Business Item

Transportation Committee

METROPOLITAN COUNCIL

Committee meeting date: August 25, 2025 **For the Metropolitan Council:** September 10, 2025

Business Item: 2025-170 JT

Transit Funding Allocation Policy

District(s), member(s):	All
Policy/legal reference:	Minnesota Statutes sections 473.123, subd. 4 (d), 473.388, 473.4051
Staff prepared/presented:	Charles Carlson, Executive Director Metropolitan Transportation Services
Division/department:	Metropolitan Transportation Services

Proposed action

That the Metropolitan Council (1) adopt the attached FM 12-3 transit funding allocation policy and (2) direct staff to develop procedures to implement this policy.

Background

The proposed policy allocates transit funding amongst transit providers. It builds on previous policy adopted in December 2024 through business item 2024-340 JT SW. The updated policy allocates federal, local, and regional transportation sales and use tax revenue and sets general policy for these funding sources. The revised policy does not change existing state funding allocations to transit providers.

Public transportation providers in the region include the Metropolitan Council (and its operating divisions Metro Transit and Metropolitan Transportation Services [MTS]), the University of Minnesota, and Replacement Service Municipalities (suburban providers) as defined under Minnesota Statutes section 473.388. These municipalities include twelve cities that opted out of the regional transit system in the 1980s and provide their own transit services with financial assistance from the Metropolitan Council. The twelve cities are organized into four transit providers.

Federal Section 5307+5340 Urbanized Area Formula Funds

Federal funds are currently allocated based on principles adopted by the Council in 2001, pooling some funds while allocating other “additive” funds amongst providers. The proposed allocation increases funds to suburban providers by using the full federal allocation formula, including incentive and demographic factors that are pooled under current policy. Providers would become “direct” recipients of these funds, except when the Council delivers a provider’s service through agreement. The policy allows for time to transition to these new federal recipient arrangements.

Other non-Council public transit providers (currently only the University of Minnesota) would receive federal funds based on service delivered and incentives. The change increases funding above current levels.

The Council would receive remaining funds, and other sources of federal formula funding.

The Council completed a public input process on the federal formula allocation in July and August 2025. A total of 26 responses were received and included both public and transit provider board or staff representatives. Responses showed a mix of support for the proposed allocation approach and varied concerns that it would result in too much or too little funding for suburban transit providers. Other respondents favor a ridership-based approach to the federal funding allocation.

Regional Transportation Sales and Use Tax Funding Allocation

As required by the 2023 Minnesota Omnibus Transportation Bill, the Council enacted a 0.75% transportation sales and use tax (sales tax) in October 2023. The Council receives 83% of this revenue with the remaining 17% to metropolitan counties based on a statutory formula. Of the 83% to Council, 95% is for transit purposes and 5% is for active transportation investments selected by the Transportation Advisory Board (TAB).

New sales tax funding resolved a longstanding Council transit operating structural deficit previously filled by annual non-base state general fund appropriations. The 2025 Minnesota Transportation Omnibus Bill also reduced state general fund transit appropriations by $60 million in the current biennium and established a reduced base in future years, intending for the Council to use sales tax funds to replace these revenues. Minnesota Statutes section 473.4051 also directs sales tax funding for “all remaining” transitway operating costs, replacing funding previously required of the state and from metropolitan counties for 50 to 100% of rail operating costs. The Council estimates between years 2026-2050, around 75% of sales tax funds are required to fulfill these purposes.

Around 25% remains for allocation between Council transit services and suburban providers. Council staff developed allocation options for these funds including ridership, current motor vehicle sales tax distributions, and population, resulting in potential suburban provider allocations of 0.96%, 3.03% and 4.55% allocations of the transit portion of sales tax. A population-based allocation of 4.55% is recommended in the proposed policy. Allocations amongst the twelve replacement municipalities would follow census population, or a separate city-level allocation of the 4.55% agreed to by the replacement municipalities.

The proposed policy contains three policy elements related to replacement service municipalities’ use of sales and use tax funds

1. Allowing use of transit funds for active transportation purposes, as allowed by state law
2. Requiring fare collection systems agreements by January 2027 defining roles and responsibilities. Developing these agreements would follow in-progress fare system upgrades.
3. Allocating additional funds equivalent to the Council’s transit capital levy in these communities, as described below.

Transit Capital Levy

The Council levies a property tax within a portion of the region commonly known as the “transit capital levy communities” that is used exclusively to service debt on transit capital bonds authorized by the Minnesota legislature. Total levy funding equals approximately $55 million per year. A portion of these funds were previously pooled with other federal formula funds to fund the MTS capital program including suburban providers and Metro Mobility fleet purchases.

Metro Mobility capital match is now funded by the State of Minnesota, and the proposed policy would allocate the equivalent funds levied in replacement service municipalities to these providers for transit purposes. For financial and bond rating purposes, the Council would retain Regional Transit Capital (RTC) and levy debt service funds, and issue equivalent funds from other sources to suburban providers, likely from the Council’s share of MVST or Sales Tax funds. Funds would be allocated only in years the Council receives legislative authority to issue RTC bonds.

Allocation and Policy Development Process

The Council engaged with suburban providers to develop the proposed allocation. During this process the Council provided interim financial assistance from the sales tax. For years 2023 and 2024 the Council provided supplemental financial assistance based on regional ridership, disbursed as a lump sum of forecasted funds. In 2025 the Council continued interim assistance on a ridership basis and transitioned to passthrough disbursements based on actual receipts.

Beginning in early 2024 the Council engaged with providers on potential approaches, uses, and priorities for funding. In August 2024 Council staff shared proposed allocations of federal and RTC-equivalent funds with providers, and policy provisions regarding sales tax funds. Following completion of the 2025 legislative session, the Council shared proposed allocation options with providers in July 2025, ranging from around 1% to 4.55% allocations to suburban providers.

A letter from the Suburban Transit Association requested a higher allocation of 12.35% of transit sales tax revenues, with a response letter from Council staff that shared the proposed approach for Council consideration at 4.55% of revenues using a population-based distribution. Further information and discussion on the allocation occurred in August 2025.

Through staff discussions in January and July 2025, the University of Minnesota seeks a share of sales tax revenues for its transit operations. Unlike suburban providers, state law and Council policy does not fund transit operations at the University of Minnesota from Council sources. The University is therefore not included in the proposed allocation of sales tax funding but would continue to receive federal funding and at increased levels as described above.

Rationale

Minnesota Statutes section 473.123, subdivision 4(d), authorizes the Council to adopt policies and procedures governing its operations. The proposed policy aligns with best practices and legal requirements.

As the Governor's designated recipient for urbanized area formula funds, the Council manages federal transit funding that comes to the region. As the designed Metropolitan Planning Organization, the Council engages providers to allocate transit federal formula funds.

As the recipient of regional transportation sales and use tax funds, the Council develops and adopts policy to allocate funding amongst transit providers and in accordance with state law.

Thrive lens analysis

On Feb. 12, 2025, the Council adopted Imagine 2050, which builds on policy direction in Thrive MSP 2040. Under the Thrive lens, the proposed action advances stewardship by providing direction of funding to responsibly manage the region's financial resources. It advances the prosperity outcome by allocating funds for transit services and infrastructure across the region.

Funding

This funding allocation policy directs transit funds to providers in the region, influencing the levels of funding available for transit budget development. Adopting the allocation policy enables transit providers to develop 2026 budgets and future capital plans based on clear policy direction and increased certainty for future funding levels.

The proposed allocation to suburban providers reflects a combined $3.8 billion from all sources 2026-2050, a net increase of 11% above currently projected financial assistance.

Small business inclusion

There are no direct impacts to small businesses with the proposed action.