

## **Interim State Budget Projection Shows \$2.426 Billion Shortfall**

The Office of Minnesota Management and Budget (MMB) [presented](#) an interim budget projection Tuesday to state policymakers. There are usually two budget and economic forecast each year in November and February, but an interim projection was prepared due to the COVID-19 pandemic and its expected implications for the state's budget.

The interim budget projection shows a state budget deficit anticipated to be \$2.426 billion for FY2020-21. State revenues are projected to decline by \$3.6 billion while spending (largely in the health and human services budget) is projected to increase by \$398 million. The state budget projection in February anticipated a state budget surplus of \$1.512 billion. These combined changes represent a \$4 billion decline from the February budget forecast, and a deficit projected at \$2.426 billion for FY2020-21. The state has a budget reserve, better known as a "rainy day fund" that is currently at \$2.358 billion. With a negative budget projection, the Commissioner of MMB has statutory authority to use the reserve to stabilize the budget but is not required to do so.

At the national level, a three-quarter recession is projected, with a 5.5% decline in real consumer spending this year. There is projected to be a 6.3% growth in GDP in 2021, but the economy is not projected to get back to where it might have been without COVID-19. The U.S. outlook is projected to remain uncertain for years to come.

In Minnesota, total wage income is expected to fall by 5.9% this year. Since mid-March around 600,000 individuals have applied for unemployment insurance. The state is anticipating \$1.659 less in individual income tax receipts, and \$1.351 billion less in sales tax receipts. Several unknowns that will affect the outlook for the state and national economy include:

- Path of pandemic
- Consumer business confidences
- Business survival
- Financial Market volatility
- Impact of fiscal and monetary policy
- Federal support
- Revenue delays
- 14 months until end of FY 2020-21

Click [HERE](#) for the MMB slides and click [HERE](#) for the Interim Budget Project Report.

## **House Property Tax Division Report Contains City-Related Provisions**

The House Property Tax Division, at its meeting on Monday evening heard and took testimony on a proposed Division Report. The report includes several items of interest to cities.

The bill includes language to provide temporary flexibility in the use of tax increment financing (TIF), and special taxes, including lodging, local sales taxes, admissions taxes, food and beverage taxes, and liquor taxes. The provisions would allow for the transfer of unencumbered revenues to a city's general fund until December 31, 2021. Metro Cities supports these provisions and provided a joint letter with other city organizations, and Pat Trudgeon, City Administrator-

Roseville, testified in support of these provisions at a hearing of the Property Tax Division last Friday.

The bill includes language stating that local lodging taxes apply to the whole price of lodging, including services provided by accommodation intermediaries, which Metro Cities supports. The bill provides an opt-out of the accommodation intermediaries provision for cities and towns with 10 or fewer lodging establishments.

The bill creates a local sales tax criteria working group of state and local representatives and individuals representing non-government entities, to develop a list of capital projects that may qualify as a project of regional significance and a list of projects that should not be considered. Metro Cities does not have a specific legislative policy but supports the ability of local governments to impose local option sales taxes for regionally significant capital projects, without special legislative authority. A proposed temporary moratorium on new local sales taxes is not included in the report as it was amended on Wednesday.

The Property Tax Division will meet Wednesday evening to consider the report and the House Taxes Committee is scheduled to meet Friday. A summary of the proposed report. Please provide any feedback or questions to Patricia Nauman at 651-215-4002, or [patricia@metrocitiesmn.org](mailto:patricia@metrocitiesmn.org)

## **House Committee Discusses Budget, COVID-19 Response and Un-Allotment**

During a hearing in the House Ways and Means Committee Wednesday, MMB Commissioner Frans provided information on the budget projection, and outlined work groups tasked with handling the state's response to COVID-19. Additionally, members were provided information on the use of un-allotment to balance the state's budget.

### *Un-allotment*

The [summary document](#), provided by House Research covers conditions and procedures for un-allotment and its constitutionality. House staff were scheduled to present the information Wednesday, but the committee went over its scheduled time.

Un-allotment can only be used after the following occur:

- A balanced budget has been enacted into law.
- The commissioner has determined that revenues will be less than originally anticipated.
- The governor has approved the un-allotment.
- The commissioner has sought advice from the Legislative Advisory Commission (LAC).

It also covers what items might be eligible for un-allotment and how the use of un-allotment impacts spending and budgeting in the future. Generally, there is broad discretion allowed in the use of un-allotment. Money in the state's self-insurance fund is exempted, but all other appropriations and transfers are generally eligible for un-allotment. Some broad categories include:

- Appropriations to constitutional officers.
- Appropriations made in prior biennia that have not been spent.
- Interfund transfers.
- Appropriations for state intergovernmental aid and other statutory entitlement programs.

Also, in the House Ways and Means Committee, Commissioner Frans discussed the administration's COVID-19 work, divided into three categories:

### **Response Work Groups**

- Health care surge: Partnering with hospitals.

- Supplies: Commissioner Roberts-Davis and the procurement team.
- Testing: Historic agreement with U of M and Mayo.
- Education and Childcare: Managing distance learning and care for workers.

#### Recovery

- At risk populations: How can the state support the most vulnerable?
- Food: Ensure that Minnesotans have enough to eat.
- Economic Security/Safe Reopening: Planning for a safe return to work while maintaining social distancing.
- Community Resiliency: Work with Tribal Nations and communities of color to offer support.

#### Resources

- Work with legislature and federal government to manage funds and respond to COVID-19.
- Ensure funds are available to purchase supplies quickly.
- Emphasis on transparency, in partnership with the legislature.

Commissioner Frans and Governor Walz have been asked about un-allotment in recent weeks. Governor Walz was asked specifically about cuts to Local Government Aid during Tuesday's briefing. Click [HERE](#) for the House Research Summary Document.

### **Governor's COVID-19 Briefings**

Below are highlights from this week's Monday and Tuesday briefings. See the state's [COVID-19 web page](#) for the latest specific health data.

#### *Monday:*

The briefing focused on conversations the administration has had with industries around safely getting back to work. Department of Employment and Economic Development Commissioner Steve Grove gave a presentation on the engagement process DEED is using to communicate with business leaders. He stressed that conversations are industry specific because needs vary dramatically based on industry sectors.

Governor Walz signed [Executive Order 20-50](#), that temporarily suspends the garnishment of wages for Minnesotans with consumer debt (credit cards, student loans, etc.). Child and/or spousal support payments can still be collected and interest on these debts will still accrue.

#### *Tuesday:*

The briefing Tuesday included updates from MN Management and Budget (MMB). Commissioner Frans and Budget spoke alongside Minnesota's State Economist Dr. Kalambokidis to discuss the state's interim budget projection. They were joined by State Budget Director Britta Reitan who addressed the state expenditure side of the interim forecast. See our article on the MMB Interim Budget Projection for more details.

The Governor reiterated that states cannot run deficits and the federal government should provide additional assistance to state and local governments. When asked about the potential for an un-allotment of Local Government Aid, the Governor pointed to his work on restoring the LGA appropriation last session and expressed concern for local governments. He also said nothing was off the table in terms of scenarios and plans.

The Governor announced the signing of [Executive Order 20-51](#) that allows for elective surgeries in clinics and hospitals. The order requires facilities to prioritize procedures and weigh relevant COVID-19 risks.

## **Senate Passes Data Privacy Omnibus Bill**

The MN Senate passed an omnibus data privacy bill, [SF 3072-Limmer](#). The bill makes changes to statutes regulating law enforcement's use of unmanned aerial vehicles (UAV's), and provides limitations on the use of UAV's, including prohibitions on the use of facial recognition technology and data collection on public protests. The bill also requires a law enforcement agency to document each use of a UAV, create a written policy, and collect public comment. Additionally, SF 3072 requires a government entity to obtain a search warrant prior to accessing electronic communication information. The House companion bill is awaiting action on the floor.

## **House Committees Pass Bills with Emerald Ash Borer Funding**

The House Environment and Natural Resources Finance Committee passed [HF 4554- Hansen](#) this week. The bill includes several funding provisions and makes environment policy changes. Provisions include funding for water quality standard rule making, a new approval process for local government plans related to the Mississippi River Corridor Critical Area, and a requirement that manufacturers provide accurate labeling for flushable nonwoven personal care wipes. Metro Cities supports the flushable wipes provision. The bill also includes funding for the maintenance of atlases for water resource management, funding to study ground and surface water interaction, and a study of how COVID-19 may travel through wastewater and drinking water systems. Additionally, the bill includes \$4.2 million for the DNR for Emerald Ash Borer (EAB) mitigation, including grants to communities. Metro Cities supports state funding for this purpose. The bill was passed 11-7 to the Ways and Means Committee.

The House Ways and Means Committee passed [HF 4498-Hansen](#), the Environment and Natural Resources Trust Fund appropriations bill. The bill largely includes provisions considered by the Legislative-Citizen Commission on Minnesota Resources (LCCMR) that did not receive a required super majority vote. The bill includes funding for water atlases to manage surface and ground water resources and to monitor drinking water resources vulnerable to contamination and funding for the DNR to reduce emerald ash borer (EAB), which Metro Cities supports. The bill also directs the U of M to study statewide long-term emerald ash borer impacts on water, vegetation and wildlife and to develop criteria for prioritizing mitigation activities. In addition, the bill directs the U of M to evaluate the ability of the virus causing COVID-19 and other infectious organisms that travel through wastewater systems to drinking water sources. The bill was passed and referred to the House Floor.

## **House Committee Passes Bill on Water Quality Standards**

The House Government Operations Committee passed HF 3423. This bill would appropriate an unspecified amount of money from the clean water fund to the Pollution Control Agency (PCA) to adopt water quality standards for perfluorooctanoic acid (PFOA) and perfluorooctanesulfonic acid (PFOS), two of the more common perfluoroalkyl and polyfluoroalkyl substances (PFAS) found in the environment. The legislation requires these standards be adopted by July 1, 2023. PFAS are a group of man-made chemicals with a variety of uses and can be found in firefighting foam, nonstick products, and stain- and water-repellent fabrics. Research has found that PFAS persist in the environment and in the human body and accumulate over time causing adverse effects on human health. The League of MN Cities and Coalition of Greater MN Cities submitted a letter in opposition to this legislation due to impacts on costs for wastewater operations, as wastewater facilities are not the source of PFOA or PFOS. The MPCA testified that the rule making process would allow for cities with wastewater systems to express concerns on wastewater treatment cost impacts. The bill passed and was referred to the Environment Finance Committee

## House Government Operations Passes Electronic Documents Bill

The House Government Operations Committee passed [HF4605-Freiberg](#), a bill that allows local governments, including cities, to accept documents and signatures electronically, by mail or fax during a peacetime public health emergency. The filings include documents for planning and zoning, land use, documents that require the signature of an architect, engineer, or landscape architect, birth and death certificates, and recording a notary commission. This authority would expire January 6th, 2021 or 60 days after the peacetime public health emergency is terminated, whichever is earlier.

The Senate companion, [SF 4525 - Kiffmeyer](#), is awaiting action on the Senate Floor. The bill was passed and referred to the House floor.

## Senate Finance Committee Passes Transportation Bill

The Senate Finance Committee passed [SF 3255- Newman](#), a policy and technical transportation bill. A proposal to require MnDOT to develop a project selection process that would have included changes to the Local Road and Local Bridge Programs was amended out of the bill. The bill includes provisions to direct a road authority to notify the owner of any work or improvements being made on the road, to direct MnDOT and Public Safety Commissioners and Metropolitan Council Chair to report all expenditures of federal COVID-19 funds to the Legislature. The bill was passed and referred to the Senate Floor.

## Senate Passes Broadband Funding Bill

The Senate on Monday passed a bill containing \$20 million for various broadband programs. [SF 4494 – Westrom](#) includes \$10 million for unserved areas to be granted through the state broadband grant program administered and includes \$2 million for telemedicine and \$8 million for the Department of Education to support distance learning. A House broadband proposal, part of [HF 1507](#) the COVID-19 Economic Security Act, also includes \$10 million for the statewide border grant program and \$2 million for telemedicine and funds broadband for distance learning at \$15 million. The House is scheduled to hear its bill May 7. Contact Charlie Vander Aarde at 651-366-7564 or [charlie@metrocitiesmn.org](mailto:charlie@metrocitiesmn.org) with any questions.

## Livable Communities (LCA) Affordable Housing Goals Methodology Proposed

The Metropolitan Council's Community Development Committee discussed a [new methodology](#) for local affordable and life-cycle housing goals at its meeting Monday. The goals are a requirement for cities to participate in the Livable Communities program and a process for re-negotiation of the goals is required every 10 years.

The Council convened a working group earlier this year to review the current process and ideas for the next cycle. Metro Cities and several city officials participated. The Council also issued a survey in April to solicit additional feedback. Ten years ago, the current goals were set as a range using a city's allocation of the region's affordable housing need and a percentage of that number of 60%, the amount of available resources for housing. The survey feedback showed the majority of respondents indicated a preference for realistic rather than aspirational goals.

Council staff are recommending that the goals include a range, using a city's allocation of housing need at the top end of the range to the projected 45% of funding for housing expected to be available, and 10% for what the Council defines as "local innovation." In numbers, this means the



goal range for housing goals would be determined at 55% to 100% of housing need.

Metro Cities sent the committee a letter and testified during the meeting. The letter explained Metro Cities continues to support a streamlined, flexible method for housing goals that accounts for the insufficiency of available resources. When housing goals for LCA cities were last adopted, Metro Cities supported the current methodology that uses the regional allocation of housing need as a baseline and that considers the level of housing resources, at that time estimated to be at around 60% of the actual need. Metro Cities continues to support this approach. Metro Cities does not support the allocation of need number and LCA housing goals to be equivalent. The regional allocation reflects the region's defined need for affordable housing but does not reflect resource availability that affects a community's ability to provide new affordable housing.

In committee testimony, Metro Cities explained that any LCA program policy should have at its core the goal of encouraging local participation in the Livable Communities program. Strong participation ensures progress on regional and local objectives, spurs additional affordable and life cycle housing production, moves innovative redevelopment and economic development projects forward and strengthens local tax bases.

While the committee did not vote, some members indicated support for a 55%-100% range for goals.

Metro Cities will continue to monitor progress on the goals and provide feedback. Please contact Patricia Nauman at 651-215-4002 or [patricia@metrocitiesmn.org](mailto:patricia@metrocitiesmn.org) or Charlie Vander Aarde at 651-215-4001 or [charlie@metrocitiesmn.org](mailto:charlie@metrocitiesmn.org). with any input or feedback. The goals will be reviewed at a public hearing in November and cities will be re-enrolled and goals adopted in December.

## **Metro HRA Considers Application Changes for Project Based Vouchers**

The Metro HRA is [proposing changes](#) to how it awards project based vouchers (PBVs) for development of new affordable housing units in the metropolitan region. Awards are currently made through Minnesota Housing's Consolidated RFP, which means the state agency chooses which projects are funded. This change would award some PBVs outside of the Consolidated RFP process and allow the Council to target PBVs to specific populations and project types that may not otherwise qualify under Minnesota Housing's priorities. It would also give developers additional application points for other needed financing. If a developer receives other financing commitments, the PBVs are formally awarded through Council action. If a developer does not receive other financing, the PBVs are not awarded and the developer could reapply for PBVs at a later date. The proposed changes would go into effect for the current 2020 RFP.

The Community Development Committee on Monday approved the change and also proposed additional revisions to selection criteria and related scoring.

## **Bills of Note**

[HF 4640](#), Olson: Bill extends the off-sale liquor allowance to taprooms and microdistilleries until 60 days after the final day off the peacetime emergency.

[SF 4564](#), Rosen: Bill appropriates money from the coronavirus relief account to counties, cities, and towns. The bill requires Hennepin and Ramsey county to distribute aid amounts to cities and towns in the county.

## TAC Recommends Draft TPP be Released for Public Comment

The regional Technical Advisory Committee (TAC) to the Transportation Advisory Board (TAB) has recommended approval of a draft Transportation Policy Plan (TPP) for public comment. The TPP plays a central role in the regional transportation planning process and is updated every four years. See the draft [here](#). The TPP is being updated to better conform with federal planning deadlines. The draft includes updates to incorporate the results of planning and corridor studies, changes to major projects, and the inclusion of studies to measure the impacts of COVID-19 on the transportation system. Staff said that a future amendment to the TPP to incorporate COVID-19 impacts to the transportation system will be included when impacts are more fully understood.

The TAB will consider the release of this draft for public comment at their May 20 meeting. To view the TAC business item on the TPP update, click [here](#). Questions? Please contact Steve Huser at [steven@metrocitiesmn.org](mailto:steven@metrocitiesmn.org).

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