MUNICIPAL LEGISLATIVE COMMISSION

WEEKLY SESSION UPDATE

May 1, 2015

MAYOR'S MEETING WITH GOVERNOR DAYTON

On Wednesday, Governor Dayton met with MLC Mayors at his residence in St. Paul. The discussion was very productive, with the Governor listening to the MLC's priorities as well as city specific concerns. He even offered to visit many of our communities in the near future.

Thank you to the Mayors who were able to attend this meeting. This was a great conversation with the Governor.

LIQUOR BILL

On Wednesday, the House passed an Omnibus Liquor Bill on a vote of 127-4. Despite attempts to repeal the ban on Sunday liquor sales and the ban on Sunday off-sale liquor purchases, amendments were not adopted by the body.

Among other things, this bill would make the following changes to current liquor laws:

- authorize a microdistillery to sell at off-sale one 375 milliliter bottle per customer per day of its product;
- allow growlers to be sold at off-sale on Sundays at small brewers and brewpubs;
- allow a microdistillery to be issued a temporary license for on-sale of intoxicating liquor in connection with a social event sponsored by the microdistillery;
- allow Sunday on-sale to begin at 8:00 am; and
- ban the manufacture or sale of powdered alcohol until June 1, 2016, calling for the director of the Public Safety Department's Division of Alcohol and Gambling Enforcement to research current laws to learn if the product could be adequately enforced.

On Wednesday, the bill was sent back to the Senate, where they voted to concur on the House language and re-passed the bill on a vote of 56-8. The bill now goes to the Governor for final approval.

SENATE TAX BILL

On Monday, the Senate released the Omnibus Tax Bill. This proposal would provide $260 million in overall tax reductions over the next two years. The Senate bill reduces state taxes by $170 million and provides additional tax relief through aids and credits of $67 million..

The Senate's bill includes the League-proposed changes to tax increment financing (TIF) statutes, which:

- allow interfund loan resolutions to be adopted before or after the adoption of the tax increment financing plan or the creation of the district, and requires that the resolutions be adopted up to 60 days after the funds have been transferred or spent;
- clarify that the terms of the interfund loans or transfers may be amended or modified before the decertification of the district;
- clarify that interfund loans may be structured as draw-down or line-of-credit obligations; and
- make various technical changes recommended by the state auditor.

Additionally, the bill makes changes to the payment dates for LGA from two installment to four installments, and accelerates the distribution of LGA and county program aid paid to cities, counties, and townships. It also increases LGA by $21.5M for 2016 and $24M for 2017.

Finally, the bill also:

- clarifies that local lodging taxes apply to the entire amount paid by a consumer for lodging including accommodation intermediary charges;
- eliminates the requirement that before an economic development authority establishes an economic development district, the authority must publish notice of the hearing in a daily newspaper, so that any newspaper of general circulation in the city is sufficient; and

- authorizes a local unit of government alone or through a joint powers board with other local units of government to finance, acquire, and construct broadband equipment.

Noticeably absent from the bill is language to simplify the sales tax on construction materials for cities, counties, and schools.

During the week, the bill made its way through the committee process. It is expected to be taken up on the Senate floor on Monday.

HOUSE TAX BILL

On Wednesday, the House took up their Omnibus Tax Bill. This bill includes over $2 billion in tax cuts, including a $1,000 exemption for all income tax filers. Of particular interest, the bill includes:

- the preliminary levy date change for special taxing districts from September 15 to September 30;
- the LMC-sponsored changes to TIF;
- a sales tax exemption for construction materials; and
- an expansion of 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.

Overall the omnibus tax bill puts forward several new credits and deductions including:

- $538.6 million to a new Minnesota personal or dependent tax exemption, which would provide a tax filer with an exemption, based on income, that could total more than $500 over the next two years for a middle-class family of four
- $236.7 million to phase out state taxes on Social Security income;
- $130.6 million for a credit for principal and interest loan payments on student loans;
- $51.6 million for a military pension subtraction;
- $35 million for expanding the child and dependent care credit; an
- $20.3 million to make pre-kindergarten expenses eligible for subtraction and credit, including private school tuition.

The bill also includes approximately $500 million in property tax relief, with the majority of the relief directed at modifications to the statewide general property tax on business and seasonal residential properties.

Additionally, the bill proposes to shift several transportation-related sales taxes from General Fund use to a new Transportation Stability Fund for long-term funding for road and bridge projects. Shifting these taxes would mean $401.3 million less in revenue to the General Fund over the 2016-17 biennium and $644 million in the 2018-19 biennium. The bill also includes a provision that shifts nearly $24 million from CTIB to the Met Council in 2015, and a provision that reduces the sales tax base for the metro sales tax for transit by exempting sales tax or electricity payments.

Finally, two of the more controversial provisions in the bill include limits to local government aid and the creation of the Property Taxpayer Empowerment Act. This bill would limit LGA payments to three of the four cities of the first class — Minneapolis, St. Paul and Duluth — with the savings going to the General

Fund. This provision sparked controversy both in committee and on the floor. Additionally, the bill includes the Property Taxpayer Empowerment Act, which includes three contentious provisions. These provisions would:

- provide 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 increase for the following year at the general election.
- would dispense with special elections for school bond referendums and many other local issues, and require them to be held on Election Day.
- would require clear notification to taxpayers on various communications if a city or county raised its general property tax levy and were, therefore, subject to a reverse referendum.

Overall, the bill generated much debate, particularly over the $2 billion in tax cuts (reaching over $4 billion in the out years). Opponents of the bill say that the relief is so high that it makes spending in other areas of the state budget nearly impossible. Supporters say the proposals are long overdue and go straight to what they say is much-needed tax relief for small businesses and middle-class families. Ultimately, the bill passed the House floor on a vote of 74-58.

There is a clear gap between the Senate and House proposals, which will need to be ironed out in conference committee once the Senate version is passed off the Senate floor.

TRANSPORTATION BILL

The Senate Transportation Finance bill was taken up on the Senate floor on Monday. The Senate's 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 Sources
    - 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.

During the floor debate, two amendments of note were adopted onto the bill. First, Sen. Scalze offered an amendment that would require 40% of proceeds from the transit tax be distributed in the east metro each year. Second, Sen. Dahle offered an amendment that said if a county (Scott and Carver) decides to implement a local tax for transportation, as previously authorized under law, the overall sales tax in that county would be reduced proportionally.

Also, when the bill was heard in Tax Committee earlier this week, the committee adopted an amendment that was aimed at bringing Scott and Carver counties in, but it did so through a mechanism that required all counties to be included, but that if four counties opted-out, the tax would not be applied in those counties.

The Senate passed the bill on a vote of 36-27. The House version of the Omnibus Transportation bill was passed last week on a vote of 73-59. The House version is significantly different, relying on existing vehicle-related sales taxes, General Fund dollars collected through taxes on auto parts, vehicle rentals, and leases. It also focuses on road and bridge improvements, with no new funding for transit. A conference committee has been appointed to work out a compromise. The conferees are:

HOUSE: Kelly; Petersburg; Sanders; Howe; Erhardt
SENATE: Dibble; Kent; Hawj; Jensen; Schmit

DONATION OF SURPLUS EQUIPMENT

Today, the House took up HF1003 (Laine). This bill would permit a county, home rule or statutory city, town, or a joint powers entity of a city, county, or town to donate certain surplus equipment to a nonprofit organization. The bill would also provide protection from tort liability for claims arising out of a donation.

The bill was passed on a vote of 123-2. It will now go to the Senate, where the bill has been given its Second Reading and awaits debate on the Senate floor.