

2015 Legislative Update

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**Regional Council of Mayors Meeting
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2015 SESSION/SPECIAL SESSION RECAP

The 89th Legislature convened on January 6th, 2015 with a newly elected GOP House majority working with a DFL Senate and Governor. After 10 years of budget deficits, a nearly \$2 billion surplus led to hopes of tax breaks, more money for education, and funding to repair the state's roads and bridges. Legislative leaders made their priorities known early on, but when the House and Senate adjourned the 2015 Regular Legislative Session on May 18th, many of these key priorities were left on the table.

Following weeks of negotiations, the Legislature made a frenzied dash to complete their work on time, passing eight of the ten major appropriations bills on the last day of the regular session. However, the debate regarding a few key pieces of legislation did not end when the legislature adjourned. While leaders struck a deal on a number of appropriations bills, Governor Dayton vetoed a \$17 billion Omnibus K-12 Education bill that passed both bodies. He also vetoed the Omnibus Agriculture, Environment and Natural Resources bill, as well as the Omnibus Jobs and Energy bill.

After nearly four weeks of post-session negotiations, lawmakers returned to Saint Paul on Friday, June 12th for a special session. With the Capitol's House and Senate chambers off-limits due to major restoration work going on throughout the building, committee rooms in the State Office Building were converted into House and Senate chambers. This was first time in 110 years that a legislative session was held outside of the State Capitol.

The special session addressed the three budget bills vetoed by Governor Dayton: the K-12 Education bill, the Agriculture, Environment and Natural Resources bill, and the Jobs and Energy bill. Legislators also considered three other measures that failed to pass during the regular session: a \$373 million Bonding bill, a Legacy bill that spends dedicated sales tax revenues, and a technical corrections bill. Even after weeks of negotiations and a 16 hour special session, very limited changes were made to the major budget bills.

Although the special session started smoothly, there was some controversy surrounding the Omnibus Agriculture, Environment and Natural Resources bill. Ultimately, all special session bills passed as introduced, and the House adjourned at 1:30 A.M., with the Senate following closely behind at 2:00 A.M. on Saturday, June 13th.

The Legislature is now adjourned until March 8th, 2016. There are many questions over what they will be able to accomplish in a very abbreviated legislative session next year. With many outstanding and major issues left to be addressed (bonding, taxes, and transportation), it looks as if legislators will have their hands full in 2016. Next year also brings another election year - with all state legislators (House and Senate) up for reelection. We look forward to what promises to be an exciting year.

Below is a summary of key pieces of legislation impacting local governments:

TAX PROVISION IN K-12 EDUCATION

An Omnibus K-12 Education bill was passed during Special Session. Although the education finance bills rarely impact cities, this year's bill unfortunately includes a one-year delay in the sales tax exemption for joint powers and special districts that was originally scheduled to become

effective on January 1, 2016. According to estimates prepared by the non-partisan Senate staff, this one-year delay would result in roughly \$20 million in additional costs to joint powers and special districts across the state.

The provision to further delay the joint powers/special district exemption until 2017 was initially included in the education finance bill in the waning hours of the regular session. The conference committee added this delay, even though the provision was never included in any bill nor was the tax change ever considered in the House or Senate Taxes committees.

The MLC, along with other local government associations, sent a letter to Governor Dayton, Senate Majority Leader Tom Bakk, and House Speaker Kurt Daudt to express frustration with and opposition to the delay.

This delay will increase local costs while increasing state revenues at a time when the state is already running a large surplus. Despite having more than \$865 million of anticipated state revenues unexpended after the passage of all budget bills in the special session, negotiations between the governor and legislative leadership over the education finance bill did not result in the deletion of the provision.

This bill was passed by the House on a vote of 115-10 and the Senate on a vote of 53-12. It was signed into law by Governor Dayton on June 13, 2015.

STATE GOVERNMENT FINANCE

An Omnibus State Government Finance bill was passed during the Regular Session, which included nearly \$974 million in funding for state agency and board operations. The bill included:

- A 1.8 percent compensation operating adjustment for many executive branch offices and state boards, including the governor's office, Campaign Finance and Public Disclosure Board, Minnesota Management & Budget, Revenue and Administration departments and the state's four ethnic councils.
- A two-year repeal of the state's political contribution fund.
- A provision allowing a county to have its annual financial audit performed by the state auditor's office or a private CPA firm.

The bill was passed by the House on a vote of 71-61 and the Senate on a vote of 44-21. Governor Dayton signed the bill into law on May 23, 2015.

JOBS AND ENERGY

An Omnibus Jobs and Energy Bill was passed during the Special Session. This legislation included:

- \$11 million for broadband, without earmarking money for any specific city.
- Policy language that allows Rochester to use sales tax money for the Destination Medical Center.
- \$5 million in new money to help individuals with disabilities find jobs and prevent homelessness among the mentally ill.
- \$2 million in increased funding for several sectors of the Commerce Department.

- Changes to policies and rates for people who generate their own energy and sell the excess back to co-op and municipal utility companies.

The bill was passed by the House on a vote of 78-47 and the Senate on a vote of 50-14. It was signed into law by Governor Dayton on June 13, 2015.

LIQUOR

An Omnibus Liquor bill was passed and signed into law during the Regular Session. This bill made a number of changes to Minnesota's liquor laws. However, despite attempts to repeal the ban on Sunday liquor sales and the ban on Sunday off-sale liquor purchases, these changes were not included in the final bill. Among other things, this legislation will:

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

The bill was passed by the House on a vote of 127-4 and the Senate on a vote of 56-8. It was then signed into law by Governor Dayton on May 1, 2015.

ELECTIONS

An Omnibus Elections Bill was passed during the Regular Session. This non-controversial piece of legislation made several updates to current elections law, including language to:

- Allow statutory cities to raise filing fees for local elected officials (an authority currently granted to charter cities).
- Allow absentee voters to return their own ballot, in person, on Election Day.

Notably absent from the bill were two controversial provisions - early voting and the restoration of felon voter rights.

The bill was passed by the House on a vote of 126-0 and the Senate on a vote of 65-0. Governor Dayton signed this bill into law on May 22, 2015.

AGRICULTURE AND ENVIRONMENT

An Omnibus Agriculture, Environment, and Natural Resources bill was passed during Special Session. The bill included:

- New language that requires repayment of approximately \$58 million to the Closed Landfill Investment Fund using surplus money that is expected to be available in the General Fund after the November forecast.
- A change in the requirement for an independent peer review whenever the PCA proposes changes to water quality standards.
- A clarification of the language regarding self-reporting of environmental violations, which would require the PCA to delay enforcement, for 60 days rather than the 90 days in the original bill. This new language specifies that the provision applies only to “minor violations” that do not cause serious harm to human health or the environment.
- An additional \$500,000 for the Environmental Quality Board to streamline the environmental review process.
- Clarification on when and how sulfate standards will be implemented on city water treatment systems.
- Public access to provide testimony during peer review processes for water quality rules,
- A requirement for a state cost-analysis report on recent, proposed, and impending new water quality standards.
- The elimination of the MN Pollution Control Agency Citizens’ Board.

The bill passed the House on a vote of 78-47. While it initially failed in the Senate on a vote of 33-32, it was reconsidered and passed on a vote of 38-29. Governor Dayton signed the bill into law on June 13, 2015.

PUBLIC SAFETY – LICENSE PLATE READERS

After extended conversations on how to resolve the issue of license plate readers, the House and Senate passed compromise language in a bill regulating license plate readers (LPR) data. Under the bill, police have a 60-day retention period for keeping the LPR data, splitting the difference between the Senate proposed language of 90 days and the House proposed language of 30 days. The bill also includes a requirement for biennial audits and contains extensive language regulating the use of the equipment and puts in place guard rails to avoid misuse of the data.

The bill was passed by the Senate on a vote of 55-11 and by the House on a vote of 96-35. Governor Dayton signed the bill into law on May 23, 2015.

CAPITAL INVESTMENT

During the Special Session, the Legislature passed a \$373 million Capital Investment bill. This bill included minimal investments in transportation, with no investments in transit. While the bill did include \$140 million in trunk highway bond spending for Hwy 53 in northern Minnesota, the total investment in GO Bonds was only \$31.92 million, including:

- \$6.85 million for Local Bridges.
- \$4.29 million for Local Roads.
- \$850,000 for a local road project in Sandstone.
- \$1 million for MN Valley Regional Rail.
- \$4.7 million for Plymouth Vicksburg Lane Railroad Grade Crossing.
- \$3.77 million for a Willmar Railroad Grade Crossing.

- \$460,000 for a Rainy River Railroad Grade Crossing.
- \$10 million for the Richfield 77th St Underpass.

The bill also contained a number of other non-transportation related provisions of potential interest, including:

- \$26.529 million for the U of M (includes Willmar Poultry Lab).
- \$21.295 million for MnSCU.
- \$23.549 million for DNR, all in Flood Hazard Mitigation.
- \$11.026 million for the PCA.
- \$32.924 million for the Capitol Restorations and security improvements.
- \$1.5 million for Met Council for Inflow & Infiltration grants.
- \$3 million for DEED, including \$2 million for the TED program.
- \$10 million to the PFA for Wastewater Infrastructure Grants (also an appropriation for the Lewis & Clark water issue in southwestern Minnesota).
- \$10 million for MHFA Housing Bonds.
- Dedicated to disaster relief from the storms last summer, providing \$14.166 million in GO bonds and another \$11.3 million in general fund spending.

The Special Session bill passed the House on a vote of 96-25 and the Senate on a vote of 48-18. It was signed into law by Governor Dayton on June 13, 2015.

MET COUNCIL

Even though numerous bills were introduced this session in an attempt to make changes to the structure and governance of the Met Council, the session ended without any significant legislation on this issue. The only item of note that passed was language adding a suburban opt-out provider to the TAB board.

TRANSPORTATION

Unable to reach an agreement on how to fund Minnesota's transportation infrastructure, the House and Senate passed a "lights on" transportation bill as part of a global agreement to complete the budget before the end of the 2015 Legislative Session. The bill provided \$30 million over the base level for transportation funding as well as a number of policy changes. The increase in general fund dollars included:

- \$12.5 million for small cities' roads and bridges.
- \$5 million for Greater Minnesota transit.
- \$5 million for rail grade crossing safety.
- \$3.14 million Capitol security.
- \$3 million for port development assistance.
- \$900,000 for St. Cloud and Duluth emergency response teams.
- \$353,000 for Department of Public Safety (DPS) operations.
- \$145,000 for emergency railroad track repair in Hugo.
- \$117,000 for state plane purchase (matching appropriation below).
- \$32,000 for Roosevelt Tower.

Other appropriations in the bill included:

- Airport Fund:
 - \$11 million for airports development assistance from the airport fund
- Trunk Highway Fund:
 - \$49 million in purchasing power increase for the Minnesota Department of Transportation (MnDOT).
 - \$7.925 million for DPS purchasing power increase.
 - \$2 million for environmental management.
 - \$858,000 for state plane purchase (matching appropriation above).
- Metropolitan Transit:
 - The bill cancels \$29.7 million in previous appropriations to the Met Council (SWLRT) to give them additional resources for transit system operations.
 - \$2 million for Suburban Transit demonstration project.
 - \$200,000 for transportation management organizations.
 - \$27.8 million in unencumbered funds from previous appropriation in previous budget bill.

Additionally, although not new money, the bill continues to fund the TED program at \$10 million per year from the Trunk Highway Fund.

The bill was passed by the House on a vote of 76-58 and the Senate on a vote of 65-0. It was signed into law by Governor Dayton on May 22, 2015.

TAXES

After weeks of negotiations during the Regular Session, the Legislature and Governor Dayton found themselves at an impasse when it came to taxes. Ultimately, the House and Senate leaders abandoned the issue in an attempt to reach an overall budget agreement and finish the 2015 session on time. As a result, no tax bill was passed, leaving behind many initiatives that the MLC was following this session. Below is a list of items that were included in the House and Senate tax bills that will not become law:

Good Provisions:

- A House and Senate supported change to the preliminary levy date for special taxing districts from September 15 to September 30.
- A House and Senate proposed set of changes to TIF statutes that would have:
 - Allowed interfund loan resolutions to be adopted before or after the adoption of the TIF plan or the creation of the district, and required the resolutions be adopted up to 60 days after the funds have been transferred or spent.
 - Clarified that the terms of the interfund loans or transfers may be amended or modified before the decertification of the district.
 - Clarified that interfund loans may be structured as draw-down or line-of-credit obligations.
- A House-proposed simplification of the sales tax exemption for purchases of construction materials made by a contractor, subcontractor, or builder under a lump sum contract for buildings and facilities used directly by local governments.

- A Senate proposed clarification that local lodging taxes apply to the entire amount paid by a consumer for lodging, including accommodation intermediary charges.

Bad Provisions:

- A House proposed provision that would have allowed citizens to retroactively challenge a city council's decision on the property tax levy through a reverse referendum process.
- A House proposed set of changes that would have moved all city, county, and school district referendum elections to the general election.
- A House provision that would have reduced the metro area sales tax for transit base by excluding sales tax on electricity and utility purchases.

MISCELLANEOUS BILLS THAT FAILED TO PASSED IN 2015

- Comprehensive transportation funding package
- Omnibus tax bill
- Local approval of gubernatorial appointees to the Metropolitan Council required
- Metropolitan Council member staggered terms provided
- Metropolitan Council member appointment by cities and towns provided, Transportation Advisory Board eliminated, and Grant Evaluation and Ranking System repealed
- Task force to make recommendations on metropolitan governance established
- Metropolitan Council required to consult with the Transportation Accessibility Advisory Committee on procurements
- Legislative approval of housing incentives and allocations by the Metropolitan Council required
- Blue Ribbon Commission established to study and make recommendations on metropolitan governance, and money appropriated
- Metropolitan council nominating committee membership modification
- Metropolitan council abolishment
- Sunday off-sale intoxicating liquor sales authorization
- Municipalities authorized to allow off-sale intoxicating liquor sales on Sundays
- Law enforcement body camera data classified
- Mandatory fire sprinkler installation prohibition
- Early voting authorization and procedure establishment and appropriation
- Counties and cities required to have written procedures available to the public and to provide notice of availability to the public
- Home rule charter city authority to assess for garbage collection clarified
- Mayors authorized to perform civil marriages
- Local government alternative Web site publication requirement
- Ten-day notice and public hearing required before a moratorium on residential development takes effect

- Cities civil penalties and fees collections as special assessment authorization
- Data practices training and technical assistance to local governments appropriation