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MEMORANDUM

TO: The I-35W Solutions Alliance Board of Directors

FROM: Robert J. Tennesen

RE: Legislative Report

DATE: January 10, 2013

The 88th session of the Minnesota Legislature convened on Tuesday, January 8th facing a budget deficit of \$1.1 billion, unadjusted for inflation, and \$2 billion if adjusted. In addition, the school districts are owed approximately \$1.5 billion from past deferred payments that were used to “balance” recent budgets.

General Fund Budget

Senate Majority Leader Tom Bakk stated that the number one priority is producing an “honest budget.” Everything else is secondary. Governor Dayton and Speaker Thissen agree that the budget must be structurally balanced through tax increases and additional spending cuts, and have advised the committee chairs that spending cuts will be necessary. Speaker Thissen has told committee chairs that they must look to what they can achieve within the budget we have. However, that does not mean across-the-board cuts. Thissen stated that some programs have been kept alive on a shoestring budget that is insufficient to fulfill their purpose and they should either be properly funded or eliminated. He identified the need to fund the courts and public defenders whose budgets have been substantially cut over the past 10 years. Committees have been instructed to thoroughly understand their budgets before proposing any new programs.

Bonding

The House and Senate may disagree on the amount of a bonding bill for 2013. Senator Bakk wants to return to the practice of a major bonding bill in even-numbered years, except for emergency measures and continued funding for repair of the state capitol building, and focus on the operating budget in the first year of the biennium. Speaker Thissen suggests bonding for projects that have already been vetted such as higher education asset preservation, ongoing repairs at the capitol, and infrastructure items.

Taxes

The Governor, Speaker, and Majority Leader have stressed that some taxes will be increased to achieve a structurally balanced budget. This may be accomplished through “tax reform” that may increase reliance upon the sales tax as well as an increase in income taxes on the highest incomes. The Majority Leader recognizes that business wants a reduction in the property tax for commercial and industrial property. Thissen stated that “tax reform” must fit within the goal of establishing a stable and sustainable budget.

Transportation

The legislature and Governor will address transportation funding needs, but it is too early to predict what may be included much less the financial parameters of a bill. Efforts are being taken to create a coalition of interested organizations; business, labor, local governments and the public to develop a funding package that will be supported by a broad and inclusive coalition and obtain passage of a major bill as was done in 2008. The Governor’s Transportation Finance Advisory Committee (TFAC) recommended significant gas tax increases as one element in a package of recommendations for financing the transportation funding deficit. However, the Governor does not seem to support the specific recommendation for a \$.40 per gallon gas tax increase over 20 years. It is likely that some form of a sales tax increase will be considered for funding transit operations in the metropolitan area and also possibly in Greater Minnesota.