

## POLICY

### Transit Funding Allocation Policy

FM 12-3

**Category:** Financial Management

**Business Unit Responsible:** RA: Finance

**Policy Owner:** 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 Council allocates the funds it receives for transit operations, capital, and capital maintenance in accordance with state and federal law and its Transportation Policy Plan. The Council seeks, through its funding allocation, to:

- 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

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. 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 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.

### State General Fund appropriations are allocated:

- First, as directed by law.

- Second, to METRO Blue Line, METRO Green Line and NorthStar Commuter Rail operations.
- Third, to regional bus and planning services.

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

- First, as directed by law.
- Second, to State obligations not funded by the State General Fund appropriations.
- Third, to regional bus and planning services.

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

The financial assistance 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 Council shall allocate funds it receives from the Metropolitan Area Transportation Sales and Use Tax established under Minnesota Statutes section 297A.9915 consistent with Minnesota Statutes section 473.4465:

- Five percent (5%) for active transportation as determined by the Transportation Advisory Board, and
- Ninety-five percent (95%) for transit system purposes including operations, maintenance, and capital projects 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, replacement 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.

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

**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 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.
- 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.

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.

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## **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 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 Council is responsible for allocating funding among all transit service providers.

Consistent with Council policy guidance and to promote responsible financial management, the Council adopts target fund balances for capital funds that use Sales and Use Tax revenues. These reserves 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 section 297A.9915), the 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.

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.

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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 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 473.4465*
- *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](#)

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## HISTORY

### Version 5 DRAFT

9/10/2025 – Revisions to reflect federal formula and recipient relationship changes and sales tax allocations

### Version 4

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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07/15/2025

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### Version

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