MINNESOTA CENTER for Fiscal Excellence

LEGISLATIVE SPOTLIGHT

Sound tax policy. Efficient spending. Accountable government.

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Welcome to the first issue of Legislative Spotlight for the 2019 legislative session – our 27th year of keeping members informed about bill introductions and activities at the capitol! This publication summarizes most tax-related bills (generally excepting tax increment financing bills) and selected bills in other policy areas. We often add historical context and content, broader perspective, or our evaluation of a bill's relationship to sound tax policy or public finance principles. In most cases, we base our summary and editorial comments on our reading of the bill. In some cases, we rely on legislative staff or the bill author to help us understand a bill or its intent, but any errors are our responsibility and we are happy to correct errors brought to our attention.

As the 2019 legislative session begins, a new set of dynamics comes into play. The governor's mansion remains in DFL hands (the first time that one DFL governor has succeeded another via election), but Governor Walz will nevertheless bring different policy views and political approaches than Governor Dayton. The most major change comes in the Minnesota House, where DFLers gained 18 seats to regain the majority – with many of those pickups notably coming in third ring suburbs or exurban areas. They now hold 75 seats, compared to 55 for the GOP, and four other seats held by Republicans dissatisfied with GOP leaders who have formed a separate "New Republican" caucus (labeled "NR" throughout this publication).

Republicans, however, retain a slim 34-32 margin in the Minnesota Senate, with one seat currently open as Sen. Tony Lourey (DFL-Kerrick) has accepted appointment as commissioner of human services. The election for the seat will be held next month, and both parties will contest it fiercely. With only 34 members in the caucus, Republicans need each and every GOP vote to pass legislation that DFLers will not support – effectively giving every GOP senator a veto over controversial measures. Adding one seat to their extremely slim majority would mitigate that issue to some extent. DFLers, of course, want to limit the number of seats they need to gain in order to re-take the chamber, and likely have their eyes on the two suburban seats held by the GOP where both representatives are DFLers.

On the plus side, it appears that House Speaker Melissa Hortman and Senate Majority Leader Paul Gazelka have agreed to bring the noncontroversial parts of last year's massive supplemental budget bill (vetoed by Governor Dayton) fairly early in the legislative process. None of this, of course, is likely to involve tax provisions.

On the tax front, legislators are going to be starting from scratch regarding conformity/response to the TCJA. The only thing we know for sure is that legislators will not be trying to expedite changes to the system – our bed for tax year 2018 has been made, and we are lying in it as we speak. Last year the debate over responding to the TCJA's changes deteriorated quickly after Governor Dayton effectively boxed the Republican-led legislature in with his tax proposal. We hope that a change in many of the players will result in a better and more rigorous attempt at tackling this issue. Given the complexity many taxpayers will be facing over the next few months as they (or their now-more expensive accountants) fill out their tax returns – and the accompanying frustration – failing to respond to the TCJA for a second year in a row is not going to be a very attractive option.

One final thing is worth noting. House Research's team of tax experts suffered two losses last year with the retirements of long-time staffers Joel Michael and Steve Hinze. We appreciate their outstanding contributions to developing tax policy and their institutional knowledge will be sorely missed as legislators tackle complex income, corporate, and property tax issues.

We will work hard to keep you informed as the session progresses. The members-only portion of our website (http://www.fiscalexcellence.org/legislative-spotlight.html) provides frequent updates on committee proceedings and archived editions of Legislative Spotlight. And as always, thank you, members, for your continued support.

House and Senate Taxes Committee Membership

With 39 newly-elected House members (some 30% of the body) and the DFL takeover of the chamber, the House Taxes Committee looks substantially different than in 2017-18. The Senate Taxes Committee membership has also changed, with newly-elected Sen. Jeff Howe replacing Sen. Eric Pratt. For your convenience, we list here the membership of the House and Senate Taxes Committees and any divisions, along with their party affiliation and contact information. We also note newly-elected members and whether veteran legislators have committee or division experience. 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 8:00. There are 12 DFL members and 8 Republican members; only 9 of the 20 members were on the committee in 2017-18. You may e-mail House members using the following template: rep.firstname.lastname@house.mn.

Title (where applicable) and Name	Party	Phone
Chair: Paul Marquart	DFL	296-6829
Vice Chair: Dave Lislegard *	DFL	296-0170
GOP Lead: Greg Davids	R	296-9278
Jamie Becker-Finn @	DFL	296-7153
Jeff Brand *	DFL	296-8634
Lyndon Carlson	DFL	296-4255
Sondra Erickson	R	296-6746
Dan Fabian @	R	296-9635
Aisha Gomez *	DFL	296-7152
John Lesch	DFL	296-4224
Ben Lien #	DFL	296-5515

Diane Loeffler	DFL	296-4219
Joe McDonald	R	296-4336
Marion O'Neill @	R	296-5063
John Petersburg	R	296-5368
Joe Schomacker @	R	296-5505
Jennifer Schultz	DFL	296-2228
Chris Swedzinski ^	R	296-5374
Tou Xiong *	DFL	296-7807
Cheryl Youakim #	DFL	296-9889

* Newly-elected
^ Re-elected, prior experience on Tax Committee
# Re-elected, previously served on Property & Local Tax Division
@ Re-elected, no prior experience on Tax Committee or Property & Local Tax Division

Committee Staff

Administrator:	Nathan Jesson	296-5524
Legislative Assistant:	Urszula Gryska	296-5492

House Property and Local Tax Division

The division meets in Room 5 of the State Office Building on Mondays at 12:45. There are 8 DFL members, 4 Republican members, and 1 New Republican member; 5 of the 13 members were on the division in 2017-18.

Title (where applicable) and Name	Party	Phone
Chair: Diane Loeffler	DFL	296-4219
Vice Chair: Samantha Vang *	DFL	296-3709
DFL Lead: Jerry Hertaus	R	296-9188
Connie Bernardy #	DFL	296-5510
Andrew Carlson	DFL	296-4218
Steve Drazkowski	NR	296-2273
Kaohly Her *	DFL	296-8799
John Huot *	DFL	296-4306
Paul Marquart	DFL	296-6829
Joe McDonald @	R	296-4336
John Petersburg #	R	296-5368
Linda Runbeck @	R	296-2907
Tou Xiong *	DFL	296-7807

* Newly-elected
@ Re-elected, prior experience on Division
# Re-elected, no prior experience on Division

Committee Staff

Administrator:	Nathan Jesson	296-5524
Legislative Assistant:	Ellen Larson	296-5517

Senate Taxes Committee

The committee meets in Room 15 of the Capitol on Tuesdays, Wednesdays, and Thursdays at 8:30. 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.

Title (where applicable) and Name	Party	Phone
Chair: Roger Chamberlain	R	296-1253
Vice Chair: David Senjem	R	296-3903
DFL Lead: Ann Rest	DFL	296-2889
Paul Anderson	R	296-9261
Tom Bakk	DFL	296-8881
Kari Dziedzic	DFL	296-7809
Melissa Franzen	DFL	296-6238
Paul Gazelka	R	296-4875
Jeff Howe *	R	296-2084
Jeremy Miller	R	296-5649

* Newly-elected to Senate, was House member with no experience on Tax Committee

Committee Staff

Administrator:	Brian Steinhoff	296-5640
Legislative Assistant:	Judith Donovan	296-4197

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"). 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 capital office's phone number's last four digits. Note that "NR" designates members of the House's New Republican caucus. All members' phones 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, 2018*
- *Property tax: Taxes levied in 2019, payable in 2020*
- *Sales tax: Sales and purchases made after June 30, 2019*

HF 0052 (Davids, R, Preston, 9278); and SF 0005 (Chamberlain, R, Lino Lakes, 1253)

Changes the starting point for calculating Minnesota individual income taxes from federal taxable income (FTI) to federal adjusted gross income. Creates a state standard deduction equal to the pre-TCJA federal amount ($6,350 for single filers, $12,700 for married-joint filers, and $9,350 for head of household filers in tax year 2017), indexed for inflation annually using chained CPI. Creates a state itemized deduction regime identical to the federal regime, except that it disallows the TCJA's temporary reduction in the medical expense deduction floor and any deduction for state income or sales taxes, and allows the deduction of all mortgage interest payments. Provides for immediate Section 179 expensing, effective tax year 2020. Creates state personal and dependent exemptions of $4,150 per exemption, indexed annually for inflation using chained CPI. Exempts 10% of taxable Social Security benefits in tax year 2019 and increases that amount by 10 percentage points annually until the entire benefit is exempt. Continues the pre-TCJA tax treatment of moving expenses. Eliminates the prohibition against deducting fines, fees, and penalties when computing Minnesota taxable income. Requires a trust or estate to add back any amount it deducted from FTI as qualified business income (the 20% deduction allowed under TCJA) when computing Minnesota taxable income. Exempts foreign-derived intangible income (FDII), global intangible low-taxed income (GILTI), and the gross amount of deferred foreign income generated under the TCJA (i.e., before any federal deduction is applied) from taxation.

This is a fairly comprehensive conformity plan that largely hews to the major operative principle from the 2018 session: that Minnesota should, to the extent possible, re-create the pre-existing tax system in state law. This proposal, therefore, would basically continue the old standard and itemized deduction regimes along with the previously-operative personal and dependent exemptions. It directs tax relief to Social Security recipients and basically exempts the international income associated with the TCJA.

The Council on State Taxation's analysis of the bill states "among other provisions, the bill for corporate tax purposes provides for the deduction of transition tax under I.R.C. Sec. 965 (net of the deduction under I.R.C. Sec. 965(c)), effective beginning with the 2018 tax year; provides for the deduction of global intangible low-taxed income (GILTI) under I.R.C. Sec. 951A, effective beginning with the 2019 tax year; and requires an addback of foreign-derived intangible income (FDII), effective beginning with the 2019 tax year." We have cross referenced the language on FDII, GILTI, and foreign deferred income and believe that it is the same as the language carried in last year's omnibus tax bills, which did not raise money through FDII or GILTI provisions.

We will be coming out with our own thoughts on federal tax conformity in the following weeks. For now, we'll just note that we hope legislators will use this year's conformity debate to more thoroughly and coherently investigate ways to make the tax system simpler and therefore easier to comply with (for taxpayers) and administer (for government) – which arguably should be the chief policy concern in a conformity proposal.

Combinations of Taxes (Corporate and Individual Income)

HF 0120 (Gunther, R, Fairmont, 3240)
Creates an individual income and corporate franchise tax credit for employers hiring military veterans. Sets the credit equal to 10% of the wages paid to the individual, with a maximum credit of $3,000 for hiring a disabled veteran (i.e. who has a service-connected disability rating) and of $1,500 for hiring an unemployed veteran (i.e. who has received unemployment compensation at any time during the two-year period prior to the date of hire). Limits the credit to the tax year during which the qualifying hire was made.

HF 0186 (Gruenhagen, R, Glencoe, 4229)
Creates an individual income and corporate franchise tax credit equal to 50% of expenditures not required by law relating to active traffic signals/controls or implement grade separation for a railroad crossing. Requires that any improvement increase the safety of the crossing and qualify for federal depreciation deductions to qualify for the credit. Limits the credit to spending on improvements at MNDoT-designated "priority crossings". Provides a 15-year carryforward for excess credit.

Estate Taxes

HF 0039 (Hertaus, R, Greenfield, 9188)
Increases the estate tax exclusion amount from $2.7 million for estates of decedents dying in 2019 (and scheduled to increase to $3.0 million for estates of decedents dying in 2020 and thereafter) to the federal exclusion amount ($11.4 million for decedents dying in 2019). Eliminates the estate tax brackets with graduated rates ranging from 13% to 16% and instead imposes a single tax rate of 16% on all taxable estate value. Repeals the qualified small business property subtraction. Repeals the recapture tax. Effective retroactively to the estates of all decedents dying after 12/31/18.

The federal estate tax exclusion was significantly increased on a temporary basis as part of the Tax Cuts and Jobs Act. Beginning 1/1/2026, the exclusion amount will revert back to inflation-adjusted 2017 levels.

Gambling Taxes

HF 0069 (Dettmer, R, Forest Lake, 4124); and SF 0219 (Nelson, R, Rochester, 4848)
Allows organizations conducting lawful gambling to deduct amounts actually expended for lawful purpose contributions (i.e., charitable contributions, allowable purchases of real property and capital assets, and transfers to like groups), except for payments of local, state, and federal taxes on lawful gambling receipts, when computing "combined net receipts".

HF 0081 (Lueck, R, Aitkin, 2365)
Reduces the flat rate tax on bingo, raffle, and paddlewheel net receipts from 8.5% to 4.25%. Consolidates the graduated tax rate schedule on combined net receipts from pull-tabs, tipboards, and electronic bingo from four brackets to three brackets and reduces the tax rates as follows:

Current		Proposed	
Net Receipts	Tax Rate	Net Receipts	Tax Rate
Up to $87,500	9%	Up to $200,000	4.5%
$87,501 – $122,500	18%	$200,001 – $500,000	9.0%
$122,501 – $157,500	27%	Over $500,000	13.5%
Over $157,000	36%		

Individual Income Taxes

HF 0037 (Hertaus, R, Greenfield, 9188)
Provides that stillbirths experienced by Minnesota residents outside the state are eligible for the stillbirth credit. Stipulates that the credit be claimed by the parent who gave birth to the child and is listed as a parent on the birth certificate, so long as that person is subject to the Minnesota income tax. Effective retroactively to tax year 2016 (the first year for which the credit was in effect).

HF 0042 (Hertaus, R, Greenfield, 9188)
Reduces the state's four individual income tax rates by one percentage point each, as follows:

Tier	Current Rate	Proposed Rate
First	5.35%	4.35%
Second	7.05%	6.05%
Third	7.85%	6.85%
Fourth	9.85%	8.85%

If this were paired up with converting conforming to the TCJA's changes in the definition of taxable income (i.e., elimination of personal and dependent exemptions, etc.), then the proposal could be one method for responding to those changes: realize the additional taxable income the changes generate and offset that through lower income tax rates. However, this bill only reduces rates without making any other changes. This proposal was heard last year in the tax committees – at that time Revenue estimated the cost for FY 20-21 to be around $3.5 billion.

HF 0044 (Hertaus, R, Greenfield, 9188)
Provides that an individual is not domiciled in Minnesota for income tax purposes if he or she files an affidavit with Revenue before the close of the taxable year stating he or she is domiciled in another state or country. Stipulates that a timely filed affidavit is conclusive as to the individual's domicile and is binding on Revenue and any court considering the matter. Modifies the definition of a day spent in the state for domicile purposes so that it applies only to a day in which an individual spends substantially all of his or her time, including an overnight stay, in Minnesota. Specifies that a taxpayer's presence in Minnesota for the primary purpose of receiving medical care for him/herself, a spouse, child, or parent does not qualify as a "day spent in Minnesota" for domicile purposes.

This issue is only going gain steam with time and we expect to see other bills attempting to interject greater degrees of clarity and certainty into a very subjective, confusing and frustrating topic.

HF 0056 (Jurgens, R, Cottage Grove, 3135); and SF 0245 (Goggin, R, Red Wing, 5612)
Exempts all Social Security income from the individual income tax.

The 2017 omnibus tax bill included an exemption for a portion of Social Security income, which is reduced once filers pass certain income thresholds. In large part, this was a response to competitiveness concerns: in MCFE's most recent multi-state individual income tax comparison study (for tax year 2014), the income tax burden on Minnesota's senior filers ranked high. For married filers we were 3rd at $75,000 of income and 1st at $100,000, $150,000, and $250,000 of income; for single filers we were 1st at $75,000, $100,000, and $150,000 of income. We have not modeled how the 2017 changes might affect our rankings.

However, concerns about the competitiveness of Minnesota's income tax for retirees and their continued residence here needs to be balanced with the realities of an aging society. As baby boomers age – becoming an increasingly large share of the population that require more publicly funded health care services – it will be increasingly difficult to exempt retirement income from taxation. Although the window for Revenue Estimates is only four fiscal years, policymakers will want to think carefully about the long-term implications associated with exempting Social Security benefits.

HF 0156 (Davids, R, Preston, 9278)
Stipulates that, for purposes of sourcing income, compensation awarded to a nonresident individual for performance of services as a member of a board of directors be attributed to Minnesota based on the share of time spent in Minnesota while providing services as a member of that board.

Compared to current law, this proposal would allow taxpayers who are members of more than two boards of directors to use the time spent method when allocating their board-related compensation. It would significantly reduce the amount of non-resident board member income subject to Minnesota tax but make it a lot more attractive to hold board meetings here.

HF 0174 (Koznick, R, Lakeville, 6926)
Reduces the state's four individual income tax rates by 0.125% each, as follows:

Tier	Current Rate	Proposed Rate
First	5.35%	5.225%
Second	7.05%	6.925%
Third	7.85%	7.725%
Fourth	9.85%	9.725%

HF 0198 (Lucero, R, Dayton, 1534)
Allows individual income tax filers to subtract any payments made for health insurance premiums when calculating Minnesota taxable income for, unless such payments have already been excluded from federal taxable income or are used to claim the long-term care insurance credit.

This proposal would create horizontal equity by treating the health insurance premiums paid by persons who purchase insurance on the open market the same as those paid by persons who receive health care as a fringe benefit.

HF 0199 (Urdahl, R, Grove City, 4344); and SF 0246 (Pratt, R, Prior Lake, 4123)
Creates a refundable individual income tax credit equal to the amount of tuition and fees paid by a secondary school teacher teaching a concurrent enrollment course for any postsecondary class required to teach the course. Caps the maximum refund at $2,500 per year. Requires the tuition and fees against which the credit is claimed to be included in federal taxable income. Effective for tax years 2019 through 2024 only.

SF 0059 (Dziedzic, DFL, Minneapolis, 7809)
Authorizes individual income taxpayers to claim a nonrefundable credit equal to 30% of qualified bicycle commuting reimbursements (as provided for in Section 132 of the Internal Revenue Code) paid by an employer to employees during the taxable year. Effective while the federal credit for such payments is suspended (currently tax years 2018-2025, per the TCJA).

In 2008, the Congress enacted legislation which provided that if employers reimbursed their employees for bicycle commute-related expenses (a fringe benefit); the first $20 per month would be tax free. Such expenses include purchases of bike helmets, bike locks, bike parking, bike maintenance, a commuter bicycle, and shower facilities. The TCJA has suspended this tax benefit at the federal level; this proposal would provide a state tax credit for 30% of any such reimbursements during the TCJA suspension period.

SF 0133 (Nelson, R, Rochester, 4848)
Revives Minnesota's angel investor tax credit for tax years 2019 and 2020 and appropriates $5 million in credits for each year.

As a reminder, the state's angel investor tax credit was allowed to sunset after tax year 2017.

SF 0147 and SF 0151 (Dziedzic, DFL, Minneapolis, 7809)
Exempts income from the individual income tax if it is derived from: any Minnesota or federal public pension plan, if the income is based on service for which the member or survivor is not receiving Social Security benefits; or any public pension plan operated by another state if that state's income tax laws permit a similar/reciprocal deduction or exemption. SF 0147 provides that 10% of such income be exempt in tax year 2019 and increases the exemption by 10% annually until such income is fully exempt. SF 0151 provides that the exemption follow the same rules as apply to Minnesota's exemption of Social Security income.

This proposal effectively equalizes the treatment of this stream of income and Social Security benefits.

SF 0255 (Johnson, R, East Grand Forks, 5782)
Eliminates provisions prohibiting direct relatives of owners of a relevant agricultural asset from claiming the beginning farmer tax credit relating to farming operations using that asset. Eliminates the requirement that credit claimants demonstrate a profit potential by submitting projected earnings statements. Relaxes the requirements for credit claimants relating to participation in an approved financial management program.

Insurance Taxes

HF 0197 (Schultz, DFL, Duluth, 2228)
Clarifies that for-profit health maintenance organizations must pay the 2% insurance premiums revenue tax.

Property Tax (except Aids and Credits & TIF)

HF 0036 (Lueck, R, Aitkin, 2365); and HF 0038 (Hertaus, R, Greenfield, 9188)
Increases the amount of commercial-industrial market value excluded from the state general tax from the first $100,000 to the first $200,000 (HF 0038) or to the first $500,000 (HF 0036).

This proposal would build on the 2017 tax bill, which exempted the first $100,000 of C/I market value from the state general levy. As with other changes to classes and rates, this proposal doesn't change the amount of tax being collected – it will just redistribute the existing burden away from lower-valued properties and toward higher-valued ones. It will benefit owners of relatively low-valued property and their tenants or companies which own multiple moderately-valued parcels by shifting tax burden toward owners of higher-valued properties and their tenants which may not represent the wealthy, ability to pay goldmine some advocates believe. Given the differentials in property value between urban and rural areas, it is understandable if one also sees some significant potential for geographically-based tax shifts, especially with HF 36 and its $500,000 exemption.

HF 0064 (Davnie, DFL, Minneapolis, 0173)
Increases the maximum disabled veterans homestead exclusion from $150,000 to $165,000 for veterans with at least a 70% disability rating and from $300,000 to $330,000 for veterans with a 100% disability rating.

HF 0075 (Green, R, Fosston, 9918)
Directs that real property initially acquired in fee by a nongovernmental organization for conservation purposes using state funds and subsequently transferred to a state agency be designated class 2b (rural vacant land) and subject to property taxation until such time as the agency disposes of the property. Prohibits payments in lieu of taxes for such property. Includes other provisions related to conservation easements.

HF 0097 (Hertaus, R, Greenfield, 9188)
Directs that, for fractional farm homesteads, the portions of the property classified as homestead and nonhomestead correspond to the ownership percentages on file in the county land records (i.e., that the homestead portion be awarded to qualifying owners and the nonhomestead portion be awarded to nonqualifying owners). Further directs that the fractions classified as homestead and nonhomestead be divided equally between all owners if the land records have no information on ownership percentages.

HF 0121 (Hertaus, R, Greenfield, 9188)
Expands the definition of "agricultural purpose" for purposes of property tax classification to include land used to provide environmental benefits such as buffer strips, old growth forest restoration or retention, or retention ponds to prevent soil erosion. Limits this treatment to 10% of the total land area, to a maximum of three acres.

This change basically allows land being used to provide environmental benefits to qualify for treatment as agricultural land for property tax purposes.

HF 0160 (Green, R, Fosston, 9918)
Prohibits, upon a property owner's application, increases in taxable value for homesteads owned and occupied by persons aged 65 or older. Requires that for married couples the provisions apply only if both spouses are at least 65 years of age. Directs that the provisions not apply to value increases attributable to improvements made to the property.

We have the nation's most generous property tax rebate program based on ability to pay. We have an additional special refund program for large year-on-year jumps in property taxes. We have the senior deferral program, which essentially guarantees nobody will be taxed out of their house. Put them all together we have more than enough protections for seniors. We don't need to make burden shifting part of the protection strategy.

HF 0175 (Gruenhagen, R, Glencoe, 4229); and SF 0213 (Koran, R, North Branch, 5419)
Expands the eligibility criteria for qualifying as bed and breakfast (class 4(c)(9) property) to include such properties which are not used by the owner for homestead purposes but are located within two miles of the primary residence of the owner.

HF 0204 (Dettmer, R, Forest Lake, 4124); SF 0113 (Lang, R, Olivia, 4918); and SF 0267 (Newton, DFL, Coon Rapids, 2556)
Extends the maximum period over which a surviving spouse of a permanently disabled veteran or an active duty service member who dies from a service-connected cause may claim the applicable market value exclusion from eight years until such time as the surviving spouse remarries, or sells, transfers, or otherwise disposes of the property. HF 0204 and SF 0113 are companion bills; all two bills are virtually identical, but SF 0267 appears to modify existing statutory language that HF0204/SF 0113 overlook.

HF 0205 (Dettmer, R, Forest Lake, 4124); and SF 0114 (Goggin, R, Red Wing, 5612)
Directs that the disabled veterans homestead exclusion be removed for the current assessment year when a property benefiting from it is sold or transferred. Authorizes a surviving spouse to continue to claim the disabled veterans homestead exclusion on a different property, so long as the estimated market value of the new property is equal or lesser to the value of the original property against which the exclusion was claimed; and the spouse has not claimed the survivors' benefit for eight or more taxes payable years. Moves the deadline for applying for the exemption from July 1 to December 15 of the first assessment year for which the exclusion is sought.

This proposal seeks to remedy a horizontal equity issue – that surviving spouses who remain in the home may claim the survivor's benefit for eight years, while those survivors who move before the eight-year period lose the benefit – even if the home he or she moves into is of equal or lesser value than the one he or she left.

HF 0206 (Sundin, DFL, Esko, 4308)
Converts the Cloquet Area Fire and Ambulance Taxing District to a special taxing district and clarifies that the district board may levy for providing either fire or ambulance services or for both services. Increases the maximum tax rate for parcels receiving ambulance services only from 0.019% to 0.048% of estimated market value. Authorizes the District to issue bonds or capital notes for capital improvements without need for voter approval (similar to a city). Clarifies the district's ability to incur debt and directs that any municipality withdrawing from the district must continue any district levy related to indebtedness until the obligations outstanding on the day of withdrawal are satisfied.

SF 0097 (Bigham, DFL, Cottage Grove, 7-8060)
Provides that the owner of a parcel which has been enrolled in the metropolitan agricultural preserves program for eight years may request early termination of enrollment in the program by providing notice to the appropriate planning and zoning authority. Permits that authority to authorize a four-year withdrawal period (instead of an eight-year period) by majority vote.

SF 0222 (Eichorn, R, Grand Rapids, 7079)
Expands the Iron Range Fiscal Disparities (IRFD) program area to include the remaining portions of any county where at least 35% of the county's net tax capacity is within the current IRFD area. Authorizes any municipality to withdraw from the program by resolution of its governing body.

The Iron Range Fiscal Disparities program was established in 1996 and it contiguous with the boundaries of the "tax relief area", which is made up of the territories of school districts that meet certain criteria relating to unmined iron ore or taconite mining. Not all school districts qualify for the area, most notably Duluth, and therefore portions of Aitkin, Crow Wing, Itasca, Koochiching, and St. Louis Counties are not part of the IRFD program. This bill would bring some of these outstanding areas into the program while offering an "out" for any community that wants one. It's hard to understand how communities that consistently lose tax base through the program would not take that out – undercutting the rationale for having the program in the first place.

Property Tax – Aids and Credits

HF 0024 (Erickson, R, Princeton, 6746); and SF 0254 (Mathews, R, Milaca, 8075)
Provides that taxing jurisdictions in Mille Lacs County be reimbursed for property tax revenue lost because the federal Bureau of Indian Affairs placed property into trust between January 1, 2009 and December 31, 2018. Requires the state to pay each jurisdiction an amount equal to its property tax levy on the now-tax exempt property in the year before the property became exempt for five years. Reduces those payments by 20% in each of the subsequent four years, and stops such payments thereafter.

HF 0117 (Grossell, R, Clearbrook, 4265); and SF 0080 (Utke, R, Park Rapids, 9651)
Prohibits Local Government Aid payments to cities that have "sanctuary ordinances" in effect.

Property Tax – Tax Increment Financing

HF 0164 (Olson, DFL, Duluth, 4246); and SF 0117 (Simonson, DFL, Duluth, 4188)
Provides special tax increment financing authority for a TIF district in the city of Duluth.

HF 0176 (Stephenson, DFL, Coon Rapids, 5513); and SF 0214 (Hoffman, DFL, Champlin, 4154)
Provides special tax increment financing authority for the Mississippi Crossings TIF district in the city of Champlin.

Sales Tax

HF 0043 (Hertaus, R, Greenfield, 9188); and SF 0048 (Osmek, R, Mound, 1282)
Expands the existing sales tax exemption for sales to nonprofit ice facilities to include organizations that exist primarily for the purpose of operating ice arenas or rinks that are part of the David M. Thaler Sports Center.

HF 0083 (Sundin, DFL, Esko, 4308)
Authorizes the city of Cloquet to use a portion of its local sales tax revenues to finance road and bridge projects.

HF 0144 (Ecklund, DFL, International Falls, 2190)
Authorizes the city of International Falls to impose the local sales and use tax of up to 1.0% approved by voters at the 2018 general election. Dedicates these revenues to finance transportation and other public infrastructure projects. Authorizes bonding authority of up to $30 million for these projects. Directs that the taxes expire when sufficient revenues to finance the bonds have been collected or 30 years after imposition of the taxes, whichever is earlier. Authorizes the city to terminate the tax at an earlier time by ordinance. Directs that any excess funds be deposited in the city's general fund.

We generally don't comment on each local sales tax bill separately, unless there's something interesting or unusual about the proposal. These bills are necessary in Minnesota because the legislature has not chosen to give local jurisdictions general authority for a local sales tax, as many other states have. When a local government wants such a tax, it must come to legislators for approval.

These bills generally follow the template: only for a specific project or projects, terminated after the bonds are paid for, requiring a referendum for voter approval, and ideally for projects of regional significance. There is no bright line test on these, but at least there is some rationale for it.

HF 0157 (Brand, DFL, St. Peter, 8634)
Exempts purchases of food by a nonprofit organization from a caterer or other business with whom the nonprofit has a contract from the sales and use taxes, so long as: the nonprofit sponsors and manages the provision of meals and other food through the federal Child and Adult Care Food Program to unaffiliated centers and sites, and the purchased food is used directly in this program.

Our understanding is that the meals provided to clients through this program are taxed in some instances and not in others, depending on the type of organization that is purchasing the food. This provision would create horizontal equity by treating all organizations that manage this program identically for sales tax purposes.

HF 0161 (Green, R, Fosston, 9918)
Exempts purchases MNDOT makes of materials, supplies, and equipment subsequently incorporated into road construction projects from the sales tax.

This proposal indicates that we have effectively been moving gas tax money to the general fund., and eliminating this transfer would allow MNDOT and its contractors to stretch gas tax dollars a little further. Unfortunately, this good idea won't solve the problem by itself. Based on revenue estimates done during the last two legislative sessions, it looks like this would provide about $24 million in additional road construction financing per year (at the general fund's expense).

HF 0183 (Schultz, DFL, Duluth, 2228); and SF 0119 (Simonson, DFL, Duluth, 4188)
Authorizes the city of Duluth to increase its local sales and use tax from 1.0% to 1.5% and dedicates the proceeds to pay for various infrastructure expenses outlined in its 2017 Street Improvement Program. Provides that the additional tax have a maximum life of 25 years or after sufficient funds have been raised to finance the costs of the described projects, whichever is earlier.

SF 0041 (Osmek, R, Mound, 1282)
Authorizes the city of Excelsior to impose the 0.5% sales and use tax approved by voters at the 2014 general election. Dedicates these revenues to finance the capital and administrative costs of improvements to the commons as indicated in the Commons Master Plan adopted by the city council in 2017. Authorizes bonding authority of up to $7 million for these projects. Directs that the taxes must expire when sufficient revenues to finance the bonds have been collected or 25 years after imposition of the taxes, whichever is earlier. Authorizes the city to terminate the tax at an earlier time by ordinance. Directs that any excess funds be deposited in the city's general fund.

SF 0202 (Klein, DFL, Mendota Heights, 4370)
Exempts construction-related materials, supplies, and equipment incorporated into a new fire station in the city of Inver Grove Heights from the sales and use taxes. Requires that the tax be collected upfront and then refunded upon application. Effective for purchases made between 7/1/2018 and 12/31/2020.

SF 0236 (Dibble, DFL, Minneapolis, 4191)
Expands the sales tax exemption for instructional materials to include charts and models used in the course of study; art supplies for art classes; and equipment, tools, and supplies required during a course of study that is necessary to obtaining a degree or certification for a trade or career, even if they are generally used outside the classroom in the practice of a career or trade.

EDUCATION – FINANCE

HF 0114 (Lucero, R, Dayton, 1534)
Provides a minimum revenue guarantee designed to ensure that the sum of a school district's: extended time revenue, gifted and talented revenue, declining enrollment revenue, local optional revenue, small schools revenue, basic skills revenue, secondary sparsity revenue, elementary sparsity revenue, transportation sparsity revenue, total operating capital revenue, equity revenue, pension adjustment revenue, transition revenue, and operating referendum revenue does not fall below $1,850 per pupil. Limits the total minimum revenue guarantee revenue stream for any district to $100 per pupil.

HF 0115 (Lucero, R, Dayton, 1534)
Creates a new "general education disparity aid" for districts with adjusted net tax capacity per pupil that is in the bottom 20% of all districts or with referendum market value per pupil that is in the bottom 20% of all districts. Sets the general education disparity aid allowance equal to 70% of the difference between its general education revenue per pupil (excluding referendum revenue) and such revenue for the district at or immediately below the 20th percentile of districts.

HF 0116 (Freiberg, DFL, Golden Valley, 4176); SF 0109 (Rest, DFL, New Hope, 2889); and SF 0136 (Newton, DFL, Coon Rapids, 2556)
Authorizes school boards to renew an expiring operating referendum or capital referendum (SF 0136 only) so long as 1) the per-pupil amount (for operating referenda) or tax rate (for capital referenda) is identical to the amount expiring or (HF 0116/SF 0109 only) the per pupil amount expiring plus inflation if the expiring referendum was adjusted annually for inflation; 2) the term of the renewed referendum is no longer than the original term approved by voters; and 3) the board adopted a written resolution to provide for such after holding a meeting and allowing public testimony on the proposed renewal. Requires that any renewal of an expiring referendum be done within two fiscal years before the original referendum expires. HF 0116 and SF 0136 are companion bills.

Operating referenda can be seen as either the remaining cornerstone of local accountability in Minnesota's school finance system or a critical source of school funding too easily politically manipulated by outside parties and influences. Both statements are true. It seems to us that making locally elected school boards more accountable to their constituents for these important decisions is a way to maintain more control over referendum destiny while preserving and strengthening the accountability link. These proposals seem a worthy step in this direction.

SF 0024 (Wiger, DFL, Maplewood, 6820); and SF 0122 (Clausen, DFL, Apple Valley, 4120)
Increases the $6,312 per pupil basic education formula aid allowance by 3% in FY 20 (to $6,502) and again in FY 21 (to $6,697). Indexes the amount to the change in the Consumer Price Index thereafter. The two bills are virtually identical.

In 2015 legislators and Governor Dayton approved a 2% increase in basic education formula aid for FY 16 and FY 17. At the time, it was touted as a major accomplishment. But as we pointed out in our December 2015 study on labor cost trends and K-12 education aids, if recent trends in compensation growth continued unabated lawmakers would need to raise the basic formula aid by 4.1% per year on average through 2029 to hold property taxes harmless. No wonder school budgets are once again under stress and advocates are back for additional state aid.

We aren't opposed in principle to providing additional money for school districts, but we would prefer to see this increase discussed as part of a deliberations over alternative compensation designs and aid redesigns. Long-term sustainability in education finance will at some point have to involve repurposing existing dollars for greater effect.

SF 0029 (Wiger, DFL, Maplewood, 6820)
Increases equalization levels for school district local optional levies by unspecified amounts.

SF 0030 (Wiger, DFL, Maplewood, 6820)
Increases equalization levels for school district referendum levies by unspecified amounts.

SF 0031 (Wiger, DFL, Maplewood, 6820)
Increases equalization levels for school debt service levies by unspecified amounts.

SF 0055 (Wiger, DFL, Maplewood, 6820)
Modifies the special education aid formula so that it is based on current year special education expenditures instead of prior year expenditures. Eliminates the growth limit in special education aid increases (currently $40 per pupil).

ELECTIONS

SF 0034 (Wiger, DFL, Maplewood, 6820); and SF 0189 (Rest, DFL, New Hope, 2889)
Enacts the Agreement Among the States to Elect the President by National Popular Vote. The two bills are identical.

Participating states would award their electoral votes to the presidential candidate who receives the most popular votes in all fifty states and the District of Columbia. The agreement would go into effect when the bill is enacted, in identical form, by states with a total of at least 270 votes (a majority). Clearly, the proposal is designed to prevent the situation where the presidential candidate with the most overall popular votes loses in the Electoral College (this has happened five times: 1824, 1876, 1888, 2000 and 2016).

According to National Popular Vote Inc. (the national group advocating for this proposal) this initiative has been enacted by 12 states with a combined total of 172 electoral votes – 64% of the 270 votes needed to win election. These states are: California, Connecticut, the District of Columbia – a state for presidential election purposes – Hawaii, Illinois, Massachusetts, Maryland, New Jersey, New York Rhode Island, Vermont and Washington. The most recent state to enact the agreement was Connecticut, in 2018. The agreement would become effective when enacted by any combination of states representing at least 270 electoral votes, so proponents are 98 electoral votes away (at least, until the effects of the 2020 Census are felt).

For the record, Minnesota has 10 electoral votes, almost 4% of the 270 electoral votes needed to win and 10% of the 98 electoral votes organizers need for the agreement to go into effect.

SF 0199 (Rest, DFL, New Hope, 2889)
Requires candidates for president and vice president of the United States to file their five most recent federal income tax returns with the Secretary of State's office in order to be placed on the ballot. Directs that such returns be made public and authorizes the secretary of state to redact any information he or she deems appropriate, in consultation with the Department of Revenue.

LEGISLATURE

HF 0123 (Nelson, DFL, Brooklyn Park, 3751)
Eliminates the Legislative Budget Office.

Historically, Minnesota Management and Budget has coordinated efforts to create fiscal notes, which estimate the costs of legislative proposals, with the affected state agencies. In 2017, legislators created the Legislative Budget Office to move this responsibility from the executive branch to the legislative branch. Many states have this sort of arrangement (a Google search of "legislative budget office" provides numerous examples). The office is slated to begin producing fiscal notes for the 2020 legislative session and is currently in the process of hiring staff.

Although the Legislative Auditor studied the fiscal note issue in 2012 and did not identify serious problems with the process, the provision was included in the 2017 state government finance bill in large part because of many lawmakers' frustrations with and concerns about the existing process. This proposal would shift some influence over the budgeting process back to the executive branch.

It's worth noting that in its latest "Truth and Integrity in State Budgeting Report" the Volcker Alliance, a non-profit education and research organization formed by former Federal Reserve Chairman Paul Volcker to "improve the efficiency and accountability of governmental organization at the federal, state, and local levels", dings Minnesota's report card for having critical functions like this under the sole purview of the executive branch.

SF 0127 (Draheim, R, Madison Lake, 5558)
Proposes to amend the state constitution to limit legislators to 20 years of service in either the Minnesota House, Minnesota Senate, or a combination of the two; and constitutional officers to two terms in any single office. Directs that the amendment be submitted to voters at the 2020 general election. Provides that the amendment become effective at the 2020 general election, and that years of service prior to 2021 (for legislators) and 2023 (for constitutional officers) would not count toward the limits.

This proposal doesn't preclude one from having a three- or four-decade political career at the state level, but it would be a lot harder since that person would need to be elected to at least two constitutional offices.

On the face of it, there is little need for this amendment. Over 40% of House members (55 of 134) are in their first or second term and 33% (22 of 67) of the Senate members are in their first four-year term. Bringing fresh blood into the Legislature does not seem to be a problem. Competitiveness does not seem to be a problem either – in the 12 sessions between 2007 and 2018 the DFL and GOP each controlled the House for six while the DFL controlled the Senate for 8 years and the GOP for 4. If the issue is limiting the power long-tenured incumbents have on the legislative process, then term limits on committee chairs may be a better idea. As other states' experience shows, term limits deprive the legislative bodies of member with institutional knowledge – making them even more dependent on staff and lobbyists as they craft legislation.

SF 0132 (Marty, DFL, Roseville, 5645)
Prohibits legislators from receiving per diem living expense payments.

The per diem payments for the last few years have been $66 per day for House members and $86 per day for senators. It's not immediately clear whether or how this proposal would affect the monthly lodging reimbursements legislators receive.

SF 0157 (Jensen, R, Chaska, 4837)
Proposes to amend the Minnesota Constitution to reduce the size of the Minnesota Senate from 67 to 49 members and the size of the Minnesota House from 134 to 98 members, effective for sessions of the legislature convening on or after January 1, 2024. Directs that the amendment be placed on the general election ballot in 2020.

Assuming that Minnesota loses a congressional seat as the result of the 2020 Census, this proposal would effectively peg the size of the legislature to the number of the state's congressional districts as of 2020, with 7 senators and 14 representatives allotted for each.

Proponents of large(r) legislatures note that having more legislators allows for smaller, more homogenous districts to which elected officials can be more responsive. Proponents of small(er) legislatures tout the cost savings that comes with fewer legislators and note that Minnesota is near average when it comes to state population but far above average when it comes to the size of the state legislature.

PENSIONS

SF 0243 (Frentz, DFL, North Mankato, 6153)
Increases the employer contribution rate for the higher education individual retirement account plan as follows:

Fiscal Year	Rate (% of Salary
Current	6.00%
2020	6.55%
2021	7.10%
2022	7.65%
2023	8.20%
2024 and beyond	8.75%

STATE AND LOCAL GOVERNMENT

HF 0032 (Green, R, Fosston, 9918)
Prohibits use of legacy fund (outdoor heritage, clean water, parks and trails, and arts and cultural heritage funds) revenues to pay for statewide or agency indirect costs or overhead costs unless those costs have increased as a direct and necessary result of the recipient's responsibility to administer the program, project, or activity paid for with legacy fund money.

HF 0150 (Schultz, DFL, Duluth, 2228)
Requires the state's economic forecast to factor the effect of inflation into projections of future expenditures.

Contrary to popular belief, the practice of excluding inflation from official planning expenditure estimates – which has been routinely ridiculed as "inane,""irresponsible," and "fiscally and *intellectually bankrupt" – was standard practice for most of the state's history. Only for an 11-year period, from 1991 to 2002, did the Department of Finance/MMB formally incorporate inflation into expenditure estimates. And for several of those years, it was done selectively and judiciously based on the nature of the appropriation.*

We strongly believe this is a much more complicated and important issue than it may seem on the surface for one big reason: the forecast is not "just" a planning tool as the state's Council of Economic Advisors and others insist. It very much functions practically as a budgeting tool as well. As House Fiscal has noted, formal incorporation creates tremendous flexibility for budget development by providing a large cushion – well over a billion dollars today – that is already counted as spending. The potential to create new spending programs or expand existing ones without ever having to recognize it as "new spending" is very real. If there is a potential loss of honesty and transparency by leaving it out, there is certainly no less of a potential for incurring the same outcomes by putting it in.

We addressed this topic in our November/December 2014 edition of our Fiscal Focus newsletter and posed five questions we think need consideration in any debate over this proposal. To date, we haven't heard a good discussion of any of them. To save you the trouble of looking them up, they are:

1. *What inflation measure should be used and why?*
2. *What parts of the general fund budget should be subject to an inflation estimate?*
3. *Should the fact that government exercises considerable direct influence over inflation in its largest purchased input have any implications for how inflation is treated in the forecast?*
4. *How is the pursuit of government innovation, efficiency, and productivity improvements affected by the decision to reinstate inflation?*
5. *If inflation is included in forecast planning estimates then what additional steps should the state take to expose the nature and causes of that inflation to taxpayers?*

HF 0187 (Lucero, R, Dayton, 1534); and SF 0154 (Kiffmeyer, R, Big Lake, 5655)

Requires the Office of State Auditor (OSA) to reimburse Wright, Becker, and Ramsey Counties for legal fees incurred and costs and disbursement made as a result of defending the OSA's lawsuit against them. Restricts the OSA's authority to finance costs incurred in a civil claim or appeal related to the proper exercise of the OSA's constitutionally authorized core functions to funds from its constitutional office division only. Prohibits the OSA from changing the allocation of funds among its divisions, transferring funds between its divisions, or reducing services provided by other divisions of the office in complying with the requirement to finance these legal costs through its constitutional office division.

In 2015 the state gave counties flexibility in choosing the entity that will perform their financial audit instead of requiring that the work be done by the OSA. Then-State Auditor Rebecca Otto sued Becker and Wright counties after they hired outside CPA firms to do their audits and sued Ramsey County when it declined to sign a multi-year contract giving the OSA exclusive rights to their audit work. The case wound its way through the courts until the Minnesota Supreme Court allowed the law to stand last April, although the OSA's authority to review all county audits has been left intact.

Legislators have been sensitive to the reality that these three counties were effectively defending a state law at local governments' expense. Press reports at the time of the state Supreme Court's decision indicated that Becker and Wright counties had spent less than $140,000 defending the lawsuit; Ramsey County's costs are not immediately available. Not only has this proposal been floated before to pay these costs, but in 2018 legislators approved a measure that would have directly reimbursed the counties. That measure, though, went down as part of last year's veto-fest.

HF 0191 (Hornstein, DFL, Minneapolis, 9281); and SF 0057 (Dibble, DFL, Minneapolis, 4191)

Converts the Metropolitan Council from an appointed to an elected body with staggered four-year terms, effective after the redistricting necessitated by the 2020 census.

HF 0191 (Hornstein, DFL, Minneapolis, 9281); and SF 0057 (Dibble, DFL, Minneapolis, 4191)

Provides for staggered terms for Metropolitan Council members. Expands the nominating committee from seven gubernatorially-appointed members to 13 members. Directs that three of the additional members be appointed by the Association of Metropolitan Municipalities and the other three be appointed by the Association of Minnesota Counties. Requires council members have relevant experience in areas including, but not limited to, local government, transportation, housing, environment, and regional development. Creates an Equity Advisory Committee to assist the council in looking at ways to reduce concentrations of poverty in the region and foster increased connections to social and economic opportunities. Creates a stakeholder group to review and make recommendations on sewer availability charges for new or expanded outdoor seating at eating and drinking establishments.

SF 0036 (Wiger, DFL, Maplewood, 6820)

Provides for staggered four-year terms for Metropolitan Council members. Modifies the nominating committee for the Council from seven members appointed by the governor, three of which must be local elected officials, to a 13-member body with six members appointed by the governor, four locally elected officials appointed by the Association of Metropolitan Municipalities and three locally elected officials appointed by the Association of Minnesota Counties. Requires Council members to have relevant experience in areas including but not limited to local government, transportation, housing, environment, and regional development. Provides for public disclosure of each of the three finalists for each Council position and requires an opportunity for public comment before an appointment is made. Allows the governor to appoint a member who is not a finalist, but in that instance requires the governor to provide in writing a detailed explanation of the reasons for rejecting the finalists.

The governing structure of the Metropolitan Council has been a hot topic for legislators for the past few years. This proposal and the others outlined below on this subject indicate that interest in reform has not waned.

SF 0047 (Osmek, R, Mound, 1282)
Requires gubernatorial nominees for the Metropolitan Council to receive resolutions of support from a majority of the local governments located wholly or partially in his or her district before the nominee may be submitted to the Minnesota Senate for confirmation proceedings. Provides that a majority of local governments in a Met Council district may force the removal of the member representing that district by submitting resolutions to the Council asking for such. Stipulates that no local government approval is necessary in the Met Council's selection of its chair.

TAX ADMINISTRATION/GENERAL POLICY

SF 0265 (Newton, DFL, Coon Rapids, 2556)
Requires the Department of Revenue to publish all applicable sales tax rates by nine-digit zip code.

TRANSPORTATION

SF 0010 (Newman, R, Hutchinson, 4131)
Removes the limit ($145.6 million annually) placed on the dedication of sales tax revenues related to motor vehicle repair parts for road construction purposes. Dedicates all proceeds from the sales taxes related to motor vehicle replacement parts for road construction purposes.

Current law dedicates a portion of the sales tax revenues from motor vehicle repair parts for this purpose; this proposal would expand that dedication further. We'll reiterate our long-standing opposition to dedicating streams of sales tax revenue in this fashion. Society charges policymakers with the responsibility for determining the size of governments' budgets and their priorities. Dedicated funding takes decisions about priorities out of policymakers' hands – which is great until the money is wanted for some other purpose. If this spending area is a priority, then legislators need to make it so through the regular budgeting processes.

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