



## POLICY

### Transit Funding Allocation Policy

FM 12-3

**Category:** Financial Management

**Business Unit Responsible:** RA: Finance

**Policy Owner:** Deputy Chief Financial Officer

**Policy Contact:** Stewart McMullan, Director of Budget Operations

**Synopsis:** Establishes the responsibilities and expectations for the allocation of funding received for metropolitan area transit.

## POLICY

### Overview

The ~~Metropolitan~~ Council allocates the funds it receives for ~~metropolitan area~~ transit operations, capital, and capital maintenance in accordance with ~~requirements of~~ state and federal law and its Transportation Policy Plan. The Council seeks, through its funding allocation, to: will allocate funding in accordance with the Transportation Policy Plan and to advance the following requirements and priorities:

- Maintain transit assets in a state of good repair
- Sustain existing and future operations of the METRO system and the regional bus system
- Fund transit uses required by state law
- Invest in expanding regional transit service
- Innovate and improve transit, ~~including by funding required uses in state law~~

To support allocation decisions, the Council will develop and maintain a long-term forecast with a 25-year (at minimum) horizon of revenues and expenditures ~~to fulfill these requirements and priorities~~. The Council will consult with other transit providers in the region including replacement service municipalities and the University of Minnesota when developing forecasts and transit funding allocations.

The Council may implement target fund balances to fulfill future obligations. The Council will specify sources and uses of metropolitan area transit funds in the annual unified operating and capital budget approved by the Metropolitan Council.

### State of Minnesota funds

The ~~Metropolitan~~ Council shall allocate funds it receives from the State of Minnesota for metropolitan area transit to Council activities and to replacement service municipalities established under Minnesota Statutes section 473.388 subd. 2.

### Special Transportation Service funds are allocated:

- Consistent with Minnesota Statutes section 473.386 for Special Transportation Services as defined in Minnesota Statutes section 174.29. This includes Metro Mobility and Metro Move. ~~As directed in law for state obligations to operating and capital costs under Minnesota Statutes 473.386 for Metro Mobility and Metro Move.~~

## State General Fund appropriations are allocated:

- As First, as directed ~~in~~by law.
- Second, then to METRO Blue Line, METRO Green Line and NorthStar Commuter Rail operations, ~~then,~~
- Third, to Regional bus and planning services.

## Motor Vehicle Sales Tax revenues are allocated:

- First, As directed ~~in~~by law.
- Second, to then State obligations not funded by the State General Fund appropriations, ~~then,~~
- Third, to Regional bus and planning services.

## Replacement service municipalities defined under Minnesota Statutes section 473.388 are collectively allocated:

The Financial assistance ~~under~~outlined in Minnesota Statutes section 473.388 subdivision 4, and supplemental financial assistance in an amount equal to 4.3% percent of:

1. 12.8% of total statewide Motor Vehicle Sales Tax revenues, plus
2. State General Fund appropriations not directed in law, minus,
3. State funding needed to meet federal and state obligations.

Payment of supplemental financial assistance not directed in Statute must be withheld from any transit service provider not in compliance with established reporting requirements.

## Metropolitan Area Transportation Sales and Use Tax

The ~~Metropolitan~~ Council shall allocate funds it receives from the Metropolitan Area Transportation Sales and Use Tax established under Minnesota Statutes section 297A.9915 consistent with for ~~uses as directed by~~ Minnesota Statutes ~~S~~sections 473.4465:

- Five percent (5%) For active transportation ~~uses (5%) as~~ determined by the Transportation Advisory Board, and
- Ninety-five percent (95%) For transit system purposes including operations, maintenance, and capital projects ~~metropolitan area transit uses (95%)~~ as directed by law, and for regional bus and planning services.

Transportation Sales and Use Tax transit revenues are allocated to eliminate the Council's previously forecast structural transit operating deficit, and for busway and guideway system operations as directed by Minnesota Statutes section 473.4051 Subd 2. Remaining funds are allocated between Council transit uses and Replacement service municipalities as defined under Minnesota Statutes section 473.388 Subd. 2.

Beginning with 2026 collections, rReplacement service municipalities are collectively allocated 4.55% of sales and use tax funds for regional bus services, to be distributed amongst replacement service municipalities based on city-level 2020 Census population totals or through a city-level allocation method mutually agreed upon by the municipalities.

The Council may periodically update this allocation basis if its Transportation Policy Plan is revised, if the forecasted funding is altered, if the required uses are changed in law, if there's a change in city-level

population totals following each decennial census or if any other material change occurs. The Council will consult with replacement service municipalities when developing revised allocations.

~~-collected during calendar year 2025 based on the proportionate share of regional transit ridership each provider generated in 2023, as reported to the Federal Transit Administration's National Transit Database (NTD).~~

~~FFunds will be allocated based on actual collections and disbursed upon receipt by the Council from the Minnesota Department of Revenue.-~~

~~During calendar year 2025 the Council may authorize agreements with providers to advance sales and use tax funds forecasted for collection in 2025 and disbursement in 2026. Any advanced funding agreements must reconcile disbursed funds to actual collections.~~

~~**Replacement service transit providers that are political subdivisions may use sales and use tax funds for active transportation as allowed by Minnesota Statutes 473.4465 Subd.2 (2) (12).**~~

~~**The Council will consult with Replacement Service Municipalities to determine future allocations and policies for use of Metropolitan Area Transportation Sales and Use Tax funds, in combination with potential revisions to other sections of this policy.**~~

## Active Transportation Uses of Transit Sales Tax Revenue

Replacement service municipalities may use transportation sales and use tax funding for transit system purposes, or for active transportation purposes under Minnesota Statutes section 473.4465 Subd 2(2)(b)(12).

- For replacement service municipalities that operate as their own transit authority, allocated funds may be used for either transit or active transportation purposes.
- Other replacement service municipalities may provide written request to the Council indicating the percentage of the municipality's allocated funding to be directed for active transportation purposes. This amount will be reserved for the municipality's use and remaining funds will be allocated to the applicable joint powers transit provider for transit purposes only.

## Transit Capital Debt Service Levy

In years the Council is authorized by state law to borrow for transit capital improvement under Minnesota Statutes section 473.39, the Council may provide allocates additional supplemental financial assistance to replacement service municipalities of transportation sales and use tax or motor vehicle sales tax revenues equivalent to the transit debt service levied by the Council in these communities, less any withholdings or adjustments directed by law. The Council must retain levied property tax funds for specified purposes in the Council's transit capital program. This allocation of supplemental funding assistance must be used for transit purposes.

## Fare Collection Systems

Pursuant to the Council's responsibility for fare collection systems under Minnesota Statutes 473.408, the Regional Administrator may agreements with replacement service municipalities defining Council and provider responsibilities for transit fare collection systems. Costs for Council-provided services and equipment pursuant to fare system agreements may be subtracted from other Council-allocated passthrough funding. Supplemental financial assistance must be withheld from any transit service provider not in compliance with this requirement after January 1, 2027, unless extended at the sole discretion of the Regional Administrator.

Payment of supplemental financial assistance not directed in Statute must be withheld from any transit service provider not in compliance with established reporting requirements.

## Federal Funds

As the governor's designated recipient for the region's federal transit formula funding, the Metropolitan Council shall allocate funds it receives from Federal Transit Administration (FTA) Section 5307 and Section 5340 Urbanized Area Formula funding amongst transit providers:

- To Special Transportation Services (Metro Mobility, Metro Move) as defined in Minnesota Statutes 473.386, based on vehicle revenue miles operated by these services.
- To replacement service municipalities under Minnesota Statutes section 473.388 using federal formula values, including transit service and applicable incentives based on data reported to the FTA National Transit Database (NTD), and on proportional shares of urbanized area demographic factors, as applicable.
- To other public transit providers in the region based on service factors and incentives, and transit infrastructure formula earnings as reported to NTD, ~~in accordance with principles established through Council business item 2001-49.~~
- Remaining funds are allocated to Council transit programs.
- When the Council is not the originating local planning agency, the Council must not expend federal formula funds on new transit guideway projects as defined under Minnesota Statutes 473.4485 Subdivision 1 (d) except for regional solicitation project awards or funding agreements as authorized by resolution 2023-18.

As the Designated Recipient of federal Section 5307 and 5340 formula funds, the Council may assign replacement service municipality transit providers as:

- Direct recipients of federal funding. Replacement service municipalities that directly operate services (or contract service with non-Council transit providers) will become direct recipients of federal formula funding. As a direct recipient, the provider may apply for and receive formula and other funds directly from the FTA. Providers are wholly responsible to meet federal requirements to become direct recipients of funding. The Council will coordinate required activities with providers and the FTA to provide these funds following FTA full year apportionments, including federal "split letters" and agreements related to direct receipt and use of federal funding.
- Subrecipients. When the Council is the operator of a replacement service municipality's transit services through intergovernmental agreement, it will continue to manage federal recipient requirements and may own transit assets (i.e. fleet and equipment) used to deliver the municipality's service. The replacement service municipality will be a subrecipient of federal funding or at the Council's discretion may receive non-federal funds in lieu of federal formula earnings. Intergovernmental agreement(s) will specify roles, responsibilities, and funding arrangements. The Council will be responsible for transit service delivery and will work with the replacement service municipality to determine whether Council-provided services are contracted or directly operated.

The Metropolitan Council, which serves as the Metropolitan Planning Organization (MPO) for the Twin Cities Metropolitan Area, is required by federal law to produce a four-year Transportation Improvement Program (TIP) that outlines funded highway, transit, bicycle, and pedestrian projects within the metropolitan planning area. The Council shall use the TIP public involvement process to satisfy the public participation requirements of the FTA Section 5307 projects. The TIP serves as the FTA Section 5307 program of projects. These projects are identified through the Council's six-year Capital Improvement Program.

# DRAFT

The Council shall retain other sources of transit formula funds and discretionary or competitive transit funding grants awarded to the Council, including Section 5337 State of Good Repair funding and Section 5339 Bus and Bus Facilities funding. Transit providers may apply for competitive or discretionary federal funding awards from these or other programs as applicable or other programs as direct recipients or subrecipients in alignment with recipient relationship assignments as described in this policy.

The Council may periodically collect and/or review information related to federal funding in the region to ensure funds are obligated within the timeframes specified within the requirements of the federal grant program. To ensure funds are not lost from the region, unobligated section 5307+5340 funds are returned to the Council one year prior to lapse of authorization.

This policy replaces previous allocation principles established through Council business item 2001-49 and becomes effective with federal apportionments for federal fiscal year 2026. The Regional Administrator may continue subrecipient agreements with transit providers for a limited period to help facilitate providers' transition to direct recipient relationships.

## **Other Funds**

The Council may receive additional funds for transit. Funds will be used as directed by law and in accordance with other policies including Council Sources of Revenue Policy FM 12-1.

---

## PURPOSE OF POLICY

This policy establishes the responsibilities and expectations for the allocation of funding received for metropolitan area transit.

---

## BACKGROUND & REASONS FOR POLICY

### Overview

The transit system in the metropolitan area includes the services provided by the ~~Metropolitan~~ Council and ~~the services delivered~~ by ~~the~~ replacement service municipalities as defined in Minnesota Statutes ~~section~~ 473.388, ~~subd. 2~~. Transit services in the region include commuter rail, the METRO system of guideway and busway services as defined in Minnesota Statutes ~~section~~ 473.3385, regional bus systems including regular route and on-demand services, and special transportation services as defined in Minnesota Statutes ~~section~~ 473.386. The ~~Metropolitan~~ Council is responsible for allocating funding among all transit service providers.

Consistent with Council policy guidance and to promote responsible financial management, ~~it is prudent for~~ the Council ~~to adopt~~s target fund balances for capital funds that use Sales and Use Tax revenues. These reserves ~~will be~~are approved by the Council through the Capital Amendment process into appropriate reserve levels for the Council's Capital Program that uses sales tax funding as detailed in Council Target Fund Balance/Reserve Policy FM 2-3.

This policy directs the use of funds for three major sources of transit funding: from the State of Minnesota, from the Regional Transportation Sales and Use Tax, and from the federal government. ~~Additional~~ transit funding sources are directed by other Council policies including fare revenue, debt service levies, and intergovernmental agreements.

### State of Minnesota

The State of Minnesota provides funding for metropolitan area transit operations through State General Fund appropriations and 34.3% of the money collected and received under Minnesota Statutes chapter 297B Sales Tax on Motor Vehicles.

### Regional Transportation Sales and Use Tax

Under the Metro Area Transportation Sales and Use Tax revenues (Minnesota Statute ~~S~~section 297A.9915), the ~~Metropolitan~~ Council receives 83% of the proceeds of this tax, of which 95% is for transit purposes and 5% is for active transportation. The remaining 17% is provided to metro area counties and up to 17% of the county revenues may also be used for transit purposes.

When implemented in 2023, the Transportation Sales and Use Tax resolved a structural transit operating deficit that had been filled for many years through one-time state funds or federal pandemic relief funds. State law directs specific uses of this revenue, including for METRO guideway and busway operating costs. Over a 25-year forecast period, roughly 75 percent of sales and use tax transit revenues are required for these purposes. Remaining funds are allocated between the Council and replacement service municipalities, based on 2020 U.S. Census population totals.

### Federal Funds

As the designated recipient for the Twin Cities urbanized area, the Council receives and allocates federal funding for transit purposes. ~~Allocations under this policy reflect continued practices following principles established in business item 2001-49.~~

Through the implementation of this policy and allocation of Transportation Sales and Use Tax revenues, Council funds previously pooled for replacement service municipality capital assets are now provided directly to replacement service municipalities as passthrough funds and will no longer be included in the Council's capital budget.

To help ensure adequate funding for capital maintenance costs of the METRO system, federal formula funds may not be used for new capital guideways except when the Council is the originating local planning agency. This prohibition does not apply to regional solicitation project awards or funding agreements under resolution 2023-18.

## IMPLEMENTATION & ACCOUNTABILITY



# DRAFT

The Regional Administrator shall establish the framework and accountability for the effective implementation of the policy.

Allocation of supplemental financial assistance between individual replacement service municipalities shall be in the manner determined by agreement of the replacement service municipalities. The allocation methodology may specify eligibility based on a municipality's transit service operating reserve. Absent an agreement between the replacement service municipalities, the Regional Administrator shall determine the amount to be allocated to a replacement service municipality.

The ~~Metropolitan~~ Council shall publish the Transit Funding Allocation policy, implementing procedures, financial information, and reporting requirements on its website.

---

## PROCEDURES

- [\*FM 12-3a State Transit Funding Allocation Procedure\*](#)

---

## RESOURCES

### Minnesota Statutes

- [Minnesota Statutes section 473.4465](#)
- [Minnesota Statutes section 473.4485](#)
- [Minnesota Statutes section 473.4051](#)
- [Minnesota Statutes section 473.408](#)
- [Minnesota Statutes section 473.39](#)
- [Minnesota Statutes Section 473.388](#)
- [Minnesota Statutes Section 473.386](#)
- [Minnesota Statutes Section 297A.9915](#)
- [Minnesota Statutes Chapter 297B Sales Tax on Motor Vehicles](#)

### Federal Funding

[Council allocation of federal urbanized area formula funding](#)  
[Federal apportionments](#)

---

## HISTORY

### [Version 5 DRAFT](#)

[9/10/2025 – Revisions to reflect federal formula and recipient relationship changes and sales tax allocations](#)

### **Version 4** ~~DRAFT~~

12/11/2024 – Revised to include sales/use tax and federal distribution policy

### **Version 3**

7/12/2023 – updated based on updated Statutes.

### **Version 2 – Template Update**

10/12/2020 - Updated content into new template.

### **Version 1 – Approval Date**

01/08/2018

### **Last Reviewed Date**

01/01/2018

### **Next Content Review Date**

07/15/2025

### **Former Reference #**

3-2-7

### **Version**

4

July 25, 2025

Metropolitan Council  
390 Robert Street North  
St. Paul, MN 55101

Dear Mr. Charles Carlson,

On behalf of the Suburban Transit Association (STA), which includes Maple Grove Transit, Minnesota Valley Transit Authority, Plymouth Metrolink, and SouthWest Transit, we write to respectfully request a fair and sustainable allocation of the new regional sales and use tax to meet the needs of the suburban providers and the communities we serve.

STA members are vital partners in delivering public transportation across the metropolitan region. Our services connect tens of thousands of residents to jobs, education, and healthcare, and ensure suburban communities are well integrated into the broader transit network. As the regional transportation system evolves, it is critical that all parts of the system—urban and suburban alike—are adequately supported.

We appreciate that the Metropolitan Council is undertaking a complex and important task in determining how best to allocate new transit funding. However, the STA agencies have been operating under the Metropolitan Council's interim allocation framework with minimal input into that process.

Furthermore, the engagement around the determination of the long-term sales and use tax revenue allocation to date has been limited in scope and depth, particularly for suburban providers. To help move the conversation forward the STA speaks with one voice in asking for its fair share of sales and use tax reflecting 12.35% of the Metropolitan Council's share of the sales and use tax revenue as adopted in legislation. This amount is already established and supported by the region, transit agencies, and the legislature which comports with the same percentage as the MVST allocation.

It is a reasonable and measured ask that aligns with our shared goal of developing a cohesive, efficient, equitable regional transportation system that ensures the funding necessary to maintain and strengthen our collective operations as a region.

**Ridership – Population – Net Tax Capacity  
(12.35% of Sales and Use Tax)**

Maple Grove	1.44%	\$ 6,252,657
MVTA	6.69%	\$ 29,151,064
Plymouth	1.60%	\$ 6,980,658
SWT	2.62%	\$ 11,398,496




The suburban transit providers agreed on the sub-allocation of the 12.35% share among its members based on a formula which includes equal parts ridership, population, and net tax capacity.

We appreciate that on July 15<sup>th</sup> the Council brought forth a draft Transportation Funding Allocation Policy, with options for sales tax distribution. Unfortunately, none of these options would provide suburban transit providers with sufficient funding to replace vehicles and allow for service expansion like Metro Transit. The 12.35 percent of sales tax share represents the amount of additional funding over current MVST levels that allows our agencies to replace the fleet proposed to be assigned to us as part of this policy and allows funding for expanded access to transit services and amenities for our part of the region. Additionally, while we understand that there are mandates from the legislature regarding the use of this sales tax, we take issue with your suggestion that our share should come from only 25% of the total collected. This approach ignores the mandates we also have to provide our customers with service and puts our agencies at risk of not meeting those requirements.

STA also requests that this revised policy not be submitted to the Metropolitan Council until mid-October 2025 to allow for further discussion of allocations amongst our governing entities and with Metropolitan Council staff.

We thank the Metropolitan Council for reviewing our request and taking our concerns seriously. We look forward to engaging in a collaborative process—one that ensures a transparent decision in which all voices are heard and results in funding decisions that fairly benefit the entire region.

Sincerely,

A handwritten signature in black ink that reads "Gary Hansen". The signature is written in a cursive, flowing style.

Gary Hansen  
Chair  
Suburban Transit Association

Cc: Judy Johnson, District 1, Metropolitan Council  
Dr. Tyronne Carter, District 3, Metropolitan Council  
Deb Barber, District 4, Metropolitan Council  
Robert Lilligren, District 6, Metropolitan Council  
Mark Jenkins, District 12, Metropolitan Council  
Victor Obisakin, District 15, Metropolitan Council  
Wendy Wulff, District 16, Metropolitan Council  
Elected Leaders and Officials, Suburban Transit Association



August 7, 2025

*Sent via email*

Suburban Transit Association

Dear Chair Hansen,

Thank you for your July 28 letter regarding upcoming Metropolitan Council transit funding allocation decisions. The Council appreciates this input from the STA, building on many months of policy development and regional transit advancement conversations with STA providers' policy and staff.

In developing this policy, the Council engaged with transit providers over the last 15 months through listening sessions beginning in March 2024, through allocation policy elements shared in August 2024, and ongoing conversations across 2025. Final components of the allocation were made possible only after the 2025 Minnesota Legislature completed its work in mid-June 2025. The Council has fulfilled requested meetings and conversations on the policy, at both staff and policy levels, in both group and individual conversations. A regular meeting with STA policymakers is also scheduled for August 18.

As the letter references, Metropolitan Council staff has developed three options for allocating the portion of transit sales tax revenue that is not specifically directed by law or that replaced other funding sources, and shared information on the corresponding levels of funding for STA providers. The allocation options include population (4.55% STA), MVST (3.03% STA), and ridership (0.96% STA) distributions. Later in August, staff will recommend the Metropolitan Council adopt a population-based distribution (4.55%).

In your letter, the STA requests a funding share of 12.35% of sales tax revenues. This level of funding is significantly higher than what is required to replace fleet and manage productive transit services, nearly \$1.5 billion above current planned investment levels over the next 25 years. The STA-requested level of funding would not enable the Council to similarly invest in suburban communities within the Metro Transit service area at service levels the twelve STA communities already enjoy. These include commuter and local bus service restoration and expansion, METRO system expansions, and micro transit service areas that Metro Transit is introducing in suburban communities like Woodbury, Roseville, Bloomington, and Blaine with additional suburban micro zones planned in other suburban communities in years ahead.

The STA letter mentions that proposed funding does not "allow for service expansion like Metro Transit". In fact, in recent years STA services have already expanded, significantly. According to National Transit Database reporting, suburban providers have expanded services to nearly 115% of pre-pandemic levels (October 2019 vs October 2024, vehicle revenue hours), while Metro Transit services remained at levels under 77% of pre-pandemic levels for the same period. Recent and upcoming expansions reflect a rebuilding of suspended services within the Metro Transit network to meet current and future needs, as STA providers have already realized through ongoing post-pandemic expansions.


While 4.55% is below the 12.35% requested by STA's hybrid model, we estimate this level of funding provides robust additional funds for transit services in STA communities. The Council is open to the alternative sub-allocation of funds under the hybrid structure proposed by STA, and a comparison to the Council's planned population-based distribution is shown below. If an alternative sub-allocation option is of interest, please provide percentages to allocate the 4.55% distribution to each of the twelve STA cities.

STA Provider	Population-based STP proportion	Est. 2026 sales tax funds (population basis)	STA hybrid model (proportions)	Est. 2026 funds per STA hybrid structure
Maple Grove	11.94%	\$2.35M	11.66%	\$2.29M
MVTA	54.22%	\$10.65M	54.17%	\$10.64M
Plymouth	13.78%	\$2.71M	12.96%	\$2.55M
SWT	20.05%	\$3.94M	21.21%	\$4.17M

The letter also takes issue with the *allocable* share of sales tax revenue (roughly 25%). Sales tax revenues replaced significant funding that came only to the Council for required services. The Council, and not STA providers, absorbed a \$60 million state general fund cut in the 2025 session for fiscal years 2026 and 2027. The Council, and not STA providers, must provide \$4.5 billion over the next 25 years formerly received from metropolitan counties for transitway operating costs. The proposed allocation basis reflects these funding changes- after accounting for these *replaced* sources, the *remaining* funds are allocated amongst providers. Of three options developed, staff will recommend the allocation basis most favorable to STA providers, irrespective of ridership, current performance, or fleet composition.

Finally, the STA letter requested a delay to Council consideration of the allocation policy. STA members have been eager for the clarity afforded by this decision and have repeatedly expressed frustration with Council staff for not advancing this decision sooner. Further delay to this decision will impede providers' budget development for 2026. Advancing the policy affords necessary time to implement the new policy including recipient relationships, fleet asset transfers, and potential allocation of federal funding. Decisions on the policy will enable meaningful ongoing conversation on funding procedures. We look forward to this continued collaboration with the STA as we implement the allocation and advance a prosperous, equitable, and resilient region together.

Sincerely,



Charles Carlson

Executive Director, Metropolitan Transportation Services

CC: Metropolitan Council members

STA Provider executive staff