MINNESOTA CENTER for Fiscal Excellence

LEGISLATIVE SPOTLIGHT

Sound tax policy. Efficient spending. Accountable government.

No. 23-01 | Through 01/22/2023

Welcome to the first issue of our new (and we believe improved) *Legislative Spotlight* for the 2023 legislative session. While this will be our 32nd year of keeping you informed about bills and legislative developments at the capitol, long-time readers will notice some big changes in the publication based on our member survey and a review of our website engagement.

We're shifting from what historically has been a bill introduction publication to more of a weekly report on session happenings and developments. We will continue to highlight notable bill introductions and remain focused on tax/finance/budget issues, however, we expect to expand our coverage of committee hearings and focus more of our analysis, commentary, and tracking on bills "in play" – those heard in committee and being laid over for further consideration or progressing independently. We will draw attention to notable agency reports, flag national research we come across of relevance to ongoing budget debates, and perhaps occasionally offer up some state fiscal trivia.

This sample issue is very much a work in progress so please don't hesitate to tell us what you like, don't like, or would like to see! We expect to expand what is included as we go and publish Spotlight weekly throughout the session.

Tax Committee Make-Up and Early Observations

Usually, in the first couple of weeks of a legislative session, lawmakers ease back into the session grind for good reason. A lot of "101" time is spent educating and (re)familiarizing lawmakers on laws, issues, reports, and the support infrastructure which will be helping them over the next several months. (Aside: we cannot recommend highly enough the excellent overview briefs and presentations that legislative and agency staff provide during this time. They are a must for anyone interested in having a handy reference guide and background on issues before the committee.)

In the House Tax Committee, the immediate push to get a federal conformity bill on the Governors' desk marked a bit of a departure from this routine. But these first few weeks of educational presentations to get lawmakers up to speed takes on special relevance this year.

We have not researched past years of committee membership changes, but even acknowledging redistricting, the turnover in House Tax Committee membership seems fairly extraordinary to us both in terms of "how much" and "who." A brief tale of the tape:

- Only 8 of 21 members were on the committee in 2022.
- Over half of the new members are first termers comprising one-third of the full committee.
- Ratio of years of legislative experience lost to legislative experience gained on the committee in 2023 was more than 4 to 1.

On the 12-member DFL side, there are three first termers, and only one, Cheryl Youakim, has served more than 2 previous terms on the committee. The gavel is now held by Aisha Gomez, beginning her third term representing south Minneapolis, who takes over for Paul Marquart the new Minnesota Department of Revenue commissioner.

The 9-member Republican minority has four first-time members and is led by former tax chair Greg Davids. To put Chair Davids' relative legislative experience in some perspective, he has served 3,516 more days – or over 9.5 years longer – in the legislature than the rest of his Republican tax committee colleagues combined. Some high-profile Republican tax committee stalwarts have moved on to other committee assignments (Pat Garofalo, Joe McDonald) or retired from the legislature (Bob Dettmer, Jerry Hertaus).

The Senate Tax Committee is a bit of a different story. Despite the departure of Iron Range icon Tom Bakk, former majority leader Paul Gazelka, and former chair Roger Chamberlain, legislative and tax experience on the committee continues to run deep. Chair Ann Rest brings 38 years of legislative experience and considerable depth of understanding of Minnesota tax policy and administration. She is now the only person to have ever chaired the committee in both the House and Senate (at least in modern history). The rest of the 10-member committee average over 9 years of legislative experience and seven have multiple legislative sessions of experience on tax committees.

Perhaps as a result, the Senate Tax Committee hasn't hesitated to dive head-first into tax policy matters, bills, and public testimony. The first meeting addressed and passed tax conformity (which was also expedited by the House). Meetings 2 and 3 revisited articles of the ill-fated 2022 tax agreement and heard testimony on their continued interest and relevance. Meetings 3 and 4 took up the controversial and exceedingly complicated world of Social Security and public pension income exclusion issues (see From the Committee Room on page 3). Meeting 5 tackled administrative clean-up in tax increment financing. On the 6th meeting day "the committee rested" – pausing from a rather intense start to confirm Commissioner Marquart.

It will be interesting to watch and compare how the two committees proceed with their work given the interests and leadership styles of the respective chairs. Chair Gomez appears to be taking a page from her predecessor and seeking to establish a collegial committee atmosphere while communicating her interest in exploring and pursuing tax measures that improve the progressivity of the system. Chair Rest has projected a more direct style, keen on running tight, efficient hearings focused on unpacking and understanding the policy and administrative complexities of the tax system, and not allowing political talking points to drive tax decision-making. For example, on introducing the issue of Social Security exclusion, Chair Rest observed, "The goal is to get good information and dispel bad information, like the notion of double taxation which is so far from the actual case I don't want to hear it brought up."

This years' deadlines are as follows:

- **March 10th**: 1st committee deadline (bills through committees in one body).
- **March 24th**: 2nd committee deadline (bills that met 1st deadline to pass committees in other body).
- **April 4th**: 3rd committee deadline (all major appropriation and finance bills to pass out of committees).
- **April 5th through 10th**: legislative break.
- **May 22nd**: constitutional adjournment date.

House and Senate Tax Committee Membership

For your convenience, we list here the membership of the House and Senate Taxes Committees and divisions, along with their party affiliation and contact information. All phone numbers are in the (651) area code.

House Taxes Committee

The committee meets in Room 5 of the State Office Building on Tuesdays, Wednesdays, and Thursdays at 1:00 pm. There are 12 DFL members and 9 Republican members. You may e-mail House members with this template: rep.firstname.lastname@house.mn.

Title (where applicable) and Name		Party	Phone
Chair:	Aisha Gomez	DFL	296-7152
Vice Chair:	Matt Norris	DFL	296-2907
Minority Lead:	Greg Davids	R	296-9278
Esther Agbaje		DFL	296-8659
Patti Anderson		R	296-3018
Jeff Brand		DFL	296-8634
Steve Elkins		DFL	296-7803
Michael Howard		DFL	296-7158
Jim Joy		R	296-6829
Jon Koznick		R	296-6926
Liz Lee		DFL	296-4277
Dave Lislegard		DFL	296-0170
Bjorn Olson		R	296-3240
Liz Olson		DFL	296-4246
Dave Pinto		DFL	296-4199
Kristin Robbins		R	296-7806
Andy Smith		DFL	296-9249
Chris Swedzinski		R	296-5374
Mike Wiener		R	296-4293
Jeff Witte		R	296-4240
Cheryl Youakim		DFL	296-9889

Committee Staff

Administrator:	Patrick McQuillan	296-4938
Legislative Assistant:	Robin Schmidt	296-8197

House Property Tax Division

The division meets in Room 5 of the State Office Building on Wednesdays at 10:30 am. There are 8 DFL members and 5 Republican members.

Title (where applicable) and Name		Party	Phone
Chair:	Dave Lislegard	DFL	296-0170
Vice Chair:	Liz Lee	DFL	296-4277
Minority Lead:	Duane Quam	R	296-9236
Paul Anderson		R	296-4317
John Burkel		R	296-9635
Nathan Coulter		DFL	296-4218
Steve Elkins		DFL	296-7803
Pat Garofalo		R	296-1069
Aisha Gomez		DFL	296-7152
Athena Hollins		DFL	296-4224
John Huot		DFL	296-4306
Michael Nelson		DFL	296-3751
Tim O'Driscoll		R	296-7808

Committee Staff

Administrator:	Patrick McQuillan	296-4938
Legislative Assistant:	Faith Privett	297-8145

Senate Taxes Committee

The committee meets in Room G-15 of the Capitol on Tuesdays Wednesdays, and Thursdays at 8:30 am. The committee has 6 DFL members and 4 Republican members; you may e-mail Senate members using the following template: sen.firstname.lastname@senate.mn. Some Senators require use of an email form.

Title (where applicable) and Name		Party	Phone
Chair:	Ann Rest	DFL	296-2889
Vice Chair:	Matt Klein	DFL	296-4370
Minority Lead:	Bill Weber	R	296-5650
Scott Dibble		DFL	296-4191
Steve Drazkowski		R	296-5612
Kari Dziedzic		DFL	296-7809
Grant Hauschild		DFL	296-1789
Jeremy Miller		R	296-5649
Carla Nelson		R	296-4848
Aric Putnam		DFL	296-6455

Committee Staff

Administrator:	Mitch Berggren	296-5540
Legislative Assistant:	Christie Blood	296-2889

FROM THE COMMITTEE ROOM

SF15/HF300: Full Social Security Exclusion and New Public Pension Benefit Subtraction

The Senate Tax Committee devoted two meetings to discussing and hearing testimony on a bill that dominated last year's tax debate: a full exclusion of Social Security income. However, its return this year is accompanied by an additional provision – a subtraction for public pension beneficiaries who do not receive Social Security income. This includes public safety workers and a diminishing number of pension beneficiaries whose defined benefit plan design predates Minnesota's coordination with Social Security.

The partial public pension subtraction is an effort to address inequities that exist in the treatment of public sector workers arising out of whether they receive Social Security or not. The inequity has been an issue of concern among many lawmakers for several years, but recent inflation has propelled the discrepancy into the spotlight. As several testifiers noted, public employee retirees who also receive Social Security in addition to their state defined benefit plan have seen Social Security adjustments of 5.9% and 8.7% over the last two years. Those solely relying on their defined benefit plans have seen adjustments of 1% each year.

The calculation for the public pension benefit subtraction is modeled after the existing federal and state tax treatment for Social Security benefits. The cost of the partial subtraction is projected to be $80 million for the FY24-25 biennium and relatively stable in the out-biennium as increased costs from larger numbers of eligible public safety recipients is offset by declining numbers of legacy pension fund beneficiaries. The projected cost of the full Social Security exclusion is $1.26 billion in FY24-25 growing to $1.50 billion (19%) in FY26-27. Demographic trends would suggest similar growth rates could be expected out to the indefinite future.

Public testimony in opposition to the bill focused on the full exclusion provision – the significant cost to the state budget and the lack of targeted relief being the chief concerns. Committee members expressed considerable sensitivity to the need to address equity matters in tax treatment of retirement income. The great equity chase is further complicated by federal tax treatment of specific retiree circumstances prompting Chair Rest to observe the effects of all these changes are extremely individualized saying, "one size doesn't fit all; one size doesn't fit anybody."

The popularity of a full exclusion is almost certainly influenced by this complexity. A study published in the journal of the National Tax Association examined the effects taxation of Social Security benefits had on older workers' income and claiming decisions. Noting the complexity of Social Security taxation and seniors' unresponsiveness to the incentives/disincentives created, the authors concluded "overall, the findings suggest that older taxpayers have little understanding of the rules governing Social Security benefit taxation." That helps explain the mass enthusiasm for a proposal when 54% of full year resident senior Minnesota filers would not benefit from it and 70% of the benefit accrues to filers with federal adjusted gross income in excess of $100,000.

If additional tax relief for seniors is deemed necessary, the state should instead adopt an expanded partial exclusion of Social Security benefits linked to household adjusted gross income ("if AGI is less than X, your Social Security benefits will not be taxed") to target relief. By doing so Social Security benefit taxation becomes much more transparent and helps address common misperceptions recipients may have about their benefits being taxed when in many cases they are not. In addition, savings from something less than a full exclusion can be used to expand the standard deduction for seniors to address fairness issues arising from those not covered by Social Security and who are more heavily dependent on earnings and taxable pensions.

HF35/SF46: Inflation and the Forecast

"Restoration" of expenditure inflation into the forecast quickly passed through the House State Government Finance and Ways and Means committees and the Senate Finance Committee. The state is poised to add the forecast inflation estimate into the February Forecast "projected spending" line item for the first time in 20 years.

A remaining implementation issue, however, will be choosing an inflation rate to use. The bill directs Commissioner of MMB to consult with the chairs and lead minority members of the Senate State Government Finance Committee and the House Ways and Means Committee, and legislative fiscal staff.

Dr. Robert Tannenwald, Senior Fellow at the Center on Budget and Policy Priorities has observed, "Ideally the policy analyst needs a precise deflator with the following characteristics: first, it should be based on a basket of inputs typically purchased by state and local governments within the state, and second the price of each input should reflect the average prevailing throughout the state." Despite all the concern expressed about inflation, to our knowledge no one has ever been curious or interested enough to study or report on cost trends in the various categories of goods and services purchased by Minnesota governments and identify where in state government these inflationary impacts have the greatest impact on public service delivery, let alone construct an index on that information.

The usual measures are imperfect for different reasons. The Consumer Price Index can address geographic differences but arguably constitutes the wrong basket of goods and services. The Implicit Price Deflator for State and Local Government (IPD) is based on government purchases but is a national aggregate measure where larger states have much greater weighting, and Minnesota's experience can be very different. Another issue with the IPD is government has the ability to manage and exercise control over the price of its primary purchased input and the largest component of the IPD – employee compensation. As a result, the IPD has a self-referential quality – government decisions can lead to higher costs that in turn are used to assert and communicate concerns about the adequacy of governments' own resources. It's worth noting IPD has grown 17.4% faster than the CPI over the last 20 years.

MCFE testified against the bill in both the House and Senate based on the argument that current treatment adequately provides the information necessary for fiscally responsible budgeting without disincentivizing base budget scrutiny or introducing accountability issues and bias in what should be a neutral budgeting process.

Confirmation of Commissioner Marquart

To absolutely no surprise, the confirmation of Paul Marquart breezed through the Senate Tax Committee accompanied by significant bipartisan enthusiasm for the nomination itself (a Republican member called him "the perfect pick") and praise for the experience, knowledge, and interpersonal skills he brings to the job.

In his remarks, Commissioner Marquart said he sees his primary responsibility as making sure tax laws are administered, enforced, and collected in fair way, instilling trust and confidence among taxpayers, and working to make tax system simpler and more efficient. He noted the Department is currently undergoing through strategic planning process in which performance measures are a focus. Questions from committee members offered a couple of additional insights:

- When asked how he saw his role as chief tax administrator for the state intersecting with activities regarding the Governor's forthcoming tax agenda, he made it clear part of his responsibilities will also be to represent, advocate, and promote the Governor's tax bill before committees.
- When asked about the status of state valuation of utility and pipeline property process review and the problems that has created for many local governments, Commissioner Marquart noted the process review report is due within a month.
- Responding to Chair Rest's comment of her keen interest in working on state sales tax policy on issues like economic nexus, digital goods, and intersections with Congressional action, Commissioner Marquart assured the Chair she will be a partner in this work.
- There are some internal administrative processes and procedures lawmakers will want the new Commissioner to address. A DFL Senator took the opportunity to express frustration about inflexibility of agency staff in a case where a taxpayer in his district followed published Department guidance and Department correspondence only to have the Department later change its interpretation of the circumstances and levy a retroactive tax bill.

Anyone who has followed the House Tax Committee in recent years under Chair Marquart's gavel appreciates his capabilities in managing discussions around a potentially quarrelsome and highly partisan topic like tax policy with graciousness, good humor, and intelligence. His leadership at Revenue is a big plus for Minnesota.

Education Finance: "Full Funding" Estimate Now Up to $7-8 Billion

Testifying in the Senate Education Finance Committee, Education Minnesota has upped their full funding estimate to $7 - 8 billion in additional funds. Spending initiatives include more professional support staff, free breakfast and lunch, increases in basic per pupil aid tied to inflation, eliminating the special education cross subsidy, and more support for English learners. It also includes altering the Teachers Retirement Association pension plan to enable earlier retirement with full benefits, which you will be hearing much more about from us in the future.

BEYOND THE COMMITTEE ROOM

Governors' "One Minnesota" Budget Roll Out: Parts One and Two

Like last year Governor Walz is rolling out his biennial budget proposal in staged phases to maximize news coverage of major themes and elements while giving those of us who drink from the budget proposal firehose a chance to breath between gulps.

First up is the Governor's "Recommendations for Children and Families." It is comprised of 86 items spanning nine agencies totaling $5.19 billion in spending for the current and FY 24-25 biennium combined, and $6.61 billion for FY 26-27.

Following are the tax aids and credits provisions:

- Child and dependent care credit expansion with newborn credit – Adjusted for number of dependents and income FY 24-25 cost: $538.6 million.
- Child tax credit – $1,000 per child, max 3; refundable, phase out begins at $50,000. FY 24-25 cost: $1.125 billion.
- K-12 Education credit update – Increase phase out to begin at $59,210; annual adjustment for inflation FY 24-25 cost: $20.5 million.
- Working family credit expansion for individuals who file with Individual Taxpayer Identification Numbers (ITIN) FY 24-25 cost: $19.8 million.

Total Tax Aids and Credits Provisions are $1.703 billion for FY23-25, increasing to $1.795 billion in FY26-27.

Part 2 is "Investing in Minnesota's Future". It is comprised of 72 items spanning 14 agencies totaling $2.64 billion in spending for the current and FY 24-25 biennium combined, and $1.47 billion for the FY 26-27 biennium. It includes a wide variety of workforce initiatives, access to a variety of grant and loan programs, and climate change initiatives.

The only tax aid and credit provision is a $20 million appropriation for the state angel tax credit. (It is not clear to us at this time if this credit is intended to be generally available or specifically targeted to only investment in companies with founders that are women, veterans, people of color, Native people, and those headquartered in Greater Minnesota.) The headline Paid Family and Medical leave proposal has a $668.6 million price tag for FY23-25 which drops to only $5.5 million in the out-biennium when the proposed 0.6% wage premium split between employers and employees kicks in.

To offer some perspective on the claims these proposals have on currently projected available resources, Part 1 and 2 together consume 124% of the currently projected FY24-25 structural balance (164% assuming inflation would now be included in forecasted spending) and 97% of the currently projected FY26-27 structural balance (159% assuming inflation would now be included in forecasted spending)

BILLS IN COMMITTEE

Upcoming Hearings:

January 23 - Monday

HF 13 *– Modifies child care assistance rates*
House Ways and Means Committee

HF 150 *– Modifies child care stabilization base grants*
House Ways and Means Committee

HF 177 *– Unearned income in assistance program calculations*
House Human Services Policy Committee

SF 4 *– Modifies renewable energy standard obligations*
Senate Energy, Utilities, Environment, and Climate Committee

January 24 - Tuesday

HF 9 *– Expands dependent care tax credit*
House Tax Committee

SF 56 *– Creates student support personnel aid*
Senate Education Finance Committee

SF 2 *– Paid family and medical leave*
Senate Health and Human Services Committee

HF 5 *– School lunch and breakfast for all students*
House Education Finance Committee

HF 100 *– Adult use cannabis legalization*
House Environment and Natural Resources Committee

January 25 - Wednesday

HF 2 *– Paid family and medical leave*
House Workforce Development Committee

HF 442 *– Creates income tax fifth tier*
House Tax Committee

SF 4 *– Modifies renewable energy standard obligations*
Senate Energy, Utilities, Environment, and Climate Committee

January 26 - Thursday

HF 19 *– Earned sick and safe time*
House Judiciary Finance and Civil Law Committee

HF 100 *– Adult use cannabis legalization*
House Labor and Industry Committee

Great Start Child Care Credit

HF 9 (Kotyza-Witthuhn, DFL, Eden Prairie, 7449)
SF 9 (Hauschild, DFL, Hermantown, 1789)

Hearings:
January 24: House Tax Committee

Policy: Replaces the existing dependent care credit and **decouples** the state credit from section 129 of IRS code, which determines amount of assistance excluded from gross income for the federal credit. That exclusion becomes an addition to federal taxable income as flexible spending accounts under state statute 290.0131, which includes other additions such as 529 plans, section 179 expensing, and capital gains lump-sum distributions. Retains definitions from section 21(b) of IRS code in order to exclude MFIP grants and allowances from determination of whether the taxpayer provided more than half of the child's support. Adds a young child definition for children under 5.

Formula: The new credit is 50% of employment-related dependent care expenses and begins to phaseout at AGI above $125,000 up to $400,000, at which point the credit equals 20% of expenses and is then fully phased out over the next $40,000 in income. Expenses are limited to $3,000 for one child; $6,000 for two children ($13,000 if one is a young child); $7,000 for one young child; $14,000 for two young children; and $19,000 for three or more young children.

Inflation Factor: Current credit is adjusted by the CPI annually. Technical change to apply CPI to new credit.

Revenue Estimate: None as of January 21.

Appropriation: The amount sufficient to pay the credits from the general fund. Retains refundability of current credit.

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Individual Income Tax Fifth Tier

HF 442 (Her, DFL, St. Paul, 8799)

Hearings:
January 25: House Tax Committee

Increases income thresholds for the four existing income tax brackets and adds a fifth-tier rate of 12.45% for joint filers over $500,000; individual filers over $250,000; and head of household filers over $400,000.

Revenue Estimate: None as of January 21.

Student Support Personnel Aid

HF 8 (Berg, DFL, Burnsville, 5387)
SF 56 (Hoffman, DFL, Champlin, 4154)

Hearings:
January 24: Senate Education Finance

Policy: Creates a new education aid to hire school counselors, psychologists, social workers, nurses, and chemical dependency counselors. School districts and schools must create new positions to participate and must apply to the Department of Education for funding.

Formula: Initial aid equals the greater of $100 per pupil or $50,000. For charter schools, $100 per pupil and for intermediate school districts or other cooperative units, $6 per pupil.

Governance: Requires annual reporting to the Department of Education on two or more of the following measures: school climate; student health; attendance rates; academic achievement; career and college readiness; and postsecondary completion rates.

Appropriations: $96 million in FY 2024 and $106 million in FY 2025.

Paid Family and Medical Leave

HF 2 (Richardson, DFL, Mendota Heights, 4192)
SF 2 (Mann, DFL, Edina, 6238)

Hearings:
January 18: Senate Jobs and Economic Development
January 19: Senate Labor
January 24: Senate Health and Human Services
January 25: House Workforce Development

Taxes/Fees: Beginning in 2024, employers participating in the medical benefit and the family benefit programs, are taxed at 0.6% of insurance premiums paid to the state. The medical benefit program alone is taxed at 0.486% of premiums, and the family benefit tax alone is 0.114% of premiums. An employer must have an approved private plan to opt out of either tax. Beginning in 2026, the tax is a formula based on 1.45 times the amount disbursed from the family and medical insurance account for the year ending on September 30 of the prior year. From that result, the amount in benefit program accounts on September 30 is divided by twice the total wages of employees covered. For private plan approval and oversight, the initial application fee (and any subsequent plan amendments) is $250 for less than 50 employees, $500 for 50 to 499 employees, and $1,000 for over 500 employees. DEED must report on the adequacy of this fee in annual reports beginning July 1, 2025.

Governance: A Family and Medical Benefit Insurance Division is created in DEED, and a special account is created in the state treasury to pay for benefits and administration through DEED. The agency may spend up to 7% of projected benefit payments on administration, with 0.5% spent on public outreach. Includes small business assistance grants for employers with less than 50 employees. Grants are up to $3,000 per employee, with total grants statewide capped at $5 million per year.

Appropriations: The appropriation is $1.7 million for FY 2024 to DEED for one-time implementation costs, with an open appropriation for FY 2027 and an open base appropriation to be determined for FY 2028.

Earned Sick and Safe Time (ESS)

HF 19 (Olson, L., DFL, Duluth, 4246)
SF 34 (Pappas, DFL, St. Paul, 1802)

Hearings:
January 17: House Labor and Industry
January 17: Senate Labor
January 26: House Judiciary Finance and Civil Law

Policy: Creates a new individual remedy under the parenting and leave section of employment law. Employees earn 1 hour of Earned Sick and Safe (ESS) time for every 30 hours worked, up to a maximum of 48 hours annually. Allows ESS to be carried over from year to year up to 80 hours and would have no effect on more generous policies. Employers may require documentation for uses over three days.

Governance: Grants rulemaking authority to the Department of Labor and Industry. Increases enforcement fine under current law from $1,000 to $10,000. Allows grants to community organizations for public outreach. Requires annual report to the legislature that includes a list of violations and an analysis of noncompliance that has no identifying information about employers.

Appropriations: $1.37 million from the general fund to Labor and Industry in FY 2024 with base appropriations of $2 million in FY 2025 and $1.7 million in FY 2026. Additional appropriations:

- $300,000 in FY24 for community organization grants; $300,000 base in FY25; and $0 base in FY26
- $51,000 in FY24 for executive branch agencies and $102,000 for FY25 and beyond
- $1,000 in FY24 for the supreme court; $492,000 in FY25; and $459,000 in FY26

Fiscal Note: The cost to the state from all funds is $5.5 million for FY 2024-2025 and $5.7 million for the out biennium.

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Adult Use Cannabis Legalization

HF 100 (Stephenson, DFL, Coon Rapids, 5513)
SF 73 (Port, DFL, Burnsville, 5975)

Hearings:
January 11: House Commerce
January 19: House Judiciary Finance and Civil Law
January 24: House Environment and Natural Resources
January 26: House Labor and Industry

Taxes/Fees: Imposes an 8% gross receipts tax at the retail level on top of the general sales tax. All revenues are deposited into the general fund. Taxes property at the first-tier, commercial-industrial class rate of 1.5% for raising, cultivating, processing, or storing cannabis. The second-tier class rate (2%) is not applied, regardless of the property value. Includes a non-refundable license application fee of $250 for selling cannabis, and detailed criteria for who is eligible – including targeting of communities most impacted historically by cannabis prosecution. The proposed use of a gross receipts tax appears to be unique among states who have legalized cannabis; all other states rely on percentage or unit-based excise taxes.

Governance: Creates the Office of Cannabis Management with two divisions: The Division of Medical Cannabis and the Division of Social Equity. Creates a 30-person Cannabis Advisory Council and an expungement board. Establishes cannabis industry startup grants in the Department of Employment and Economic Development. Loans are from $2,500 to $50,000 and can be up to $150,000 if matched by equal or greater new private investment. Also includes industry training grants. Cities and counties may establish, own and operate cannabis stores.

Revenue Estimate: Revenue estimates are not yet available, however a bill proposing a 10% gross receipts tax introduced in 2021 was projected to collect $161 million in combined gross receipts and general sales taxes in FY24-25.

Appropriations: Office of Cannabis Management receives $7.6 million in FY 2024 and $7.7 million in FY 2025. The base for the ongoing appropriation is $14.7 million in FY 2026 and $21 million in FY 2027. The funding covers payments to 15 different state agencies and the supreme court to perform various functions related to the new industry. It also covers cannabis industry community renewal grants of $12 million in FY 2026 and $20 million in FY 2027.

Federal Tax Conformity

HF 31 (Gomez, DFL, Minneapolis, 7152)
SF 25 (Rest, DFL, New Hope, 2889)

Hearings:
January 4: House Tax Committee
January 5: House Ways and Means Committee
January 5: Senate Tax Committee
January 12: Signed into law (Chapter 1)

Revenue Estimate: Reduces revenue $99.8 million for the 2024-2025 biennium. A majority of the lost revenue will come from conforming with the 2021 Consolidated Appropriations Act ($57.9 million), and another $31.7 million is due to conforming with the 2021 American Rescue Plan Act. The price of conformity in the out-biennium is a negligible $5.5 million. Effective for 2022 tax filings.

Inflation Required in the Budget Forecast

HF 35 (Stephenson, DFL, Coon Rapids, 5513)
SF 46 (Marty, DFL, Roseville, 5645)

Hearings:
January 5: House State and Local Government Committee
January 9: House Ways and Means Committee
January 12: Senate Finance Committee

Governance: Requires Minnesota Management and Budget (MMB) to include inflation in the budget forecast. Does not specify inflation measure(s) to be used. MMB must consult with chairs and minority leaders of Senate Finance and House Ways and Means committees.

Social Security and Public Pension Subtractions

HF 300 (Lislegard, DFL, Aurora, 0170)
SF 15 (Putnam, DFL, St. Cloud, 6455)

Hearings:
January 12: Senate Tax Committee
January 17: Senate Tax Committee

Taxes: Subtracts the entire amount of Social Security benefits from taxable income. Creates a new subtraction for public pension income for benefits based on service for which Social Security is not received. The subtraction effects members in selected state and local retirement plans. In some cases, these are "legacy" members and there will be no new members to which the subtraction applies.

Revenue Estimate: The Social Security estimate of revenue lost grows into the future as the number of recipients increase: $604 million (FY24); $657 million (FY25); $719 million (FY26); $777 million (FY27). A much smaller revenue loss is due to the public pension subtraction which is $40 million per year and begins to decline slightly in the out biennium. Total biennial impacts are $2.9 billion over four years, $1.34 billion in FY 2024-25 and $1.57 billion in FY 2026-27.

Identical/Similar Bills:
HF 57 (Davids) – Social Security only
HF 131 (O'Driscoll) / SF 139 (Howe) – Social Security only
HF 153 (Davids) / SF 29 (Nelson, C.) – Social Security only
HF 136 (Robbins) / SF 95 (Rasmusson) - Identical
HF 171 (Davids) / SF 16 (Gustafson) – Social Security only
HF 199 (Engen) – Social Security only
HF 493 (Robbins) – Social Security only, other tax provisions
HF 516 (Dotseth) – Social Security only

HF 557 (Jacob) / SF 544 (Drazkowski) – Social Security only
HF 604 (Davis) – Social Security only
SF 12 (Miller) – Social Security only
SF 17 (Drazkowski, R, Mazeppa, 5612) - Identical
SF 415 (Howe) – Public pension and police and fire only
SF 416 (Howe) – Social Security and veterans only
SF 492 (Dornink) – Social Security only
SF 496 (Frentz) – Public pension only
SF 572 (Limmer) – Social Security only

State Taxpayer Receipt

HF 231 (Davids, R, Preston, 9278)

Hearings:
January 17: House Tax Committee

Governance: Directs MMB and Department of Revenue to develop an interactive tool on MMB's website to allow taxpayers to input their income and estimate the amount of major taxes paid. Requires those amounts to be translated into how the taxes are spent based on percentage of state general fund spending. Taxes included are income, sales, alcohol, tobacco, and motor vehicle.

Appropriations: $100,000 to develop and publish the tool in FY 2024 with base funding of $47,000 for FY 2025 and thereafter.

School Lunch and Breakfast for All Students

HF 5 (Jordan, DFL, Minneapolis, 4219)
SF 123 (Gustafson, DFL, Vadnais Heights, 1253)

Hearings:
January 18: Senate Education Policy
January 24: House Education Finance

Policy: Requires the Department of Education to provide funding to every school that participates in the federal lunch and breakfast programs to equal the difference between the federal reimbursement and the average cost of a school meal as defined by the USDA for all students. Requires schools to participate in the federal Community Eligibility Provision program when above the federal percentage determined for all meals to be reimbursed at a free rate.

Appropriations: Open appropriations for FY 2023-2025 (DE3 amendment).

Special Education Full Funding

HF 18 (Wolgamott, DFL, St. Cloud, 6612)
SF 28 (Westlin, DFL, Plymouth, 8869)

Hearings:
January 19: Senate Education Finance

Formula: Increases the cross-subsidy aid factor from 6.43% in FY 2023 to 100% for FY 2024 and beyond. Defines a district's general education deduction to equal revenue attributable to special education students who spend 60% or more of the school day outside the regular classroom receiving special education services.

Appropriations: Open appropriations from the general fund for FY 2023 – FY 2025.

BILLS TO WATCH - TAXES

The Bills to Watch sections are bills that have been introduced but not scheduled for any hearings as yet.

New Taxes

Revenue-Neutral Carbon Tax
SF 41 (Rest, DFL, New Hope, 2889)

Imposes a $50 per ton tax on the amount of carbon dioxide emitted from the burning of fuel, increasing by $5 per year until reaching a maximum of $200. Revenues are used: 1) as a rebate to employers against federal payroll taxes based on Minnesota payroll; 2) as a property tax credit to agricultural operations based on acreage of reduced tillage and cover crop planting; 3) as an income tax credit to individuals in the form of a dividend; 4) a one-time appropriation of $50 million to seed a revolving loan program to implement energy efficiencies and renewables; and 5) a high-impact refund for businesses from a formula based on increased energy costs and qualifying sales.

Land Value Taxation
SF 175 (Fateh, DFL, Minneapolis, 4261)
Allows cities to establish land-value tax districts by ordinance.

Ambulance Provider Assessment Program
SF 595 (Hoffman, DFL, Champlin, 4154)
Creates a new gross revenues tax for ambulance providers to deposit in the new ambulance fee fund. Exempts these providers from the MinnesotaCare provider tax.

Health Insurance Claims Assessment
SF 506 (Morrison, DFL, Deephaven, 9261)
Imposes a new gross revenues tax of 2% of claims on each health plan company and third-party administrator.

Tax Changes

Tax Rates

HF 400 (Howard, DFL, Richfield, 7158)
Reduces the class rate on 4d (low-income) property to 0.25%. Current law taxes the first $100,000 at 0.75% and 0.25% for the rest of market value.

HF 625 (McDonald, R, Delano, 4336)
Reduces the corporate franchise tax rate from 9.8% to 9.3%.

Income Tax Subtractions

HF 74 (Robbins, R, Maple Grove, 7806)
Limits the K-12 expense income tax subtraction to amounts above what are used to claim the K-12 credit. Increases the subtraction from $1,625 to $2,600 for grades K-6 and from $2,500 to $3,900 for grades 7-12 and **adjusts the subtraction for inflation**. The subtraction is based on the K-12 credit which is limited to household incomes up to $33,500 under current law and would be increased to $50,000.

HF 98 (Olson, B., R, Elmore, 3240)
Creates a subtraction for volunteer fire and rescue workers of $10,000, or $20,000 if filing jointly and both filers are volunteer fire or rescue workers.

HF 214 (Gillman, R, Dassel, 4228)
SF 59 (Gruenhagen, R, Glencoe, 4131)
Creates a subtraction of medical care and health insurance expenditures that are not compensated by insurance or paid/reimbursed by an employer.

HF 304 (Nelson, M., DFL, Brooklyn Park, 3751)
SF 131 (Rarick, R, Pine City, 1508)
Expands the subtraction for military retirement pay to include federal employee and civil service pension multiplied by the taxpayer's military service ratio. The subtraction begins to phase out at $30,000 of income and is $59 per month for active military and $750 for past military.

HF 350 (Torkelson, R, Hanska, 9303)
SF 333 (Dahms, R, Redwood Falls, 8138)
Increases subtraction from the estate tax on the exclusion for surviving spouses and provides new exclusion portability.

HF 467 (Noor, DFL, Minneapolis, 4257)
Provides an income tax subtraction for the portion of emergency higher education grants that are not used for qualified tuition and related expenses. Appropriates $800,000 per year in FY 2024-2025 for the Office of Higher Education to allocate matching grants focused on the immediate needs of homeless students that could result in noncompletion of their term or program.

Exemptions / Exclusions

HF 178 (Stephenson, DFL, Coon Rapids, 5513)
SF 369 (Hoffman, DFL, Champlin, 4154)
Exempts property taxes on energy storage systems retroactive to taxes payable in 2022.

HF 222 (Quam, R, Byron, 9236)
Allows cities to create business retention zones with up to 30% of qualifying properties in its commercial and industrial areas. Cities may exempt an unspecified percentage of commercial-industrial market value to reduce property taxes on those properties. Qualifying properties must experience an increase in property taxes of an unspecified percentage in back-to-back years since 2018 and be a property in the city for an unspecified length of years. Public hearing required.

HF 236 (Freiberg, DFL, Golden Valley, 4176)
Increases the market value exclusion for disabled veterans from $150,000 to $165,000 for 70% disability rating and from $300,000 to $330,000 for 100% permanent disability. Effective for taxes payable in 2024.

HF 446 (Davids, R, Preston, 9278)
SF 121 (Nelson, C., R, Rochester, 4848)
Exempts congressionally chartered veterans service organizations from the property tax.

SF 377 (Draheim, R, Madison Lake, 5558)
Freezes market value for homeowners 65 years old or older.

Credits / Refunds / Deductions

HF 74 (Robbins, R, Maple Grove, 7806)
Increases the maximum K-12 education credit from $1,000 to $1,500 and increases the phaseout reduction amounts above the maximum income threshold to produce a longer phaseout. Household income threshold for full credit is increased from $33,500 to $50,000.

HF 167 (Quam, R, Byron, 9236)
Creates a refundable income tax credit of $1,000 for all filers for tax years 2021 and 2022. Appropriates money.

HF 215 (Gillman, R, Dassel, 4228)
Allows an income tax deduction for the value of charity health care services. Provides for informational reports.

HF 249 (Quam, R, Byron, 9236)
Creates a refundable senior citizens' property tax credit. Local governments reimbursed. Appropriates money.

HF 397 (Davids, R, Preston, 9278)
Increases the maximum long-term care insurance credit from $100 to $500 per taxpayer and from $200 to $1,000 for joint filers.

HF 443 (Her, DFL, St. Paul, 8799)
Increases the maximum income tax credit for student loan payments from $500 to $5,000. Increases the eligible loan payment amount from $10,000 to $50,000. Makes the credit refundable.

SF 492 (Robbins, R, Maple Grove, 7806)
Expands income deduction for higher education expenses for section 529 tuition plans, includes distributions for apprenticeship expenses and elementary and secondary school tuition.

HF 494 (Robbins, R, Maple Grove, 7806)
SF 282 (Nelson, C., R, Rochester, 4848)
Allows tax credits for parental leave costs.

SF 42 (Klein, DFL, Mendota Heights, 4370)
Creates a refundable tax credit for investments in energy efficient home improvements, electric vehicles, and renewable energy. Appropriates money.

SF 45 (Klein, DFL, Mendota Heights, 4370)
Converts the property tax refund program to a refundable income tax credit.

SF 161 (Klein, DFL, Mendota Heights, 4370)
Increases maximum property tax refunds. Reduces thresholds and co-pays.

SF 253 (Draheim, R, Madison Lake, 5558)
Increases the maximum long-term care insurance credit from $100 to $250 per taxpayer and from $200 to $500 for joint filers.

SF 271 (Klein, DFL, Mendota Heights, 4370)
Increases maximum property tax refund and expands eligibility. Expands exemption amount for seniors and the disabled.

SF 272 (Klein, DFL, Mendota Heights, 4370)
Increases the maximum additional property tax refund from $1,000 to $2,000 and lowers the percentage increase needed to qualify from 12% to 10%.

SF 433 (Nelson, C., R, Rochester, 4848)
Provides a credit against the MinnesotaCare provider tax for certain nonprofits.

BILLS TO WATCH - APPROPRIATIONS

New Programs / Aids

State Rent Assistance
HF 11 (Howard, DFL, Richfield, 7158)
SF 11 (Mohamed, DFL, Minneapolis, 4274)

Creates a state rent assistance program for low-income households with a separate account in MHFA's housing development fund. Targeted at households up to 50% area median income and paying more than 30% annual income on rent. Provides grants to local housing authorities who must gain MHFA approval for assistance delivery procedures. Undetermined administrative fee for local housing authorities to MHFA; open appropriation for FY 2024-2025.

Full-Service Community Schools
HF 21 (Vang, DFL, Brooklyn Center, 3709)
SF 20 (Kunesh, DFL, New Brighton, 4334)
Appropriate $90 million per year for FY 2024-2025.

Education Success Incentive Aid
HF 114 (Quam, R, Byron, 9236)
Creates success incentive education aid. Open appropriations for FY 2024-2025.

Due Process Special Education Aid
HF 562 (Edelson, DFL, Edina, 4363)
Creates a new aid for school districts. Open appropriations for FY 2024-2025.

Soil and Water Conservation District Aid
SF 526 (Klein, DFL, Mendota Heights, 4370)
Creates a new aid for these local government units and appropriates $22 million per year.

Community Solutions for Healthy Child Development
SF 402 (Kunesh, DFL, New Brighton, 4334)
Establishes a new grant program in the Department of Health and forms a Community Solutions Advisory Council to administer. Appropriates $19 million in FY 2024 and $20 million in FY 2025.

City Climate Action Grant Program
HF 597 (Kraft, DFL, St. Louis Park, 7026)
Creates a new grant program in the Pollution Control Agency. Appropriates $5 million in FY 2024 (onetime).

Program / Formula Changes

HF 439 (Norris, DFL, Blaine, 2907)
SF 448 (Gustafson, DFL, Vadnais Heights, 1253)
Increases the general education basic formula by 5% per year for FY 2024-2025 and **links future increases to the rate of inflation**.

HF 456 (Perez-Vega, DFL, St. Paul, 9714)
SF 615 (Kunesh, DFL, New Brighton, 4334)
Makes permanent the expansion of the voluntary prekindergarten and school readiness plus program. Appropriates money.

BILLS TO WATCH - GOVERNANCE

Minnesota Secure Choice Retirement Program
SF 413 (Pappas, DFL, St. Paul, 1802)
Creates a public-private partnership for privately employed workers to save for retirement. Creates a board of directors to administer the partnership and requires state agencies to provide assistance.

Department of Direct Care and Treatment
SF 376 (Draheim, R, Madison Lake, 5558)
Creates a new state department that also includes a new Office of Human Services Licensing and Integrity. Transfers duties from the Department of Human Services.

Office of Juvenile Restorative Justice
HF 46 (Feist, DFL, New Brighton, 4331)
SF 55 (Champion, DFL, Minneapolis, 9246)
Creates the new office in the Children and Families Services Administration in the Department of Human Services. Requires local steering committees to establish local programs. Open

appropriations in FY 2024-2025 for both the new office and the local committees.

Minnesota Health and Education Facilities Authority
HF 355 (Bahner, DFL, Maple Grove, 5502)
SF 439 (Hoffman, DFL, Champlin, 4154)
Creates a new authority out of the existing Minnesota Higher Education Facilities Authority with expanded authority and bonding capacity to construct health care facilities.

Disparities Impact Notes
HF 354 (Feist, DFL, New Brighton, 4331)
Requires the Legislative Budget Office and MMB to coordinate and produce impact notes at the request of committee chairs on proposed legislation that calculates the impact on disparities between the state population as a whole and a number of subgroups.

Unfilled State Government Positions
SF 238 (Draheim, R, Madison Lake, 5558)
Requires MMB to reduce appropriations to state agencies for positions that have been unfilled for more than 180 days. Applies to positions posted in FY 2023-2025 and is implemented for base budgets in FY 2026-2027.