

2021 Session Summary

Overview

The 2021 Legislative Session often seemed like a tale of multiple legislative sessions as circumstances changed and deadlines blew by resulting in a down-to-the-wire effort to get the main work of the session finished: passage of a two-year state budget.



The legislature worked into the early morning hours of July 1st, the start of the 2022 fiscal year, to finish passing the 13 omnibus budget bills needed to keep state government functioning. The two-year budget totals about \$52 billion. Thanks to a projected \$1.6 billion general fund surplus as well as \$2.8 billion in federal COVID relief funds, many areas of the budget saw spending increases and the state was able to cut taxes, largely by conforming to federal tax exemptions for PPP loans and unemployment compensation.

A state rainy day savings account was replenished to \$2.3 billion, and \$1 billion of the American Rescue Plan money is being saved until the 2022 session. Recent tax collections also suggest that the November economic and revenue forecast could report a surplus in the \$2 billion range.

The amount of cash that became available to the state stands in stark contrast to the earlier projections that the state would be facing a major budget shortfall and tough economic situation thanks to the pandemic.

For transportation, projections made in May of 2020 predicted that transportation funds would face a shortfall of almost \$400 million for the FY20-21 biennium and that local governments could experience a reduction in state aid allotments for 2021 of up to 15%. In the end, those predictions did not come true as that state's economy started to rebound in the summer and fall. The February, 2021 forecast showed that Highway User Tax Distribution (HUTD) Fund revenues were projected to decrease slightly with the fuel tax revenue dropping from \$938 million in 2019 to \$879 million in 2020. The sales tax on motor vehicle leased vehicles also dropped from \$98 million in 2019 to \$86 million in 2020. The other major revenue sources: license tab fees and motor vehicle sales tax (MVST) increased in 2020 over 2019 revenue.

Beginning in FY 2023 revenues are projected to stabilize and grow on average by nearly 3 percent.

Federal COVID Dollars for Transportation

CARES Act

- \$227M Metropolitan Area Transit
- \$54M Greater MN Transit (5311 funds - \$42M)
- \$27M 5307federal transit funds

CRRSA

- \$162M Highway Funds
- \$185M Metropolitan Area Transit
- \$14.6M Greater MN Transit
- \$5M Duluth Transit Authority
- \$2.2M St. Cloud Metro Bus

American Rescue Plan

- \$313M Metropolitan Area Transit
- \$10M Duluth
- \$7.5M St. Cloud
- \$11M 5311 Allocation
- Southwest Light Rail project will receive about \$30 million of additional CIG funding

House and Senate Transportation Proposals – Worlds Apart

With the release of the February forecast, the legislature suddenly had a general fund surplus of \$1.6 billion to work with and the expectation of significant federal funds for the State of Minnesota after the passage of the American Rescue Plan.

The House and Senate Transportation Committees held hearings with agency representatives to try to get a handle on the issues and the funding situation. The governor's budget recommendations did not include any transportation tax or fee increases and did not include any significant increases in general fund dollars.

When the omnibus transportation budget bills were marked up in committee, the House and Senate put together very different proposals.

The House committee developed a budget bill (HF1684) with the need for ongoing, dedicated revenue in mind. The House bill included a provision to index the state fuel tax to the National Highway Construction Index which would generate about \$97 million in the FY22-23 biennium and \$265 million in the FY24-25 biennium. The bill also included a modest increase in the license tab fee, providing about \$72 million for FY22-23 and \$88 million in FY24-25. The motor vehicle sales tax (MVST) was increased from the current 6.5% to 6.875% generating \$47 million in FY22-23 and \$72 million in FY24-25 for roads. These revenue increases would provide net new resources for roads of \$216 million in FY22-23 and \$412 million in FY24-25.

The House proposal would implement a new ½ cent local sales tax in the Twin Cities metropolitan area but only within the transit taxing district. The revenue generated, about \$376 million in FY22-23 and \$540 million in FY24-25, would be dedicated to Metropolitan Area transit.

Another goal of the House transportation bill was to provide ongoing, additional funding for small city streets and township roads as well as Greater Minnesota transit. The bill altered the distribution of the current dedication of the sales tax revenue from the sale of auto repair parts to provide \$41 million in FY22-23 for those uses, increasing to \$75 million in FY24-25.

In all, the House bill would have increased transportation revenue:

- Total Net New Resources Roads - \$216 million in FY22-23 and \$412 million in FY24-25
- Total Net New Resources Transit - \$409 million in FY22-23 and \$603 million in FY24-25

The Senate Transportation Committee took the position that tax increases were not needed other than an increase in the current \$75 annual electric vehicle fee, a change that would provide \$6.6 million in FY22-23 and \$9.2 million in FY24-25. In general, the Senate bill would spend more general fund dollars on a range of transportation uses, providing a total of \$225 million in additional revenue in FY22-23 and \$107 million in FY24-25.

The Senate bill included a provision that would have changed the dedication of the sales tax on auto repair parts from a flat annual amount (\$145.6M) to 60% of the revenue collected, increasing that amount by \$75 million in FY22-23 and \$107 million in FY24-25, and providing ongoing increases in the future. Of the 60% dedicated to roads, 54% would be deposited in the Highway User Tax Distribution Fund, 3% deposited in the Small Cities Assistance account (\$18M in FY22-23, \$20M in FY24-25), 3% deposited in the township road account (\$18M in FY22-23, \$20M in FY24-25) with the remaining 40% deposited in the general fund.

A big focus of the Senate budget bill was an effort to swap general fund dollars for expenditures previously made from the trunk highway fund for uses the committee did not believe met the definition of a “highway purpose” as required in the state’s constitution. The goal of eliminating “impermissible spending” is likely to be an ongoing effort.

As the session progressed and the amount of federal dollars coming to the state became more apparent, the idea of raising taxes or fees was abandoned. Legislative leaders and the governor set spending targets for each of the committees in order to reach an overall deal on the state budget. For transportation, the target was ultimately set at about \$220 million in additional general fund dollars.

The Omnibus Transportation Budget bill (HF10) was passed by both the House and Senate with a strong, bipartisan vote. In the House, the bill passed 112 yes votes and 21 no votes. In the Senate, the bill passed unanimously, 67-0.

Highlights of the Transportation Budget Bill:

Additional General Fund Breakdown- \$220M

Transit/Active/Rail \$78,500,000

Second Amtrak train to Chicago	\$10,000,000
Met Council Hwy 55 Transit Study	\$ 250,000
Met Council Zero Emissions Transit vehicles	\$ 250,000
Met Council Arterial BRT	\$57,500,000
Safe Routes to School	\$ 5,000,000
Active Transportation	\$ 5,000,000

Local Roads/bridges \$49,500,000

Township Roads	\$12,000,000
Small Cities	\$18,000,000
Local Bridge	\$14,000,000
Local Road Improvement	\$ 5,500,000

TH Corridors/Local Roads - \$30,930,000 (See List of Projects)

Dept of Public Safety - \$34,433,000

Karlstad Airport runway - \$5,500,000

Miscellaneous - \$21,000,000

Trunk Highway Cash – Increase over base**FY22/23 Biennium**

MnDOT State Roads Operating adjustment	\$ 9,080,000
MnDOT State Roads Salt Reduction	\$ 4,260,000
MnDOT Planning and Research operating adjustment	\$ 480,000
MnDOT 1st District Highway Corridor Planning	\$ 500,000
MnDOT Program Delivery operating adjustment	\$ 6,920,000
MnDOT State Road Construction Increase	\$257,643,000
MnDOT Highway Debt Service	\$ 23,300,000
MNDOT Cybersecurity	\$ 14,800,000
MnDOT Buildings operating adjustment	\$ 800,000
	\$317,783,000

New Trunk Highway Bonds**\$413.4M****FY22/23****FY24/25**

Regional and Community Investment Priorities*	\$113,000,000	
State Road Construction	\$100,000,000	
Corridors of Commerce		\$200,000,000

Projects for \$30.9M General Fund appropriation	
	US Highway 8 - 2 to 4 lane expansion \$8 million
	99th Avenue and Trunk Highway 65 in Blaine \$7 million
	US Highway 169, Trunk Highway 282 & County State Aid Highway 9 in Scott County design \$2.5 million
	Sherburne street and utility reconstruction \$3.03 million
	Washington County bridge over I-694 \$3.5 million
	Trunk Highway 41 Chanhassen roundabout \$1.5 million
	I-35 in Dakota County study \$1.4 million
	Trunk Highways 3, 77 & 55 studies \$2.5 million.
	US Highway 10 in St. Cloud study \$1 million
	I-35 and County State Aid Highway 9 in Rice County study \$500,000

*Projects for Regional and Community Investment \$113M THB	Ramsey Gateway/US Highway 10 \$31 Million.
	US Highway 10 in Wadena \$30 million
	US Highway 212 in Carver County \$25 million.
	I-94 Westbound in Albertville \$27 million

Transportation Policy

- Directs state agency commissioners to provide details on proposed Trunk Highway Fund or Highway User Tax Distribution (HUTD) Fund spending as part of the narrative in biennial budget submissions. Effective July 1, 2022.
- Recodifies an existing prohibition on use of Trunk Highway Fund dollars for specified purposes. Broadens the prohibitions list and expands the prohibition to apply to all commissioners as well as restrict money from the HUTD Fund. Effective July 1, 2025.
- Reduces the limit, from four to three, on the annual number of contracts for which MnDOT can use the Construction Manager/General Contractor (CM/GC) method of contracting. Extends a sunset on authority for MnDOT's use of CM/GC, to be after 20 projects instead of 10.
- Sets evaluation, scoring, prioritization, and web publishing requirements for the statewide freight and passenger rail plan. Requires plan updates within two years of an update to the statewide multimodal transportation plan. Removes obsolete language.
- Modifies requirements for the Minnesota State Highway Investment Plan, including to prioritize investment in trunk highway system preservation and maintenance. Makes conforming and technical changes. Applies to the next plan update.
- Requires MnDOT to make information available on Safe Routes to School program requirements and the selection process, including posting information on its website that lists projects considered and provides a required manual for applicants.
- Sets requirements for transportation planning, performance measurement tracking, and asset management. Specifies information in district capital highway investment plans. Requires an annual legislative report, which is first due December 15, 2022.
- Codifies a Transportation Programming and Investment Committee (TPIC) within MnDOT. Provides for duties, membership, meetings, public information on decision-making by TPIC and the commissioner, and creation of an investment opportunity plan.
- Revises local bridge program requirements, including to require ongoing maintenance of a bridge project list and to allow grants of up to \$7 million for major local bridges under the general program (as opposed to the specific provision for major local bridges). Directs MnDOT to post program requirements on its website.
- Directs MnDOT to post local road improvement program information on its website, including grantmaking procedures and projects considered and selected.
- Establishes Metro Mobility as a forecasted program for General Fund spending. Specifies state obligations, provides for forecast adjustments, and requires financial reviews in conjunction with each forecast. Effective starting with funding in fiscal year 2026.

- Directs the Metropolitan Council to develop a zero-emission transit vehicle transition plan for the council's transit fleet. Makes the initial plan due by February 15, 2022.
- Directs MnDOT, in consultation with the DEED, to procure a statewide freight network optimization tool. Specifies capabilities required for the tool.
- Directs MnDOT to implement a project selection process policy for capital programs and grantmaking. Identifies programs that must be included and are excluded. Sets requirements for each policy and requires consultation. Makes a legislative report due by February 1, 2023.
- Requires a legislative report on transportation revenue and expenditures, which is due by February 15, 2022.
- Directs MnDOT and the Department of Public Safety to perform a study of work zone speed management, which is due by February 1, 2022.
- Directs MnDOT to arrange for a study by the Center for Transportation Studies at the University of Minnesota of public transportation and commuter impacts following substantial resolution of the COVID-19 pandemic. Makes a copy of the study due to the legislature by February 1, 2023.
- Establishes a legislative task force on permissible uses of Trunk Highway Fund and HUTD Fund expenditures. Identifies task force membership, duties, and review areas. Provides for task force administration. Makes a legislative report due by February 15, 2022. Sets task force expiration as the day after submission of the report. Effective the day after enactment.

Omnibus Tax Bill

- Additional use for county local option transportation sales tax. The bill amends the current statute governing the local transportation sales tax to add "payment of the capital cost of constructing buildings and other facilities for maintaining transportation or transit projects or improvements" to the list of permissible uses of the revenue.
- Volunteer driver reimbursement. Allows a Minnesota subtraction for payments from charitable organizations to volunteer drivers. The subtraction is limited to payments in excess of the IRS reimbursement rates for charitable organizations (\$.14 cents/mile) but do not exceed the reimbursement rate for businesses (\$.56 cents/mile in 2021, subject to annual adjustment).
- Adds bicycle lanes, sidewalks, and paths to elements of a street reconstruction or bituminous overlay.
- Provides \$6.2 million to begin planning for a I-94 freeway lid in the Rondo neighborhood of St. Paul.

Bonding Bill

Legislation was passed (HF52) making corrections to the language contained in the capital bonding bill that was passed in October of 2020. While there was discussion of a new capital bonding proposal that included these corrections, the special session ended without agreement on a bill that would provide funding for additional programs and projects. The legislature is set to come back into session in September to address the spending of federal funds for essential workers. There is a possibility that a bonding bill could be agreed to at that time.

Conclusion

In 2021, transportation systems are benefitting from one-time federal COVID relief funds and one-time general fund dollars that will allow some needed projects to move ahead while maintaining transit service and planning for future transitways. With traffic levels returning to more normal levels, we anticipate transportation revenue will rebound but as we continue to face a huge shortfall between anticipated revenue and the needs on the transportation system, one-time dollars will only postpone the state's ability to meet the needs and provide Minnesotans with a safe, reliable transportation system. The Minnesota Transportation Alliance will continue to work with our members to lobby for dedicated, ongoing revenue increases that begin to meet the needs and build a transportation system for the future.



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