Minnesota Roadway Funding: Revenue Sources & Distribution (Research Brief)

January 2025

Minnesota's network of highways and local roads is essential to the state's economy and the daily activities of Minnesota residents. However, generating sufficient revenue to maintain, expand, and operate this infrastructure is a major challenge for Minnesota's state and local governments. Current projections estimate a shortfall of $20 billion in necessary funding between 2023 and 2042 for the state highway system alone.

Examining Minnesota's Roadway Funding Sources

The federal government, state government, and local governments all provide significant funding for Minnesota's roadways. Federal and state funds support the state trunk highway system, which includes interstates and state highways, in addition to providing aid to local governments.

Local highway funding comes from primarily from property taxes and assessments in addition to a few dedicated local transportation taxes. This revenue is used to support highways and streets under the individual jurisdiction of Minnesota's 87 counties, 850+ cities, and 1,780+ townships.

In their report, researchers detail these funding sources and explore how roadway funding is generated and distributed, as well as the history of current funding mechanisms. In doing so, they aim to enhance the understanding of Minnesota's roadway financing structure, which is critical for anticipating and addressing future transportation challenges.

Tax Term Definitions

Federal Motor Fuel Tax: In 2024, this federal tax was 18.4 cents per gallon of gasoline and 24.4 cents per gallon of diesel and is expected to generate $10.6 billion.

State Motor Fuel Tax: In 2023, this state tax was raised from 28.5 cents per gallon to 31.8 cents per gallon and will be adjusted annually based on increases in the Minnesota Highway Construction Cost Index.

Registration Tax (Tab Fee): An annual tax on all motor vehicles registered in Minnesota that use public streets and highways; every vehicle pays a different amount depending on characteristics such as type, base value, weight, and year.

Motor Vehicle Sales Tax (MVST): A state tax of 6.875 percent on the sale of new and used motor vehicles. Motor Vehicle Lease Sales Tax (MVLST): A 6.875 percent state tax on motor vehicle leases of longer than 28 days.

Highway User Tax Distribution Fund (HUTDF): The state account in which transportation revenue is collected and designated to be used solely for highway purposes.

Local Option Sales Tax: In 2008, Minnesota counties were authorized to levy a sales tax of up to 0.5 percent; proceeds must be dedicated to a specific transportation project or list of projects.

Wheelage Tax: A 2008 legislative change enabled Minnesota counties to collect a flat tax of $10-$20 each time a vehicle's registration is renewed. The funds must be added to county road and bridge funds to be used for highway purposes.

Key Findings

Federal Highway Funding

- Federal revenue sources (and the federal motor fuel tax rate) have remained the same over recent decades, with Minnesota receiving about $870 million in federal highway funding annually.

- Stagnation in the federal motor fuel tax rate has led to more reliance on other funding sources.
- Minnesota receives most of its federal highway funding through programs included in the appropriations process and must spend it according to federal program requirements.
- Projects are selected for federal funding through one of Minnesota's eight Area Transportation Partnerships, Minnesota Department of Transportation (MnDOT) offices, or Metropolitan Planning Organizations (MPOs).

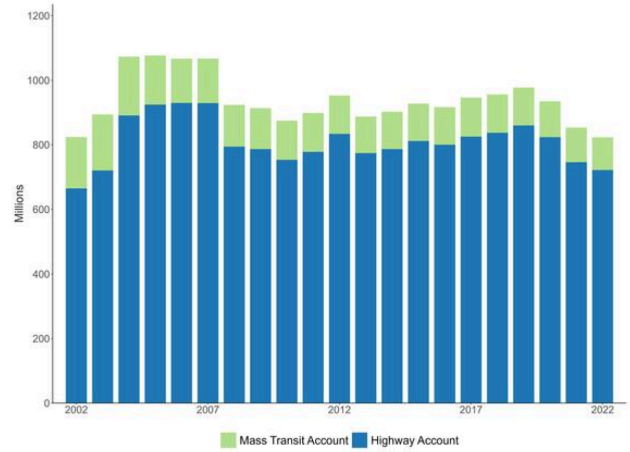

Figure 1: Federal Highway Trust Fund Receipts from Minnesota. Notes: All data is presented in constant 2023 dollars. Source: Minnesota Transportation Finance Database.

Minnesota receives about $870 million in federal highway funding annually— an amount that has remained stagnant for several decades when adjusted for inflation.

State Roadway Funding

- Minnesota's three highway user taxes contribute most state highway revenue: the state motor fuel tax, the registration tax (tab fee), and the motor vehicle sales tax (MVST).
- State fuel tax is the largest funding source, and revenue from this source is expected to grow in the coming years due to a 2023 rate increase. The increase raised the state motor fuel tax from 28.5 cents per gallon to 31.8 cents per gallon, and the tax rate will be adjusted annually based on increases in the Minnesota Highway Construction Cost Index, with a maximum annual increase of three percent.

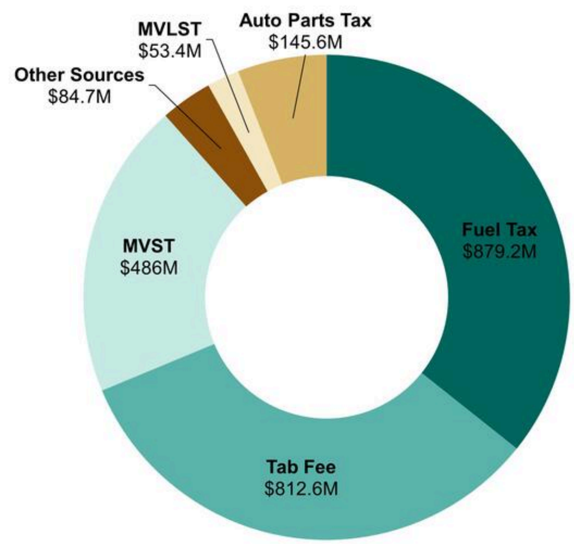

Figure 2: Minnesota State Highway Funds (2020) Source: Burress (2021)

- 60 percent of MVST revenues currently flow into the Highway User Tax Distribution Fund (HUTDF), in which state highway revenue is collected and then distributed to specific transportation accounts. Before MVST distributions were altered in 2008, just 30 percent of MVST revenues were placed in this account.
- The portion of motor vehicle lease sales tax (MVLST) revenue deposited into highway-related accounts has also increased due to legislative changes. Prior to 2008, all MVLST revenue was deposited in the general fund. Today, all MVLST revenue is dedicated to transportation.
- New legislation has increased the number of dedicated state highway funding sources since 2008. The 2017 transportation funding bill allocated additional revenue from multiple transportation-related sales taxes to the HUTDF, creating nearly $200 million in additional revenue. Two new sources of revenue for transportation purposes were also added in 2023: a retail delivery fee and a regional transportation sales tax.

Most of Minnesota's state roadway funding comes from three main sources, as shown by this chart of state highway fund revenue in 2020.

Local Roadway Funding

- Local funding is a key contributor to highway funding in Minnesota: cities, counties, and townships combined to spend about $2.35 billion on roadways in 2022, mostly from their general funds (made up primarily of property taxes and assessments).
- Local funding fell by about $210 million between 2008 and 2011, but has increased steadily after. Since 2008, cities have been responsible for the majority of local roadway funding.
- Local governments have begun to use several new roadway financing tools in the last two decades (including local option sales taxes and wheelage taxes) to supplement existing roadway revenue.

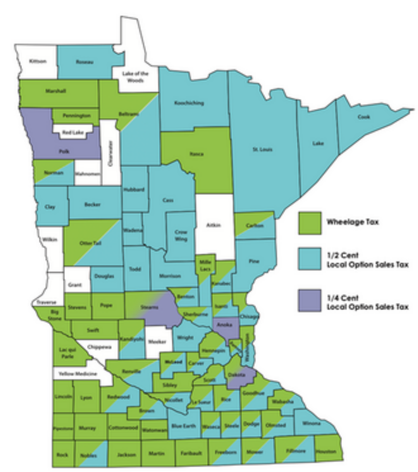

Figure 3: Counties with Local Option Sales Tax and Wheelage Tax. Source: Association of Minnesota Counties (2024).

In the past two decades, Minnesota counties have been authorized to collect new taxes (including wheelage and local option sales taxes), which have become increasingly important for local governments to generate transportation revenue.

Download the Research Brief

Want to print and share the information on this page? Download the two-page brief (PDF).

Further Reading

Final Report: Minnesota Roadway Funding: Revenue Sources & Distribution (2024).

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