



Legislative Update 2009 and 2010

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2009 Session Overview

- The session was dominated by the state budget and a massive state deficit
 - The economic recession hit Minnesota very hard. It was the “Great Recession.”
 - \$4.6 billion deficit AFTER \$1.8 billion in federal stimulus funding.
 - Much of the deficit was caused by a severe erosion of tax revenues.

2009 Session Overview

- Main task for the 2009 legislature was to craft a 2010-2011 state biennial budget.
- The task was complicated by:
 - The magnitude of the deficit.
 - The fact that many of the easy solutions were exploited in the 2002-2003 recession.
 - The state rainy day reserve was depleted.
 - Politics and the personalities involved in the process.

2009 Session Overview

- Governor, House, and Senate all proposed budgets that included deep spending cuts—including cuts to city LGA and MVHC reimbursements and County Program Aid.
- House and Senate proposals included smaller cuts due, in part, to significant proposed revenue increases:
 - Governor = \$282.6 million in 2009-10 city cuts
 - House = \$118.2 million in 2009-10 city cuts
 - Senate = \$16 million in 2010 city cuts

2009 Session Overview

- **Counties faced other challenges too:**
 - \$16.9 million reduction in CCSA for 2010 and \$22.5 million for 2011
 - House plan used sales tax offset to reduce CPA
 - Governor proposed merger of all county HHS functions into 15 entities or threatened deeper CPA cuts
 - PILT cuts were proposed by the House
 - Unallotments to other areas of the state budget impacts counties indirectly

Key Items in the Budget Solution

- **ARRA funds offset \$500 million in K-12 education spending in FY 2010**
- **ARRA funds offset \$178 million in higher education cuts in FY2009 and FY2010**
- **ARRA funds offset \$148 million in other cuts in FY2010**
- **School payment shifts total \$1.76 billion in FY 2010-11**

2009 Session Overview

- Despite months of negotiation and posturing, the Legislature and Governor could not reach any agreement on the state budget.
- The main sticking points focused on new revenues, the depth of expenditure reductions and whether the budget should address the structural (long-term) deficit.

2009 Session Overview

- In the final days of the session, the Legislature sent the Governor a complete and balanced budget—with tax increases.
- As he previously indicated, the Governor followed through by vetoing the tax bill, due to the \$1 billion in tax increases.
- This left the state with a budget—but not a balanced budget for 2010-2011.
- \$2.7 billion imbalance.

No Special Session

- In the waning days of the session, Governor Pawlenty indicated that if an “acceptable” budget compromise could not be reached, he would not call the legislature back but instead, he would balance the remaining \$2.7 billion deficit through the power of unallotment.

Unallotment for cities

- **\$193 million reduction in 2009-2010 LGA and MVHC reimbursement.**
- **Roughly 2/3 of total cut will occur in 2010:**
 - **2009 = \$44.6m from LGA; \$19.6m from MVHC**
 - **2010 = \$102.4m from LGA; \$25.9m from MVHC**
- **Cities below 1,000 population (2007 pop. figures) and below statewide average tax base per capita (\$1,157) are exempt from the 2009 and 2010 cuts.**
- **454 of 854 cities were exempt from the cuts.**

Unallotments for counties

- **\$100 million reduction in CY2009-2010 CPA.**
- **Roughly 2/3 of total cut will occur in 2010:**
 - **CY2009 = \$33 million from CPA;**
 - **CY2010 = \$67 million from CPA;**
- **Counties below 5,000 population are exempt from the 2010 and 2011 cuts. (5 counties)**
- **This unallotment is on top of a \$44 million unallotment in December 2008.**

Levy Limits

- Total repeal of levy limits was broadly supported but failed to become law.
- New “special levy” authorization for MVHC unallotment.
- For 2010 tax year, cities will be able to declare “special levy” for 2008 and 2009 unallotment losses.
- 2010 losses can be declared for 2011.

Some Mandate Relief

- **Library Maintenance-of-Effort changes**
- **Temporary reduction in council salaries.**
- **Out-of-state travel policy annual review.**
- **Fence viewer salary cap eliminated.**
- **Temporary suspension of new or increased maintenance-of-effort requirements.**

...but more mandates inflicted!

- **Cooperative Purchasing mandate.**
- **Prevailing wage changes.**
- **Made-in-America requirements.**
- **Full-time firefighters must be licensed.**

What we've been hearing...

- Cities and counties seem to realize this is more than a bump in the road.
- Services need to be conducted differently.
- Help with shared services.
- Painful cuts vs. cutting services.

Looking ahead

- On July 1, the state closed the 2008-2009 biennium with revenues \$150 million below expectations.
- This November's state budget forecast could show that the state's budget is again out of balance.
- There is a chance that 2009 and 2010 CPA, LGA and MVHC payments could be further unallotted.

Looking further ahead...

- Current law restores the 2011 CPA, LGA and MVHC funding (which are paid from the state's FY2012 budget) to pre-cut 2009 levels. **HOWEVER...**
- Outlook for 2012-2013 biennium shows deficit of \$4 billion to \$7 billion and the legislature will have to begin addressing that long-term deficit.

Problems Remain for 2012-13 Biennium

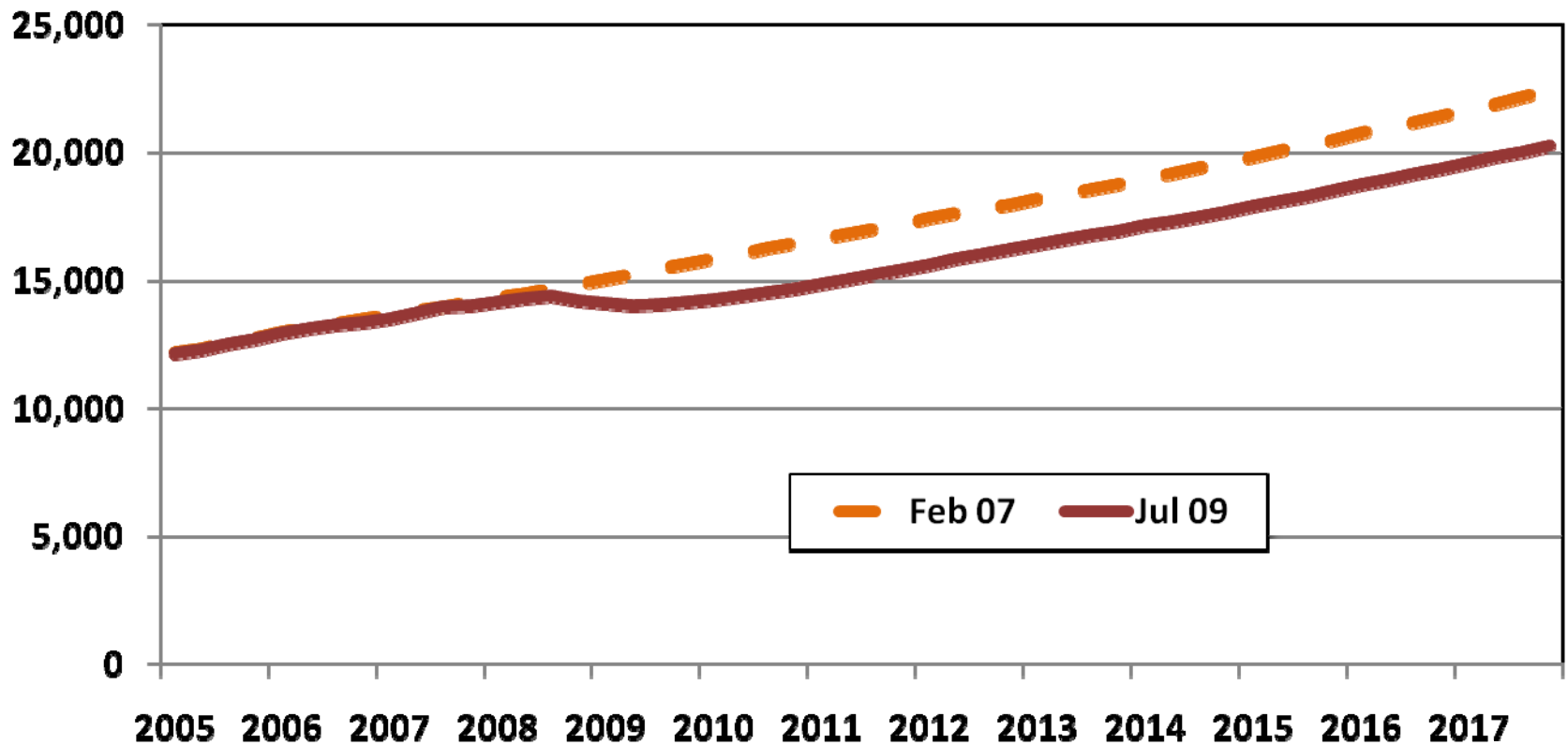
<u>\$ Millions</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2012-13</u>
Revenues	\$16,576	\$17,729	\$35,305
Expenditures	<u>19,728</u>	<u>19,008</u>	<u>38,736</u>
Difference	(\$3,152)	\$(1,279)	\$(4,431)

Assumes:

- GAMC Discontinued. Restoration adds \$889 million
- K-12 Aid shift restored. Delay saves \$1.2 billion
- No repayment of K-12 property tax recognition shift
- No discretionary inflation. Inflation at CPI would increase spending by \$1.3 billion

The 2007-09 Recession Permanently Reduced the Base for Future Revenues

Nominal GDP
\$ Billions



The Economic/Demographic Environment Has Changed for as Far as We Can Forecast

- ✘ Short run economic cycle has merged with long run demographic cycle**
- ✘ We have entered the Age of Entitlement—economic growth in the next 25 years will be about half what it was in the past 25.**
- ✘ State revenue growth will slow while spending pressures will accelerate**
- ✘ This is a national/global issue**

Minnesota Faces a Fiscal Trap

- 1.** The issue is a long run, structural one— short run solutions will not solve the problem
- 2.** Trend growth alone will not be sufficient. Fundamental changes are necessary
- 3.** Revenue growth will slow. Efforts to increase it will be met with resistance
- 4.** Spending pressures will increase driven largely by issues of aging and health
- 5.** State spending will shift its focus from education, infrastructure and higher education to care and support of the aging

Looking further ahead...

- **2010 Legislature will likely:**
 - Revisit the governor's unallotment authority and could place limits on that power.
 - Review the impact of the end-of-session unallotments.
 - Continue their discussion of mandate relief.
 - Discuss levy limit repeal.
 - Consider JOBZ changes or repeal.

Looking further ahead...

- **2010 Legislature will likely consider local government revenue flexibility options to cover aid/credit losses:**
 - **Surplus TIF revenue redirection.**
 - **Street improvement district authorization.**
 - **Expanded use of lodging tax revenue.**
 - **Additional local sales authority.**
 - **Additional fee authority.**

Looking further ahead...

2010 Legislature will likely consider expanding/extending state revenues including:

- Taxation of municipal bond interest.
- Applying sales tax to certain professional services.
- Expanded the state income tax.
- Increase “sin” taxes (alcohol and tobacco).

For more information...

- If you have questions about any city or county legislative matters, contact us at:
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