MUNICIPAL LEGISLATIVE COMMISSION

2015 Legislative Program

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Summary of 2015 Legislative Priorities

I. Promote accountability and transparency in the State/local fiscal relationship

A. Support individual property tax relief through the circuit breaker program.

B. Do not support automatic inflationary increases in LGA.

C. Support policies that help promote a more equitable property tax burden as a percentage of income (Voss Database).

D. Support preliminary levy date change for all special taxing districts (EDAs, HRAs, etc.) from September 15th to September 30th.

E. Support allowing a sales tax exemption for local government purchases of snowplows and road construction vehicles and fixing the construction materials sales tax exemption for local units of government.

F. Support increased transparency and prudent reform in the State's "Fiscal Disparities" program.

G. Oppose fiscal limitations on local units of government.

II. Invest in job retention and growth

A. Support a broad based transportation funding package that promotes economic development and growth in the region and keeps Minnesota competitive.

B. Support providing DEED with the tools and incentives necessary to attract and retain businesses.

C. Support flexibility in Tax Increment Financing (TIF) policies.

D. Support for a corporate income tax rate in Minnesota that is more closely aligned with the corporate income tax effective rate.

III. Support local government policies that promote fairness and equity

A. Support Street Improvement Districts.

B. Concerns with mandates relating to expenditure-type reporting.

C. Reduce and better align agency oversight of Water Resource Management.

D. Opposition to state takeover of cable franchising.

2015 LEGISLATIVE INITIATIVES

The Municipal Legislative Commission (MLC) has identified the following issue areas as priorities for the 2015 Legislative Session:

I. Promote accountability and transparency in the State/Local fiscal relationship;

II. Invest in job retention and growth; and

III. Support local government policies that promote fairness and equity.

I. PROMOTE ACCOUNTABILITY AND TRANSPARENCY IN THE STATE/LOCAL FISCAL RELATIONSHIP

MLC Communities believe that the Legislature must constantly strive to develop policies promoting greater stability, transparency, equity and predictability in the fiscal relationship between the state and local units of government. When possible and efficient, public services should be provided by the level of government closest to those affected. Our communities believe that the system created by the State to finance city services must be equitable, accountable and straight forward.

The MLC urges the legislature to be mindful of the following guiding principles when deliberating on tax, finance and regional growth initiatives:

- In order to promote **accountability**, local government finance should demonstrate a strong relationship between taxes paid and benefits received.
- Unfunded state mandates, levy limits, property tax freeze and reverse referenda significantly limit the **predictability** necessary for local governments to plan with financial confidence.
- Cities characterized with high property values are not universally populated with high-income residents. Populations in all of our cities are not only culturally diverse, but include retirees on fixed incomes, single parents and apartment dwellers. The number of seniors in our communities is rising. Policies that ignore such diversity are not **equitable**.
- In the interest of maintaining the **stability** of our local communities, any tax reform that is considered should minimize burden shifts on individual taxpayers and businesses, and potential revenue shortfalls for communities and should be recognized and addressed.

A. Support *individual* property tax relief through the circuit breaker program.
Providing direct property tax relief that is equitable and accountable is a priority for the MLC. The Property Tax Refund (PTR) program ("circuit breaker") provides direct property tax relief to individuals based on their income and ability to pay. In 2013 and 2014, the PTR program was enhanced, which our communities appreciate because it provides relief to the individuals who need it most, regardless of where they live. The MLC supports continued investments to the circuit breaker program.

B. Do not support automatic inflationary increases in LGA.

The MLC does not support automatic inflation adjustments in LGA funding. Our communities feel the need for increased investments in LGA should be addressed annually by the Legislature, not set on autopilot.

C. Support policies that help promote a more equitable property tax burden as a percentage of income (Voss Database).

The Department of Revenue publishes a report called the "Residential Homestead Property Tax Burden Report," using data obtained from the "Voss Database." The purpose of this report is to look at property tax fairness throughout the state by matching homeowners' property taxes paid with their actual incomes (includes county, school and city property tax burdens).

In its 2013 report (based on 2011/2010 data), the findings show that the property tax burden is greater in the Metro Area compared to Greater Minnesota. In fact, the study reports a median property tax burden (after PTR) of 3.1% of income for the Metro region, and 2.3% of income for Greater Minnesota.

The MLC asks the Legislature to continue to support policies that promote a more equitable property tax burden for suburban homeowners, as identified in the Voss Database Report.

D. Support preliminary levy date change for all special taxing districts (EDAs, HRAs, etc.) from September 15th to September 30th.

Last year, the MLC worked to move the date by which cities and counties are required to set their preliminary levies from September 15th to September 30th. This MLC initiative applied to all cities and counties statewide. It was of particular importance to our MLC communities, who have struggled with the timing of obtaining key financial data, in particular, when they receive their fiscal disparities information. Typically, this information wasn't fully received until mid to late August. Given the timing and volatility of the fiscal disparities program, setting an accurate budget and preliminary levy by September 15th was challenging.

By moving the preliminary levy date back two weeks, our cities have more time to digest the fiscal disparities information, to more accurately put budgets together, and to allow more time for public input. This change also provided consistency by making cities, counties and school districts set their preliminary levies on September 30th.

The MLC now asks the Legislature to expand the preliminary levy date change to all special taxing districts (EDAs, HRAs, etc.) from September 15th to September 30th. Logistically, many communities set all of their levies at once. Having the same preliminary levy date will streamline the process overall for local governments leading to better budgeting across the board.

E. Support allowing a sales tax exemption for local government purchases of snowplows and road construction vehicles and fixing the construction materials sales tax exemption for local units of government.

The local government sales tax exemption enacted in the last biennium does not apply to all city purchases. For instance, although cities currently do not pay the motor vehicle sales tax on marked police vehicles or firefighting vehicles, other city vehicles are not exempt from the motor vehicle sales tax, such as snow plows and road construction vehicles. Additionally, in order to receive the sales tax exemption on construction materials under current law, cities must bid labor and materials separately and also designate a contractor to be a purchasing agent on behalf of the city. The existing Department of Revenue rules are complex and the implementation can be so complicated that it can cost cities more money to implement than they will save on the tax exemption.

In order to ensure that taxpayers receive the full benefit of the local government sales tax exemption:

a) the exemption should be extended to all local government purchases that would otherwise be subject to the motor vehicle sales tax in Minn. Stat. ch. 297B.
b) the process to receive the exemption for construction materials should be simplified or converted into a refund process.

F. Support increased transparency and prudent reform in the State's "Fiscal Disparities" program.

The Fiscal Disparities program was enacted in 1971 to reduce discrepancies in tax base wealth between taxing units within the metropolitan area. While the program has generally achieved its objective, significant issues remain for many MLC communities. As a result, the MLC believes it's time to look at potential changes that would allow the program to be more transparent as well as address an outdated and arbitrary formula.

G. Do not support fiscal limitations on local units of government.

Our cities have been financially constrained by levy limits in the past, which have had a negative impact on our ability to meet the needs of residents. Imposing artificial caps, such as levy limits and property tax freezes, removes the autonomy needed for city officials to make decisions in the best interests of their fellow citizens.

The MLC does not support state limitations on local decision making that inhibit cities' ability to plan with financial confidence.

II. INVEST IN JOB RETENTION AND GROWTH

Compared to the rest of the nation, Minneapolis-St. Paul and the surrounding suburbs rank at the top when it comes to the percentage of college educated adults active in the workforce, as well as the number of Fortune 500 headquarters per capita. We are also one of the few metropolitan regions in the U.S. that is home to our state's capitol and its major research university. This region has played a crucial role in the economic recovery and the recent job growth in our State.

MLC cities specifically are critical job producers for the region. Combined, we are among the biggest job producing areas in the state with over half a million employees (532,749 as of 2013) compared to Minneapolis/St. Paul with a combined total of 478,453 employees in 2013[1]. As such, the State needs to invest/support regional growth in the Twin Cities metropolitan area and surrounding suburbs. Our members believe the State can play a critical role in keeping and growing jobs by making key investments, and by supporting and partnering with cities. A jobs focus, which includes investments in our infrastructure, will help cities promote a healthy business environment, which will keep and grown jobs here rather than having companies move to a more competitive state.

A. Support a broad based transportation funding package that promotes economic development and growth in the region and keeps Minnesota competitive.

The MLC to support transportation investments to reduce congestion, replace deficient bridges, maintain regional and state highways, and advance public transit. The MLC is supportive of a transportation funding package for roads, bridges and transit that meets the long term needs of our member cities. The significant needs have been well documented[2], including:

- Minnesota's population is expected to increase by almost 1 million to over 6.1 million by 2030.
    - The Twin Cities area is expected to grow twice as much as rest of the state.
    - Baby boomers will start turning 80 in 2025 (resulting in a need for more transportation options).
    - Meanwhile, millennials demand a more multimodal system.
- Under MnSHIP, the 20-year spending plan, pavement will worsen by 55% through 2024 and then gets even worse (MnDOT).
    - Interrupted service results in millions lost per day, to business.
    - Congestion may increase 30% per person.
    - Infrastructure repair dominates funding outlook – new projects less likely.
- According to MnDOT, the cost to complete needed improvements and make strategic investments in the transportation network exceeds our projected funding by an estimated $50 billion during the next 20 years.

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[1] Metropolitan Council community profile data, http://stats.metc.state.mn.us/profile/Default.aspx, citing US Census Bureau; American Community Survey (October 26, 2012); US Census Bureau; Decennial Census (July 14, 2011); US Census Bureau; Metropolitan Council Annual Estimates (September 16, 2013); and US Census Bureau; Metropolitan Council Forecasts (April 26, 2012).

[2] Minnesota Go, Minnesota Department of Transportation (2013) http://www.dot.state.mn.us/minnesotago/ citing Minnesota's Transportation Finance Advisory Committee (May, 2013), *Keep Moving to Keep Ahead, Recommendations from the Minnesota Transportation Finance Advisory Committee:* www.mndot.gov/TFAC; and Minnesota's Transportation Finance Advisory Committee (December, 2012), *Minnesota Moving Ahead: Transportation Funding and Financing for the Next 20 Years*: http://www.dot.state.mn.us/tfac/docs/final-report.pdf. Metropolitan Council regional transit facts, http://metrocouncil.org/About-Us/Facts/TransportationF/FACTS-Regional-Transit.aspx, citing The Itasca Project (November 30, 2012), *Regional Transit System, Return on Investment Assessment*: http://www.theitascaproject.com/Transit%20ROI%20exec%20summary%20Nov%202012.pdf.

    - 50 percent of state highway pavements are more than 50 years old.
    - 35 percent of state bridges are more than 50 years old.
    - Minnesota is ranked 38th nationally for pavement condition.
    - Minnesota is ranked 9th (tied) nationally for state highway bridges.
    - The Twin Cities metro area will add 900,000 people by 2040.
- Our purchasing power has declined 30% since 1988 (despite '08 gas tax increase). Half the '08 gas tax increase was dedicated to debt service, leaving many needs unmet. (MnDOT).
- A recent study suggests that $5B invested over 20 years to maintain current performance delivers $10B - $23B in benefits (ROI 3.1). An additional $7B invested over 20 years (achieve world-class system) gains $15B - $19B in benefits (ROI 2.1)
- Likewise, a 2012 study by the Itasca Project, a group of Twin Cities area business leaders, found that investing $4.4 billion to build out a system of regional transitways by 2030 would yield a return on investment of $6.6 to $10 billion, mostly in travel time savings for people and goods. (Met Council)

Given these very serious needs and our concerns over transportation funding as it relates to maintaining a healthy economic environment in the metro region, the MLC asks that the legislature and the Governor do whatever is necessary to pass a comprehensive package in the next legislative session.

In addition, our members support the Transportation Economic Development Program (TED), a collaboration between DEED and MnDOT which prioritizes and funds highway capacity and safety improvements which will result in significant job growth and economic development. During the last biennium funding ($20 million) was dedicated for this purpose from the Trunk Highway Fund, which the MLC applauds. However, that funding source lacks the flexibility state agencies need to address the needs identified by communities. The MLC supports directing general funds for this purpose and encourages the Legislature to continue annually allocating MnDOT funds toward the TED program.

B. Support providing DEED with the tools and incentives necessary to attract and retain businesses.

The MLC is supportive of DEED programs that help the State attract and retain business. Programs like the Minnesota Investment Fund, the Job Creation Fund and the Minnesota Trade Office have offered proven results and have had major impacts in MLC communities. The MLC was supportive of the major investments in DEED's initiatives during the last biennium and will work to ensure funding for those programs remains stable. Additionally, the MLC is supportive of efforts to address mismatched skills to better align with the workforce, additional funding for workforce and retraining, as well as efforts to reduce permitting timelines and to streamline regulation.

C. Support flexibility in Tax Increment Financing (TIF) policies.

TIF remains one of the most viable tools available to fund community reinvestment efforts and to help communities partner with the State and businesses to create economic development. Further restrictions of TIF would render the tool less effective and will almost certainly curtail local efforts to support job creation, housing, redevelopment, and remediation.

So as to prevent unnecessarily complicating this process, the Legislature should avoid enacting future TIF law restrictions during the next legislative session. Additionally, the MLC supports increased flexibility with tax increment financing as a tool to help communities incent economic development.

D. Support for a corporate income tax rate in Minnesota that is more closely aligned with the corporate income tax effective rate.

Minnesota has one of the highest corporate income tax rates in the nation, putting us at a disadvantage nationally in attracting new business development. However, for the businesses that have committed to building in Minnesota, there are multiple credits and deductions available (i.e. the Research & Development Credit) that make the effective tax rate much lower than what is being marketed.

In order to more effectively market Minnesota as a great place to do business, MLC suggests that Minnesota more closely align the corporate income tax rate with the effective rate.

III. SUPPORT LOCAL GOVERNMENT POLICIES THAT PROMOTE FAIRNESS AND EQUITY

MLC believes strongly that government services should be provided as close to the local government level as possible. That being said, MLC cities see the benefit of partnering with the State to provide the best services for their constituents, when possible. However, State mandated (and often unfunded) programs can interfere with a city's ability to make the best fiscal decisions for its community, leading to either a reduction in basic services or an increase in taxes and service charges in order to meet the requirements outlined by the State.

The MLC asks the Legislature to thoughtfully consider existing mandates and their efficacy, and make the appropriate reductions or repeals where possible. We further ask that unfunded mandates be avoided altogether. Should new mandates on local units of government be proposed, we ask that legislators consider providing cities with the greatest amount of flexibility available in order to reduce implementation costs.

Additionally, there are ways the State can provide local governments tools to be successful by either structuring state programs to be more user friendly or by implementing programs that give local governments the flexibility to meet their needs. MLC asks the legislature consider proposals that give local governments opportunities to be efficient, productive and enterprising. The MLC asks policy makers to consider the following:

A. Support Street Improvement Districts

Communities across the state of Minnesota are searching for ways to finance necessary road improvements. Street Improvement District legislation has been brought forward over the last several sessions as a new way to help cities find the funds to make necessary repairs. The MLC is supportive of this legislation and its member communities would benefit from having another tool in their toolbox to make road improvements.

B. Concerns with mandates relating to expenditure-type reporting.

Our members appreciate the intent of more transparency between local governments and taxpayers. However, this language poses potential problems as drafted.

First, the legislation creates administrative burdens for our cities because reporting by object code is not standard practice, and doing so could require extra costs and resources. Additionally, the reporting deadlines may be problematic because they do not align with when cities are preparing their budget details.

More importantly, it is unlikely that by requiring cities to report in this way that most citizens will find significant benefit, especially compared to the time and effort that goes into this level of reporting. The data on costs that would be available at the local government level is not of much consequence compared to the data on costs at a statewide level and making comparisons between cities without context could result in misinformation and confusion amongst citizens.

MLC suggests that before implementing these types of mandates, that legislators consult with the local governments in their districts for feedback on how best to make budget data available to the public.

C. Reduce and better align agency oversight of Water Resource Management

The current system is burdensome, confusing and inefficient to local officials who must work within the system to facilitate growth and development and who are working to ensure a health natural environment. MLC supports the formation of a bipartisan taskforce of local, county, state, and private sector officials to address the overlapping, duplicative, and conflicting requirements in the current system and provide a recommendation on legislation to reduce and better align agency oversight.

Further, MLC asks that when considering legislation that effects water management, like permitting and storm water regulations, legislators first consider the impact on local government, and include local officials in any process that would affect them as important stakeholders.

D. Opposition to state takeover of cable franchising.

The MLC does not want the state to take over cable franchising authority from the local governments and asks that the legislature oppose any such measures.

This is an issue that has roots at the national level, where Congress and the FCC have looked into reforming video franchising. Last year, the House and Senate held hearings and introduced legislation on the issue. Although neither bill was enacted, there has been talk to revisit the issue. Additionally, the FCC did adopt an order on video franchising. The new rules will: set a “shot clock” of 90 days for franchising authorities to rule on applications from competitors with existing ROW access and 180 days for new entrants without existing ROW access; ban unreasonable build-out requirements for new entrants; require other fees and in-kind contributions to be counted toward the five percent franchise fee.

Given the lack of movement on a federal level, the concern is that advocates may try to address this at a statewide level instead. For MLC communities, some of the major concerns about statewide cable video franchising are the retaining of local control of public rights-of-way (ROWs) and safeguarding local government revenue streams, which are derived from the franchising fee. Cities receive significant revenues from these fees that go towards their General Funds. Faced with the loss of that revenue, cities would look to make up the loss with increased tax levies, resulting in detrimental impacts on property taxes at the local level.

Finally, cable issue tend to be local in nature. For instance, local governments become involved when cable companies do a poor job restoring someone's lawn after a trench dig or when cable companies resist building out their system to new subdivisions. If cable were franchised at the state level, communities would still be dealing with these issues, only they would not have the benefit of cable franchise funds to defray their regulatory and enforcement costs.

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