

LEAGUE *of* MINNESOTA CITIES

Session 2019:

Representing Minnesota Cities at the Capitol

The 91st biennial session of the Minnesota Legislature began Jan. 8, 2019, with the swearing in of all 134 House members. It came one day after all five constitutional officers took the oath of office. The session, which marks the first year of the state's fiscal biennium, is expected to focus largely on federal tax conformity and setting the budget for the next two years.



Get involved

The League of Minnesota Cities (LMC) encourages member cities to watch for opportunities for involvement in LMC advocacy efforts. For the most up-to-date legislative information, subscribe to the League's free e-newsletter, *Cities Bulletin*, and to *Capitol Updates* for breaking news, and follow the League on Facebook and Twitter. Learn more at www.lmc.org/legupdates.

Election outcomes bring changes

The 2018 election brought many changes to state government. The House DFL gained 18 seats, taking the majority from Republicans for the first time in four years. The House now has 75 DFL members and 59 Republican members. The new majority swiftly elected leaders, making Rep. Melissa Hortman (DFL-Brooklyn Park) the incoming speaker of the House and Rep. Ryan Winkler (DFL-Golden Valley) the new majority leader. Ranking House DFL members will chair the House's 34 committees, subcommittees, and divisions (an increase from the 29 previously in place).

House Republicans elected former House Speaker Kurt Daudt (R-Crown) as their minority leader. In an unexpected turn of events, four members of the House Republican Caucus (HRC) announced in December that they had broken away from the HRC to form a new caucus. Reps. Steve Drazkowski of Mazeppa, Tim Miller of Prinsburg, Cal Bahr of East Bethel, and Jeremy Munson of Lake Crystal released a statement calling themselves the New House Republican Caucus. It's unclear whether this move will have significant ramifications for the House minority.

Senate seats were not on the ballot in 2018, with one exception. State Sen. Michelle Fischbach (R-Paynesville) resigned her Senate seat and position as president of the Senate in May 2018 to assume the role of lieutenant governor. The move came in the wake of former Lt. Gov. Tina Smith being appointed to the U.S. Senate after Sen. Al Franken's resignation. Republicans held onto the Fischbach seat with the general election victory of Sen. Jeff Howe (R-Rockville), who was sworn in on Dec. 11, 2018. This means Senate Republicans continue to hold a 34 to 33 seat majority. Sen. Jeremy Miller (R-Winona) was elected to replace Sen. Fischbach as president of the Senate, and Sen. Paul Gazelka (R-Nisswa) continues to serve as Senate majority leader. Sen. Tom Bakk (DFL-Cook) remains the minority leader.

New constitutional officers

The 2018 election also ushered in four new constitutional officers who, along with one returning constitutional officer, were sworn in Jan. 7. After eight years in office, Gov. Mark Dayton (DFL) did not seek re-election. He is succeeded by Gov. Tim Walz (DFL),

who was sworn in with his running mate, Lt. Gov. Peggy Flanagan (DFL). Gov. Walz's transition team spent the final weeks of 2018 scrambling to identify and hire 22 cabinet members to lead state agencies, which is the prerogative of every new governor.

Minnesota also has a new state auditor, Julie Blaha (DFL). Blaha succeeds Rebecca Otto (DFL), who had held the office since 2007 and chose to run for governor rather than seeking re-election. Lastly, outgoing Attorney General Lori Swanson, who had held that office since 2007 and also stepped down to run for governor, was replaced by former U.S. Rep. Keith Ellison (DFL). The only returning constitutional officer is Secretary of State Steve Simon (DFL), who was elected for a second term.

Will gridlock continue?

Given all these changes, it may be too early to predict whether the partisan gridlock that defined the last several sessions will continue to plague the legislative process. Certainly, new leaders will bring fresh perspectives and new negotiating strategies. It seems safe to expect that the House and Senate majorities will have differences when it comes to spending priorities, policy matters, and taxes. And, although Gov. Walz outlined much of his agenda during his campaign for governor, his ability to advance his initiatives in the legislative process remains to be seen.

According to the National Conference of State Legislatures, Minnesota will be the only state with a divided Legislature in the 2019-2020 biennium. The last time there was only one divided state legislature in the country was 1914.

At a minimum, leaders must coalesce around a two-year budget to operate state agencies and will have to resurrect a 2018 bill that conforms Minnesota's tax laws with federal policies enacted in 2018. The tax conformity measure was part of a broader tax bill that was vetoed by Gov. Dayton.

Beyond the essentials, many interest groups are hoping to build new momentum for initiatives that weren't fully embraced by the previous Legislature or administration. Expect to see reinvigorated discussions around policies aimed at addressing issues, such as opioid addiction and distracted driving, and funding initiatives related to transportation, housing, and childcare, to name a few. Odd-year sessions do not typically produce robust bonding bills, but it is entirely possible that a bonding bill could be considered in 2019, particularly as part of a global agreement.

Money matters

State budget officials held a news conference on Dec. 6, 2018, to announce the November 2018 state budget and economic forecast for the upcoming 2020-2021 budget cycle. This announcement represents the starting point for Gov. Walz and the Legislature to begin assembling the next two-year budget.

The state is projected to end the current 2018-2019 biennium on June 30, 2019, with a positive balance of \$720 million. As Gov. Walz and the 2019 Legislature develop a state budget for the upcoming two-year budget cycle, they will have a projected positive budget balance of \$1.544 billion for the fiscal year (FY) 2020-2021 biennium.

For the upcoming biennial budget period, state revenues are projected to be slightly higher (+\$190 million) than June 2018 estimates, with state spending expected to be lower (-\$489 million). Although the positive budget balance for FY 2020-2021 is officially projected to be \$1.544 billion, about half of that amount is a carry-forward of the \$720 million positive budget balance from the current biennium.

One-third of the forecasted budget surplus for the balance of the current biennium, or \$354 million, is automatically transferred to the state budget reserve. In addition, state law requires \$90 million in canceled funds appropriated for the health insurance premium subsidy program and \$47 million of the surplus in the Minnesota

Workers' Compensation Assigned Risk Plan also be transferred to the state's general fund budget reserve.

These transfers will increase the state's general fund budget reserve to \$2.075 billion from the current \$1.583 billion. The current state budget reserve target established by Minnesota Management and Budget (MMB) is \$2.222 billion.

Gov. Walz is required under state law to submit a budget to the Legislature by Feb. 19, 2019. He will use the November 2018 budget forecast as a basis for that budget. MMB will release an updated state budget forecast less than two weeks later, and that updated forecast will be the basis for a final state budget for the FY 2020-2021 biennium.

When will it end?

Constitutionally, the session must end no later than the first Monday after the third Saturday in May. In 2019, that date is May 20. That said, Capitol insiders have grown accustomed to stalled budget negotiations that lead to special sessions. The biennial budget must be in place by the

LMC Legislative Priorities at a Glance

- City street funding
- Housing
- Infrastructure fees
- Local control
- Local government aid funding
- Police and fire disability benefits
- Presidential primary
- Sales tax exemption on construction materials
- Telecommunications
- Urban forest management funding
- Water policy and funding

CITIES to WATCH in 2019

July 1 start of the new fiscal year to avoid a full or partial state government shutdown.

What's on the agenda for cities?

In preparation for the upcoming legislative session, the League of Minnesota Cities (LMC) Board of Directors formally approved the *2019 City Policies*—a document addressing more than 150 legislative issues that impact cities ranging from unfunded mandates, to economic development tools, to state-local fiscal relations. The policies represent the work of city officials who participated in the League's four policy committees in 2018. (Access the policies at www.lmc.org/policies.)

From that document, the LMC Board selected 11 issues as League legislative priorities. The priorities were determined through discussions that occurred during the policy committee process and the fall LMC Regional Meetings, and through other member interactions and communications over the last several months. While the issues addressed in the priority list do not reflect the entire scope of anticipated League activities during the 2019 legislative session, it provides a starting point for important issues to watch as the session gets underway. Following are summaries of the Board's 11 legislative priorities.

City street funding

The League calls for: (1) a dedicated and sustainable state funding source for non-Municipal State Aid (MSA) city streets in large and small cities statewide; (2) enabling legislation that would allow cities to create street improvement districts (similar to sidewalk improvement districts already allowed under Minnesota Statutes, section 435.44); and (3) the creation of a new fund that would provide grants to cities burdened by cost participation requirements related to trunk highway and county state-aid projects. Specifically, the League will seek ongoing and increased funding for the Small Cities Assistance Account that was created in 2015, as well as creation of a similar account to assist cities over 5,000 in population with maintenance of non-MSA city streets.

Housing

Cities statewide support state resources to aid cities in meeting demand for affordable housing that is sensitive to local conditions, emerging trends, and changing demographics. Employers in many Minnesota cities want to expand; however, available housing does not always accommodate workforce growth. A lack of rental, single-family, and other housing options for new and current residents can hinder economic development and job growth. The League will continue to advocate for programs that support workforce housing and affordable housing, including resources in a bonding bill.

Infrastructure fees

In *Harstad v. City of Woodbury*, the Minnesota Supreme Court recently clarified that state statute does not provide the authority for cities to impose infrastructure fees to fund future road improvements when approving subdivision applications under Minnesota Statutes, section 462.358, subdivision 2a. The League will advocate for authority for local units of government to impose infrastructure fees so new development pays its fair share of public infrastructure needed to adequately serve this new development.

Local control

Nearly 60 bills, including reverse referendum requirements, prohibitions on certain local ordinances, and measures to punish local governments by withholding local government aid, were introduced during the 2017-2018 biennium. The League will continue to actively oppose legislation that erodes the fundamental principle of local control in cities across Minnesota. The League will also work to reinforce our core value that local elected officials are not only authorized to make public policy decisions related to health, safety, and welfare within their communities, but are in the best position to do so.

Local government aid (LGA) funding

For the 2019 distribution, the LGA program was frozen at the 2018 level. The program remains nearly \$31 million below the certified 2002 funding level, and \$52 million below the original certified 2003 funding level before the Legislature cut the appropriation by \$122 million. League policy calls for a restoration to at least the 2003 certified level of \$586.8 million and further supports future annual increases to at least account for inflationary pressures.

Police and fire disability benefits

State law requires public employers to continue health insurance benefits for firefighters and peace officers injured in the line of duty, and for dependents of officers killed in the line of duty. The fund created to reimburse local units of government for the cost of complying with this mandate has been deficient since 2002, and appropriation for the account has not increased. The cost has since grown every year for cities. In 2019, the League will advocate for full funding for this program.

Presidential primary

The current process for conducting a presidential primary in 2020 must be improved to ensure an efficient and positive voting experience for those who choose to participate. To do so, the League supports: (1) exploring expanding the list of reimbursable items currently outlined in statute to ensure that local units of government are fully reimbursed for conducting the primary; (2) restricting the dissemination of party declaration information to the political parties

only and not including it on the public information lists; and (3) allowing the presidential primary to be conducted via mail balloting.

Sales tax exemption on construction materials

Although construction materials purchased by cities for public projects are technically exempt from the general sales tax, the Minnesota Department of Revenue requires cities to comply with complicated and costly procedures to obtain the exemption. As a result, most cities do not claim the sales tax exemption on many construction projects, unnecessarily increasing the cost of the project. The League will continue to pursue legislation to streamline the process to allow cities to realize the sales tax exemption on these materials.

Telecommunications

Telecommunications includes voice, video, data, and services delivered over cable, telephone, fiber-optic, wireless, and all other platforms. Telecommunications and information technology is essential public infrastructure for the efficient, equitable, and affordable delivery of local government services to residents and businesses. The League supports a balanced approach to telecommunications policy that allows new technologies to flourish while preserving local regulatory authority.

Urban forest management funding

Urban forests are an essential part of city infrastructure and are facing increasing challenges. Dutch elm disease, oak wilt disease, drought, storms, and emerald ash borer (EAB) threaten our investment in trees. The costs for control

and removal can be catastrophic and put pressure on city budgets. The League supports at least \$5 million per year of funding from the general fund or other appropriate state funds for a state matching grant program specifically to assist cities with the identification, removal, replacement, and treatment of EAB, as well as for building capacity for urban forest management and meeting the costs of preparing for, and responding to, other catastrophic urban forest problems.

Water policy and funding

Cities have invested billions of dollars in creating the infrastructure necessary to provide safe, reliable, and affordable water for their residents and businesses, and to manage stormwater and wastewater according to state and federal law and to protect public health and the environment. The League will work with state and federal agencies, the Legislature, and other stakeholders to make sure cities have the necessary technical and financial resources to meet these challenges through work done this session on agency budgets, water policy, regulations, and infrastructure funding programs, including approval of replacement funding for infrastructure projects approved in 2017 where the state has been unable to meet its funding obligation. The League will also continue to work to ensure that non-city water users are held accountable for their impacts on water quality and quantity.

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If you have questions about the session or League priorities, contact a member of the LMC intergovernmental relations team. Find staff names and contact information at www.lmc.org/igr-staff. 



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