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November 2026

Does Minnesota Road and Bridges Funding Face Potholes Ahead?

An uncertain federal landscape combined with popular resistance to user and benefit taxation and an overextended general fund creates a different "trifecta" state lawmakers will have to deal with in 2027.

Road and bridge debates are typically not arguments about whether transportation infrastructure matters, but about how to balance the competing claims of preservation, modernization, and expansion. The 2027 session is likely to present a more fundamental challenge because the financing system is being squeezed from three directions at once. The federal government, long a dependable partner in highway finance, has become a less predictable one. At home, the two taxes drivers pay directly, the gas tax and the vehicle registration tax, face growing backlash even as the 2023 changes meant to shore them up are still taking effect. And the general fund, the usual backstop when user taxes fall short, has less room to catch the state than its headline balance suggests.

This report examines each pressure in turn: what Washington's uncertainty means for Minnesota; the gas tax's struggles to keep pace with costs; the aborted Minnesota history of tab fee relief and what current proposals hold for transportation funding; the state's existing general tax fund support and its challenges in doing more; and what lawmakers know, and don't know, about how efficiently current dollars are spent. We also look east to Wisconsin, a state that has spent two decades testing a different approach and its results.

Federal Policy – More Unknowns

The clock has run out on the Infrastructure Investment and Jobs Act (IIJA) – the most recent surface transportation reauthorization bill -- which expired September 30. Its successor, the Build America 250 Act was reported out of committee in the House with strong bipartisan support (62-2), but is currently stalled following adjournment—leaving surface transportation in a short-term holding pattern. The always trusty "continuing resolution" passed by Congress has extended the core Highway Trust Fund's expenditure authority and obligations through December 11 of this year keeping Minnesota's highway formula distribution intact. However, it omits the IIJA's advanced general fund transfers used to establish a larger discretionary grant pool targeting critical freight and highway infrastructure that standard state formula dollars rarely cover on their own. The result is shrunken grant pools, award delays, and capital planning uncertainty for states and cities until a new reauthorization passes.

The future passage of the Build America 250 Act itself is not without its own complications. For starters, the Senate has yet to release its own draft. Reports suggest that the House's formula-heavy, road-and-bridge-centric version that makes significant cuts to a lot of transit and electric vehicle infrastructure support may be an issue with the influential Senate Environment and Public Works Committee. The results of the November election add another curveball potentially influencing whether Congress would take this on in a lame duck session or end up adopting a second stopgap extension in mid-December to let the 120th Congress figure it out.

Then there's the issue of pay-fors. The federal Highway Trust Fund (HTF) relies on excise taxes on motor fuels that haven't been raised since 1993, and CBO's February 2026 baseline already shows the highway account exhausting its balance during FY2028, with a cumulative shortfall reaching roughly $202 billion in the highway account and $93 billion in the transit account by 2036.[1] That's a combined gap approaching $300 billion over that window, even before accounting for any new reauthorization. Assuming a federal gas tax increase (especially now) is politically radioactive, Congress has three non-mutually exclusive but unappealing choices: 1) continue kicking the can by

[1] Congressional Budget Office, *"Highway Trust Fund Accounts"* Baseline Projections, February 2026.

authorizing yet another general fund bailout, as it has done many times before; 2) reduce state formula allocations to match HTF receipts; or 3) find additional pay-fors, such as spectrum auction proceeds or energy lease revenue.

Overlaying all this is the executive branch's simultaneous pursuit of more direct control over federal discretionary grants policy and distribution. As we have previously discussed, the executive branch has a proposed rule to rewrite 2 CFR Part 200, the Uniform Guidance governing federal grants. It would apply government-wide to essentially every recipient of federal financial assistance -- universities and research institutions, state and local governments, nonprofits, scientific and professional societies, and, as flow-down terms, to individual award recipients. It would write current administration policy directly into the standard terms and conditions of federal awards, expand termination authority, and mandate pre-issuance political review, giving senior political appointees veto power over merit selection to ensure proposed awards advance "the president's priorities." To provide some sense of the policy objectives lurking behind this reform, in 2025 U.S. Transportation Secretary Sean Duffy signed an internal Department of Transportation (USDOT) policy directive directing staff to give preference to communities with marriage and birth rates above the national average when awarding competitive grants.

OMB intended to have the final rule go into effect at the start of the new federal fiscal year on October 1, but per the continuing resolution, OMB is legally barred from issuing or finalizing this rule — or a "substantially similar" one -- delaying the implementation. Even when the rule is finalized, it seems a fair bet an avalanche of lawsuits will quickly follow creating the prospect for yet more delays.

Rather ironically, a much-heralded Supreme Court decision[2], viewed as a victory for a more restrained regulatory environment, may now present more of an obstacle to expanded executive power in federal grant distribution going forward. Prior to this ruling, administrations could leverage statutory ambiguities passed by Congress to reinterpret existing laws and adjust grant policies without needing new legislation. Courts, not agencies, now decide what ambiguous statutes mean, which leaves agency scoring criteria and new grant conditions more open to legal challenge. As a result, the administration going forward would appear to have less leeway to redirect federal funding without explicit approval from Congress. Congress appears to be thinking and moving on a parallel track. The House version of Build America would roll much of the discretionary transportation grant-making into formula distribution reinforcing the constraint now presented by the courts.

Nevertheless, the combination of legislative gridlock, fiscal shortfalls, and the future of uniform guidance overhauls create a challenging operational landscape. While short-term continuing resolutions shield the state's core highway formula apportionments, the loss of IIJA advance general fund appropriations going forward hits Minnesota's road and bridges, as well as transit systems, rail connections, and local EV infrastructure plans. Furthermore, because the state has historically leveraged dedicated state-matching funds to capture competitive federal grants for major freight and regional corridors, delayed grant cycles and political review delays at USDOT could put multi-year capital projects at risk of cost inflation and scheduling limbo. The challenge is less about any single number than dealing with the breadth of unresolved federal variables the state has little ability to influence -- and no realistic way to fully hedge against-- before the session begins.

Gas Tax -- Sound in Theory, Strained in Practice

As Table 1 shows, gasoline gallons sold to motor vehicles have been flat for years. Following a brief post-covid recovery spike in 2022 the tax dollars have risen roughly ten times as fast as the tax base itself. The gas tax grows the way a thermostat warms a house: only when the dial is turned up.

[2] *Loper Bright Enterprises v. Raimondo*, 603 U.S. 369 (2024)

Table 1

Minnesota Gasoline Sold for Highway Use and Gasoline Excise Tax, FY19-FY26				
Fiscal year	**Gasoline gallons taxable, highway**	**Gasoline base excise tax collected, highway ($)**	**YoY: gasoline gallons**	**YoY: base tax**
2019	2,607,272,774	657,321,148		
2020	2,438,608,765	583,241,852	-6.5%	-11.3%
2021	2,303,716,513	578,221,703	-5.5%	-0.9%
2022	2,439,167,641	616,283,703	5.9%	6.6%
2023	2,428,661,460	610,001,212	-0.4%	-1.0%
2024	2,449,796,286	613,971,980	0.9%	0.7%
2025	2,466,402,505	652,002,762	0.7%	6.2%
2026	2,466,721,635	707,773,891	0.0%	8.6%
Change FY19 to FY26	-5.4%	7.7%		
Change FY23 to FY26	1.6%	16.0%		

Source: DOR Annual Petroleum Collections and Tax Report
Excludes aviation gasoline and special fuel (diesel), and are net of DOR's adjustments (out-of-state sales, U.S. government sales, shrinkage, tax-exempt farm sales). Base tax is before refunds.

Excludes 3.5 cent debt-service surcharge.
FY2026 report is dated 07 August 2026; not verified as final.

The dial in this case is an automatic inflation adjustment enacted in 2023. It is tied to Minnesota's highway construction cost index from a "statutory reference year" which is two years prior. That means the forthcoming January 1, 2027 tax rate adjustment is based on Minnesota highway cost inflation that occurred over FY 2024 (July 2023 - June 2024). A 3% cap on the rate increase was part of this 2023 legislation, but its implementation was delayed for two years, which let the post-pandemic cost surge flow through uncapped. January 2026 was the first year the 3% cap on the gas tax rate took effect.

Despite its inherent logic as a source of funds for road and bridge construction and maintenance, the gas tax has two significant limitations that keep it from fully preserving the purchasing power of the revenue it is meant to protect.

The first is the cap resulting in the rate falling permanently behind costs since the statute has no mechanism to recover increases the cap removes. As Table 2 shows, the 0.8 cent increase that took effect in January was generated by the 3% cap although the cost index increased by 7.2%. That trimmed 1.2 cents a gallon — about $40 million a year, permanently, since every future increase builds on the smaller base — and cost the program roughly 4% of its purchasing power in a single year. The 0.2 cent increase scheduled for January 2027 reflects the uncapped 0.7% inflationary adjustment.

Over the two years MnDOT's index rose an average of nearly 4% a year, above the cap, yet the rate rose a combined 1.0 cent. That is about 40% less than two years at the 3% maximum would have produced (1.7 cents), and less than half of the 2.2 cents full indexing would have delivered.

Table 2

Reference Year (ends June)	National Highway Cost Inflation	MN Highway Cost Inflation	Date/Amount Tax Rate Increase
2021	-1.7%	NA	Jan 2024 / No increase
2022	18.6%	13.2%	Jan 2025 / 3.3 cents
2023	24.6%	7.2% (capped)	Jan 2026 / 0.8 cents
2024	10.7%	0.7% (uncapped)	Jan 2027 / 0.2 cents
2025	2.9%	About 2.9% (forecasted)	Jan 2028 / 0.9 cents *
2026	NA	About 2.0% (forecasted)	Jan 2029 / 0.6 cents *

* estimated

Sources:

- U.S. Department of Transportation, Federal Highway Administration https://www.fhwa.dot.gov/policy/otps/nhcci/
- MnDOT DPA response to MCFE regarding index construction
- 2028 and 2029 tax increase estimates: Highway Finance, MN House Research, September, 2025

There are several reasons why Minnesota's highway inflation index might depart from the national index, and those reasons were exacerbated in the COVID years.[3] But according to information provided by MnDOT, there is close agreement on compound annual growth rates (CAGR) over the long run. Since the NHCCI's inception in 2003-04 and through June 2024, MnDOT's construction cost index has reported a compound annual growth rate of 5.42% compared with 5.66% for FHWA's national index. These long-term rates, both well above the 3% cap, are further evidence of the capped adjustment's inherent cost coverage limitations. If construction costs keep rising at their historical 5.42% average, by our estimate the gap between the cap and cost growth would total roughly $360 million over the next five years reference years (2028–2032). That estimate is conservative because capping upside volatility while fully retaining downside years creates a disproportionate drag on a volatile index, even if its overall average is 5.42%.

Second is the delay between when costs rise and when the rate responds, which compounds the cap issue. Contracts are bid and paid at current prices, but the rate reflects costs from a reference year that ended two and a half to three and a half years earlier. Each year's road and bridge program is paid for with revenue calibrated to older, lower prices. The lag delays the response, and the cap then limits it. According to the June Bureau of Labor Statistics PPI release, between June 2025 and June 2026, producer prices for asphalt paving mixtures, aggregate, and steel mill products rose 6.3%, 6.2% and 16.9% respectively, suggesting another delayed cap may be forthcoming in the January 2029 adjustment.

The gas tax remains a critical and important funding source, but its effectiveness is increasingly limited by trends in fuel consumption, its design, and public resistance. Minnesota links the rate to the costs of the transportation system it supports, yet gasoline sales have been essentially flat for years and are expected to decline gradually as fuel efficiency improves and electric vehicles become more common. The inflation adjustment helps maintain purchasing power, but the cap permanently excludes some cost increases from the tax rate and its future base,

[3] They include: (1) data coverage, since a state index reflects only Minnesota contract awards, with regional input prices, labor markets and bidder competition, while the national index averages across states; (2) project mix, since a year weighted toward bridge, concrete paving or grading work can move a state index differently from a national basket; (3) index design, and (4) sample size, since one state's quarterly contract awards are far fewer and more volatile than the national sample.

while the lag leaves each year's program funded at outdated prices. The tax's unpopularity also makes even deliberately limited annual increases of less than a penny easy targets for lawmakers, despite their purpose of keeping revenue aligned with system costs. Bills were introduced in both the House and Senate in 2025 to repeal indexing.

The result is a tax that is conceptually sound but structurally and politically unable to keep pace with the costs it is meant to track, especially in an era when consumption is stagnant and construction inflation is not.

Tab Fees – More Money, Similar Dynamics

Given the revenue struggles of the gas tax, it was not surprising to see lawmakers turn their attention to the other primary transportation benefit tax to pick up the slack. The registration formula increases along with the ad valorem depreciation schedule changes enacted in 2023 made tab fees the new "king of road finance" supplanting the gas tax as the largest contributor to the state's Highway User Tax Distribution Fund (HUTDF).[4]

That ascension to the throne has resulted in plenty of controversy and discontent. Vehicles registered for the first time after the change paid higher amounts outright. Long-standing law provides that a vehicle's tax may never exceed the smallest amount previously paid on it. However, for vehicles already registered, the higher rate and slower depreciation schedule produced formula amounts above what owners had paid the year before. The hold-harmless provision froze their bills at that prior amount, which interrupted the annual decline Minnesota drivers had come to expect. Legislators have introduced bills to roll the changes back every session since 2023. Repealing the registration rate increase and depreciation changes would cost the HUTDF about $732 million in the FY28-29 biennium.[5]

But an even more fiscally consequential form of relief is now being proposed: a hard cap on tab fees delivering "no formulas, no depreciation tables, no surprises." This is a road which Minnesota has traveled down before. In 2000 the legislature and Governor Ventura capped the registration tax. The formula itself was unchanged -- $10 plus 1.25% of depreciated base value. But after paying first year based on formula, tabs were capped at $189 in the second year, and reduced to $99 in years 3 through 10, with a $35 minimum. Registration tax revenue fell from $606.8 million in FY 2000 to $454.6 million in FY 2001, a 25% drop.

Lawmakers replaced that lost revenue by moving $150 million of motor vehicle sales tax (MVST) collections from the general fund to the HUTDF. Additional adjustments to MVST to general fund transfer in subsequent years continued to fill the void. But these backfills didn't hold due to increasing general fund and transportation system stresses. In 2007, triggered by the Interstate 35W bridge collapse, the OLA examined the safety of the state's highways and bridges and state's investments in maintaining them. Among the findings:[6]

- Inflation-adjusted revenues from Minnesota motor vehicle and fuel taxes declined, and the state was now making substantial use of debt financing to support the state trunk highway system -- a long-term fixed claim against a revenue base that was eroding. Subsequently, lawmakers adopted a 3.5 cent surcharge on the gas tax to pay off the increased debt.
- The ride quality of state trunk highways had declined.

[4] MnDOT Transportation Funds Forecast, February 2026
[5] Legislative Budget office fiscal note accompanying HF3562
[6] "State Highways and Bridges," OLA Program Evaluation Report, February 2008

- MnDOT needed $672 million per year between 2012 and 2018 just for trunk highway preservation, about equal to the forecasted revenues available for all trunk highway construction.

In 2008 lawmakers (overriding a gubernatorial veto) eliminated the caps, updated and reestablished value-based depreciation schedules, and raised the gas tax.

Modeling the new proposed version -- a flat cap of $99 on all passenger vehicles from the initial purchase (with a grandfather clause for vehicles currently paying less than $99) -- involves a complicated set of interrelated factors pertaining to the make-up and age of the current passenger vehicle fleet in the state and its retirement.

To generate a rough estimate, we built a model (developed with AI assistance) of five scenarios representing different fleet mixes and ages then compared current-law tab fees with the proposal to determine the share of revenue the proposal would lose in each year (Table 3). We also created a range estimate based on the share of registration revenue paid by vehicles defined as "passenger automobile" in statute.

Table 3

Scenario	What the scenario represents	Economy & mainstream share *	Truck, SUV & luxury share **	Average fleet age: share 11+ yrs old	Revenue lost, FY 2028 (share of passenger formula revenue) ***	Share of all registration revenue lost ****
Very low	Economy-heavy, older fleet: more budget cars and sedans, vehicles kept longer	55%	25%	50%	65.6%	58.4%
Low	Leans economy, somewhat older fleet	48%	32%	47%	68.5%	60.9%
Central	Mix matches today's national new-vehicle quintiles; fleet age matches Minnesota's 2019 profile (44% of vehicles 11+ years old)	40%	40%	45%	70.9%	63.1%
High	Leans toward trucks, SUVs and luxury; somewhat newer fleet	32%	48%	42%	73.1%	65.0%
Very high	Truck/SUV/luxury-heavy, newer fleet: more high-value vehicles, replaced sooner	25%	55%	37%	75.3%	67.0%

* Under $40,000 new: budget cars, compacts, compact SUVs
** Over $52,000+ new: full-size pickups, 3-row SUVs, vans, luxury
*** Flat $99 design, year 1 after enactment (FY 2028): formula repealed; vehicles paying under $99 at enactment frozen at that amount.
**** Column H x 89% passenger vehicle share of registration tax revenue (MnDOT Transportation Funds Forecast, Feb. 2026: "nearly 90 percent"). Trucks, trailers, RVs and other non-passenger vehicles (~11%) are unaffected.

It does not matter that much which scenario would materialize since total registration fee revenue losses stay between roughly 58% and 67% of whatever scenario assumptions are used yielding a biennial loss ranging from $1.48 billion to $1.71 billion. The loss estimates are quite similar because, in the plan's first years, the $99 limit applies whenever a vehicle's formula tax exceeds $99. That "whenever" covers almost all vehicles roughly in their first nine or so years, which are also the years that produce most of the registration revenue. Vehicles already paying less than $99 keep their current amount under the grandfather provision (it is unclear whether a sale to another party would reset them to $99.) Because every vehicle pays the same $99 regardless of value or age, the

loss depends mostly on how much of the fleet's value sits above that line. A fleet weighted toward expensive vehicles raises the loss modestly; there is simply more value being taxed.

Using MnDOT's estimate that passenger vehicles produce "nearly 90 percent of registration tax revenue" (Tables 4 and 5 modeled at 89 percent), the plan's best-estimate cost is about $764 million in FY 2028 and $787 million in FY 2029, or roughly $1.55 billion over the biennium. That is nearly a quarter of all revenue flowing through the Highway User Tax Distribution Fund. For comparison purposes, repealing every 2023 HUTDF revenue increase (tabs, gas tax indexing and post 2023 inflationary increases, and the 2023 motor vehicle sales tax increase) would reduce HUTDF revenues by about $1.1-$1.2 billion in FY28-29.[7] The plan would cut HUTDF revenue by an even greater amount than repealing every 2023 increase to HUTDF revenue combined.

Table 4

Estimated Revenue Loss by Fiscal Year (millions)		
	FY 2028	**FY 2029**
Current-law forecast, all registration tax (millions)	$1,254	$1,317
Estimated loss (millions)		
Best estimate loss (89% passenger share)	**$764**	**$787**
Best estimate remaining registration revenue (millions	**$490**	**$530**

Table 5

Scenario	FY28-29 biennial loss	Set-aside (5%)	Trunk highways (62%)	County state-aid (29%)	Municipal state-aid (9%)
Best Estimate 89% passenger share	**$1,551**	**$78**	**$914**	**$427**	**$133**

Note: Estimate assumes $99 is the total registration tax, with other fees and any local wheelage tax unaffected, and excludes electric and plug-in hybrid vehicle surcharges. Losses are measured against current law, including the scheduled end of the one-year 2027 rate reduction; extending that reduction would lower the cap's incremental cost only by shifting part of it to whatever pays for the extension. Best Estimate assumes "low scenario" and passenger share (89%) based on MnDOT Transportation Funds Forecast, February 2026 stating the revenue collected on passenger vehicles comprises "nearly 90 percent of total revenue from registration taxes."

The grandfather provision also means the revenue loss shrinks over time. Because the formula is repealed, every vehicle registered after enactment would pay $99 each year, including later years when current law would charge a highly depreciated vehicle less than that. Meanwhile, grandfathered vehicles paying less than $99 gradually leave the fleet. Grandfathered amounts are also frozen rather than continuing to decline as vehicles age. In the best-estimate case, the share of passenger-vehicle tab revenue lost falls from about 68.5% in the first year to about 67% in the second, roughly 59% after ten years, and about 54% once every vehicle pays $99. The same mechanism shifts the tax burden over time: owners of older, less expensive vehicles would eventually pay more than under current law, while owners of newer, more expensive vehicles would pay less.

[7] "MCFE estimate registration changes $732M (LBO fiscal note, HF3562); gas tax indexing ~$320–345M and MVST rate increase ~$65M (MCFE calculations from MnDOT forecast and House Research data)

Over time, the cap gives up a somewhat smaller share of what current law would collect — about 68 percent of passenger tab revenue in the first year, falling toward 54 percent in the long run — as grandfathered vehicles paying less than $99 leave the fleet and every newer vehicle pays $99 for life. But the dollar loss still rises each year -- a shrinking slice of a growing pie is still a growing slice.

If a policy objective is to retain a strong benefit-based funding relationship with road and bridge maintenance and construction, tab reliance is practically unavoidable[8] - especially given the gas tax challenges. Public frustration with tab fee increases is understandable, but the state's history makes clear that a repeal of the 2023 actions or flat capping them without a backfill strategy would create problems that quickly materialize.

General Funds to the Rescue?

Every proposed tab-fee cut, gas tax freeze or rollback, and similar proposed retreat or distancing from benefit-tax financing comes with an unstated end to the sentence: "…and the general fund will cover it." Arguments for general fund support have merit and a fairness logic --roads benefit non-drivers through freight, emergency services and access to jobs among other diffuse societal benefits. Whether Minnesota should and can provide more general fund support is a policy and political question, but it's important to recognize the general fund support the state already does provide.

That support comes in different forms. Minnesota roads and bridges receive little if any standing support from general fund appropriations outside of debt service on general obligation bonds issued for local road and bridge projects. One-time appropriations occasionally will find their way into an end-of-session budget agreement, as did roughly $350 million in 2023, or, in 2026, when a $254 million appropriation backfilled one year of tab relief in 2027.

Minnesota's general fund appropriations may contribute little to roads, but the same can't be said for general fund taxes themselves. What the state general fund has sacrificed is revenue. Several taxes that once went to the general fund, or would otherwise be part of general fund collections, have been redirected by the constitution or statute to transportation including the sales tax on motor vehicles, a portion of the sales tax on auto parts, and the rental and sales tax on vehicle leases. Together these "vehicle-associated" taxes now supply about $850 million a year for roads and bridges to the HUTDF. Full dedication of the auto parts sales tax arrives in fiscal year 2037, with 43.5% going to the HUTDF and 56.5% to a separate transportation advancement account for local roads, if future legislators don't change their minds. (That account sends 1 percent of its receipts to DHS for food delivery support — a worthy reminder that once a revenue stream is deemed deserving of dedication, the definition of transportation can become flexible.)

Measured by the Federal Highway Administration's (FHWA) "general fund" column alone, Minnesota's support for highways looks meager — about 3% of state highway revenue. However, that figure says more about bookkeeping than policy. Had Minnesota routed its vehicle associated sales tax dedications through the general fund, as many states do with earmarks, the same dollars would show up as about 19 percent "general fund support" — a share comparable to states often cited for leaning on their general funds. State comparisons are also complicated by episodic surplus spending. Several of the states that ranked highest on general fund support in 2024 got there by putting large one-time surplus dollars into roads, which says little about any ongoing general fund commitments. Counting general fund appropriations and other dedicated taxes the same way for every state, Minnesota sits somewhat below the national median -- neither a laggard nor a leader.

[8] We discount vehicle mileage traveled fees at present out of current administrative, privacy, and rural fairness concerns.

Most governmental general fund support for roads and bridges exists in local government budgets, where the state also plays a role. Because general purpose aid to cities and counties is fungible, some portion of its distribution effectively supports local street and highway budgets and debt service. According to the State Auditor's most recent local government finance reports, Minnesota counties and cities together spend about $4.2 billion a year on street and highway construction and maintenance. Subtracting federal and state highway aid leaves about $2.5 billion in local effort. Netting out special assessments and local benefit taxes such as wheelage fees and dedicated local sales taxes for transportation leaves roughly $1.8–2.0 billion paid from property taxes [9] and other general fund revenues including general purpose aid.

Every dollar absent from the highway distribution formula tends to push cities and counties toward the one lever they reliably control: the property tax. Consequently, proposing property tax relief alongside rollbacks and freezes in highway-user related revenues creates significant policy dissonance. The second pursuit does an effective job of undermining the first.

Boosting standing general fund support for roads and bridges faces some significant obstacles outside of simple political objections. Heading into 2027, elevated federal funding uncertainties and cost sharing adjustments in SNAP, Medicaid, and other areas of the state budget create general fund stresses beyond the normal competition for general fund resources. Just this year, the $254 million backfill for road tab relief was accompanied by a controversial $75 million transfer from the Driver and Vehicle Services Special Revenue Fund into the general fund to make the budget targets and balancing math work.

The state's $3 billion budgetary balance at the end of the 2026 legislative session may seem ripe for another one time general fund injection of significant road and bridge funding. However, for several years now, these large carryovers have needed to be treated more as a risk management pool than as usable surplus because of the persistent structural imbalances existing in the out biennium.

If other states' experiences are any guide, a well-traveled path is dedicating more general revenue streams to roads, including sources with no relationship to road use. Michigan sends 35 percent of its adult-use cannabis excise tax, after administrative costs, to its transportation fund for roads and bridges. Illinois used expanded casino gaming and sports betting revenue to help finance its Rebuild Illinois capital program, roads and bridges included. A slide from the National Conference of State Legislatures lists over 50 revenue sources states use for transportation generally besides general fund appropriations, ranging from familiar fuel taxes and tabs to oil and mineral royalties and severance, tobacco taxes, documentary stamps, logo signs, and Minnesota's own delivery fee[10].

The lesson of this variety is that the state differences in benefit taxation types and levels captured in colorful national maps and generating social media complaints often have less to do with different state commitments to transportation infrastructure and more to do with political success in finding less visible and objectionable ways to pay for them.

Spending Side – A Case of "Information Asymmetry"

Legislative debates over roads and bridges funding revolve around revenue for a reason: everyone understands money. Assessing how efficiently and effectively the money is used takes engineering, data, and operational expertise that the agency spending the funds holds almost entirely.

[9] Office of the State Auditor, county (2024) and city (2023) finance reports.
[10] "State Trends in Transportation Funding," NCSL Webinar, December 18, 2025

Over the past decade, the Office of the Legislative Auditor (OLA) has investigated this asymmetry. Two program evaluations in particular shed light on how MnDOT plans, selects and evaluates multibillion-dollar investments. A common thread was that agency expertise does not automatically produce financial transparency, efficiency and fiscal discipline.

In the first -- MnDOT Highway Project Selection (2016) -- the OLA reported that it could not "determine what percentage of construction and maintenance costs on the trunk highway system are paid for by local governments, whether that percentage has increased or decreased over time, or which local jurisdictions have spent the most." [11] The second, MnDOT Measures of Financial Effectiveness (2019), reached a broader conclusion: "For some decisions, there is little evidence that the department systematically analyzes the financial consequences of its actions."[12]

Among its findings:

- MnDOT inconsistently considered financial effectiveness in its planning and project selection.
- Its project scoping documentation was insufficient, making it difficult to assess their financial effectiveness.
- It had introduced more cost-effective design approaches but had not required their use.
- It had not systematically assessed the cost effectiveness of most maintenance activities nor gathered the performance data to do so.

In a 2020 follow-up,[13] OLA reported that MnDOT had made changes, that internal work groups were revising processes, and that the department was rolling out its Transportation Asset Management System (TAMS) to track maintenance costs and measure outcomes. OLA also put an item on the Legislature's own to-do list: rewrite the statutory "financial efficiencies" reporting requirement, which had produced little useful information.

That follow-up is now six years old. Facing a challenging transportation financing landscape in 2027 and beyond the legislature would be well served by taking some time to explore the other side of the ledger as well and schedule a hearing to revisit these issues. MnDOT may well have made even more progress since 2020; a hearing is the way to find out. It's hard to have an informed argument about how much more Minnesotans should pay for roads without some evidence about the efficiency and effectiveness of what they already pay.

No Free Lunch

As state lawmakers look toward the 2027 legislative session, Minnesota faces a convergence of fiscal pressures with respect to transportation: expiring federal programs, declining gas tax purchasing power, intense pushback against tab increases, and stiff general fund competition. In attempting to navigate these headwinds, the state's greatest risk is reflexively dismantling revenue streams that still carry the system in pursuit of what polls well.

To see the risks, Minnesota can look to our neighbor to the east, the land where the gas tax is frozen, state registration fees are flat and cheaper, and a portion of all general fund taxes are earmarked for transportation:

[11] Office of the Legislative Auditor, MnDOT Highway Project Selection, Program Evaluation Division, March 2016
[12] Office of the Legislative Auditor, MnDOT Measures of Financial Effectiveness, Program Evaluation Division, March 2019
[13] Office of the Legislative Auditor, MnDOT Measures of Financial Effectiveness: Update to 2019 Evaluation Report, February 2020.

- The statutory earmarking of a quarter percent of all general fund taxes to transportation now raises about $110 million a biennium, but one-time biennial appropriation supplements have now grown to more than half a billion dollars a biennium since 2023.[14]

- Original title and title transfer fees which go directly to the state's transportation fund have tripled since 2019 from $69.50 to $214.50.[15] (Minnesota's title fee itself is $8.25, with various administrative surcharges totaling about $37.)

- Since 1967, Wisconsin has allowed *both* municipal and county governments to also impose an annual uncapped flat "municipal or county registration fee" for all motor vehicles on top of the state registration fee. Mostly ignored for nearly 50 years of this authority, since 2015 the number of local governments employing what have come to be known as "wheel taxes" have increased seventeen-fold and revenue collections have grown sevenfold.[16]

- FHWA local data shows Wisconsin local governments use of general fund and property tax money for roads per capita is the highest in the nation at about $575 per resident and at least 50 percent more than Minnesota's counties and cities appear to spend from comparable sources.[17]

- According to the latest FHWA data, Wisconsin devotes about 15 percent of its state highway spending to debt service, the sixth-highest share in the nation, and ranks 10th per resident at nearly twice the national median.[18] Minnesota's total debt service is not far behind, but the mix differs: Wisconsin's interest costs per resident run about three times Minnesota's, the price of a longer reliance on borrowing.

- The non-partisan Wisconsin Policy Forum estimates a "Fix the Roads" scenario funding gap of $1.1 billion for the 2027–29 biennium.[19]

- According to the latest Reason Foundation Annual Highway Report, based on 2023 data,[20] Wisconsin's combination of highway performance and cost-effectiveness ranks 31st in the nation (Minnesota ranks 11th).

None of this is to pick on Wisconsin, and many factors beyond its funding choices drive rankings like these. Rather, it illustrates a broader reality of transportation finance: when policymakers make one funding source less visible or less politically painful, the costs don't disappear. They will resurface somewhere else.

For years, transportation finance has worked like a three-legged stool: federal dollars, transportation benefit taxes, and general fund support working together. What makes 2027 different is not that one leg is under pressure, but

[14] Wisconsin Legislative Fiscal Bureau Paper 761, Ongoing General Fund Tax Transfers to Transportation Fund (2023–25); Summary of Provisions, 2023 Act 19 — Transportation; Summary of Provisions, 2025 Act 15
[15] https://wisconsindot.gov/pages/dmv/vehicles/title-plates/titles.aspx
[16] "Wheel Tax Revenues Keep Rolling" Wisconsin Policy Forum, November 2025
[17] Wisconsin: FHWA, Highway Statistics 2024, Table LGF-1. Minnesota: MCFE estimate from Office of the State Auditor County (2024) and city (2023) finance data, because Minnesota's FHWA reported local figures include $2.5 billion in reported transfers from local governments to the state that appear to double-count funds.
[18] Federal Highway Administration, Highway Statistics 2024, Table SF-2, "Disbursements for State-Administered Highways."
[19] Road Map Assessing and funding Wisconsin's Transportation Needs, Wisconsin Policy Forum December 2024
[20] https://reason.org/highway-report/29th-annual-highway-report/wisconsin/

that all three are under significant stress at once. Washington has become an unpredictable partner; states can no longer plan around what the federal government will pay, only around what it might. At home, affordability worries and high-profile fraud in state programs have left little tolerance for higher taxes and fees, even dedicated ones that pay directly for the service provided. And the general fund faces a greatly expanded mix of new, existing and shifting obligations, leaving policymakers less room to cover the system's costs.

In that sense, the coming debate is as much about fiscal transparency and responsibility as transportation. The roads and bridges will be paid for one way or another. The question is whether Minnesotans pay for them directly, indirectly, or later, usually at a higher price.