that is not reflected in the $33.7 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 8: IIJA COMPETITIVE GRANTS AWARDED

IIJA provides an unprecedented amount of competitive grant funding. MnDOT will seek to leverage and build partner relationships to identify strong projects on state highways and the local system for competitive grant applications. This scenario assumes:

- Minnesota receives 2% of all available discretionary funds (approximately Minnesota's share of United States population)
- Of that 2%, MnDOT assumes 40% would be awarded to state highways
- All IIJA discretionary programs will continue over the 20-year MnSHIP planning horizon

This scenario results in an additional $2.5 billion (+7.4%) above the baseline revenue scenario for a 20-year total of $34 billion.

SCENARIO 9: A LARGER STATE REVENUE PACKAGE

Over the past several years, various long-term increased revenue proposals for transportation were discussed during the Legislative sessions. These proposals included various combinations of increases 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:

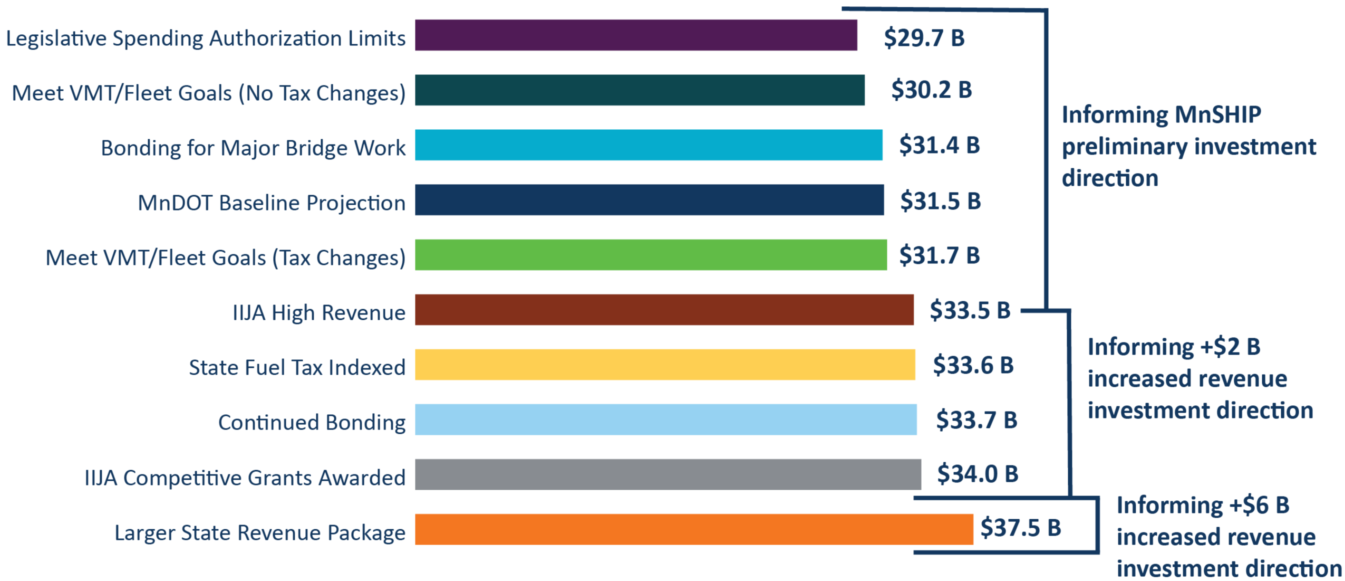
- The Gas Tax rate would increase by 5 cents and be indexed to inflation
- The Registration Fee would see a moderate change to the depreciation schedule
- The Motor Vehicle Sale Tax would increase from 6.5% to 6.875%
- $1 billion in Trunk Highway Bonding would be approved

This scenario results in an additional $6 billion (+19%) above the baseline revenue scenario for a 20-year total of $37.5 billion.

REVENUE SCENARIOS AND MNSHIP INVESTMENT DIRECTION

MnDOT's baseline revenue projection and revenue scenarios show a range of factors and assumptions that can influence the amount of funding available over the next 20 years. *Figure 6* shows the full range of revenue scenarios and their impact on the MnSHIP investment direction.

Figure C-6: Revenue Scenarios Impact on MnSHIP Investment Direction



The revenue scenarios that informed the draft MnSHIP investment direction ranged from $30 billion on the low end to $33 billion on the high end. The MnSHIP project team used the midpoint of this range to set the preliminary investment direction of $31.5 billion. The MnSHIP draft investment direction also aligned with MnDOT's baseline revenue projection.

FINAL 20-YEAR REVENUE PROJECTION

Immediately after the second round of public engagement closed, the state legislature passed a bill that increased transportation funding for MnDOT.

These changes resulted in an estimated additional $5.2 billion for state highways over the next 20 years. The change in funding by component is:

- Gas Tax: +$2.5 billion. Starting in 2024, the per-gallon state gas tax rate will be tied to historical levels for MnDOT's construction cost index (CCI) which tracks inflation for building roads and bridges. Annual rate increases will be capped at 3% from 2026 onward (the annual average CCI growth rate has exceeded 4% over the long run). Because crude oil is a major cost driver for pump prices as well as construction activity, indexing the gas tax in this way is designed to better balance tax revenue and investment cost.

- Registration Tax: +$2.0 billion. Upcoming adjustments include raising the registration tax rate—from 1.285% to 1.575%—and slowing the vehicle depreciation schedule over the lifetime of cars and trucks. In combination, the higher rate and vehicle value factors generate annual growth of 4.5%, widening the lead that registration tax is expected to hold over all other funding sources in the later years of the plan.
- Motor Vehicle Sales Tax: +$400 million. The sales tax rate on motor vehicles will match the general state sales tax rate of 6.875%, up from today's 6.5%. Modestly accelerating future MVST growth, it is still forecast to remain the smallest share of constitutionally dedicated revenues.
- General Fund Transfer: +$300 million. Previously held at a fixed amount, the General Fund contribution from auto parts sales will be adjusted to increase over time, with annual inflation modeled at 3%. All elements of the General Fund transfer remain subject to revision in future legislation, but this risk is limited by the size of the transfer relative to total funding allocated to construction—less than 10% for the duration of the plan.

Figure C-7: State and Federal Revenue Trends (state highway share): Flows into Trunk Highway Fund through 2042