

MUCA Capitol Happenings
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The Minnesota Legislature adjourned the 2015 Legislative Session at midnight on Monday, May 18 and will reconvene for the second year of the biennium at noon on Tuesday, March 8, 2016.

Budget negotiations between [Governor Mark Dayton](#), [Senate Majority Leader Tom Bakk](#) and [House Speaker Kurt Daudt](#) resulted in a state budget that produced grumblings of discontent from all three legislative leaders. Beginning the legislative session in January with a \$1.9 billion budget surplus, legislative leaders found themselves in the unique situation of a Republican-controlled House and a DFL-controlled Senate with a DFL Governor. Senate DFLers and Gov. Dayton sought a two-year budget of nearly \$43 billion with modest tax cuts while House Republicans pursued a budget of just under \$40 billion while providing tax cuts of about \$2 billion.

With a majority of the state's final budget bills receiving final passage during the last two days of the legislative session, and negotiations taking place until the last few minutes, the 2015 Legislative Session came to a frenzied and messy ending. But at the end, all the major appropriations bills were passed by the Senate and the House and sent to Gov. Dayton for his signature or veto. The governor has three days to sign or veto a bill after it is presented to him. Casualties of the session include the Omnibus Tax bill, a robust Omnibus Transportation Finance bill, the Legacy Omnibus Finance Bill and a modest bonding bill, which either didn't have a final agreement or were left behind when the clock struck midnight on the last night of session.

Renovation of the capitol building won't be finished until 2017, so the capitol will be almost entirely closed off during next year's session. The House should be able to meet in its chamber and hold committee meetings in the State Office Building, as happens now, but the Senate will hold its committee meetings and floor sessions at an off-site location. The current plan is that the new legislative office building (now under construction) will be finished so that the Senate can at least hold its sessions in that building just across the street from the capitol building. Gov. Dayton has promised to veto the Education finance omnibus bill, which will trigger a special session; the House and Senate will need to conduct this session in a location outside the Capitol building but still within the boundaries of St. Paul due to construction.

Tax Bill Fizzles Out

The issue of tax relief was perhaps the area with the biggest difference between House Republicans and Senate Democrats. The House made tax relief a marquee issue for the session and proposed a bill that would reduce state revenue by over \$2 billion. The Senate came in much lower with a tax bill totaling \$460 million, with \$247 million directed toward tax relief. Gov. Dayton's tax proposal was by far the lowest figure at \$197 million. With the Senate declaring transportation as its highest priority and the House prioritizing taxes, both chambers

agreed to a budget deal that leaves those areas unresolved going into next session. The negotiated deal left roughly \$1 billion on the bottom line to handle those issues next year.

House Republicans produced an Omnibus Tax bill that utilized approximately half of the \$2 billion state budget surplus for a variety of tax relief provisions. Included in HF 848 was a new state personal or dependent exemption estimated to reduce state revenue by \$539 million over two years. Another highlight of the bill was a provision permanently eliminating the statewide general property tax, which is mostly paid by businesses. Eliminating this tax has been projected to reduce state revenue by \$453 million over the next two years. Other highlights included a tax credit for student loan payments, a reduction in the estate tax, tax incentives for research and development, increases in K-12 education tax credits, a credit for agricultural properties to offset voter-approved school levy referenda, phasing out the state tax on Social Security income, and repeal of the tax on digital products enacted last biennium.

The Senate Omnibus Tax bill (SF826), in contrast, had a total reduction in state revenue of \$460 million and provided \$247 million in tax relief. The Senate set aside \$225 million for past accounting shifts from years when the state experienced a budget deficit, including the June accelerated sales tax and aids to local governments. The bill also would have provided tax relief in the form of reducing the state levy on commercial and industrial property by \$93.7 million and a \$2,500 tax credit to businesses that hire veterans. The bill also contained targeted property tax relief for homeowners and agricultural properties, an expansion of the education expense tax credit, as well as a tax credit benefitting workforce housing in Greater Minnesota.

All of these issues will be left on the table going into the 2016 session as the legislature will try again to pass a comprehensive tax bill.

Transportation Bill – Lights On

The House, Senate and governor all came to the 2015 legislative session with desires for a robust transportation funding package. The revenue sources and what they wanted to fund with the money differed greatly from the get-go — and as the session came to a close, it became apparent that 2015 would not be the year for a major transportation bill. A “lights-on” bill (SF 1647) with \$30 million in one-time funding and several other policy provisions was passed by the House and the Senate and then sent to the governor.

In January the governor unveiled his transportation proposal, which amounted to a total package of about \$11 billion over a 10-year period — including a gas tax at the wholesale level, registration fee increases, trunk highway bonds and efficiencies at MnDOT. Over the next decade, the plan would have put \$5 billion into the trunk highway system, \$1.5 billion into county state aid highways and almost \$500 million in municipal state aid streets. Moreover, the

plan would have included a ½ cent sales tax increase in the metro area to further support transit needs, raising about \$2.8 billion in additional revenue for these purposes.

The Senate DFL had a similar transportation plan, with about \$800 million in funding using the 6.5% gas tax at the wholesale level, registration fees, as well as an increase in the sales tax in the metro area to fund transit needs.

The House GOP took a different approach — with a total package of about \$750 million over four years, using funds that currently go into the general fund and redirecting them to transportation needs. This includes things like the sales tax on auto leases and the sales tax on car parts and repairs. The House bill also looked at efficiencies at MnDOT. The House GOP put a heavy emphasis on road and bridge funding, including trunk highways as well as county state aid highways and municipal state aid streets. No new money for transit needs was included in the bill.

The differences were too great to overcome, and a bill to appropriate current revenues to keep MnDOT operating and Metro Transit functioning was passed on the last day. The bill includes base appropriations as well as a few additional items including \$5 million for Greater Minnesota Transit; \$5 million for rail grade crossing safety; \$3 million for port development; \$145,000 for emergency railroad track repair; \$12.5 million for small cities; and \$11 million in airport development assistance. Some policy and technical provisions are also included in the bill.

Similar to the tax bill, all of these proposals will remain on the table going into the 2016 session as everyone tries again to pass a comprehensive transportation funding bill.

Responsible Contactor Law Changes

At the start of session, MUCA spent a lot of time discussing the Responsible Contractor Law from the 2014 Legislative Session as a main priority fix for 2015. House members were more receptive to our concerns and there was movement early to work on a larger fix this session. Unfortunately, we were not able to pull all stakeholders together on the measure. MUCA worked with others to develop a bill that amended the current law to what we thought was possible. SF 1853 contained the language we agreed upon. At the same time, an alternate bill was drafted by AGC and others stakeholders who pushed the legislation in 2014. HF 1257/SF 1121 ended up being the bill that gained traction this session in both bodies; the fixes were minor and did not go as far as the MUCA proposal to address real concerns being felt by the industry.

HF 1257 passed both the House and Senate with unanimous support and has been sent to Gov. Dayton for his signature. Despite MUCA's objections and concerns as to what was not

addressed in the bill this year, we were not able to get any members to speak up on the floor against the bill.

The changes addressed in this year's bill included:

- Definition of Contractor: a "contractor" does not include a material supplier. Provides more detail on this exclusion. Excludes design professionals from the definition of "contractor". Defines "motor carrier" for purposes of the law.
- The current law applies to a publicly owned or financed project when the contract with the prime contractor is estimated to exceed \$50,000. This section provides that in determining whether a contract exceeds \$50,000, the value of tax increment financing must be excluded. Also provides that motor carriers must meet the minimum criteria of the law.
- Clarifies that the requirement in current law that a contractor is not currently suspended or debarred applies only to those groups that have authority to debar a contractor. Requires that motor carriers that a contractor intends to use must verify that they have met minimum criteria.
- Verification Compliance: Strikes requirement that a statement verifying compliance with the responsible contractor requirements be sworn. Makes the consequences of failure to verify compliance apply to a prime contractor, subcontractor, or motor carrier. Provides that the statement submitted by the prime contractor responding to a solicitation document is not required to verify compliance by all subcontractors and motor carriers. Provides that a verification of compliance need not be notarized, and specifies conditions under which an electronic verification is acceptable.
- Subcontractor verification: Provides that as a condition precedent to execution of a contract, the apparent successful prime contractor must submit a supplemental verification relating to subcontractors and motor carriers. Requires subcontractors to submit statements verifying compliance.
- Motor carrier verification: Specifies procedures for a prime contractor or subcontractor to obtain annual verification of compliance from motor carriers.

Once signed by Gov. Dayton, the law will become effective on July 1, 2015.

Clean Water Funding

In the final few weeks of session, a number of water infrastructure projects were included in several bills. As session came to an end on May 18 a number of bills were amended, deleted or did not get off the floor. In the next few days, we will get a better picture of what the Special Session will look like and what will be taken up and addressed. Once we get updates from

leadership and the governor and see final bills posted, we will send an update on where projects and matching funds stand.

What's Next and When is Special Session?

Legislative leaders will most likely take a few days to step away and let any end-of-session anger cool down. When they do come together, they will begin discussing what needs to be addressed in a special session and when it will take place. We know it will happen before July 1 to avoid a state shutdown. Typically, special sessions are pre-negotiated between the leaders. Gov. Dayton is the only one with the power to call a special session — but he cannot decide when they finish; that falls on the House and Senate.