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The first major milepost of the 2021 passed last week with the release of the Governor's budget. As the accompanying table shows, the Governor's tax plan is not shy on aspiration and ambition. Practically, given the legislature make-up, it is much more of a statement of political values and beliefs than a pragmatic revenue raising plan. The $1.3 billion in new tax revenue, plus an additional $300 million in non-tax revenue and the use of $1 billion from the surplus, would support $1.3 billion in new spending, eliminate the FY 22-23 shortfall and leave a little less than $500 million on the bottom line for the out-biennium. As always, what is not included in the tax proposal is just as important as what is included. Those omissions include a long laundry list of federal conformity decision-making actions with hundreds of millions of dollars in the balance. It is very likely their absence in the Governor's tax proposal is at least partially a function of the lack of information on their potential costs at the time when his budget proposal was due. In any event, it's something to be aware of as legislation progresses.

Meanwhile, hearings to date in the tax committees and the property tax subcommittees have focused (with one notable exception as highlighted in this issue) primarily on departmental overviews, legislator education on the Minnesota tax system itself, and introductions to various departmental reports. In the House Tax Committee this included a revisitation and resuscitation of the 10-year-old Department of Revenue report on building tax expenditures in the budget process – something we have argued deserves to be revisited (see report here). Four of the six policy experts who developed this report provided an overview of their work and recommendations, the benefits of establishing a review commission, and highlighted the efforts of several other states in the area. In response to a question about how to make sure the legislature would act on the work of an evaluation commission rather than let it become just another ignored report, the report authors noted they recommended a sunset provision upon receipt of an evaluation such that the legislature would be forced to respond to it in some way. Otherwise, there were no questions about actually establishing or implementing an expenditure review commission (staffing, costs, coordination with other legislative processes, etc.). Chair Marquart acknowledged that state is full of "SPLOTS" – strategic plans laying on the shelf. Now celebrating its tenth anniversary, establishment of a tax expenditure review commission is, unfortunately, one of the splottiest SPLOTS of them all.

More informational hearings are coming up likely interspersed with minor low-to-no cost bills. With so many moving fiscal parts in these strange times and so little clarity all compounded by the inherent challenges of "distance legislating," everything seems to be in a bit of a holding pattern. The hard work won't begin in earnest until the release of the February forecast, which will provide a firm financial framework for legislators and the governor to build their budgets around. One bit of good news: for the time being at least, general fund receipts continue to exceed expectations even after the updated November forecast.

Fiscal Summary of Governor's Tax Initiatives

(in thousands, parentheses indicate losses to the General Fund)

	FY 22-23	FY 24-25
Individual Income Taxes		
Establish 5th Tier	$402,700	$364,000
Capital Gains Tax Surcharge	486,100	442,800
Expansion of First Tier	(95,200)	(95,500)
Working Family Credit Expansion	(101,000)	(103,200)
ITIN Usage for Working Family Credit	(23,200)	(23,400)
Angel Tax Credit	(7,000)	0
Itemized deduction for casualty and theft losses	(2,020)	(2,020)
Subtotal – Individual Income Taxes	**$660,380**	**$582,680**
Corporate Income Taxes		
Corporate Franchise Tax Rate Increase	$423,800	$406,700
Repatriation Foreign Income	336,230	94,420
Subtotal – Corporate Income Taxes	**$760,030**	**$501,120**
Estate Tax		
Reinstate Estate Tax Exclusion	$28,100	$36,000
Subtotal – Estate Tax	**$28,100**	**$36,000**
Modify Data Center Sales Tax Exemption	$30,700	$70,000
Sales Tax Exemption for School Fundraising	(1,310)	(1,410)
Subtotal – Sales and Use Taxes	**$29,390**	**$68,590**
Cigarette/Tobacco Products Tax		
Cigarette tax increase	$138,770	$137,300
Vapor Tax	$11,610	$17,450
Subtotal – Cig/Tobacco Products Tax	**$150,380**	**$154,750**
Other Tax Revenues**	**$7,960**	**$9,430**
General Fund Total	**$1,636,240**	**$1,352,150**
***Includes school levy equalization adjustment, non-admitted surplus lines tax, changes to resident trust definition, and regional transit bonding authority Source: Minnesota Management and Budget. Calculations by MCFE.*		

FROM THE COMMITTEE ~~ROOM~~ ZOOM

Senate Tax Committee Hears Combo PPP Conformity and C-Option Bill

On January 26, the Senate Tax Committee heard its first tax bill, which to no surprise is one of the priorities of the 2021 session in light of COVID's economic fallout. Sponsored by Tom Bakk (I-Cook), SF 263 conforms to the CARES Act and the Consolidated Appropriation Act provisions that exclude forgiveness of Paycheck Protection Program loans from gross income and allows deductions of business expenses paid for with forgiven loans. The bill also provides an option for pass-through businesses to calculate and file tax as C-Corporations (a.k.a. "C-Option") as a means of circumventing the federal $10,000 cap on state and local tax deductions. Incoming Tax Committee Chair Carla Nelson (R-Rochester) stated that because of COVID, the committee will be prioritizing bills that have bipartisan support and can speed economic recovery. In introducing the bill Sen. Bakk echoed this idea noting the seriousness and gravity of bills can often be ascertained by its authors, which in this case represents a tripartisan "who's who" of the Senate Tax Committee past and present: the current and former Senate tax chairs (Nelson and Chamberlain), the ranking minority member (Rest) and both members of the newly formed independent caucus (Bakk and Tomassoni). In addition, the House companion (HF 501) is authored by Tax Chair Paul Marquart (DFL-Dilworth).

Senate staff provided a walkthrough of the provisions (see summary here), and the revenue estimate (see here) which carries a $438 million general fund price tag for the forthcoming biennium (almost all of it in FY 2022). Senate staff flagged three particularly relevant assumptions used in the generation of the revenue estimate:

- It is assumed 80% of the PPP loans will be forgiven
- The revenue estimate was reduced by 68% to exclude businesses without taxable income for the year. However, with PPP qualified expense conformity, amounts that cannot be deducted immediately may be carried forward as net operating losses to offset future income resulting in another estimated $39 million impact in the tails for FY 2024-25 biennium.
- With respect to the C-Option portion of the bill it is estimated that 22,000 returns would be candidates for C-election. However, the revenue estimate is unknown because the impact is dependent on the tax situation of the entities and the underlying shareholders.

The C-Option is unknowable (although generally expected to be minor) and partial conformity to PPP, excluding the loan revenue from income taxation, has no impact. Thus, the revenue estimate accompanying this bill is an estimate for the PPP qualified expense deductibility.

The committee heard from a series of business testifiers and accountants offering case studies and experiences in support of conformity and C-election. Most of the testimony emphasized the exclusion of loans from state taxation rather than the potentially more controversial issue of qualified PPP expense deductibility which layers a tax benefit on top of what is effectively a government grant. There was little questioning from committee members other than an observation that the desire for speed and lack of targeting — combined with the subsequent unfolding reality of COVID's impact – which left some PPP recipients largely unscathed while crushing others — created some significant winners and losers that will hopefully be avoided in round two. Senator Rest suggested that a parallel relief effort on the labor side may also be worth considering by reducing or forgoing some portion of taxable unemployment payments.

In his closing remarks, Senator Bakk said while there is a clear interest in the Senate to deal with the bill expeditiously, some patience is required. Constitutionally, the House has to act first, and it's also problematic to make decisions until greater clarity exists on what the state's revenue landscape looks like with the February forecast. As a result, he noted, most of those affected by this issue will have to pay the taxes or get an extension and file an amended return. The bill was laid over for reconsideration.

The absence of discussion and seeming unanimity of support in the hearing belies the debate that exists among tax scholars and national commentators regarding the merits of conformity with the expense deductibility provisions. Some argue there are much higher priorities in these times than giving a double benefit to PPP loan recipients who have near-term tax obligations or qualify for refunds under the NOL rules. Others argue when considering the context of Congressional intent, the severity of business impacts, and the need to hasten recovery, that states should conform to the federal legislation to promote simplicity and avoid contravening special Congressional action. As Senator Bakk noted, the bill is "pretty expensive" although mostly one-time money. It will be interesting to see if and how the February forecast, the Governor's unknown views on federal conformity, and possible additional Congressional action with respect to state aid influences the future of this legislation.

BILL INTRODUCTIONS

Tax bills are listed first by tax type in alphabetical order, then additional topics in alphabetical order. Within each topic, House bills (HF--for "House File") are listed first, then Senate bills (SF--for "Senate File"). The bills are in numerical order within each chamber. Each bill heading contains the chief author and his or her political party, city or township of residence, and the last four digits of his or her capital office phone number. Note that "I" designates members of the Senate's Independent caucus. All members' offices have a 651 area code and 296 exchange unless shown otherwise.

TAXES

This first portion of tax bills consists of more comprehensive bills. The bills included under various "combinations" are bills with more than one tax in them, but are not considered comprehensive. Unless otherwise noted, effective dates for bills are as follows:

- *Corporate franchise and individual income taxes: Tax years beginning after December 31, 2020*
- *Property tax: Taxes levied in 2021, payable in 2022*
- *Sales tax: Sales and purchases made after June 30, 2021*

Tax Combinations (Corporate and Individual Income)

HF 277 (Robbins, R, Maple Grove, 7806)
Creates a new "alternative simplified credit" for research expenses against the corporate income tax under section 290.9725 as defined by 41(b) and (e) of the Internal Revenue Code. Current law provides a 10% credit up to $2 million in tax liability and 4% for liability over $2 million. The simplified credit would allow a 6% credit for all income tax liability. Defines the base amount for the simplified credit as 50 percent of the average qualified research expenses for the three years preceding the taxable year.

HF 308 (Kresha, R, Little Falls, 4247)
SF 260 (Chamberlain, R, Lino Lakes, 1253)
Creates the "Equity and Opportunity in Education Tax Credit" which provides a tax credit for individual and corporate donations to K-12 education scholarships to qualified foundations. Foundations must either be 1.) public school foundations with the primary purpose of supporting one or more public schools or school districts in Minnesota in which at least 30 percent of students qualify for a free or reduced-price meal, or 2.) a 501(c)3 nonprofit formed for the primary purpose of granting qualified scholarships or qualified transportation scholarships and approved by the commissioner of revenue. Qualified scholarships cannot be greater than 70 percent of the state average general education revenue per pupil unit. The credit is equal to 70% of the amount donated and the taxpayer may not designate a particular child and receive the credit. The maximum annual credit allowed is:

- $21,000 for married joint filers for a one-year donation of $30,000;
- $10,500 for other individual filers for a one-year donation of $15,000; and
- $105,000 for corporate filers for a one-year donation of $150,000.

The credit is not refundable, but excess credit can carry over for up to 5 years although the maximum excess must be applied from year to year. The maximum statewide credit amount is $26.5 million per year. Specifies additional requirements and duties for foundations and the commissioner of revenue.

HF 485 (Ecklund, DFL, International Falls, 2190)
SF 413 (Bakk, I, Cook, 8881)
Provides an individual income and corporate tax credit for sponsoring recreational opportunities for disabled veterans at a specific facility in Lake County owned by the U.S. Forest Service when leased to and operated by a 501(c)3 non-profit organization. A 50% credit applies when a contributing sponsor pays for lodging, related services, and licensing for a veteran with a 30% or greater disability rating. The length of accommodation cannot exceed 30 days and the credit has a maximum of $1,000 per sponsor per qualified veteran and cannot exceed the sponsors liability (i.e. cannot be a "refundable" credit). State allocation is capped at $250,000 per year through 2030, but unallocated amounts can be added to the next year creating a cumulative credit through 2030.

HF 501 (Marquart, DFL, Dilworth, 6829)
SF 263 (Bakk, I, Cook, 8881)
Provides for federal conformity to exclude paycheck protection loan forgiveness from gross income and allowable deductions under PPP loans. Allows for partnerships, LLCs, and S-Corps to file as C-option Corporations which must measure their tax by net income. Tax liability is calculated at the top Minnesota individual income tax rate of 9.85% and is adjusted by partner's or shareholder's interest in the C-option Corp. Individual income standard deductions also apply. Allows and specifies carryover procedures for non-refundable and refundable credits.

SF 318 (Senjem, R, Rochester, 3903)
Extends the sunset of the historic rehabilitation refundable tax credit from 2021 to 2026. Existing implementation and reporting timelines are also extended five years to 2027, 2029 and 2030.

Tax Combinations (Corporate, Income, Property)

HF 255 (Quam, R, Byron, 9236)
Creates a new tax checkoff for the Transportation Projects Reserve Account that can be selected when filing taxes for corporate income, individual income, and the property tax refund. Taxpayers can choose to increase the taxes they pay or reduce their refund by $10 or more. The revenue is deposited in a special fund for transportation projects approved by the Legislature for use by the Department of Transportation. Requires tax preparers to provide notice to clients of the checkoff option. Appropriates $10 million in FY2022 and $10 million in FY2023 from the general fund to establish the account.

Corporate Income Taxes

HF 147 (Davnie, DFL, Minneapolis, 0173)
Allows a tax credit for employers who provide compensation to employees for volunteering in schools. The credit is limited to 50% of employee compensation and is capped at $100,000 per employer. The credit may not exceed taxpayer liability (it is not refundable) and any single employee is limited to 40 hours for which their employer can receive the credit. Qualifying schools have at least 30% of students qualifying for free or reduced-price lunch and the school must comply with the Minnesota Human Rights Act under chapter 363A. The credit does not apply if volunteers have/had dependents who attended the school.

HF 373 (Urdahl, R, Grove City, 4344)
Creates the "Greater Minnesota Catch-Up Credit" which offers refundable tax credits to employers in non-metro Minnesota counties with populations under 25,000 or that experienced a net job growth rate of less than 1.5% between 2010 and 2020. Qualifying jobs will receive a $4,000 credit per job for 3 years and $3,000 in the fourth year before expiring. The jobs must be full-time in an export-focused or high-growth, high-demand industry and pay at least $15 per hour or $12 per hour plus health insurance benefits. Qualifying industries include: advanced manufacturing, information technology, forestry, mining, agri-processing, and tourism attractions. Specifies that the employers cannot be recipients of the existing job credit under MN Statute 469.318 or Rural Job Creation Grants under 469.309. Credits are authorized through regional or county economic development authorities with uniform requirements from DEED. The credits begin at $20,000 per eligible county in 2022, rising to $75,000 by 2025 and thereafter through 2037. Unused credit authority can be rolled over from year to year which could create a significantly larger credit pool in later years.

Excise Taxes

HF 243 (Quam, R, Byron, 9236)
SF 314 (Senjem, R, Rochester, 3903)
Imposes an alternative vehicle fuels tax that makes up any decline in gas tax revenues from the previous year by charging an additional fee at the time of registration to vehicles that are not subject to the gas tax due to their use of alternative fuels. The calculation would be to divide the overall number of vehicles into the gas tax for a given year producing a per vehicle fee that would only be charged to vehicles that don't use gasoline and deposited in the highway user tax distribution fund.

The gas tax has always acted essentially as a user fee to fund the state highway and major arterial road system (i.e. amount of gas purchased is a proxy for road usage and impact to a large degree). With the advent of more all-electric vehicles, this proposal to keep the highway fund whole could only be considered as a very short-term filler en route to a new funding system based on usage (mileage-based, etc.). As written, this approach might be a minor fee at first if the amount of revenue needed to make the highway fund 100% of the prior year is small, but could quickly become grossly inequitable since the electric vehicle user would pay the same fee whether they drove 1,000 miles or 30,000 miles in a year, therefore the tax would be divorced from use of the road system and would not function like a fuel excise tax based on volume at all. Since vehicles that use gasoline, and are subject to the gas tax, are exempt from this annual charge, any increases in efficiency of gasoline-powered vehicles or overall reduction in use (from – say – a pandemic or other natural disaster) would be shifted on to the annual charge for non-gasoline powered vehicles whether they used the road system or not in that year. If you consider the costs of electricity for charging an electric vehicle over the course of a year – added to the fact that the annual fee would be based on average gasoline use of all vehicles in the prior year – it appears this proposal could conceivably make operating all-electric vehicles more expensive than operating gas-powered vehicles over time through this transfer of revenue burden via fee. In addition, the one-time fee for an entire year could prove to be large and onerous. It is difficult to imagine this as an equitable approach to future transportation funding needs.

HF 489 (Koegel, DFL, Spring Lake Park, 5369)
Indexes the motor fuels tax (both gasoline and special fuels) to the National Highway Construction Cost Index, as determined by the U.S. Department of Transportation, for the previous calendar year.

Gambling Taxes

HF 140 (Dettmer, R, Forest Lake, 4124)
SF 196 (Anderson, B., R, Buffalo, 5981)
Allows operational expenses for lawful gambling to be counted against gross receipts in the calculation of the combined net receipts tax for lawful gambling.

HF 142 (Dettmer, R, Forest Lake, 4124)
SF 195 (Anderson, B., R, Buffalo, 5981)
Reduces the tax rates for the combined net receipts tax for lawful gambling by the following:

- Up to $87,500 is reduced from 9% to 6%
- From $87,500 to $122,500 is reduced from 18% to 12%
- From $122,500 to $157,500 is reduced from 27% to 18%
- Above $157,500 is reduced from 36% to 24%

Individual Income Taxes

HF 150 (Jurgens, R, Cottage Grove, 3135)
SF 273 (Goggin, R, Red Wing, 5612)
Provides an unlimited income tax subtraction for social security and other retirement income.

See comments in Spotlight from last week [Issue 21-01] for HF 26 (Jurgens); SF 56 (Goggin). Also see the January/February 2020 Fiscal Focus for a more detailed analysis. This bill also applies the unlimited subtraction to other retirement income, making it an even more problematic tax expenditure.

HF 153 (Robbins, R, Maple Grove, 7806)
Adds tuition to the K-12 education credit and increases the credit from $1,000 to $1,500 per qualifying child. Increases the income threshold for receiving the maximum credit from $33,500 to $50,000 and lengthens the phaseout of the credit by lowering the amount the credit is reduced per dollar of income. Indexes the credit to the Consumer Price Index (CPI). Also increases the K-12 subtraction for education expenses from $1,625 to $2,600 for K-6 students and $2,500 to $3,900 for grades 7-12.

HF 175 (Haley, R, Red Wing, 8635)
Creates an excess premium tax credit for taxpayers whose income exceeds the limit for MinnesotaCare and are not eligible for a premium tax credit under the Affordable Care Act due either to:

1.) income in excess of 400% of federal poverty guidelines, or 2.) declining an employer-sponsored health plan that meets the minimum essential coverage requirements of the ACA, but does exceeds the employee contribution threshold based on percentage of income. The maximum credit is $10,000 and is reduced by 20% for taxpayers filing as individuals with income over $75,000 and 10% for taxpayers filing jointly with income over $150,000.

HF 285 (Akland, R, St. Peter, 8634)
Increases the long-term care insurance premium credit from $100 to $250 for qualified individuals and from $200 to $500 for married joint filers. The credit would apply to 100% of premiums paid, up from 25% of premiums paid in current law.

HF 454 (Lucero, R, Dayton, 1534)
Adds an income tax subtraction for health insurance premiums as defined by the amount eligible for federal deductibility.

By federal definition, the premium amount eligible for deductibility must exceed 7.5% of the taxpayer's federal AGI and cannot be a part of most employer-sponsored plans, nor can it be pre-tax or a premium tax credit through the ACA, so this would apply to an unknown number of plans purchased by individuals and self-employed taxpayers that are mainly not through employers and not part of the state health care exchange. The amount of premiums paid that would meet these conditions would reduce the taxpayer's federal AGI for the purposes of Minnesota income tax calculations.

SF 219 (Clausen, DFL, Apple Valley, 4120)
Conforms Minnesota to the 2020 CARES Act, which excludes employer student loan payments from gross income. The exclusion is retroactive to federal enactment.

MinnesotaCare Taxes

HF 304 (Daudt, R, Crown, 5364)
Repeals the health care provider taxes to fund MinnesotaCare – the gross revenues tax on hospitals and health care providers.

The retention of the provider tax in its slightly diminished form was the cornerstone of the 2019 budget agreement and its repeal is not likely to be part of budget negotiations in 2021. The regressiveness of the tax is always criticized, but "fairness" issues are more complicated than the standalone incidence analysis of the provider tax suggests. Provider taxes are indeed one of the most regressive taxes in the state's revenue portfolio and its elimination would reduce the overall regressivity of the state/local tax system by about 20%. However, the "benefit incidence" of the tax falls disproportionately on lower income households resulting in net fiscal incidence that is highly progressive. Moreover, this net incidence offsets the regressive characteristics of health-care related tax expenditures which research has shown to skew disproportionately to higher income households.

Mortgage and Deed Taxes

HF 361 (Hertaus, R, Greenfield, 9188)
Repeals the mortgage registry tax of 0.23% of debt secured when a mortgage is registered ($230 per $100,000 in secured debt). The additional 0.01% Environmental Response Fund tax in Hennepin and Ramsey County is also repealed ($10 per $100,000 in secured debt).

Property Tax (except Aids, Credits, Refunds; & TIF)

HF 182 (Dettmer, R, Forest Lake, 4124)
SF 259 (Lang, R, Olivia, 4918)
Exempts seasonal-recreational rental (class 4c) property owned by congressionally chartered veterans organizations from property taxes. The current state class rate for 4c property is 1.5% with congressionally chartered veterans properties currently taxed at the reduced class rate of 1.0%.

HF 199 (Mortensen, R, Shakopee, 8872)
Repeals fiscal disparities, which is regional tax base sharing of commercial-industrial property in the Twin Cities Metropolitan Area (since 1971) and the Iron Range (since 1996).

HF 366 (Green, R, Fosston, 9918)
Prohibits increases in property value for homesteads owned by those age 65 or older.

A bad idea for several reasons. First, it will shift tax burden onto everyone else, including lower-income homeowners who do not have the good fortune of having most of their income already exempt from state taxation. Second, it's another example of offering tax relief to specific property owner situations subject to changing eligibility conditions which makes efficient, effective property tax administration a headache at best and impossible at worst. Last, but certainly not least, Minnesota already has the most generous and accessible property tax refund program in the nation based on the relationship between income and amount of property taxes paid. In addition, Minnesota has a Senior Citizens Property Tax Deferral Program which allows deferment of property taxes above 3 percent of household income up to $60,000 until the title is transferred.

HF 496 (Marquart, DFL, Dilworth, 6829)
Creates a citizens' property tax advisory committee in every county and each city with a population over 500 to produce recommendations at least 7 days in advance of initial levy certification (September 30). Requires additional reporting and solicitation of citizen input before September 30. Establishes Minnesota Property Taxpayer's Day on the first Wednesday following the first Monday in December and specifies that budget information must be supplied to the public in that same way it is reported to the State Auditor. Notice of the meeting must occur by November 10. The public must be allowed to speak no later than 20 after the beginning of the meeting and it must be broadcast remotely and provide access for the public to participate both in person and remotely.

Any measure that could create more citizen involvement in the budget process leading up to the September preliminary levy certification would be a marked improvement over the current truth-in-taxation meeting that takes place at the end of the process, usually in December. This does not change the truth-in-taxation law, but we assume that the new taxpayer's day would meet the requirements and also serve as the truth-in-taxation meeting.

SF 366 (Carlson, DFL, Eagan, 7-8073)
Exempts a nonprofit community art and meeting space property in the city of Eagan from property taxes.

SF 235 (Cwodzinski, DFL, Eden Prairie, 1314)
Requires property tax statements to separately list property taxes attributable to each special taxing district.

SF 316 (Senjem, R, Rochester, 3903)
Eliminates the first-tier class rate of 0.75% on 4d property (the first $100,000 in property value), so that the entire value of a 4d property is taxed at a 0.25% class rate. 4d property is low-income rental property certified to the assessor by the Minnesota Housing Finance Agency.

Property Tax – Aids, Credits, & Refunds

HF 508 (Poston, R, Lake Shore, 4293)
SF 251 (Draheim, R, Madison Lake, 5558)
Establishes a tax credit for agricultural landowners who establish and maintain a riparian buffer that reduces pollution from runoff, prevents soil erosion, and maintains or provides riparian corridors. Riparian buffers are currently required under state law for all lands except for land used for agricultural cultivation where landowners "may" establish buffers that include additional options, such as development of holding ponds if needed. To receive the credit, eligible land must be certified by the local water and soil conservation district in accordance with state standards. The credit is equal to the amount of property tax attributable to the portion of the property. Includes a state appropriation to offset the lost property tax revenue to local governments – school funding is handled through the department of education and all other local governments through the department of revenue.

Since this fundamental water quality effort remains optional for agricultural land, our take is this credit could significantly increase the acreage meeting state standards to improve water quality. Without research into how prevalent state standards are currently met on an optional basis, we can't be sure, but annual certification would clearly establish the data beyond surveys which are the probable current measure.

SF 243 (Chamberlain, R, Lino Lakes, 1253)
Requires Minneapolis and St. Paul to directly use local government aid (LGA) from the state to fund additional peace officers. Specifies that "new positions" are effective for 2022 that are not budgeted in the cities' 2021 budgets. LGA for 2022 in Minneapolis and St. Paul must be distributed to meet either: 1.) three peace officers per 1,000 population; or 2.) 20% of LGA in 2022 rising to 70% of LGA in 2028 and years thereafter. Requires Minneapolis and St. Paul to file for certification with the State Auditor and for the State Auditor to certify to the commissioner of revenue to prove compliance for LGA distribution. If the requirements are not met, the commissioner of revenue is authorized to withhold LGA down to zero, or from the following year's distribution, if necessary, to reach the certifiable amount. Any withheld LGA returns to the general fund and is not distributed.

Frustrations about how Minnesota's largest city may be handling its internal affairs and the magnitude of dollars at issue notwithstanding, in general terms, this is an overreach of state authority into the operations of local government and calls into question the entire premise of LGA. We suspect there are lots of examples, on a smaller fiscal scale, of general-purpose aid not being used in the way state taxpayers would think it should be used, including in the 150 or so Greater Minnesota cities that receive LGA equivalent to, or greater than, their entire city property tax levy.

For the record, Governing Magazine published a comparison of the number of police officers per 1,000 residents in the 1,485 U.S. cities with more than 25,000 in population for 2016, and Minneapolis and St. Paul would rank in the top 50 nationally (out of 1,485) if they were to meet the 3 officers per 1,000 threshold in this bill. For context, the median for cities with populations from 200,000 to 500,000 in 2016 was 1.69 officers per 1,000; St. Paul was at 2.06 and Minneapolis was at 2.03 – well above the median and the average of 1.87 which is driven up by some outlier cities. Of the other 33 Minnesota cities included, only Duluth exceeded the median for its size, St. Cloud and Brooklyn Center were at the median, and the other 30 Minnesota cities were below (usually well below) the median for their sizes.

Sales Tax

HF 274 (Elkins, DFL, Bloomington, 7803)
Authorizes local governments in Minnesota to impose local sales taxes on motor fuels to fund transportation infrastructure, including highways, streets, bridges, transit vehicles, and transit facilities. The rate is to be determined by the local government and a public hearing is required. State law exemptions also apply to the local tax. Local governments authorized to impose other sales taxes under state law used for transportation infrastructure may not impose this tax until the existing tax has expired, nor may they impose a new local sales tax that funds transportation infrastructure while this tax is in effect.

Minnesota does not allow sales taxes on motor fuels at the state or local level, although several states do, resulting in sales taxes on roughly one-third of gasoline sold nationally. States that allow a local option sales tax on gasoline are: Colorado, Florida, Georgia, Hawaii, Illinois, Nevada, and Oregon.

HF 280 (Urdahl, R, Grove City, 4344)
Authorizes the city of Litchfield to establish a half-percent sales tax to fund $10 million to construct a community wellness/recreation facility. The tax is terminated at 20 years or when the city council determines that the amount received is sufficient to pay project and related bond issuance costs.

HF 298 (Noor, DFL, Minneapolis, 4257)
Provides a sales tax exemption for consideration paid for the right to purchase tickets to collegiate athletic events in preferred areas if: 1.) the consideration paid is used entirely to support student scholarship costs; 2.) the consideration paid is separately stated from the admission price; and 3.) the admission price is equal to or greater than the highest priced general admission ticket closest to the preferred area.

This is an exemption from the sales tax on admission to places of amusement, recreational areas, or athletic events, and the making available of amusement devices, tanning facilities, reducing salons, steam baths, health clubs, and spas or athletic facilities.

HF 355 (Sundin, DFL, Esko, 4308)
Authorizes the city of Cloquet to establish a half-percent sales tax to finance up to $8.15 million for improvements to the Pine Valley Regional Park Project and restoration and upgrade of the Cloquet Ice Arena. The tax is terminated at 10 years or when the city council determines that the amount received is sufficient to pay project and related bond issuance costs.

HF 385 (Kresha, R, Little Falls, 4247)
SF 366 (Chamberlain, R, Lino Lakes, 1253)
Allows a sales tax exemption for admission charges or other fund-raising activities by K-12 student organizations devoted to sports, education, or other extracurricular activities that produce revenues reserved by the school district specifically for that extracurricular activity. These activities must fall within the definition of Minnesota Statute 123B.49, the laws governing insurance for school district sponsored extracurricular activities.

HF 427 (Wolgamott, DFL, St. Cloud, 6612)
Excludes certain vendors of construction materials from June sales tax collections on an accelerated basis. Included vendors by business group under the North American Industrial Classification System are: 1.) sawmills and wood preservation, 2.) veneer, plywood, and wood products manufacturing, 3.) millwork manufacturing, 4.) cement and concrete product manufacturing, and 5.) merchant wholesalers for lumber and other construction materials.

HF 438 (Swedzinski, R, Ghent, 5374)
SF 262 (Dahms, R, Redwood Falls, 8138)
Provides a sales tax exemption for construction materials for a school building in Marshall if purchased by January 1, 2022.

HF 494 (Akland, R, St. Peter, 8634)
Authorizes the city of St. Peter to impose a sales tax of one-half percent to raise $9.1 million for construction of a new fire station. Termination of tax is 40 years, or when the city council determines that the amount received is sufficient to pay project and related bond issuance costs.

HF 495 (Akland, R, St. Peter, 8634)
Provides a sales tax exemption for construction materials for a fire station in St. Peter if purchased between April 1, 2022 and March 1, 2024.

HF 514 (Igo, R, Grand Rapids, 4936)
SF 453 (Tomassoni, I, Chisholm, 8017)
Authorizes Itasca County to impose a sales tax of one percent to raise up to $75 million for new construction and upgrades to correctional facilities, court facilities and county offices. Termination of tax is 30 years, or when the county board determines that the amount received is sufficient to pay project and related bond issuance costs.

HF 525 (Lislegard, DFL, Aurora, 0170)
SF 477 (Tomassoni, I, Chisholm, 8017)
Provides a sales tax exemption for construction materials for a regional public safety center and training facility, and the Miner's Memorial recreation complex and convention center. Public safety center materials must be purchased between May 1, 2021 and May 1, 2023; Miner's Memorial materials must be purchased between May 1, 2020 and May 1, 2022.

SF 203 (Eichorn, R, Grand Rapids, 7079)
Provides a sales tax holiday for school supplies over the seven days prior to Labor Day. Defines school supplies.

Sales tax holidays are one of those rare topics in which experts from both the left and the right find common ground: they are bad tax policy. Research has found sales tax holidays just trigger shifts in the timing of spending. Although holidays are often pitched as measures that provide assistance to the poor, other studies show the most significant increases in consumption come from the wealthiest households. The cost benefit analysis (forgone revenue compared to individual savings realized) is poor and the compliance costs for small business can be a burden. More and more states are dumping their holidays.

SF 216 (Rarick, R, Pine City, 1508)
Provides a broad sales tax exemption for construction materials purchased by contractors for projects by:

- School districts;
- Local governments;
- Hospitals and nursing homes owned and operated by local governments;
- Libraries of most types;
- Nonprofit groups;
- Hospitals, outpatient surgery centers, and critical access dental providers;

- Nursing homes and boarding care homes; and
- Various kinds of public infrastructure work.

SF 245 (Eichorn, R, Grand Rapids, 7079)
Provides annual tax holiday periods for firearms and fishing equipment for seven days before the openers for deer hunting and fishing.

EDUCATION – FINANCE

HF 292 (Frazier, DFL, New Hope, 4255)
Authorizes school districts to renew expiring referendums if: 1) the per-pupil amount is the same as the expiring referendum; 2) the term is not longer than the expiring referendum; and 3) the school board has adopted a written resolution and allowed public testimony.

Identical to SF 48 (Wiger)

HF 425 (Lucero, R, Dayton, 1534)
Creates a minimum revenue guarantee for school districts. Defines 14 general education components for the guarantee. The guarantee equals the product of the district's adjusted pupil units for that year and the greater of zero, or the difference between: 1.) $1,850; and 2.) the ratio of the district's general education component revenue to the district's adjusted pupil units for that year. A school district's revenue must not exceed $100 times the district's adjusted pupil units for that year if the first calculation is used.

HF 455 (Lucero, R, Dayton, 1534)
SF 426 (Kiffmeyer, R, Big Lake, 5655)
Creates "General Education Disparity Aid" – a new state aid for school districts. Defines low general education revenue and low property wealth for school districts. Districts with adjusted net tax capacity per adjusted pupil unit or referendum market value per resident pupil that is at or below the 20th percentile are eligible. The disparity aid allowance for these districts is calculated without referendum revenue approved by voters and does not include charter schools. Includes an open appropriation from the general fund to the Department of Education to fund the new aid.

HF 497 (Marquart, DFL, Dilworth, 6829)
Increases authority for intermediate school districts and other cooperative school districts to levy property taxes for their proportionate share of deferred maintenance for buildings used for instructional or storage purposes that are district-owned or leased to a cooperative. Specifies that resolutions to use long-term facilities maintenance revenue may specify which member districts will share project costs, but that debt service for bonds must be the responsibility of all member districts.

HF 498 (Marquart, DFL, Dilworth, 6829)
SF 389 (Dahms, R, Redwood Falls, 8138)
Identical to HF 497 except it retains specific language that is deleted in HF 497 allowing districts that are members of the "Technology and Information Education Systems" data processing joint board to levy for lease agreements to finance facility improvements for staff development purposes up to $632,000 through 2023.

SF 242 (Chamberlain, R, Lino Lakes, 1253)
Changes the thresholds for equalized referendum levy tiers. For fiscal year 2023 and later, a district's first tier referendum equalization levy must not exceed the amount raised by a tax rate of 0.03 percent times the referendum market value of the district times the ratio of the district's first tier referendum equalization allowance to $300. A district's second tier referendum equalization levy must not exceed the amount raised by a tax rate of 0.08 percent times the referendum market value of the district times the ratio of the district's second tier referendum equalization allowance to $460. Includes an open appropriation from the general fund to the Department of Education.

PENSIONS

HF 146 (Nelson, M., DFL, Brooklyn Park, 3751)
SF 246 (Pappas, DFL, St. Paul, 1802)
Increases the annual limits for contributions by local and state government to supplemental pension funds and other retirement funds on behalf of laborers, plumbers and pipefitters, and operating engineers who are covered by collective bargaining agreements. The current per-employee general limits of $7,000 for local government laborers and $5,000 for plumbers and pipefitters are removed for a limit of $50,000 per employee per year for laborers, plumbers and pipefitters, sheet metal workers, elevator constructors, electricians, carpenters and joiners, sprinkler fitters, painters and allied trades, and roofers. The limit for operating engineers is increased from $5,000 to $10,500 per year per employee.

HF 419 (Drazkowski, R, Mazeppa, 2273)
Defines independent nonprofit firefighting corporations as municipalities for the purpose of receiving police and firefighter retirement supplemental state aid in the same allocation as municipal volunteer firefighter relief associations.

STATE AND LOCAL GOVERNMENT

HF 43 (Quam, R, Byron, 9236)
SF 322 (Senjem, R, Rochester, 3903)
Prohibits courts from aggregating separate, but continuous, parcels of land under common ownership in regulatory takings cases under eminent domain law.

HF 276 (Robbins, R, Maple Grove, 7806)
Allows businesses to request that the Secretary of State omit all addresses of the business entity from display on the Secretary of State's website. The business must certify that: 1.) there is only one shareholder, member, manager, or owner of the business; 2.) that individual is a natural person; and 3.) at least one of the addresses provided is the residential address of that individual. Requires the Secretary of State to post the option and request form on the website.

HF 344 (Masin, DFL, Eagan, 3533)
Changes the process for appointing Met Council members and provides for two-year staggered terms. Expands the nominating committee from 7 members appointed by the governor to 13 members appointed by the governor, the Association of Minnesota Counties, and the Association of Metropolitan Municipalities. Provides a process for notification and involvement for local governments. Specifies desired candidate qualifications and the process for the nominating committee to choose finalists for the governor's consideration. Requires the governor to consult with the nominating committee and publish reasons in writing if the nominating committees candidates are not chosen.

Follows the recommendations of the 2016 report of the Citizens League Metropolitan Council Task Force. The lone exception is that the Citizens League envisioned some public members of the expanded nominating committee, while the bill gives all the seats to the AMC and AMM. Considering the original Citizens League proposal was to have an elected Met Council and was only changed in final negotiations of the 1967 Legislature to the give the governor full authority, any steps in the process to create more trust and cohesion between local governments and the Met Council, and more accountability of the governor's choices would be welcome. Staggered terms would also create some institutional carryover from administration to administration.

HF 368 (Green, R, Fosston, 9918)
Eliminates eminent domain powers of watershed districts.

HF 371 (Haley, R, Red Wing, 8635)
SF 6 (Benson, R, Ham Lake, 3219)
Permits the Legislature to terminate any order or rule adopted by the governor in a peacetime emergency if continued for more than 30 days.

HF 389 (Hassan, DFL, Minneapolis, 0294)
Creates the "Woman of Color Opportunity Act," a multi-faceted approach through DEED and the Department of Education that focuses on small business development, financial literacy, encouragement of STEM careers, overall increase in academic success, and high-wage/high-demand nontraditional jobs focus though competitive grants and pilot programs. Specifies outcomes and reporting requirements. Includes open appropriations for DEED and the Department of Education.

HF 444 (Pelowski, DFL, Winona, 8637)
States that state-declared disasters do not include catastrophes cause by civil unrest.

HF 500 (Marquart, DFL, Dilworth, 6829)
Changes the definition of local government debt financing to include building construction and other facilities for maintaining transportation or transit projects and improvements.

HF 509 (Poston, R, Lake Shore, 4293)
Forgives penalties given and reinstates business licenses suspended due to Executive Order 20-04 at the conclusion of peacetime emergency.

SF 213 (Abeler, R, Anoka, 3733)
Prohibits additional penalties to a business for violations of Executive Orders 20-04, 20-08, 20-18, or 20-33 during the peacetime emergency.

SF 299 (Koran, R, North Branch, 5419)
Limits growth of full-time positions in state government from one fiscal year to the next to the percentage growth in state population.

TAX ADMINISTRATION/GENERAL POLICY

HF 363 (Reyer, DFL, Eagan, 4128)
Removes private nonprofit hospitals that lease from the city or county and ambulance service licensed under the Emergency Medical Services Regulatory Board from presenting claims to the commissioner of revenue under revenue recapture law. Remaining claimant agencies are: state agencies, the regents of the University of Minnesota, any district court of the state, any county, any statutory or home rule charter city, including a city that is presenting a claim for a municipal hospital or a public library or a municipal ambulance service, a hospital district, any public agency responsible for child support enforcement, any public agency responsible for the collection of court-ordered restitution, and any public agency established by general or special law that is responsible for the administration of a low-income housing program.

HF 376 (Youakim, DFL, Hopkins, 9889)
Appropriates $175,000 for a Free Filing Report to be conducted by the Department of Revenue. Minimum requirements for the report include: a review of options in other states; assessment of taxpayer needs; analysis of alternative options to provide free filing; and an analysis of IRS Free File Program usage. Directs the commissioner to survey tax preparation software vendors about system development, capability, security and cost; and about income thresholds for free filing, providing and maintaining appropriate links with IRS and MN DOR, and ensuring that taxpayer return information is maintained and protected as required.

TRANSPORTATION

HF 326 (Masin, DFL, Eagan, 3533)
Authorizes cities to charge street impact fees based on the net buildable acreage of the subdivision, the impact on the transportation system, or as part of the transportation plan. Street impact fees must be placed in a special fund that is only used for the approved transportation plan. Grants authority to deny approval of a subdivision based solely on the adequacy of the transportation system. The fee must bear a rough proportionality to the need created by the subdivision or development.

HF 523 (Elkins, DFL, Bloomington, 7803)
Imposes a road usage charge for all-electric vehicles based on the miles traveled, multiplied by the total excise tax rate for gasoline, divided by the analogous fuel economy, which is based on the automotive trend data maintained by the U.S. EPA for fuel consumed mainly by gas-powered vehicles. Specifies the requirements and responsibilities of the commissioner of transportation and account providers who enroll all-electric vehicles in usage charge management agreements. Providers must establish sufficient capacity to accurately identify miles traveled by the vehicle in Minnesota and a reasonable capacity for future implementation of vehicle miles traveled during specific times of day, over specific road segments, and within managed lanes. Also established is an implementation surcharge on all-electric vehicles to be deposited in a vehicle services operating account for administrative costs borne by the department of transportation and account providers. The remainder is deposited in the highway user tax distribution fund (same as the gas tax). Specifies reporting requirements to the legislature and includes an open, one-time appropriation to implement the usage charge.

This bill is representative of the conversation that needs to begin about how to integrate the increasing use of electric vehicles into state funding of the highway and arterial road system. It includes thought of the future need to integrate electric vehicles into congestion management systems like MNPASS.

SF 277 (Pratt, R, Prior Lake, 4123)
Authorizes cities to charge street impact fees.

Identical to HF 326 (Masin).