# WEEKLY SESSION UPDATE

*February 28, 2014*

## BUDGET SURPLUS

The February Forecast was announced on Friday. The general fund balance expected for FY 2014-15 is now $1.233 billion, $408 million higher than forecast in November. General fund revenues are expected to be $39.575 billion, $366 million above November's forecast. Spending is expected to be $39.019 billion, $48 million less. These changes, offset by a $6 million increase in stadium reserves, increased the forecast balance from the $825 million forecast in November.

The improved budget outlook continues into FY 2016-17. Without adjusting for inflation, there is a positive balance of $2.599 billion going into the 2014 session.

## PRELIMINARY LEVY DATE CHANGE

| HF # | Author | SF # | Author | Short Description |
|---|---|---|---|---|
| 2488 | Loeffler | 2080 | Rest | Proposed levies certification deadline extended for some local jurisdictions |

The MLC has been working on Legislation that would move the proposed levy deadline from September 15th to September 30th in order to provide our cities more time to process incoming fiscal information (such as fiscal disparities). This September 30th deadline would also put cities and counties in line with school districts.

It appears as though the statewide city and county associations (LMC/AMC) are interested in supporting this initiative so it will likely be a statewide implementation.

Legislation has been introduced and is being authored by Representative Loeffler (HF 2488) and Senator Rest (SF 2080). Below is a link to the bill language:
https://www.revisor.mn.gov/bills/text.php?session=ls88&number=HF2488&session_number=0&session_year=2013&version=list

## SALES TAX EXEMPTION CLARIFICATIONS

During the 2013 legislative session, the legislature re-exempted most purchases of cities and counties from the state general sales tax beginning on January 1, 2014. Although this new exemption has been widely praised, several unforeseen aspects of the exemption have emerged as the law has been implemented. These interpretations have reduced the benefit of the exemption to local units of government and their taxpayers.

This session, a few clarifications to the 2013 exemption will address these issues. These changes include:

1. Simplifying the process by which local units of government can secure the sales tax exemption on materials used in construction projects.
2. Extending the sales tax exemption to instrumentalities of local units of government.
3. Repealing the sales tax exemption exclusion for "goods and services generally provided by a private business."

The sales tax exemption clarifications will be addressed in two bills. The first bill will address the simplification of the construction contract process. The second bill will address both extending the exemption to joint powers and other instrumentalities of government as well as repealing the "private business" exclusion.

The Senate Tax Reform committee will be hearing these clarification bills on March 11.

## WHAT IS THE CGMC UP TO?

The coalition of Greater MN Cities is going to push for a $57M increase in LGA in the 2014 Session. This funding will be general fund and not taken from the "circuit breaker" investments made in the 2013 Session.

Below is a link to a CGMC one-pager on this issue:

http://www.greatermncities.org/wp-content/uploads/2009/09/2014-lga-handout1.pdf

## ALTERNATIVE PUBLICATIONS

| HF # | Author | SF # | Author | Short Description |
|---|---|---|---|---|
| 1286 | Dorholt | 1152 | Pederson | Local government alternative Web site publication authorization. |

On Wednesday, the Senate Committee on State and Local Government heard testimony on SF 1152, which provides local governments with authorization to choose websites as an alternative publication method for public notices. Currently, the state mandate requires cities to publish public notices to the local public newspaper with the cost coming out of the city budget.

The bill, chief authored by Senator John Pederson (R), received extensive testimony from cities, counties, townships, and school boards reiterating the need to modernize government and remove a costly, unfunded mandate. Public notice costs vary greatly among local governments. Many smaller towns without a local paper send their notices to a larger regional paper, leaving many without access to the information unless a paid subscription is delivered. Newspaper associations, publishers, and editors testified in opposition to the proposed legislation, highlighting a lack of online access for those with lower-incomes and many people 65 and older who choose not to use a computer.

The bill was laid over without any action. It's not certain whether the bill will be heard in the House.

## PROPERTY TAX BURDEN REPORT

The Voss Database Report by the Minnesota Department of Revenue (DOR) was released (based on 2011 Property Taxes) highlighting the following:***

- Tax Burden by Region
  - Greater MN – 2.8% of income
  - Metro – 3.1% of income
  - Statewide Average – 2.79% of income
- Homestead Property Tax Price
  - In Greater Minnesota, the median homestead property tax price (after refund) for all local services in payable 2011 was $1,309 or $109 per month.
  - Median net homestead taxes in the seven-county metro area averaged 82% higher than for their greater Minnesota counterparts in payable 2011 even though homestead income averaged only 33% higher.
  - After factoring in the effects of the property tax refund, the result is a 37% higher median property tax burden for metro residents.
- Approximately two-thirds of those who are eligible actually claim the property tax refund.

Below is a link to the full report from the Department of Revenue and attached is a PowerPoint presentation from Eric Willette, which provides an overview of this report.

http://www.revenue.state.mn.us/propertytax/reports/voss_pay11.pdf

***These statistics were taken from the January – February 2014 edition of "Fiscal Focus," https://www.fiscalexcellence.org/Fiscal-Focus/january-february-2014.pdf.

## IRON RANGE FISCAL DISPARITIES STUDY

A new report from the Minnesota Department of Revenue details how an Iron Range revenue sharing program increase that tax burden on businesses, makes their tax bills more volatile and obscures where their tax money is going – and that hasn't helped bridge an impasse between the program's winners and losers.

Below is a link to the full report from the Department of Revenue and attached is a PowerPoint presentation, which provides an overview of this report.

http://www.revenue.state.mn.us/propertytax/reports/iron_range_fiscal_disparities_study.pdf

Interestingly, this study has generated more interest in the Fiscal Disparities Program. Particularly around transparency impact of changes to the existing formula for both Metro and Iron Range programs.

## **PIM INTERVIEW WITH REPRESENTATIVE FISCHER**

"A handful of Minnesota legislators who hope that they can stir action regarding the state's fresh water supply — gradually taxed in recent decades by population growth, land-use changes, and, more recently, erratic seasonal precipitation patterns — before any big-picture crisis looms. A Fischer bill to resurrect the Legislative Water Commission is working its way through the Legislature at present, and he has introduced new bills this session to address problems with the water level in White Bear Lake and to appoint a state hydrologist.

In Fischer's view, water management represents not just a growing problem for the state, but an economic development opportunity for the years and decades ahead. We talked with him yesterday at his office, and here's an edited transcript of that conversation.

PIM: *You and Rep. Jerry Newton have a pair of related bills to create the positions of state water manager and state hydrologist. Are those two versions of the same position, or are they distinct?*

Peter Fischer: Right. I've got the state hydrologist [bill], Jerry's got the water manager. They're different focuses. Jerry's bill is for a more independent position that would be working with the governor and would tie in with the Legislative Water Commission — another bill that I authored that has passed the House and is over in the Senate and will probably come out this session.

The [bill] I have is state hydrologist, and the simplest way to sum it up is, we've got multiple agencies that all have their experts on hydrology and water. The problem is, when you're dealing with the different agencies, or even sometimes within the agencies, you get competing things going on. So it's hard sometimes to get a straight answer. What's nice about having it independent and having it housed at the University [of Minnesota], where they've been doing a lot of great work on water, is you've got somebody that the Legislature can be comfortable saying, ok, we've got issues with water — what is the best science saying, and what are you saying?

As we deal with these issues going forward, we need that independence, and it would be something that's going to help guide us through the process. Otherwise we're going to continue to struggle with these issues ... The water issues are different in different parts of the state. What we're dealing with in the East Metro is very different from what we're dealing with in the central plains or in the southwest corridor. Because of that complexity, it's very important we have this [position]. It's kind of like the state epidemiologist, who advises on disease issues. Same concept.

PIM: *What are the key water issues you see in the state now and in the near term?*

Fischer: I think the number one problem is that in some of the areas, we don't have all the science we need. We're behind the [times] on it. We haven't been able to get the monitoring wells, and we haven't been able to get the atlases done to know exactly how things are flowing. As the groundwater situation changes, we don't have the updates to know what's going on. And if you're going to be making decisions about how much you're going to be allowing people to use or how water's flowing, you need to have the best information. This information can take 20 or 30 years to really gather. So in some ways we're 20 or 30 years behind.

That's number one statewide. From there it's a matter of putting a process in place that, as we identify areas of concern, is as inclusive as possible with people along the way, so that the commissioner doesn't just come along and say we're going to do A, B, and C. We've got a group [the Legislative Water Commission] that comes together, looks at the problems, involves all the players — cities, counties, business — making sure they've all got an opportunity to be heard at the table, that we're allowing a collaborative process to occur ...

PIM: *Was what has happened with White Bear Lake and the aquifer beneath it kind of a wake-up call in terms of the need for this kind of centralized management?*

Fischer: You could call it the canary in the coal mine, because up until that time, although this problem has been building for a number of years, there wasn't really anything screaming 'we've got a serious problem.'

It's not like we have a crisis [in Minnesota] right now. On the lake itself, that's a little bit more of a crisis. Property values have plummeted over there. But what it's doing in a larger sense is just showing us what's going on with the aquifer underneath. That lake – think of it as a gauge for the underground aquifier. The more that goes down, the worse off the aquifer is.

And it's even worse in the west metro. There are wells that have been dropping for over 40 years. Those are long-term trends that are not reversing themselves. So as a region, we are lucky that we've got White Bear Lake and people there who got engaged, because it's showing us that it's not just that area. It's the entire region. As we've looked at the region, we've found that it's not just our region. We've got all these other regions that are having problems. This is what's given us the impetus and the fortitude to say, let's start tackling this issue instead of ignoring it.

We've got plenty of water here, and if we manage it right, we'll be able to solve our problems going forward. We'll be at a distinct advantage over places like California, where they could be going into a situation [of long-term drought]. If they are growing all of our food and our dairy right now, and they're basically raising it in a desert now, well, let's be ready. If we're managing our situation sustainably here, we're set up to do a lot with agriculture jobs and dairy jobs.

If you think of it creatively, then we've got this huge wealth of water, and if we manage it right, this is where people and where businesses that use water are going to want to come. But we want to make sure that we've got the structure set up right, so that from an environment and business point of view, we're using it sustainably. This is part of our growth engine for the future. It's the new oil that's coming down the road. If we manage it right, we're going to be sitting very, very well in the future.”