

# Transit Funding Allocation Policy

August 20, 2025

Metropolitan Transportation Services



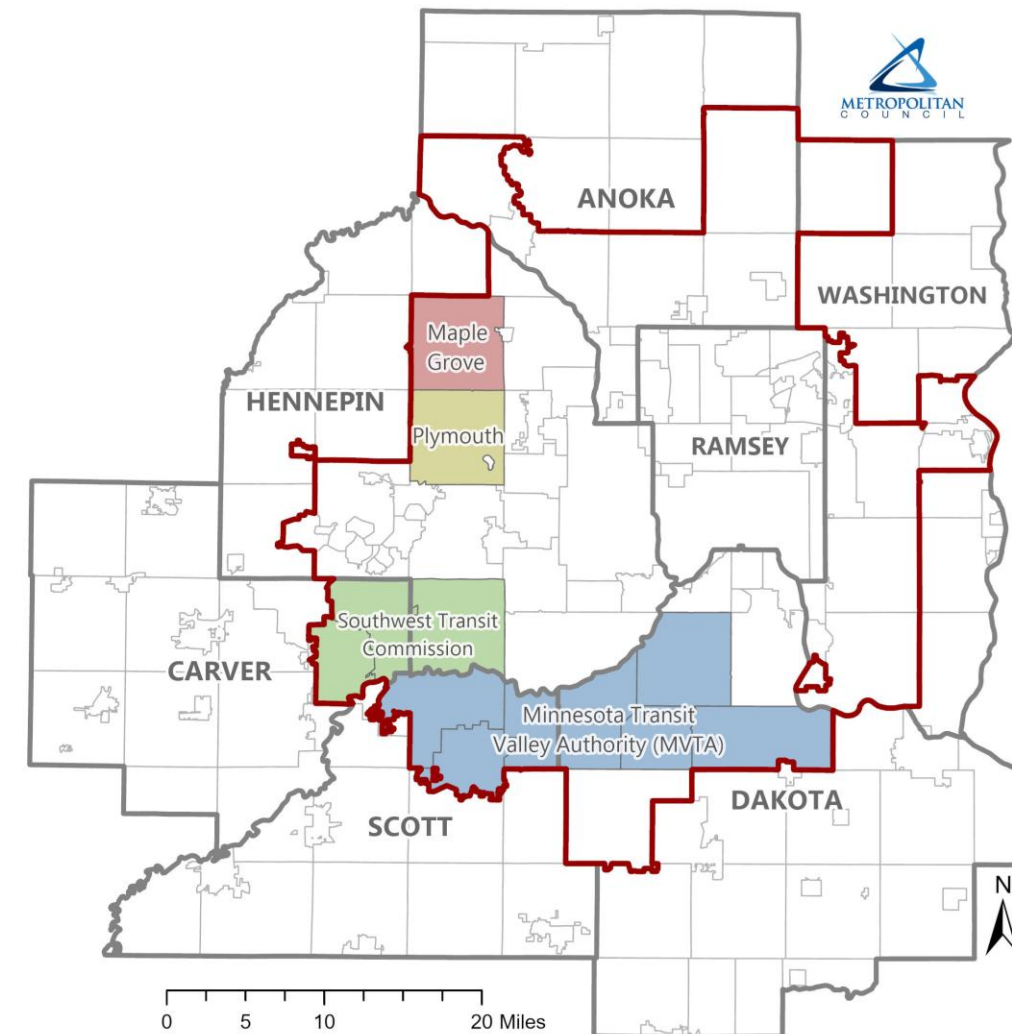
# Suburban Transit Providers

## Suburban Transit Providers

May 2025

### Background

- Replacement Service Municipalities defined in Minnesota Statutes section 473.388, often called “Suburban Transit Providers” (“STPs”)
- Legislature gave temporary permission for cities to “opt out” of Metro Transit’s predecessor in 1980s; at the time property taxes were the primary source of transit operating funds
- 12 cities total; 10 cities operate under joint powers agreements as two transit providers
- Funded by Metropolitan Council primarily through Motor Vehicle Sales Tax (MVST) through formulas set by state law and by Council policy
- Collectively, these cities comprise around 19% of regional population, 12.5% of MVST funding distributions, and 4% of transit ridership



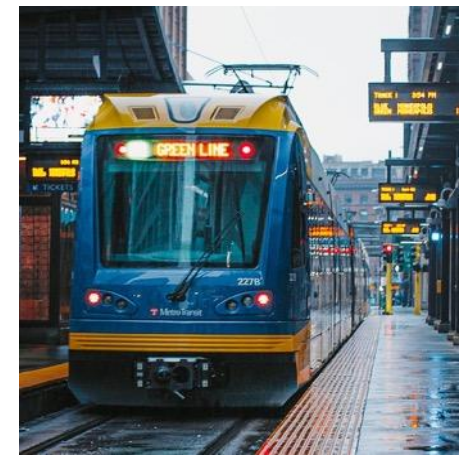
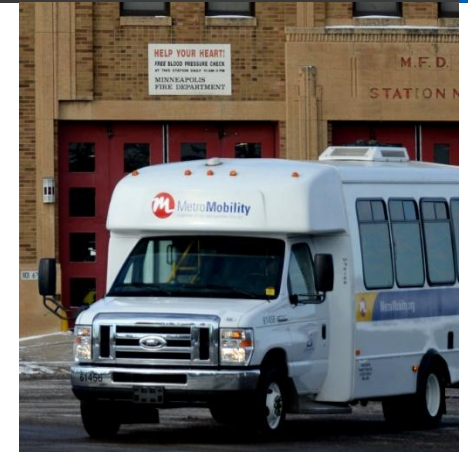
Transit Capital Levy Community



# Funding Allocation Policy

## Part 1 policy [adopted by Metropolitan Council on 12/11/2024](#)

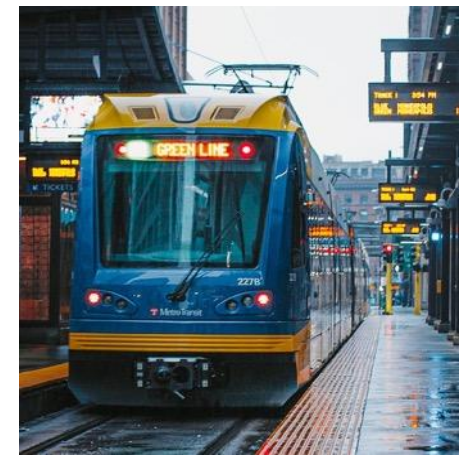
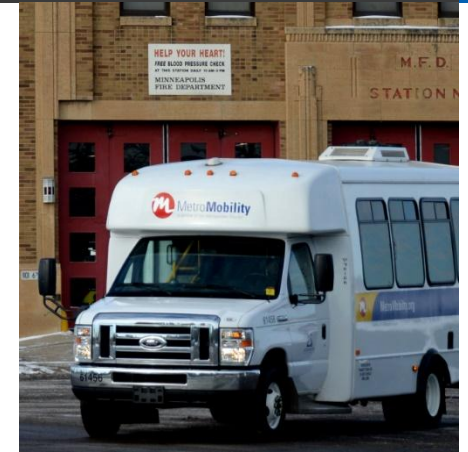
- Established general principles and methods to allocate revenues
  - 25-year forecast
  - Annual budget adoption
- Enacted Metro Mobility funding revisions per state law
  - Isolates Metro Mobility federal formula earnings to program purposes
  - State-funded program (capital and operating) beginning July 1, 2025
- Reflected current practice (2001-present) for federal section 5307 urbanized area funding allocation amongst providers
- Set interim 2025 sales/use tax funding to Suburban Transit Providers (STPs)



# 2025 Policy Completion

## Part 2 Policy

- Incorporates new state law and forecasts, applies 25-year projection
- Allocates to replacement service municipalities:
  - Local funds equivalent to Council's transit debt service levy
  - Federal formula funds using full FTA federal 5307 formula
  - Defines FTA recipient relationships
  - Transportation sales and use tax (sales tax) funds
- Policy provisions related to sales tax funds
  - Active transportation uses
  - Fare collection systems





# Policy Development Process

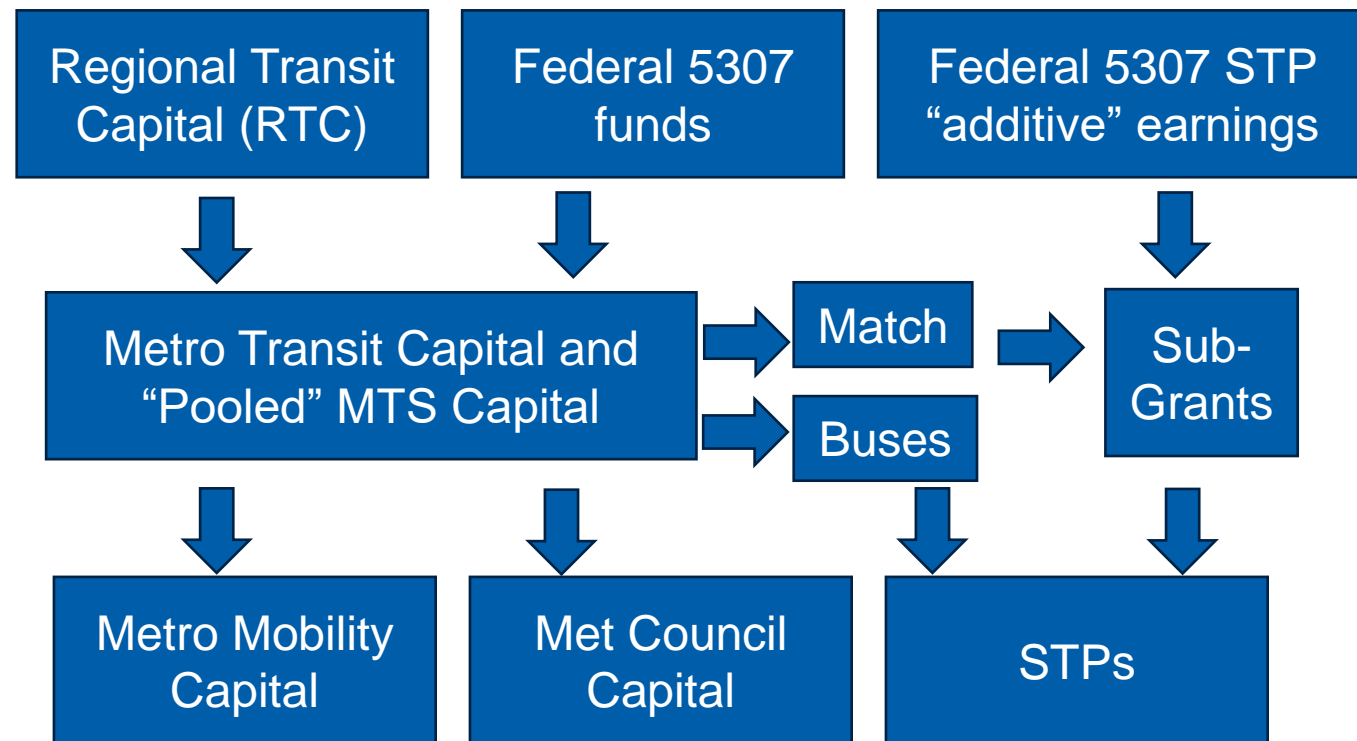


## Transit Provider Engagement

- 2023-2024 interim sales tax allocation (lump sum)
- March-April 2024- listening sessions as policy inputs
- August 2024- draft policy and federal/RTC funding levels
- October 2024- postponed long-term policy to 2025, direction for interim policy for 2025 based on actual receipts
- Updates and check-ins across 2025, legislative session
- June 2025- FTA + Providers meeting on structure change
- Mid-July 2025- Proposed sales tax allocation method and levels
- July-August 2025 continued conversation and information sharing
- July-August public engagement on federal formula revisions
- Continued engagement through implementation

# Transit Capital Funds (Levy + Fed. 5307)

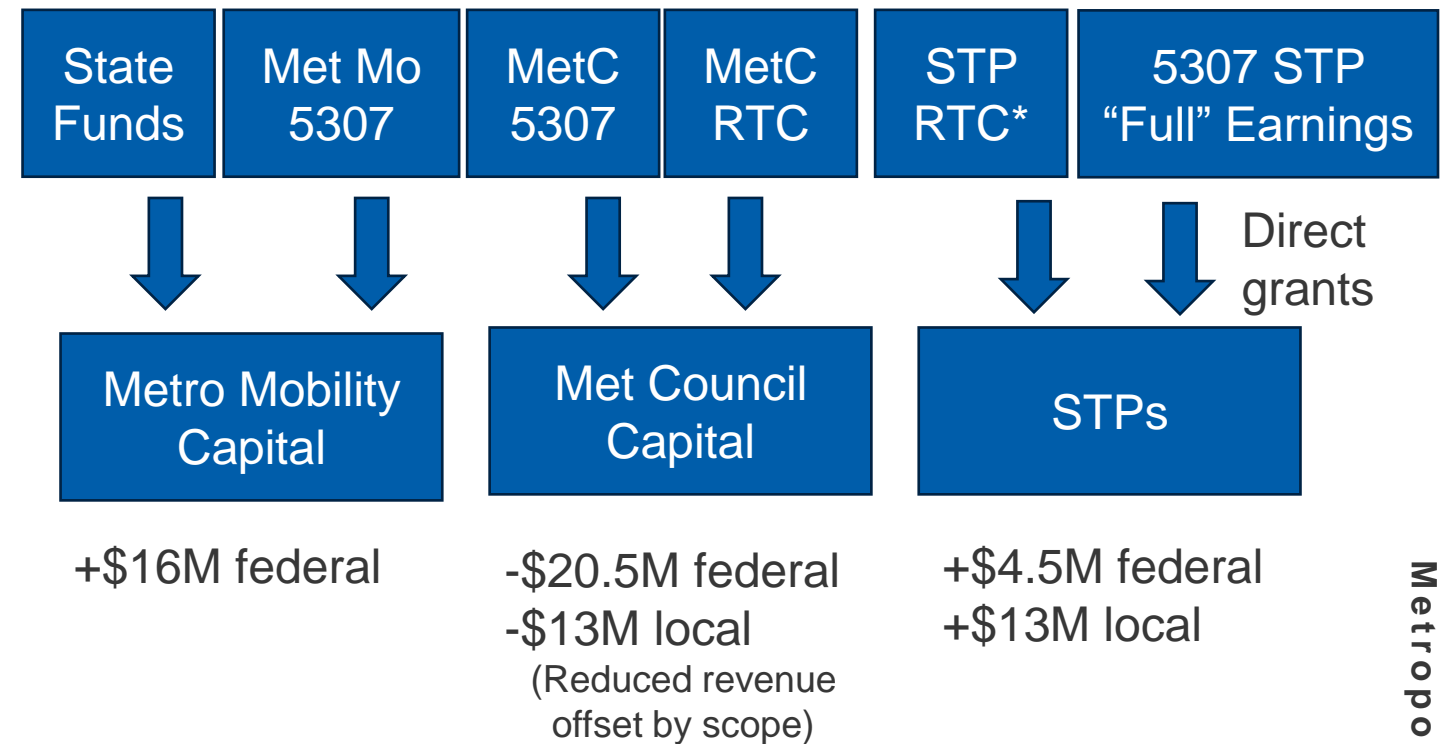
## Current Model



## Current Model Challenges

- “Pooled” funding less predictable/consistent year-over-year. Depends on fleet plans and STP requests
- Metro Mobility funds now dedicated to program
- May risk incentivizing unproductive service/grants
- Council holds federal compliance risk by STPs

## New Model



## New Model Benefits

- Increased direct contributions to providers
- Greater independence/autonomy for providers
- More predictable funding based on actual transit property levy and federal formula unit values
- Providers fully accountable for federal compliance

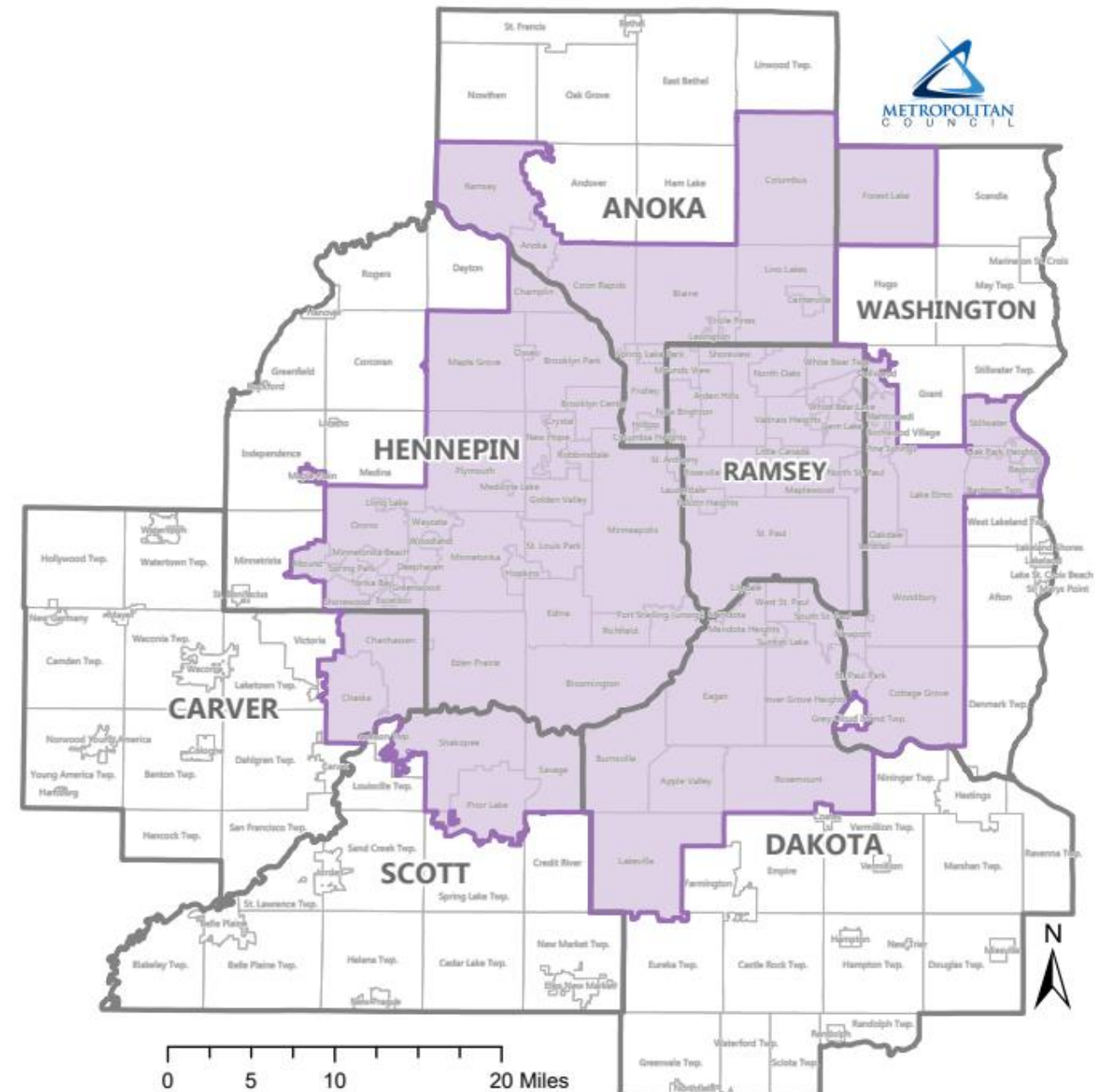
# Transit Capital Debt Service Levy

## Allocation of RTC Funding

- Regional Transit Capital (RTC) bonds paid by transit debt service property levy, approx. \$55 million per year in levy communities regionwide
- Metro Mobility shift from RTC to state + federal capital funding enables city-level allocation

### Proposed approach:

- Council retains RTC, issues equivalent funds
- Allocates funds to STPs equivalent to transit debt service levied in each of the 12 cities
- Issued only in years Council authorized by legislature to issue RTC bonds
- Approximately \$13 million annually to STPs
- Reduced by any share of funds offsetting income/property tax refund (per 2025 state law)





# Federal 5307+5340 Formula Allocation

## Allocation Basis

- Suburban Providers receive funds based on federal formula including service factors, incentives, and UZA demographic factors
- Other Providers (University of MN) receive funds based on service factors and incentives
- Council receives remaining funds and other federal formula funding (5337, 5339, etc.)
- Discontinues “additive” and “pooled” funds used under current (2001) principles
- STPs: Direct recipient except when Council provides transit services, transition period

## Provider Input

- Shared approach and estimated amounts August 2024, ongoing discussion 2025
- Concern new funding levels result in net reductions from current “pooled” capital
- Unknown transition timing to direct recipient status with FTA

## Public Input

- Public feedback requested July-August 2025
- 26 responses received, public and providers
- Varied perspectives on use of federal formula



# Sales and Use Tax Allocation

## Allocation Basis

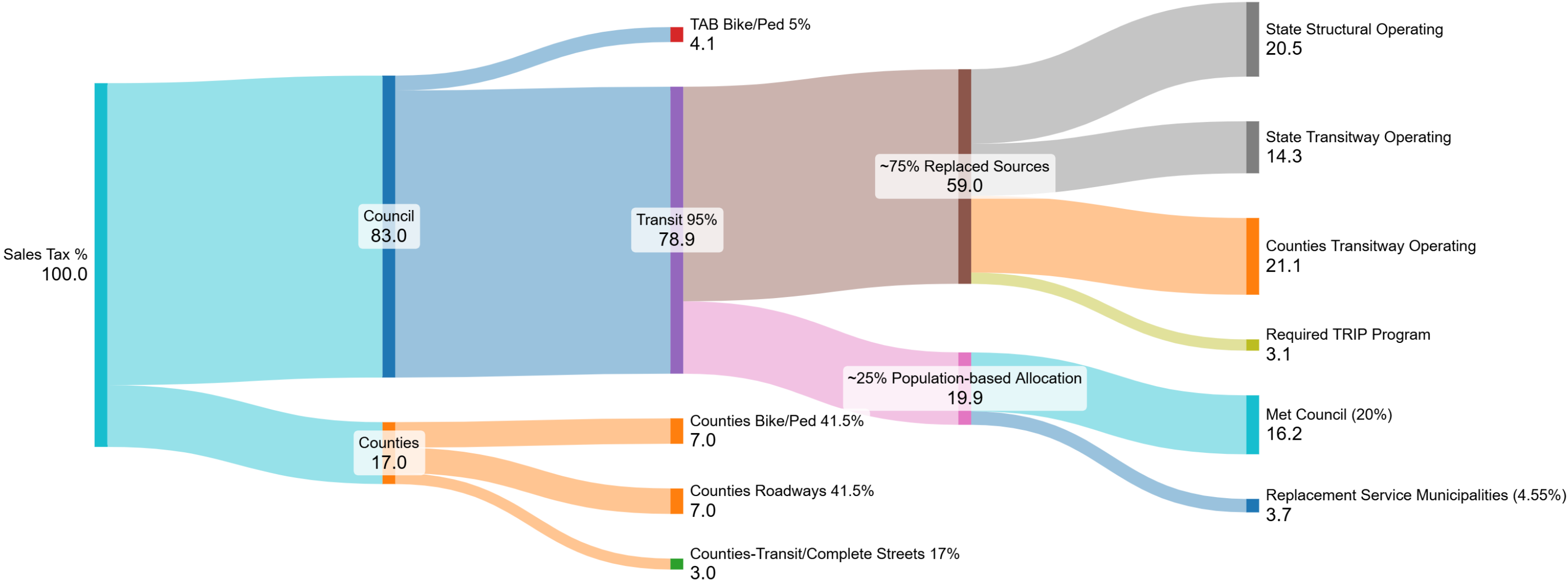
1. Account for replaced funding sources (county, state)
2. Allocate remaining ~25% between Council and Suburban Providers on a simple allocation basis
3. Three options developed (+STP transit share): Population (4.55%), MVST (3.03%), Ridership (0.96%)
4. Allocation proposal basis: **Population (4.55%)**
  - Increased total investment
  - Geographic distribution amongst providers
  - Simple to calculate and update periodically
5. Policy provisions regarding STP sales tax
  - Allows active transportation uses
  - Require fare collection agreements defining roles/costs by Jan. 2027
  - Additional allocations for RTC levy equivalent

## 2026 Est. Funding (w/ other new sources)

473.388 Provider	MVST (No % change)	Federal Total	RTC	Sales Tax	Total
Maple Grove	\$5.1	\$1.0	\$1.6	<b>\$2.4</b>	\$10.12
MVTA	\$28.3	\$5.3	\$6.5	<b>\$10.7</b>	\$50.71
Plymouth	\$7.5	\$1.0	\$2.1	<b>\$2.7</b>	\$13.34
SW Transit	\$13.5	\$2.2	\$3.0	<b>\$3.9</b>	\$22.53
473.388 Total	\$54.4	\$9.5	\$13.2	<b>\$19.6</b>	<b>\$96.70</b>

# Sales and Use Tax- Proposed Allocation

2026-2050 Uses



# Policy Feedback

## Provider Feedback

Suburban Transit Association letter received 7/28 with feedback on proposed sales tax allocation options

STA Requests 12.35% of total transit funds

Hybrid allocation: population-tax base-ridership to maintain and grow STA city services and fleet

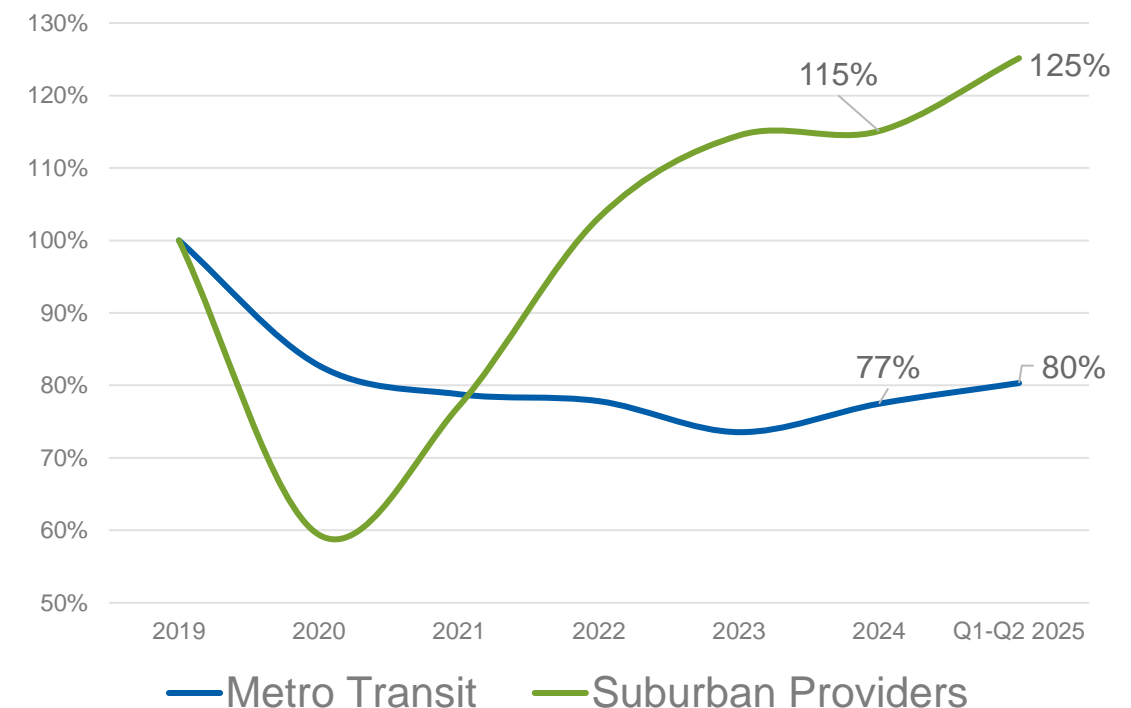
*STA Proposal results in comparable funding allocations for Met Council bus improvements (81% of population) and STA cities (19% of population)*

*Does not enable similar investment in suburban cities in Metro Transit area, required investments including rail capital maintenance*

University of Minnesota seeks share of sales tax funds

*UMN transit not included in proposed policy- Unlike STPs, Council is not the funder of University of Minnesota transit services*

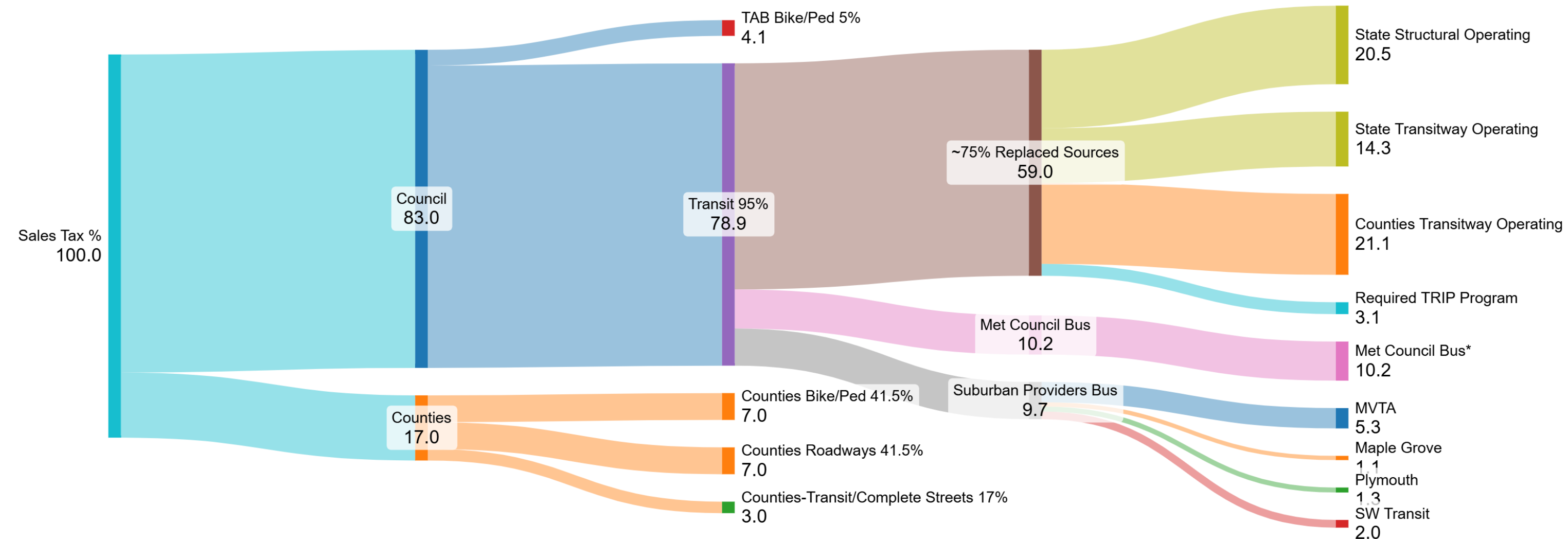
Service Levels, % of 2019 Hours (NTD Revenue Hrs.)



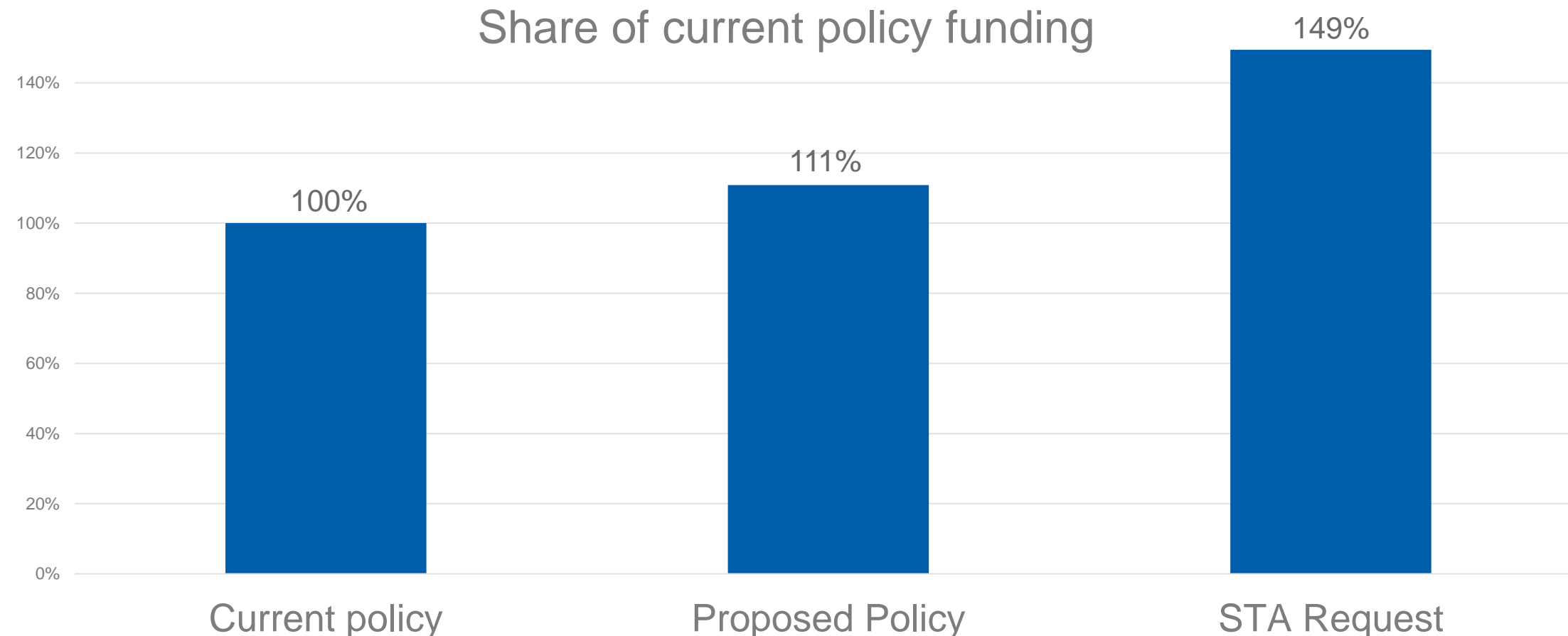
Note: Maple Grove service delivered by Metro Transit included in Metro Transit total Q1-Q2 2025 compares to Q1-Q2 2019



# STA Proposed Sales Tax Allocation



# Suburban Providers- Council Funding



Current policy: \$3.38 billion all sources, sales tax addressed only through 2025

Proposed policy: \$3.75 billion all sources, \$0.76 billion sales tax allocated 2026-2050

STA Request: \$5.06 billion all sources, \$2.1 billion sales tax 2026-2050

# Next Steps

## Policy Adoption

- 8/25 Transportation Committee
- 8/27 Management Committee
- 9/10 Metropolitan Council
- 2026 budget development on adopted allocation and passthrough levels
- New sales tax allocations effective for collections starting January 2026
- New federal allocations effective with FFY2026 apportionments

## Implementation Process

- Procedure development for sales tax, levy equivalent, and active transportation uses
- Fare collection system agreements
  - 2025-2026 system upgrade work
  - 2026 fare system agreement work
- Federal funding process
  - MOU process details process/roles
  - Direct recipient implementation steps
  - Split letter upon FFY2026 apportionments
- Bus ownership transfer process
- Provider service agreements





**Charles Carlson**

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