

## 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 funds it receives for metropolitan area transit operations, capital, and capital maintenance in accordance with requirements of state and federal law. The Council 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
- 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 transit providers in the region 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 replacement service municipalities established under [Minnesota Statutes section 473.388](#).

### Special Transportation Service funds are allocated:

- 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 directed in law, then to METRO Blue Line, METRO Green Line and NorthStar Commuter Rail operations, then,
- Regional bus and planning services.

**Motor Vehicle Sales Tax revenues are allocated:**

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

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

Financial assistance under 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 Metro Area Transportation Sales and Use Tax established under Minnesota Statutes section 297A.9915 for uses as directed by Minnesota Statutes Sections 473.4465 and 473.4051:

- For active transportation uses (5%) determined by the Transportation Advisory Board, and
- For metropolitan area transit operations, capital and capital maintenance uses (95%) as directed by law, and for regional bus and planning services.

Replacement service municipalities defined under Minnesota Statutes section 473.388 are allocated sales and use tax funds 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).

- Funds 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.

**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 other public transit providers in the region based on service factors 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.

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.

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.

### **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.

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## **PURPOSE OF POLICY**

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

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## BACKGROUND & REASONS FOR POLICY

### Overview

The transit system in the metropolitan area includes the services provided by the Metropolitan Council and by replacement service municipalities as defined in Minnesota Statutes 473.388. Transit services in the region include commuter rail, the METRO system of guideway and busway services as defined in Minnesota Statutes 473.3385, regional bus systems including regular route and on-demand services, and special transportation services as defined in Minnesota Statutes 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 target fund balances for capital funds that use Sales and Use Tax revenues. These reserves will be 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 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.

### 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.

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.

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## IMPLEMENTATION & ACCOUNTABILITY

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.

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## PROCEDURES

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

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## RESOURCES

### Minnesota Statutes

- [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](#)

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## HISTORY

### 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.

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01/08/2018

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01/01/2018

### Next Content Review Date

07/15/2025

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### Version

4