MUNICIPAL LEGISLATIVE COMMISSION

WEEKLY SESSION UPDATE

April 20, 2015

OMNIBUS TAX BILL

The House Republicans have released their Omnibus Tax Bill. This bill includes over $2 billion in tax cuts, including a $1,000 exemption for all income tax filers. It also includes a modest form of the Governor's proposal for a child care tax credit as well as breaks for families with significant estates, Social Security recipients, retired military veterans, doctors who perform charity care, and more.

Moreover, the legislation would provide a sales tax exemption for construction materials, would repeal the political contribution refund program, and would expand the mandated information that must be included in the Department of Revenue's biennial tax incidence study to include incidence information on federal taxes paid by Minnesota residents.

Additionally, the Omnibus Bill includes all provisions from Rep. Drazkowski's Property Tax Division Report, which will cost $363 million over the next biennium. As such, the Omnibus Tax Bill includes a provision to change the preliminary levy date for special taxing districts, as well as a number of clarifying and minor changes in the tax increment financing statute as requested by LMC's Development Finance Task Force. The bill also includes problematic language related to the reverse referendum, including language that:

- Establishes the Property Tax Payers' Empowerment Act which provides that if a county or city with a population of 500 or more increases its property tax levy in any year, the citizens may, through a reverse referendum, petition to vote on the levy increase for the following year at the general election
- Requires elections on city, county, and school district referenda questions related to spending be conducted on the first Tuesday after the first Monday in November

The Division Report received three days worth of hearings in the Property Tax and Local Government Division and was discussed for over 15 hours. The most contentious items in that Report were large cuts in LGA funding to Minneapolis, St Paul, and Duluth.

Another important provision in the Omnibus Tax Bill is language from the House Transportation Omnibus Bill. That provision is further discussed in the transportation section below.

The Omnibus Tax Bill would require significant offsetting cuts in government or increases in different revenue in the long term because the cost of many provisions will increase over time. The bill will likely be significantly different from the Senate's tax proposal, which is expected to come out in the next week. Ultimately, these provisions will be negotiated by both bodies during conference committee.

For a complete summary of this bill, here is a link to the House Research Bill Summary: http://www.house.leg.state.mn.us/comm/docs/8c50c30c-717f-4431-a343-d1d8e5f6575f.pdf

OMNIBUS LIQUOR BILL

On Thursday, the Senate took up the Omnibus Liquor Bill. Among other things, the bill would allow craft breweries to sell 64-ounce growlers of beer on Sundays and would permit bars to dispense liquor earlier on Sundays. Currently, they can't start serving until 10AM , and the bill moves it to 8AM.

An amendment was introduced on the Senate floor to repeal the ban on Sunday liquor store sales, but it was defeated on a vote of 35-28. However, six senators did move from their position last year and changed their vote in favor of Sunday sales.

The House has yet to pass its own liquor bill, so an amendment will likely surface again during that debate.

SENATE TRANSPORTATION

The Senate Transportation Finance Division will be taking up their Omnibus Transportation bill in committee this afternoon. They plan to walk through the proposal today and will take up amendments on Tuesday.

The Senate's transportation proposal would provide $800 million in funding in 2016 and $1.1 billion annually starting in 2017. Among other things, the provisions in this package include:

- Funding Source:
    - New 6.5% wholesale gas tax with $2.50 floor ($580M/yr)
    - Vehicle registration fee increase from 1.25% base tax to 1.5% and $10 fee increase ($1.45 B)
    - $1.001 B in trunk highway bonds
    - Metro-area sales tax increase (.75%) for transit projects ($232M/yr), five counties only
    - Motor vehicle lease tax closed ($32M/yr)
    - Includes provisions on railroad taxes and asses the railroads up to a total of $32.5 M/yr. Proceeds are deposited into the rail grade crossing safety improvement account and used for highway-rail grade crossing improvements on corridors where crude oil and other hazardous materials are transported.
- Appropriates $800 M between 2016-2019 for Corridors of Commerce
- Creates a surcharge on vehicle registration and title transfer to be divided equally between the small city and larger city street and bridge accounts ($3.35 M/yr to each account)
- Redistributes 5% of the HUTDF to be apportioned to the CSAH for:
    - Town road account (30.5%)
    - Town bridge account (16%)
    - County municipal account (10%)
    - The remaining 43.5% is directed to the municipal state-aid street fund.
- Builds out transit lines, funds transit operations, and bus expansion. Includes a 1/8 % new metro sales tax increase for counties for transit and transportation.

- Appropriate $46 million per year for bike/ped purposes
- Requirement that MnDOT identify and implement an efficiency gain of an unspecified amount.

House Transportation

The House floor will be debating Rep. Kelly's Omnibus Transportation proposal (H.F. 4) on Tuesday.

Provisions in the package include:

- Creation of the Transportation Stability Fund, which contains multiple sub-accounts and dedicated revenues, including:
    - Highway Allocation Account—dedicates existing revenues from the sales tax on motor vehicle repair and replacement parts to the Highway User Tax Distribution Fund (HUDTF).
    - Transit Allocation Account—dedicates a portion of existing revenues from the motor vehicle lease sales tax to the Greater Minnesota Transit Account.
    - County Highway Allocation Account—dedicates a portion of existing revenues from the motor vehicle lease sales tax to County State Aid Highway Fund (excludes Hennepin and Ramsey from distribution of new revenues).
    - Metropolitan Transit Capital Account—dedicates general sales tax on rental motor vehicles to transit in metropolitan counties (prohibits spending on light rail, commuter rail, or streetcars).
    - Small Cities Assistance Account—provides $25 million per year from the general fund, distributed under a formula, for cities under 5,000 for construction and maintenance of roads located within the city.
- Appropriation of $7 million per year for Greater Minnesota Transit.
- Appropriation of $125 million per year for the Corridors of Commerce program from 2016 through 2021, plus $62.5 million in 2022 ($812.5 million total).
- Appropriation of $5 million per year for the Transportation Economic Development program from 2016 through 2021, plus $2.5 million in 2022 ($32.5 million total).
- Appropriation of $70 million per year for state road construction from 2016 through 2021, plus $35 million in 2022 ($455 million total).
- Prohibition on spending state and federal funds on aesthetic enhancements if they increase the cost of projects (aesthetic enhancements include monuments, markers, memorials, sculptures, statues, decorative fixtures, alternative materials, specialty signage, and other treatments designed to impact the perceived beauty or visual appeal of the infrastructure).
- Requirement of "traffic signal timing optimization" on all roadways with an average daily traffic greater than 20,000 vehicles per day (by Dec. 30, 2015).
- Expansion of list of products that are exempt from truck weight restrictions, including portable toilets.
- Requirement that MnDOT identify and implement an efficiency gain of 15 percent.
- Requirement that MnDOT work with local units of government to develop a new cost participation policy (due Sept. 1, 2015).
- Implementation of a public-private partnership pilot program involving toll facilities, build-operate-transfer (BOT), build-transfer-operate (BTO).

The bill contains no new funding for transit. The bill eliminates funding for the Met Council budget, which is phased in through FY18-19. It backfills these reductions by taking CTIB resources and allows the Met Council to realize the growth in MVST. The bill also contains policy language, but reduces the role of local governments in the planning process for transit lines and allows very limited action absent a legislative appropriation. Many of the transit provisions are being carried in the House Tax bill.

The proposal is significantly different from the Governor's plan and the Senate DFL plan. Both of these proposals support new transit investments in addition to road and bridge funding, and contain a 6.5% increase in the gas tax at the wholesale level.

For a full summary of the revenues and expenditures from this bill, here is a link to the spreadsheets released by the House Fiscal Department: http://www.house.leg.state.mn.us/comm/docs/f94c0ebe-6fdc-453c-96b7-4c6cffadcedf.pdf?inline=true