

Minnesota Weekly Legislative Update: 2017 Legislative Session Preview

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On January 3, 2017, not only will the 90th session of the Minnesota Legislature convene, but the Minnesota Capitol building will once again be open to the public after undergoing a three-year, \$272 million comprehensive restoration.

With Republicans taking control of the Senate from the DFL in November with a 34-33 majority, new Senate leadership will also be taking the helm. Senator Paul Gazelka (R-Nisswa) was elected by the Senate Republican Caucus as Senate Majority Leader. Senators Michelle Benson (R-Ham Lake) and Jeremy Miller (R-Winona) will serve as Deputy Majority Leaders. Julie Rosen (R-Vernon Center) will chair the Finance Committee and Roger Chamberlain (R-Lino Lakes) will chair the Tax Committee. Senator Tom Bakk (DFL-Cook), the current Senate Majority Leader, was elected by Senate DFLers to be the new Minority Leader.

In November, House Republicans widened their majority to 76-57. Representative Kurt Daudt (R-Crown) will keep his post as Speaker of the House and Representative Joyce Peppin (R-Rogers) remains House Majority Leader. House DFLers elected Representative Melissa Hortman (DFL-Brooklyn Park) as their new Minority Leader, replacing Representative Paul Thissen (DFL-Minneapolis) who opted not to run again.

Republicans last controlled both chambers in 2011-12. Then, gridlock between the Republican controlled legislature and Governor Dayton was the result, as the governor vetoed bills cutting spending to address a \$5 billion dollar deficit. This gridlock culminated in a 20 day government shutdown. While a surplus exists this biennium, Governor Dayton and the Republican controlled legislature will have to work at finding common ground on a 2018-19 biennial budget (among other issues) to avoid a repeat of 2011-2012.

Budget Forecast

On December 2, Minnesota Management and Budget (MMB) released its most recent budget and economic forecast. For FY2016-17, the current biennium, the surplus is projected to be \$1.012 billion. After allocating one-third (\$334 million) to the state's budget reserve as required by law, FY2016-17 is projected to end with a \$678 million balance.

MMB projects a \$1.4 billion surplus for the FY2018-19 biennium. This is lower than previous estimates due to slower revenue growth. MMB also commented that there is uncertainty in this forecast given the possibility of significant changes proposed by the Trump administration.



Governor Dayton and his staff will use the November forecast to make final decisions on his FY2018-2019 budget recommendations. These recommendations will be released to the legislature and the public on January 24, 2017.

MMB will release its next budget and economic forecast in late February. This forecast will be the basis that the governor and legislature will use in adopting a final budget for the FY2018-19 biennium.

Transportation

Governor Dayton and legislative leaders failed to reach an agreement on a special session in 2016 in part because they couldn't agree on how to fund transportation and transit infrastructure improvements. There was talk about a possible session before the holidays, but no agreement was reached. This means that transportation, along with taxes and a bonding bill, will be at the forefront of this session.

As has been the case since 2015, the governor and legislative leaders are indicating that transportation funding will be a top priority. However, reaching agreement on appropriate funding levels and sources will continue to be problematic. The governor will likely continue to advocate for increases in registration fees and gas taxes for road improvements and a regional sales tax increase for transit. Republican majorities will likely focus on using general fund revenue and redirecting transportation related sales taxes for road improvements. If legislative leadership and the governor cannot agree on increasing traditional transportation funding sources—which is likely—the size and scope of any final transportation package will be limited to the amounts generated from bonding, the general fund, and non-traditional funding mechanisms.

Taxes

The 2016 Omnibus Tax Bill contained most of the provisions of the 2015 Omnibus Tax Bill (as agreed by House and Senate conferees) and a few new provisions added by the 2016 House and Senate Tax Committees. In late May 2016, a final bill was agreed to after negotiations between the governor, Senate Majority Leader Bakk and House Speaker Daudt. However, Governor Dayton subsequently pocket vetoed the bill, citing a drafting error that, if not corrected, would cost the state approximately \$100 Million.

There will be plenty of work for the House and Senate Tax Committees this session, starting with reconsidering many of the provisions contained in the 2015 and 2016 Omnibus Tax Bills that have not been enacted. For example, the 2016 Omnibus Tax Bill contains a provision reducing commercial and industrial property taxes paid to the state by exempting the first \$100,000 of property value. Other items to be reconsidered include tax credits and deductions for contributions to college savings plans, tax deductions for student loan debt, clarifications to the definition of residency for state income tax purposes, and incentives for sustainable forestry.

The Tax Committees will likely also consider other, business related, tax issues as well. Minnesota's business community has advocated for reduction in the corporate income tax, as Minnesota has the third highest corporate income tax rate in the nation and leaders from both sides have identified this issue as a priority. The estate tax could also be reconsidered.

Bonding

The legislature generally focuses on the state's capital investment needs in the second year of the biennium. However, this year may be different due to the backlog of capital investment projects and the failure to pass a bonding bill in 2016.

Governor Dayton has indicated he will submit bonding recommendations totaling nearly \$1 billion in January. Speaker Daudt has indicated that if a bonding bill were to pass this session, it would be smaller. Representative Dean Urdahl (R-Grove City), the incoming chair of the House Capital Investment Committee, has also said a small bonding bill might pass this year, but a big bonding bill will come in 2018. Bonding bills need a three-fifths majority in order to pass – 81 representatives and 41 senators.



The Senate Capital Investment Committee will have a new chair as well with Senator Dave Senjem (R-Rochester) replacing Senator Leroy Stumpl (DFL-Thief River Falls).

MNSure

When the rate increases for 2017 were released in October (plans increasing up to 67 percent), premium relief for Minnesotans covered by those plans became a topic of contentious debate. Governor Dayton encouraged legislative leaders to include premium relief in special session negotiations. Special session talks failed in part because the House and governor differed on a mechanism to provide premium relief.

Speaker Daudt and Majority Leader-Elect Gazelka have both said HF 1 and SF 1 will be MNSure reform. There will be two main aspects to MNSure reform. First, the legislature wants to act quickly to provide premium relief. Second, MNSure reform is going to be dependent on what is done at the federal level. The main issue is how to address the high risk pool. The current system put that group of people in a small category, which is a main factor in rates skyrocketing. Minnesota is considering asking the federal government for some guidance and/or waivers so reforms can be put in place for 2018. Last session the Senate proposed reforms in their HHS bill, but were unable to get the House to agree.

Education – Pre-K to Higher Ed

Regarding early childhood education, Speaker Daudt has said he will focus on scholarships for those children most in need rather than allocating resources to universal pre-kindergarten. Both parties and bodies agree that funding for education is necessary, but they simply have to agree on how much funding and where the money will come from.

The steady increase of higher education costs, and corresponding student debt, continues to be a stress on recent graduates in Minnesota. Last session, the student loan debt forgiveness legislation did not pass because it was included in the Tax Bill that was vetoed by the Governor. This veto eliminated relief to many students, and this issue will most likely be brought up again this session.

Additional Issues

Environment

Recently, Representative Dan Fabian (R-Roseau), chair of the Environment and Natural Resources Policy and Finance Committee, indicated his priority this session is to focus on the cost and timeliness of streamlining the environmental review process. Representative Fabian clarified that environmental reviews should not solely focus on corporations, but on counties as well. The incoming Trump Administration has sparked conversations regarding a shift of federal lands to state lands, making the states responsible for these lands. This could become a significant issue in 2017.

Sunday Sales

Sunday liquor sales failed on the House floor during the 2016 session and the Senate floor in 2015. With the addition of a large number of new members, lawmakers are generally optimistic of passage this year. The main concern is that by allowing Sunday sales, “mom and pop” stores, and municipal liquor stores, will have a harder time competing with “big box” stores. Both leaders in the Senate have traditionally opposed the policy. Speaker Daudt believes it will pass the House.

Workforce Issues

Due to the low unemployment rate, Minnesota is confronting a shortage of qualified workers. The biggest workforce issue facing this legislative session is local preemption on topics such as mandatory paid leave. The Minneapolis City Council recently adopted a mandatory paid leave ordinance for employees of private employees and the Saint Paul City Council passed a similar ordinance. It is likely that Republican lawmakers will introduce legislation that explicitly reserves the right to legislate issues regarding private pay and benefits for state government. Historically, Governor Dayton has stated his



support for issues to be addressed at a state level in order to avoid a patchwork of local ordinances. However, the political landscape has changed drastically and Democrats nationwide are looking to cities for support.

Met Council Reform

There will be discussions this year about reforming the Met Council. The House Transportation & Regional Governance Policy Committee chaired by Representative Linda Runbeck (R-Circle Pines) has jurisdiction over the Council and is expected to address the issue. Many in the legislature believe reforms along the lines set out in the 2011 Legislative Auditor report on Governance of Transit in the Twin Cities Region are needed. These reforms include governance and more elected representation on the Met Council.