



Trunk Highway Fund Balance Policy

Policy # FM006
Effective:

Policy Owner: Director, Office of Financial Management

Policy Contact: Budget Director, Office of Financial Management

Policy Statement

The Minnesota Department of Transportation must maintain a reserved fund balance in the trunk highway fund of not less than the sum of:

- 6 percent of annual projected state transportation revenues to the fund, plus
- 2 percent of authorized but unissued debt, plus
- debt service projection that exceeds 20 percent of annual state transportation revenues as estimated for the future debt service-funding shortfall.

MnDOT must prepare a formal budget forecast for the trunk highway fund in November and February of every fiscal year and as needed at the end of a legislative session. The forecast must cover the current fiscal year and two additional biennia into the future. These forecasts provide the basis for evaluating the fund balance and any budget proposals under consideration in conjunction with this policy.

Reason for Policy

Legislation passed in 2010 added statutory language requiring that the department develop a debt management policy. The [MnDOT Debt Management Policy](#) addresses the trunk highway fund balance impacts of trunk highway bonding as required by [Minnesota Statute 167.60, "Debt-Financing Management Policy"](#).

The amount of estimated revenue is a major factor in determining the estimated fund balance. To provide an adequate level of reserve to protect against a major shortfall in revenue, circumstances considered include:

- Uncertainty created by delayed congressional action or inaction regarding federal revenues;
- A major disruption to fuel supplies that could result in reduced state and federal motor fuel tax revenue;
- An economic recession that could significantly impact state and federal revenues;
- Excessive use of Federal Advance Construction Agreements that could require large amounts of federal revenue needed for "conversions," which may reduce the amount of funding available for current year federal aid agreements; and
- Unexpected contingencies such as providing flood relief efforts that necessitate a sufficient fund balance to enable MnDOT to take action as required.

Prudent business practice is to have an adequate fund balance to protect against uncertainty and volatility of revenues. The [Budget Trends Study Commission Report](#) presented to the legislature in January 2009

recommended a budget reserve consisting of 4.1% to 4.6% of two-year revenues for the general fund. MMB reevaluates this percentage each year in its [Budget Reserve Report](#).

Applicability

All MnDOT employees must comply with MnDOT policies.

Key stakeholders affected by this policy include:

- Commissioner
- Chief Financial Officer
- Financial Controller & Director, Financial Management

Definitions

Budgetary Basis

Revenue based on the amounts attributable to a fiscal year. This is usually very similar to actual receipts, with the exception of federal revenue, based on the amount of federal aid agreements, rather than actual receipts from the Federal Highway Administration. Actual federal receipts are usually only a portion of the total federal aid agreement. Expenditures are typically the total amount of actual expenditures plus encumbrances.

Federal Aid Agreements

Agreements between MnDOT and the Federal Highway Administration, approved on a project-by-project basis with project costs reimbursed on a scheduled basis. The total dollar amount of an agreement is the maximum amount of reimbursement. Reimbursement is typically for 80% of eligible costs. Since the entire amount of a project encumbrance is an expenditure on a budgetary basis, so too is the entire amount of the federal aid agreement for the same project.

Formal Budget Forecast

Forecast of highway user tax distribution fund and trunk highway fund revenues and expenditures prepared in cooperation with the Department of Management and Budget in February and November each year.

See Minnesota Statutes [§16A.103](#) and [§174.03, Subd. 9](#).

Fund Balance (Trunk Highway Fund)

The amount of estimated and actual revenue either projected or actually received by the trunk highway fund for a given fiscal year, less appropriations (made by legislature or through statutory provisions), or if after the end of a fiscal year, actual revenue minus the total amount of expenditures plus remaining encumbrances. Revenue includes transfers from the Highway User Tax Distribution Fund (legally prescribed share of motor fuel tax, motor vehicle registration tax, and motor vehicle sales tax revenues), other ongoing revenue, and federal aid agreement revenue provided by the Federal Highway Administration. These agreements are for expenditures on highway construction projects; cash reimbursement occurs for actual expenditures on a concurrent basis, but the total amount of the agreement is revenue and included in the fund balance calculation.

State Transportation Revenue

State transportation revenue includes a portion of dedicated highway taxes (motor fuel taxes, motor vehicle registration taxes, and 60% revenue from the motor vehicle sales tax) that are transferred from highway user tax

distribution fund to the trunk highway fund, and other sources of revenue (such as investment income) that are deposited directly into trunk highway fund.

Trunk Highway Bonds

Debt obligations issued and sold by the state to provide funding for capital projects that are part of, or functionally related to, the construction, improvement, and maintenance of the state's trunk highway system. Authorized by the [Constitution of the State of Minnesota, Article 14, Section 11 "Highway Bonds"](#) and [Minnesota Statutes §167.50](#).

Trunk Highway Fund

The principal operating fund for MnDOT and, to some extent, for the Department of Public Safety. It is supported by state motor fuel taxes, vehicle registration fees, and vehicle sales taxes and used for construction, maintenance, and operation of Minnesota's trunk highway transportation infrastructure. Annual transfers of funds to the Minnesota Management & Budget (MMB) debt service account in the state debt service fund are also made from this fund.

Responsibilities

Commissioner

- Ensure that proposed budgets and other actions that might result in appropriations from the trunk highway fund are constrained by the level of fund balance prescribed by this policy.
- If legislative committees propose appropriations that would result in the fund balance being lower than recommended in this policy, communicate with appropriate legislative leaders and Minnesota Management & Budget (MMB).

Chief Financial Officer

- Provide information to the Commissioner and Deputy Commissioner about the level of proposed additional appropriation authority that the policy can support.
- Assist in communicating concerns to legislative leadership as needed.

Financial Controller & Director, Financial Management

- Ensure the accurate calculation of the amount of fund balance for the Trunk Highway Fund. The preparation of formal fund statements occurs for this fund in November and February of each fiscal year.
- Ensure that all procedures and reporting comply with this policy including regular reporting of balances.
- Review policy every two years, or sooner as necessary, to ensure policy remains up-to-date.
- Ensure documents and training associated with the policy remain current.
- Work with Policy Coordinator to revise policy and/or confirm its accuracy.
- Communicate policy revisions, reviews, and retirements to stakeholders.

Resources & Related Information

Resources

- [MnDOT Advance Construction Policy](#)
- [MnDOT Debt Management Policy](#)
- [Minnesota Statutes §167.60](#) *Debt-Financing Management Policy*

- [Minnesota Statutes §167.50 Minnesota Trunk Highway Bonds](#)
- [Budget Trends Study Commission Report to the Legislature, January 12, 2009](#) and [MMB Annual Budget Reserve Report](#)
- [Constitution of the State of Minnesota, Article 14, Section 11 "Highway Bonds"](#)
- Business Data Catalog (BDC) – accessible from employee Intranet
- MnDOT's [Policy Website](#)

History & Updates

Title: *Trunk Highway Fund Balance Policy (2020)*

Revision	Date	Comments
Initial Adoption	7-1-2010	Policy #2.3 adopted
1 st Revision	3-21-2013	Policy revised and renumbered FM006
2 nd Revision		Policy revised and converted to new template
3 rd Revision		

Authorization

Policy Owner:

Signature: _____

Print Name: _____

Date: _____

Governance Committee has reviewed this policy and recommends approval:

Signature: _____

Print Name: _____

Date: _____

Responsible Senior Officer:

Signature: _____

Print Name: _____

Date: _____

Policy Review

This policy has been reviewed by the Policy Owner, the policy content is current, and no significant modifications are needed. Minor modifications have been noted in the “Comments” section.

Date	Policy Owner Signature	Comments