

Road Funding Gap Report

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Report Language

Laws of 2023, Chapter 68:

Sec. 127. LEGISLATIVE REPORT; ROAD FUNDING GAP.

(a) By November 1, 2024, the commissioners of transportation and management and budget must submit a report on road funding to the chairs and ranking minority members of the legislative committees with jurisdiction over transportation finance and policy.

(b) At a minimum, the report must:

(1) analyze revenue options to address the funding gap over fiscal years 2025 to 2034 between (i) projected revenue to the highway user tax distribution fund, and (ii) revenue required to meet performance targets, or a metric for system maintenance, on each of the highway systems for which funding is allocated via the highway user tax distribution fund; and

(2) develop recommendations, including proposed legislative changes, following from the analysis under clause (1).

(c) In developing the report, the commissioners must evaluate a range of options that:

(1) analyze impacts across individuals and motor vehicles, accounting for factors that include but are not limited to vehicle class, power train, fuel or power type, vehicle age, vehicle weight, and annual miles traveled; and

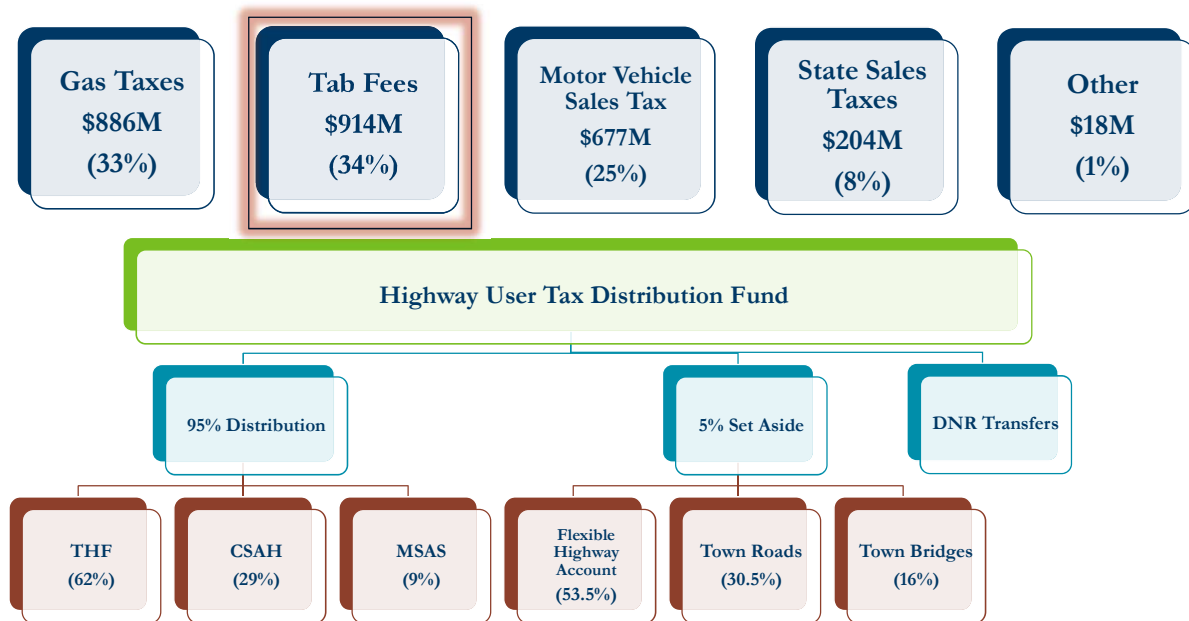
(2) consider financial stability, social equity, user convenience, administrative efficiency, transparency, and other appropriate policy and finance principles.

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Highway User Tax Distribution (HUTD) Fund Sources and Uses FY 2024 Actuals = \$2.7B (54% of total state/federal)



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Primary HUTD Revenues

Gas taxes:

- Currently 31.8 cents/gallon
 - 25 cent "normal" gas tax (last increased from 20 cents in 2008)
 - 3.5 cent debt service surcharge (dedicated to repaying \$1.78B of Trunk Highway bonds in 2008)
 - 3.3 cent increase on 1/1/2025 due to inflation index - tied to MnDOT Construction Cost Index ("CCI")
 - Estimated to cumulatively increase additional 2.5 cents through FY 2029



The price for each gallon of gasoline includes the current state gasoline tax of 28.5 cents per gallon and federal gasoline tax of 18.4 cents per gallon. Revenue from the state fuel tax may be used only for roads and bridges, according to the Minnesota Constitution.

Tab fees:

- 1.575% of MSRP, depreciates over 10 years



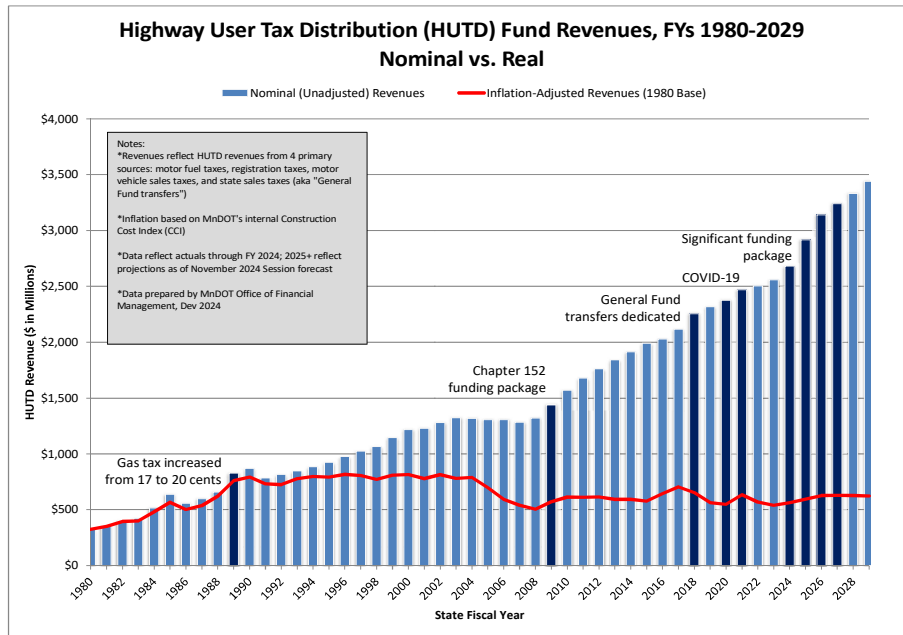
MVST:

- 6.875% of purchase price (new and used)
- Split 60% HUTD, 40% transit (34.3% Met Council, 5.7% MnDOT for Greater MN)
- \$1.13B total collected in FY 2024 (largest individual revenue source)

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Minnesota Highway User Tax Revenue History of Annual Revenues



CAGR over Time

- 1980-2029:
 - Nominal: +4.9%/year
 - Real: +1.3%/year
- 2019-2029:
 - Nominal: +4.0%/year
 - Real: +1.0%/year

Despite increases to many of these sources, revenues have not kept up with system needs due to:

- Inflation
- Aging infrastructure
- Growing transportation needs

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Trunk Highway Fund – Estimate of Funding Gap

- 20-year long range MnSHIP estimate of funding gap for Trunk Highway system:
 - 2013: \$12B (\$600M/year)
 - 2017: \$18B (\$900M/year)
 - 2023: \$19-\$27B (\$23B = ~\$1.15B/year)
 - **Impact of 2023 legislation: covered ~\$5.2B of that gap**
- Remaining 20-year gap of ~\$17.8B (\$890M/year)

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Estimated HUTD Funding Gap

- The assumed 10-year Trunk Highway state road construction gap:
 - Half the identified 20-year gap from MnSHIP = \$8.9 billion
 - Plus additional \$2.1 billion identified though work following the completion of MnSHIP
 - Total gap = \$11.0 billion, or \$1.1 billion/year
- There is no comparable published long-range estimate for counties and cities
- For the purposes of the report, assumed that the needs and corresponding funding gap would be proportional to the gap for the Trunk Highway system.
- **Total HUTD gap = \$18.7 billion, or \$1.9 billion/year**

Table 1: Gap for Each Fund

Fund	% of Total	20-Year Gap	10-Year Gap	Annual Gap
Trunk Highway	58.90%	\$17.8B	\$11.0 B	\$1.1 B
County State Aid Highway	32.55%		\$6.1 B	\$0.6 B
Municipal State Aid Streets	8.55%		\$1.6 B	\$0.2 B
HUTD			\$18.7 B	\$1.9 B

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Potential Revenue Sources

- MnDOT identified a variety of potential expanded and new funding options that could narrow the future funding gap. These 22 options were organized into three general categories:
 1. (11) System-wide state options: gas tax, registration taxes, RUC, etc.
 2. (6) Local government options: county wheelage tax, local transit sales tax, etc.
 3. (5) Program/project specific options: expand E-ZPass, Transportation Infrastructure Finance and Innovation Act (TIFIA) financing, etc.
- Each option included an analysis of:
 - A brief **Background/History** of the funding source, contextualizing current provisions governing the revenue source or tax
 - An analysis of the **Revenue Raising Capacity** under hypothetical tax increase scenarios
 - An analysis of the **Tax Incidence**. Each revenue or tax option affects a tax base that is a function of system usage, vehicle type, fuel source, and other factors; this section discusses who bears the burden of a tax

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Assessment Tool

- Additionally, an assessment tool (using a simple high/medium/low matrix) was included of how each revenue option provided aligns with the critical objectives from legislation:
 - **Efficiency:** High proportion of revenue collected goes to transportation projects
 - **Ease of Administration:** Simplicity of implementation and administration
 - **User Equity:** proportionate share of cost for construction and maintenance charged to those who use it most
 - **Social Equity:** The burdens of the tax are fair and just for Minnesotans across social, economic, and geographical areas
 - **Transparency:** Minnesotans know the tax exists and understand why and how it is charged to them

Recommendations

- Each of the 22 funding options fit into one of four broad categories:
 - Expand current revenue sources
 - Bonding and innovative financing
 - New/alternative funding options
 - Expansion of local government authority
- “...No one source is likely to close the revenue gap but a combination of sources could make progress on closing the gap. Long term, continual funding decisions and updates will be necessary to narrow the gap...”

Current Performance

• Pavement % Poor (2025-34 CHIP):

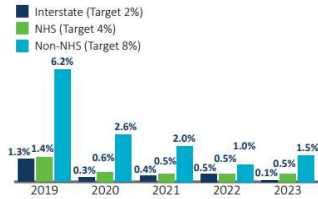


Figure 5: Historic Pavement Condition

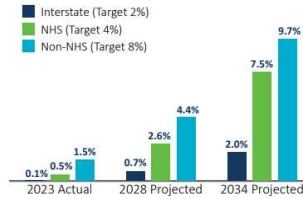


Figure 6: Projected Percent of Pavements in Poor Condition

• Bridge % Poor (2025-34 CHIP):



Figure 8: Historic Bridge Condition

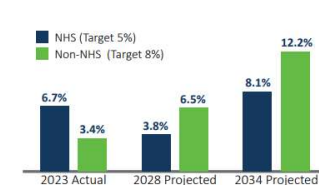


Figure 9: Projected Percent of Bridges in Poor Condition

- “Efficiencies”: annual Major Highway Projects Report (“MHPR”) includes estimate of efficiencies savings for both projects and admin/maintenance

- MS 174.53 (enacted in 2017) requires MnDOT to implement efficiencies savings of at least 15% of total appropriations above base from 2018/19

- Calculated amount = ~\$344M over seven years

- Identified efficiencies = ~\$592M

- ~\$490M SRC projects
- ~\$102M admin/ops and maintenance

- “Excess” = ~\$248M

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Thank You!