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Short Subjects

Minnesota House of Representatives, House Research

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Importation of Liquor for Personal Use

January 2019

State law regulates the importation of liquor

Whether an individual may import alcoholic beverages into the state for personal use is a question of state law, which is supported by strong federal policy in this area. In Minnesota, the importation, distribution, and retail sale of liquor is tightly regulated, which prohibits most direct shipments of alcoholic beverages for personal use, although some exceptions exist.

States have broad constitutional authority to regulate liquor

Federal law grants states significant authority to regulate the importation of liquor. The 21st amendment both repealed prohibition and prohibited any person from shipping alcohol into a state in violation of that state's laws. Other federal laws such as the Wilson Act, Webb-Kenyon Act, and the Twenty-First Amendment Enforcement Act reinforce state authority in this area.

State authority to regulate importation of liquor under federal law is not, however, absolute; the U.S. Supreme Court has held that a state may not use this regulatory authority in a manner that discriminates against out-of-state liquor producers.

Importation and Minnesota's three-tier system

Minnesota has a modified three-tier system of liquor regulation that requires separate licenses for the importation, manufacturing, wholesaling, and retailing of liquor, and, with some exceptions, prohibits manufacturers and wholesalers from having a business interest in a liquor retailer.

Importers are required to obtain a license to ship liquor into the state under this system, even if the importation is for personal use. Once imported, alcoholic beverages shipped into the state must be delivered to a licensed wholesaler. Wholesalers may then only sell alcoholic beverages to licensed retailers.

A person who wants to import liquor into the state must do so within the existing three-tier system. This system of liquor regulation effectively prohibits the direct importation of liquor into the state for personal use, but there are exceptions.

There are personal exceptions to Minnesota's importation regulations

Under Minnesota Statutes, section 340A.417, a winery may directly ship up to two cases of wine per winery, per year to a resident of the state for personal use.

In addition, persons entering the state from another state or foreign country may bring certain amounts of alcoholic beverages with them. For people entering Minnesota from another state, this limit is one liter of intoxicating liquor (spirits and wine) or 288 ounces of beer, in addition to up to 12 commemorative bottles, which are specifically defined in statute. For foreign travelers, the limit is up to four liters of intoxicating liquor or 320 ounces of beer. Generally, foreign travelers also have to pay federal excise taxes and duties on amounts over one liter.

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Under these exceptions, a person importing liquor into the state is not required to obtain an importer permit, and the imported alcoholic beverages are not required to flow through the state's three-tier system.

People who want to bring in more than the limited quantities should contact the Minnesota Department of Revenue and the Alcohol and Gambling Enforcement Division to ensure that such importation is done in a lawful manner.

Local delivery of liquor is allowed

State rules authorize licensed liquor stores to deliver alcoholic beverages to purchasers for personal use, except in municipalities where the delivery of liquor has been prohibited.

No state law prohibits online liquor sales

In recent years, some online marketplaces have partnered with local licensed liquor retailers to provide for the online sale and delivery of liquor. While there is no state law that expressly prohibits the sale of alcoholic beverages over the Internet, any retailer making such a sale must still comply with all applicable state and local laws related to importation, distribution, retail sale, and delivery.

State and federal law is silent on intrastate shipments

State and federal law do not address the intrastate shipment of liquor by individuals for personal use after it has been purchased from a licensed retailer. Shipments made from Minnesota to another state would be subject to the laws of the receiving state.

Federal law expressly prohibits the shipment of liquor through the U.S. mail, but common carriers, such as UPS or FedEx, set their own policies regarding the shipment of liquor.

The Department of Public Safety enforces state liquor laws

The federal government plays no role in enforcing state liquor importation laws for personal use; enforcement of state liquor laws therefore falls to the states. The Department of Public Safety is empowered to enforce all of the state's liquor laws through the Alcohol and Gambling Enforcement Division. The attorney general may also bring an action in federal court to enforce state liquor laws under the Twenty-First Amendment Enforcement Act.

For more information: See the Minnesota House Research publication *Minnesota's Three-Tier System of Liquor Regulation*, March 2015.

Motor Vehicle Sales Tax

MN HOUSE RESEARCH

January 2019

The motor vehicle sales tax has become a significant transportation funding source after passage of a 2006 constitutional amendment that dedicates its revenue. Fiscal year 2018 revenue was $772.4 million, distributed 60 percent to state and local highway systems, 36 percent to Twin Cities metropolitan area transit, and 4 percent to transit in Greater Minnesota.

Motor Vehicle Sales Tax Imposition

The motor vehicle sales tax, or MVST, is a 6.5 percent tax applied to the sale of new and used motor vehicles registered in Minnesota. The rate is based on the purchase price, and the tax is imposed instead of the state general sales tax. Minn. Stat. §§ 297B.02, 297B.13. MVST is collected by auto dealers at the time of sale or by deputy registrars when the vehicle is registered (for private sales).

Exceptions to the Tax

There are various MVST exceptions and exemptions.

- A flat tax rate applies for most low-value automobiles that are at least ten years old (at $10) as well as for some collector vehicles (at $150).
- Various exemptions are provided depending on the entity purchasing the vehicle or the vehicle use. This includes purchases by: the federal government, towns exclusively for road maintenance (but not including passenger vehicles and pickup trucks), transit providers for transit service, educational institutions for use in automotive training programs, and a person who resided outside Minnesota for at least 60 days prior to becoming a Minnesota resident (if the vehicle had been registered elsewhere).
- Some types of vehicles do not need to be registered to operate on public roads and are therefore exempt from MVST, including fire apparatuses, marked police vehicles, and marked ambulances. Minn. Stat. §§ 168.012, subd. 1; 297B.02; 297B.025; 297B.03.

Historical Allocation

Historically, MVST revenue had been allocated both to the state's general fund and to transportation purposes, with periodic changes and suspension in the amount provided to transportation. A series of legislative changes from 2000 to 2003 resulted in increased MVST revenue distributed to roads and transit. (However, the modifications essentially offset reductions in other funding sources like the general fund, rather than to substantially increase transportation funding.) Changes connected to MVST reallocations during this period included: (1) placing caps on the amount of registration taxes (tab fees) collected on motor vehicles (which were subsequently removed in 2008); and (2) eliminating local property taxes as a core funding source for Twin Cities metropolitan area transit operations.

The 2006 Constitutional Amendment

At the 2006 general election, voters approved a constitutional amendment dedicating all MVST revenue to transportation purposes. Constitutional language established a floor for revenue allocation to transit and a ceiling for allocation to roads. It required that:

- "not less than 40 percent" goes to public transit assistance; and

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- "no more than 60 percent" of the revenue goes to the Highway User Tax Distribution (HUTD) fund, which in turn is constitutionally dedicated to state and local highways. Minn. Const. art. XIV, § 13.

The amendment also specified a phase-in period for shifting revenue from the state's general fund to transportation; this occurred over fiscal years 2008 to 2012.

MVST Allocation

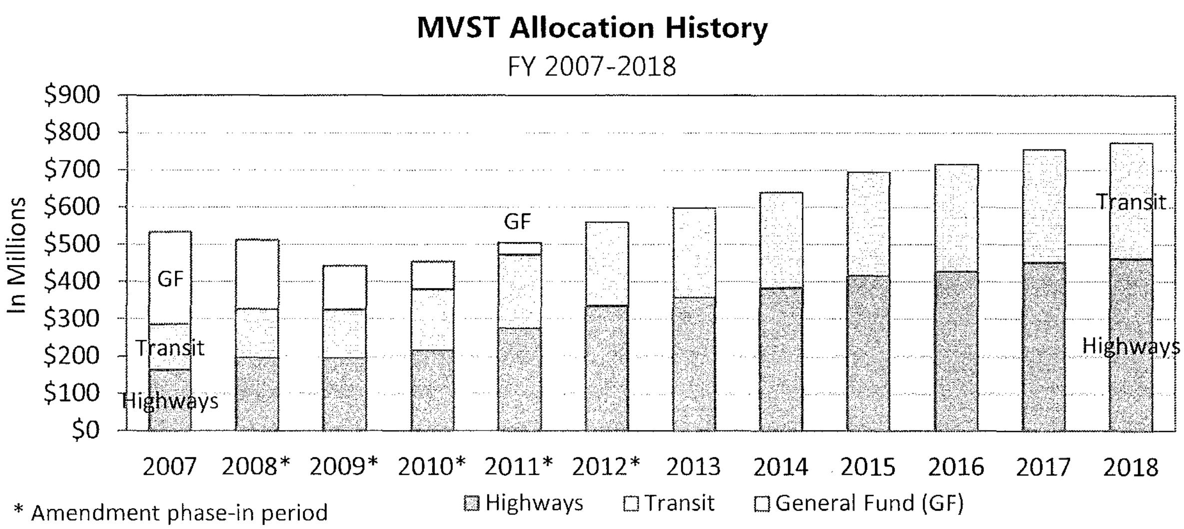
Within the constitutional constraints, the legislature can set the division between highways and transit by statute. Legislation passed in 2007 allocated MVST revenue for the phase-in period and after. Minn. Stat. § 297B.09. The legislature temporarily modified the allocation in 2009 by shifting additional funds from highways to transit only for fiscal years 2010 and 2011 (which was designed to help offset reductions in transit funding from the general fund).

Since fiscal year 2012 (at completion of the phase-in), revenue is distributed:

- **60 percent to highways** (via the Highway User Tax Distribution fund); and
- **40 percent to transit**, which consists of 36 percent for the Twin Cities metropolitan area and 4 percent for Greater Minnesota.

Revenue

Fiscal year 2018 MVST revenue was $772.4 million. The chart below summarizes historical revenue and distribution. Note that while the phase-in over fiscal years 2008 to 2012 increased transportation funding, the net increase over that period was impacted by reduced MVST collections during an economic downturn. Following the downturn, the average annual revenue growth is about 6.4 percent (calculated over fiscal years 2012 to 2018).



For more information: See the House Research publication *Highway Finance*, January 2019.

MN HOUSE RESEARCH

The Federal Earned Income Credit and State Working Family Credit

January 2019

What are the credits?

The federal earned income tax credit (EITC) and Minnesota working family credit (WFC) equal a percentage of the earnings of low-income individuals. The credits are refundable; if the credit exceeds a filer's tax liability, the rest is paid as a refund. Since these credits increase their recipients' earnings, they act as wage supplements and are thought to provide a work incentive. Filers claim the credits when they file their federal and state income tax returns, by completing a schedule or worksheet.

Who is eligible for the credits?

Anyone with wages or self-employment income may be eligible to claim the EITC and the WFC. In tax year 2019, individuals with more than $3,600 in interest income, dividends, rental and royalty income, and capital gain income do not qualify.

How are the credits calculated?

The credits equal a percentage of earned income, up to a maximum credit amount, and are phased out when the claimant's total income exceeds a threshold. The maximum credit amounts and income levels at which the credits are phased out vary depending on the number of children in the household and whether the claimants are married. Both the maximum credit and the phaseout threshold are adjusted annually for inflation. In tax year 2019, the maximum credits, phaseout threshold, and income level at which the credits are no longer allowed are as follows:

	Maximum credit		Phaseout threshold		Income at which credit fully phased out	
	EITC	WFC	EITC	WFC	EITC	WFC
			Unmarried claimants			
No children	$529	$139	$8,650	$8,730	$15,570	$15,667
1 child	$3,526	$1,117	$19,030	$22,770	$41,094	$41,330
2 children	$5,828	$2,156	$19,030	$27,000	$46,703	$46,926
3+ children	$6,557	$2,156	$19,030	$27,000	$50,162	$46,962
			Married claimants			
No children	$529	$139	$14,450	$14,570	$21,370	$21,507
1 child	$3,526	$1,117	$24,820	$28,610	$46,884	$47,170
2 children	$5,828	$2,156	$24,820	$32,840	$52,493	$52,776
3+ children	$6,557	$2,156	$24,820	$32,840	$55,952	$52,776

By **Sean Williams,** sean.williams@house.mn

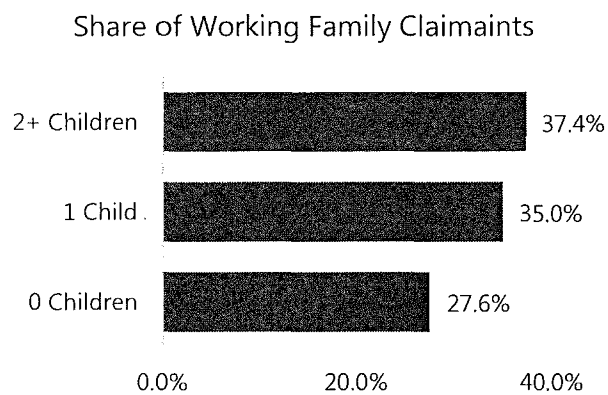
How many Minnesotans claim the credits, and how much is paid out?

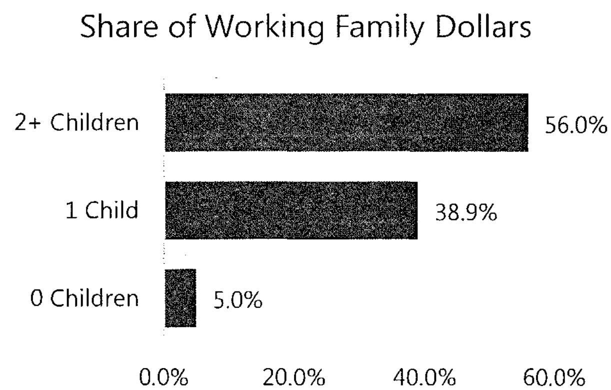
In tax year 2016, 343,550 Minnesota returns claimed the EITC and 324,390 claimed the WFC. These claims represent 12.6 percent of all federal returns filed by Minnesotans and 11.3 percent of all state returns.

In tax year 2016, Minnesotans claimed $744 million in EITC, of which $98 million offset tax liability, and the remaining $645 million was paid as a refund. The average EITC claimed by Minnesotans was $2,167. Minnesota returns claimed $249 million in WTC, of which $44.3 million offset tax liability, and the remaining $204.8 million was paid as a refund. The average WFC was $768.

How are the credits distributed among different types of families?

Seventy-two percent of all working family credits went to families with one or more children. These families received about 95 percent of the total amount of credits paid in 2016. The distribution of earned income tax credits is similar.





How are the credits distributed geographically?

In 2016, just over half (52 percent) of the returns claiming credits were in the Twin Cities metropolitan area and just under half (48 percent) in Greater Minnesota. 18.7 percent of returns in Wadena County claimed credits, compared with only 6.5 percent in Carver County. The highest average credit went to Lyon County claimants, at $863, and lowest to Cook County claimants, at $656.

How does Minnesota compare with other states?

Nationwide, 18.2 percent of all income tax returns claimed the EITC in tax year 2016, compared to 12.5 percent in Minnesota. The average EITC nationwide in 2014 was $2,421; it was $2,166 in Minnesota. Minnesota's number of recipients and credit amounts are lower than the national averages because state residents have above-average incomes. In tax year 2017, 29 other states and the District of Columbia provided a state version of the EITC. In most cases the state credit equals a percentage of the federal EITC.

For more information: See the House Research publication *The Federal Earned Income Tax Credit and the Minnesota Working Family Credit*, December 2016.

MN HOUSE RESEARCH

Renter's Property Tax Refund Program

January 2019

What is the renter's property tax refund program?

The renter's property tax refund program (sometimes called the "renters' credit") is a state-paid refund that provides tax relief to renters whose rent and "implicit property taxes" are high relative to their incomes. "Rent constituting property taxes" is assumed to equal 17 percent of rent paid. If rent constituting property taxes exceeds a threshold percentage of income, the refund equals a percentage of the tax over the threshold, up to a maximum amount. As income increases:

- the threshold percentage increases,
- the share of tax over the threshold that the taxpayer must pay increases, and
- the maximum refund decreases.

The program uses household income, a broad measure that includes most types of income, including income that is not subject to income tax. Deductions are allowed for dependents and for claimants who are over age 65 or disabled.

What are the maximums?

For refund claims filed in 2019, based on rent paid in 2018 and 2018 household income, the maximum refund is $2,150. Renters whose income exceeds $61,320 are not eligible for refunds.

How are claims filed?

Refund claims are filed using Minnesota Department of Revenue (DOR) Schedule M1PR. Schedule M1PR is filed separately from the individual income tax form. Claims filed before August 15, 2019, will be paid beginning in August 2019. The deadline for filing claims based on rent paid in 2018 is August 15, 2020; taxpayers filing claims after that date will not receive a refund.

How many renters receive refunds, and what is the total amount paid?

Based on rent paid in 2016 and 2016 incomes, 324,840 renters received refunds. The average refund was $653, and the total dollar amount of refunds paid statewide was $212.1 million. The average refund for senior and disabled claimants ($723) was higher than the average for those under age 65 and not disabled ($624).

When was the program last changed?

The 2013 tax law expanded the program, by lowering the threshold percentage for determining eligibility from 3.5 percent of income to 2.0 percent of income, in conjunction with reductions to the homeowner thresholds. It also increased the maximum refund to $2,000 for refunds based on rent paid in 2013.

For refunds based on rent paid from 1998 to 2008, the percentage of rent constituting property taxes was 19 percent. It was reduced to 15 percent for refunds based on rent paid in 2009 only under Gov. Tim Pawlenty's June 2009 unallotment, subsequently enacted into law. For refunds based on rent paid

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in 2010, the percentage returned to 19 percent. The 2011 tax law reduced the rate to 17 percent beginning for refunds based on rent paid in 2011 and following years.

How do refunds vary depending on income and property taxes?

The following table shows the refund amount for four example families (married couples without dependents). Although the threshold percentage, copayment rates, and maximum refund amounts are the same statewide, the average rent is higher in the metro area than in Greater Minnesota. Taxpayers who are over age 65, disabled, or have dependents are allowed a subtraction from income in determining the refund.

Married couple, both under age 65, no dependents
Example refunds for claims to be filed in 2019,
based on rent paid in 2018 and 2018 household income

		Metro Area		Greater Minnesota	
		Taxpayer #1	Taxpayer #2	Taxpayer #3	Taxpayer #4
1	Monthly rent, one bedroom apartment	$813	$813	$554	$554
2	Annual rent (1 x 12 = 2)	$9,756	$9,756	$6,648	$6,648
3	Rent constituting property tax (2 x 17% = 3)	$1,659	$1,659	$1,130	$1,130
4	Gross income	$15,000	$30,000	$15,000	$30,000
5	Deduction for dependents	0	0	0	0
6	Household income (4 - 5 = 6)	$15,000	$30,000	$15,000	$30,000
7	Statutory threshold percentage	1.3%	1.9%	1.3%	1.9%
8	Threshold % x income (7 x 6 = 6)	$195	$570	$195	$570
9	Property tax over threshold (3 – 8 = 9)	$1,464	$1,089	$935	$560
10	Copay percentage	15%	30%	15%	30%
11	Taxpayer copay amount (9 x 10 = 11)	$220	$327	$140	$168
12	Remaining tax over threshold (9 – 11 = 12)	$1,244	$762	$795	$392
13	Maximum refund allowed	$1,980	$1,770	$1,980	$1,770
14	Net property tax refund	$1,244	$762	$795	$392

Claimants can check the status of their refund by calling DOR at 651-296-4444 or online at www.revenue.state.mn.us.

MN HOUSE RESEARCH

State Constitutional Amendments

January 2019

A constitutional amendment is a change to the state's constitution that is ratified by voters in an election. Since 1858, 216 constitutional amendments have been voted on by the electorate. The most recent constitutional amendment was ratified in 2016, when voters approved a new council to establish legislator salaries. The Minnesota Constitution and election statutes govern the process of proposing and ratifying amendments.

The legislature approves an act to change the constitution

First, the legislature passes an act proposing a change in the constitution. The act must be approved by a majority vote of both bodies of the legislature. A constitutional amendment is just like a session law, but does not require the governor's signature, and a governor's veto has no effect. The act includes the statement of the question the legislature wants placed on the ballot and may also include a title for the question. The constitution requires that the act be assigned a session law chapter number, published with other legislative acts of the same year, and presented to the voters at a general election. Each amendment must be submitted separately.

Proposed amendments appear on the ballot at a state general election

The secretary of state, with approval of the attorney general, prepares a short title to identify each amendment on the ballot if a title was not specified by the legislature. The ballot question appears under the title. The text of the constitution as it would appear if amended is not printed on the ballot. If multiple amendments are proposed, each amendment is assigned a number and appears chronologically in that order on the ballot. Constitutional amendment ballot questions appear on the ballot just after the listing of state offices, before the listing of county offices.

Amendments are ratified if approved by a majority of voters voting at the election, not just a majority voting on the amendment

Since 1900, the constitution has required the approval of a majority of those voting at the election—not just a majority of those voting on the amendment question—to ratify the amendment. So, if a person votes at the election, leaving the amendment blank is the equivalent of a "no" vote. A notice to this effect is printed on the ballot.

If the state canvassing board finds that a proposed amendment received the approval of a majority of the voters at the election, the amendment takes effect immediately, unless the amendment specified a later effective date.

For more information: See the House Research publication *Minnesota Constitutional Amendments: History and Legal Principles*. For information on the ratification of amendments to the U.S. Constitution, see *United States Constitutional Amendment Process: Legal Principles for State Legislatures*.

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By **Matt Gehring,** 651-296-5052

MN HOUSE RESEARCH

Trunk Highway System

January 2019

The trunk highway system is a network of interstates and state highways connecting communities throughout the state. The bulk of funding comes from transportation-related taxes and federal aid. FY 2018 sources totaled about $2.00 billion, excluding trunk highway bonding.

Finance Framework

The Minnesota Constitution establishes a highway finance framework, which includes dedication of funds from transportation-related taxes and formula-based allocation of revenue via the highway user tax distribution (HUTD) fund. Minn. Const. art. XIV. State statutes further specify fiscal policies such as taxation rates and allocation formulas.

Primary Funding Sources

The primary state sources of trunk highway revenue are three transportation-related taxes: a tax on motor fuels, a registration tax on motor vehicles, and a tax on the sale of motor vehicles. A portion of each is allocated to trunk highways from the HUTD fund. The 2017 Legislature allocated additional funds from state sales taxes, which are similarly distributed via the HUTD fund to the trunk highway system. Funding from the HUTD fund totaled $1.31 billion in fiscal year 2018. Federal aid is another significant source, at $622.9 million. Other funding sources include sales of land and equipment, fines, and fees.

Trunk Highway Bonds

Trunk highway bonds are a specialized form of general obligation bonding, issued by the state only for construction on the trunk highway system (following constitutional limits). Minn. Const. arts. XI, § 5 (e); XIV, § 11. Since bonds carry an obligation of future repayment with interest, proceeds from bond issuances represent debt. Nevertheless, bond proceeds can be viewed as a form of revenue.

In fiscal year 2018, funds from trunk highway bonding totaled $114.8 million. This amount only represents funds *expended* that year for project costs. Legislative *authorizations* to issue bonds are distinct from expenditures and may occur in a year prior to the bond issuance.

Funding

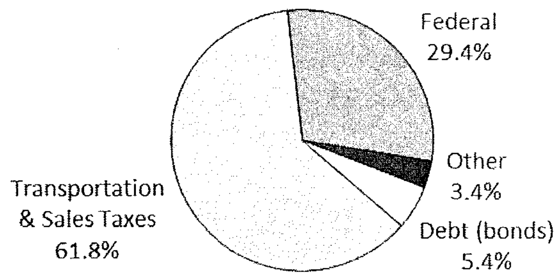
Funding for fiscal year 2018 is below, treating bond proceeds as a source.

Source	Amount (millions)
Transportation and sales taxes	$1,310.6
Federal aid	622.9
Trunk highway bond proceeds	114.8
Other Sources:	
Shared construction projects	20.0
Permit charges & fees	7.1
Sale of land, equipment, & services	14.6
Fines	5.3

By **Matt Burress,** matt.burress@house.mn

Source	Amount (millions)
Investments	10.7
Miscellaneous	12.9
Total	**$2,119.8**

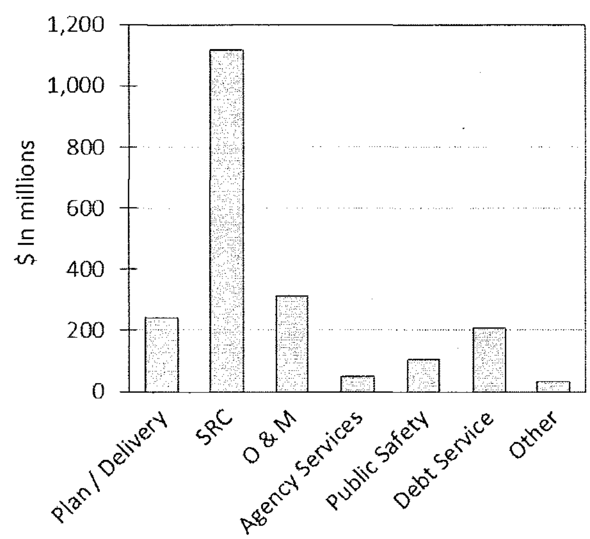
Trunk Highway Funding Distribution
FY 2018 ($2.12 billion), incl. TH bonding



Expenditures

The following summarizes trunk highway expenditures by budget activity.

Trunk Highway System Expenditures
FY 2018 ($2.07 billion), incl. TH bonding



- **Program planning and delivery** includes: (1) project development to prepare a project for construction through tasks like scoping, design, engineering, and environmental analysis; (2) construction management, which involves oversight of projects; and (3) statewide system planning and research.
- **State road construction (SRC)** funds specific construction projects. Its main components are: (1) contracts and consultant agreements for construction work (and some project development); (2) materials purchasing; and (3) right-of-way acquisition.
- **Operations and maintenance (O & M)** is for maintaining highways through activities like inspections, snowplowing, roadway repairs, safety infrastructure upkeep (such as guard rails and traffic control devices), and vehicle maintenance.
- **Agency services** includes leadership, finance, information technology, and human resources.
- **Public safety** primarily funds the State Patrol.
- **Debt service** is payment of principal and interest on previously issued trunk highway bonds.

MN HOUSE RESEARCH

The Minnesota and Federal Dependent Care Tax Credits: An Overview

January 2019

What are the credits?

The Minnesota and federal dependent care credits partially offset the cost of child care for certain workers. The maximum Minnesota and federal credit is $1,050 for one child and $2,100 for two or more children.

Are the credits refundable?

The Minnesota credit is fully refundable. If an individual qualifies for a credit that is greater than his or her tax liability, the excess is paid as a refund. The federal credit is not refundable and may only be used to offset federal income tax liability.

Who is eligible for the credits?

Anyone who incurs expenses related to the care of a dependent and related household expenses may be eligible to claim the credits. The claimant must:

- maintain a household that includes the dependent;
- pay for care for a dependent under age 13, or a disabled spouse or adult dependent; and
- pay for care in order to work or look for work.

What are qualifying expenses?

Qualifying expenses are amounts paid for the care of a dependent under age 13, or a disabled spouse or adult dependent, but do not include amounts paid to the claimant's spouse or another dependent. Qualifying expenses may not exceed the claimant's earned income (for married couples filing joint returns, expenses may not exceed the earned income of the lesser earning spouse). Maximum allowable qualifying expenses are reduced by amounts paid through dependent care pre-tax accounts.

How is the federal credit calculated?

The federal credit equals 35 percent of up to $3,000 of qualifying expenses for one dependent ($6,000 of qualifying expenses for two or more dependents). The maximum federal credit is $1,050 for one dependent and $2,100 for two or more dependents. The federal credit percentage rate begins to phase down when income exceeds $15,000, with the credit percentage decreasing as income increases. Claimants with incomes over $43,000 qualify for the minimum federal credit rate of 20 percent of qualifying expenses, or up to $600 for one dependent and $1,200 for two or more dependents. For example, a claimant with $50,000 of income and $1,000 of expenses will qualify for a credit of $200 (20 percent of $1,000).

By **Sean Williams**

How is the state credit calculated?

The state credit equals the federal credit for which the claimant is eligible, subject to an income-based phaseout. While all filers with tax liability and qualifying expenses may claim the federal credit, the state credit is fully phased out for filers with higher incomes. In tax year 2019, the phaseout begins when adjusted gross income exceeds $52,160 and the credit is fully phased out when income reaches $64,160 for claimants with one dependent, and $76,160 for claimants with two or more dependents. The income threshold for the phaseout is adjusted each year for inflation.

How do filers claim the credits?

Filers claim the credits when they file their federal and state income tax returns, by completing a separate schedule—Form 2441 for the federal credit and schedule M1CD for the state credit.

How many Minnesotans claim the credits?

In tax year 2016, 154,410 Minnesotans claimed the federal dependent care credit—these claims represent 5.6 percent of all federal returns filed by Minnesotans.

In tax year 2016, 29,561 Minnesotans claimed the state credit—these claims represent 1.1 percent of all state returns filed by Minnesotans.

What are recent changes to the state credit?

The 2017 Legislature:

- tied the state credit directly to the federal credit;
- changed the income measure used for the credit phaseout from household income to adjusted gross income; and
- increased the phaseout floor to $50,000, with the credit extending to $62,000 for those with one dependent and $74,000 for those with two or more dependents.

How does Minnesota compare with other states?

Nationwide, 4.3 percent of all 2016 income tax returns claimed the federal dependent care credit, compared to 5.6 percent in Minnesota. South Dakota had the highest percentage of returns claiming the federal credit at 6.3 percent, and West Virginia had the lowest at 2.3 percent.

The average federal dependent care credit in 2016 was $560 nationwide and $506 in Minnesota. Alaska had the highest average credit at $603, and Montana had the lowest at $490. Minnesota's average credit amount may be lower than the national averages because state residents have above-average incomes, or because Minnesotans are more likely to receive child care assistance or use pre-tax dependent care accounts, reducing the amount of qualifying expenses.

For more information: See the House Research publication *The Minnesota and Federal Dependent Care Tax Credits*, November 2017.

MN HOUSE RESEARCH

Targeting Property Tax Refund

January 2019

What is targeting?

The "additional" or "special" property tax refund, generally referred to as "targeting," directs property tax relief to homeowners who have large property tax increases from one year to the next.

Who qualifies?

A homeowner qualifies if the property tax on the home has increased by more than 12 percent over the previous year's tax and if the increase is over $100. In determining eligibility, the previous year's tax amount is the net amount paid by the homeowner after deduction of any targeting refund received in that year.

The homeowner must have owned and lived in the same home for both years. If any improvements were made to the home, that portion of the tax increase resulting from the improvements must be subtracted when determining the refund.

How does targeting work?

Generally, the refund equals 60 percent of the increase over the greater of (1) 12 percent of the previous year's tax after deduction of targeting, or (2) $100. The refund is not allowed if the increase was attributable to improvements made to the home. The maximum refund is $1,000. The targeting refund is calculated prior to calculation of the homestead credit refund. The following example shows how the refund is calculated.

Payable 2018 Property Tax after Targeting	$1,600
Payable 2019 Property Tax	$2,000
2019 tax increase (over 2018)	$400
Taxpayer pays first 12% of increase compared to previous year's tax, which must be at least $100 (12% x $1,600)	$192
Remaining increase eligible for relief ($400 - $192 = $208)	$208
State pays 60% of excess over 12% increase up to a $1,000 maximum (60% x $208 = $125)	$125
Amount of 2019 increase paid by taxpayer ($400 - $125)	$275

The taxpayer's $400 increase (i.e., 25 percent) is reduced to an out-of-pocket property tax increase of $275 (i.e., 17.2 percent) as a result of the $125 refund.

The taxpayer pays the full $2,000 amount of the 2019 property tax to the county, the first half in May and the second half in October. The taxpayer applies to the state for a targeting refund on form M1PR. The targeting refund is paid at the same time the regular homestead credit refund ("circuit breaker") is paid in late September.

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Does targeting have any other restrictions?

No, unlike the homestead credit refund, the targeting refund is not tied to the taxpayer's household income. Under the homestead credit refund, the taxpayer's household income may not exceed a specified maximum and the amount of household income affects the amount of the refund.

However, the targeting refund does not use income as a factor, nor is there any limitation on the taxpayer's household income. Therefore, higher income taxpayers who do not qualify for the homestead credit refund due to income restrictions are eligible for the targeting refund.

What are the dollar amounts of refunds paid for the state, metro, and nonmetro areas?

The table below shows the statewide amount, with a breakdown for the metro and the 80 nonmetro counties, for the past four years.

Homeowners claimed $3.110 million on targeting refund claims filed in 2017. Changes in targeting refunds from one year to the next generally track changes in property taxes on homesteads.

Targeting Refunds, Filed 2014 – 2017 (dollars in thousands)

	Filed 2014	Filed 2015	Filed 2016	Filed 2017
Total Metro	$799	$2,749	$3,838	$1,405
Total Nonmetro	$723	$1,140	$2,694	$1,705
State	$1,523	$3,889	$6,533	$3,110

Some taxpayers (e.g., those who typically don't qualify for the homestead credit refund) may not be aware of the targeting program, resulting in lower total refunds statewide than if all eligible taxpayers had filed.

How many homeowners claim the refund?

In 2017, over 36,000 homeowners claimed refunds based on their property tax increase from payable 2016 to 2017. The average refund amount was $85.

How are claims filed?

Refund claims are filed using the Minnesota Department of Revenue (DOR) Schedule M1PR, the homestead credit refund form. There is a separate schedule on the back of the M1PR ("Schedule 1 – Special Refund") for the targeting program. The taxpayer files for this refund after receiving his or her property tax statement in February or March. Claims filed before August 15, 2019, will be paid beginning in late September 2019. The deadline for filing claims based on taxes payable in 2019 is August 15, 2020; taxpayers filing claims after that date will not receive a refund. Forms are available online at DOR's website, under "Forms and Instructions" (www.revenue.state.mn.us).

Claimants can check the status of their refund by calling DOR at 651-296-4444 or online at www.revenue.state.mn.us.

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MN HOUSE RESEARCH

Homestead Credit Refund Program

January 2019

What is the homestead credit refund program?

The homestead credit refund is a state-paid refund that provides tax relief to homeowners whose property taxes are high relative to their incomes. The program was previously known as the homeowner's property tax refund program, or PTR, and sometimes popularly called the "circuit breaker." If the property tax exceeds a threshold percentage of income, the refund equals a percentage of the property tax over the threshold, up to a maximum amount. As income increases:

- the threshold percentage increases,
- the share of tax over the threshold that the taxpayer must pay (the "copay percentage") increases, and
- the maximum refund decreases.

The program uses household income, a broad measure that includes most types of income, including income that is not subject to income tax. Deductions are allowed for dependents and for claimants who are over age 65 or disabled. The refund is based on taxes payable after subtracting any targeting refund claimed by the homeowner.

What are the maximums?

For refund claims filed in 2019, based on property taxes payable in 2019 and 2018 household income, the maximum refund is $2,770. Homeowners whose income exceeds $113,150 are not eligible for a refund.

How are claims filed?

Refund claims are filed using the Minnesota Department of Revenue (DOR) Schedule M1PR, which is filed separately from the individual income tax form. Claims based on taxes payable in 2019 that are filed before August 15, 2019, will be paid beginning in late September 2019; claims filed electronically may be paid a month earlier. The deadline for filing claims based on taxes payable in 2019 is August 15, 2019; taxpayers filing claims after that date will not receive a refund.

How many homeowners receive refunds, and what is the total amount paid?

Based on payable 2017 property taxes and 2016 incomes, 471,630 homeowners received refunds. The average refund was $894, and the total dollar amount of refunds paid statewide was $421.9 million. The average refund for senior and disabled claimants ($943) was slightly higher than the average for those under age 65 and not disabled ($858).

What are the most recent changes to the program?

The 2011 and 2013 tax laws both expanded the refund program. The 2011 changes increased the maximum refund for homeowners with incomes under about $37,000, and decreased the copayment percentage for most homeowners. The 2013 changes, effective for refunds based on taxes payable in 2014, lowered the threshold percentage for determining eligibility from 3.5 percent of income to 2.0

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percent of income for homeowners with household incomes from $19,530 to $65,049, and to 2.5 percent for those at higher income levels.

How do refunds vary depending upon the filer's income and property tax?

The following table shows the refund calculations for four example families with different incomes—two families in the metro area and two in Greater Minnesota. Although the program parameters are the same statewide, the average residential homestead property tax in the metro area is higher than in Greater Minnesota. The example metro area families have homes valued at $265,000 and payable 2019 property taxes of $3,500, typical amounts for the metro area. The example families in Greater Minnesota have homes valued at $165,000 and payable 2019 property taxes of $1,700, typical amounts for Greater Minnesota. Taxpayers who are over age 65, disabled, or have dependents are allowed a subtraction from income in determining the refund.

Married couple, both under age 65, two dependents
Example refunds for claims to be filed in 2019,
based on taxes payable in 2019 and 2018 income

		Metro Area		Greater Minnesota	
		Taxpayer #1	Taxpayer #2	Taxpayer #3	Taxpayer #4
1	Property tax	$3,500	$3,500	$1,700	$1,700
2	Gross income	$35,000	$75,000	$35,000	$75,000
3	Deduction for dependents	$10,865	$10,865	$10,865	$10,865
4	Household income (2 – 3 = 4)	$24,135	$64,135	$24,135	$64,135
5	Threshold income percentage	2.0%	2.1%	2.0%	2.1%
6	Threshold % x income (4 x 5 = 6)	$483	$1,347	$483	$1,347
7	Property tax over threshold (1 – 6 = 7)	$3,017	$2,153	$1,217	$353
8	Statutory copay percentage	35%	40%	35%	40%
9	Taxpayer copay amount (7 x 8 = 9)	$1,056	$861	$426	$141
10	Remaining tax over threshold (7 – 9 = 10)	$1,961	$1,292	$791	$212
11	Maximum refund allowed	$2,770	$1,620	$2,770	$1,620
12	Net property tax refund	$1,961	$1,292	$791	$212
13	Net property tax paid after refund (1 – 12)	$1,538	$2,208	$908	$1,488

Claimants can check the status of their refund by calling DOR at 651-296-4444 or online at www.revenue.state.mn.us.

MN HOUSE RESEARCH

Compensation Limits for Local Government Employees

January 2019

State law limits compensation for local government employees

State law limits the compensation for an employee of a political subdivision to no more than $175,621 per year, beginning January 2019 unless a waiver of the limit applies to the position. Minn. Stat. § 43A.17, subd. 9.

The compensation limit for local government employees applies to employees of statutory and home rule charter cities, counties, towns, metropolitan and regional agencies, and other political subdivisions. The compensation limit does not apply to school districts, hospitals, clinics, or health maintenance organizations owned by a governmental unit, or to medical doctors and doctors of osteopathy.

State law determines what is included in "compensation"

The statute specifies what is considered compensation for purposes of the limit. For political subdivision employees, compensation includes certain benefits as well as salary. The statute determines what is included and excluded for purposes of the compensation limit.

Included

- All deferred compensation
- All direct and indirect items of compensation that are not specifically excluded by the statute (e.g., cash allowance for personal use of a car is included)

Excluded

- Benefits that are provided for the majority of all other full-time employees of the political subdivision, vacation and sick leave, health and dental insurance, disability insurance, term life insurance, and pension benefits
- Dues paid to civic, professional, educational, or governmental organizations
- Reimbursement for actual expenses that are directly related to the job

The statute contains a process and criteria for granting exemptions

The Commissioner of Management and Budget may increase the compensation limit for a position that the commissioner determines requires special expertise necessitating a higher salary to attract or retain a qualified person. In making this determination, the commissioner must consider salary rates paid to other people with similar responsibilities in the state and nation. Before granting an exception to the salary limit, the commissioner also must seek the advice of the Legislative Coordinating Commission. Any increase must also be adjusted annually by any increase in the Consumer Price Index (CPI) from the prior year. Minn. Stat. § 43A.17, subds. 3 and 9.

According to Minnesota Management and Budget (MMB), as of January 1, 2019, a local government may increase by 2.5 percent the compensation of an employee with an existing waiver for compensation

By **Deborah Dyson,** Deborah.Dyson@house.mn

that exceeds the current limit. If the existing approved waiver amount is below the current limit, the local government may increase an employee's compensation to the limit without a waiver.

The legislature has been addressing the issue of political subdivision salary caps since 1977

In 1977, the legislature provided that no political subdivision employee could be paid more than the Commissioner of Finance. The 1980 Legislature repealed the political subdivision salary cap. In 1983, the legislature enacted something similar to the current cap—compensation for local government employees was limited to 95 percent of the governor's salary. There have been various refinements to the law since 1983. Most significantly, in 1993 the legislature clarified what types of compensation are to be included when comparing a political subdivision employee's compensation to the governor's salary.

In 2005, the legislature debated repealing the cap altogether but decided to increase the cap to 110 percent of the governor's 2005 salary, with an annual adjustment for inflation using the CPI for all urban consumers in the prior year. The reference to 110 percent of the governor's salary is still in law, but is not currently relevant because the inflationary increases prescribed by law have made the current limit of $175,621, much higher than 110 percent of the governor's salary. One hundred ten percent of the governor's salary is approximately $140,000. For a chart on the current and past limits with CPI increases, see the MMB website at https://mn.gov/mmb/employee-relations/compensation/laws/local-gov/comp-limits/lgcomplimitsbyyear.jsp.

The local government limits do not apply to state employees

The statute limiting political subdivision salaries does not cover state agency heads or state employees. For state agency head salary limits, see Minnesota Statutes, section 15A.0815, subds. 2 and 3, and MMB's website, which gives the limits as adjusted for inflation. https://mn.gov/mmb/employee-relations/compensation/laws/agency-head-salary-limit/. Until 2013, the salary of employees of executive branch agencies was limited to the salary of the agency head, but this limit was repealed in 2013. Salaries for these employees are set by collective bargaining agreements or compensation plans that are approved by the legislature.

For more information: See the House Research publications *State Agency Head Salaries,* June 2016 and *State Elected Officials' Compensation,* December 2018.

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MN HOUSE RESEARCH

Capital Gains Taxation

March 2019

What is capital gains income? What are short- and long-term capital gains?

When a taxpayer sells a capital asset, such as stocks, a home, or business assets, the difference between the sale price and the asset's tax basis is either a capital gain or a loss. The "tax basis" is usually what the taxpayer invested in the asset, less any depreciation deductions claimed for business assets. Special basis rules apply to assets received as a gift or inheritance.

The gain or loss on an asset held for more than one year is considered "long term." If the taxpayer disposes of an asset after holding it for a year or less, the gain or loss is "short term."

How does the federal government tax capital gains income?

Four maximum federal income tax rates apply to most types of net long-term capital gains income in tax year 2019 (these rates include the additional 3.8 percent tax on net investment income or NII):

- 0 percent for taxpayers in the 10 percent or 15 percent bracket (under $78,750 of federal taxable income (FTI) for married joint filers)
- 15 percent for taxpayers above the 15 percent bracket but below the threshold for the tax on NII (from $78,750 of FTI to $250,000 of modified adjusted gross income (MAGI) for married joint filers)
- 18.8 percent for taxpayers subject to the tax on NII but not in the top bracket on ordinary income (from $250,000 of MAGI to $488,850 of FTI for married joint filers)
- 23.8 percent for taxpayers in the top 37 percent bracket ($488,850 of FTI or higher for married joint filers)

The net capital gain income that qualifies for the preferential rates is long-term capital gain after subtracting both long-term capital losses and net short-term capital losses (i.e., in excess of short-term capital gains). Short-term capital gains do not qualify for the preferential federal rates.

How does Minnesota tax capital gains income?

Minnesota includes all net capital gains income in taxable income and subjects it to the same tax rates as apply to other income: 5.35, 7.05, 7.85, and 9.85 percent. Minnesota recognizes the federal exclusions on the sale of the taxpayer's home and the sale of qualified small business stock.

Are there higher or lower federal rates for certain kinds of income?

Three exceptions to the maximum federal rates apply:

- **Qualified small business stock.** 50 percent to 100 percent of the gain on sale of qualified small business stock is exempt, depending on when the stock was acquired; a 31.8 percent maximum rate applies to any remaining gain
- **Collectibles.** The net capital gain from selling collectibles (such as coins or art) is subject to a maximum 31.8 percent rate
- **Section 1250 real property.** The part of any net capital gain on property for which the taxpayer claimed "additional depreciation" (Section 1250 real property) is taxed at a maximum 28.8 percent rate

By **Sean Williams,** 651-296-5053
Christopher Kleman, 651-296-8959

How are gains from the sale of the taxpayer's main home taxed?

Taxpayers may exclude up to $250,000 of gain on the sale of the home ($500,000 for married joint filers), if they owned and used the homes as their principal residences for two out of the five years before the sales. There is no limit to the number of times a taxpayer may claim this exclusion.

Can capital losses reduce ordinary income?

Up to $3,000 per year of capital losses can be deducted from ordinary income; losses over $3,000 are carried forward to future tax years. Losses on personal use items, such as a home or car, are not deductible.

How do other states treat capital gains?

Nine states (Arkansas, Arizona, Hawaii, Montana, New Mexico, North Dakota, South Carolina, Vermont, and Wisconsin) exclude a portion of long-term capital gains income, provide a lower rate, or allow a credit. Massachusetts taxes short-term capital gains at a higher rate (12 percent) than long-term capital gains. Of the states that impose individual income tax, 31 states including Minnesota do not provide preferential treatment for capital gains income; some provide special treatment for capital gains income from certain types of assets.

What are the income levels, filing types, and ages of Minnesota residents who have capital gains income?

In tax year 2016, about 20 percent of all returns filed by Minnesota residents reported some capital gain or loss. Married taxpayers filing joint returns reported 79 percent of capital gains income. Filers with incomes over $100,000 reported about 86 percent of capital gains income. Over 40 percent of taxpayers aged 65 and older reported some capital gains income in tax year 2016. The table shows the percent of gains by age of taxpayer.

Federal adjusted gross income	$ of capital gains reported (millions)	% of all gains reported	% of income consisting of gains	Average gains per return
			Returns with capital gains	
Less than $50,000	$649	8.4%	10.6%	$2,834
$50,000 to $99,999	$431	5.6%	3.5%	$3,490
$100,000 to $500,000	$2,208	28.7%	6.8%	$14,561
Over $500,000	$4,413	57.3%	17.3%	$234,437
All incomes	$7,702	100.0%	10.1%	$14,721
Taxpayer Age				
Less than 25	$28	0.4%	6.5%	$1,081
25 to 39	$434	5.6%	4.8%	$5,897
40 to 64	$4,421	57.4%	9.5%	$19,077
65 or older	$2,818	36.6%	13.9%	$14,692
All ages	$7,702	100.0%	10.1%	$14,721

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Biofuel Use Mandates

April 2019

What is a biofuel?

A biofuel is a transportation fuel derived from plants or other renewable biological resources. The most widely used biofuels are ethanol produced from corn and biodiesel produced from soybean oil and other feedstocks. Researchers and companies are actively developing new biofuels and new feedstocks for ethanol and biodiesel.

Ethanol is a substitute for gasoline; biodiesel is a substitute for diesel fuel. In contrast, gasoline and diesel are referred to as "fossil fuels" because they are derived from nonrenewable petroleum. A biofuel-blended fuel is a fossil fuel mixed with biofuel.

What is a biofuel use mandate?

A biofuel use mandate is a law that requires transportation fuel suppliers and retailers to sell biofuel-blended fuel. As the result of Minnesota's biofuel mandates, in general all motorists who fuel up in Minnesota purchase biofuel-blended fuel. Regular gasoline and diesel are not typically available at gas stations.

How do the biofuel use mandates work?

Minnesota has two biofuel use mandates—one for gasoline and another for diesel fuel. Both laws require fuel blenders to incorporate a specific amount of biofuel into each gallon of transportation fuel sold in the state, with certain exceptions.

What is the requirement for gasoline?

Prior to July 1, 2013, state law required a 10 percent blend of ethanol in nearly every gallon of gasoline. This blend of 10 percent ethanol and 90 percent gasoline is commonly referred to as "E10." As the result of a law enacted during the 2013 legislative session, fuel sellers have the option of selling either E10 or gasoline blended with 10 percent biobutanol, cellulosic ethanol, or any other biofuel approved by the U.S. Environmental Protection Agency (EPA) as a gasoline substitute.

By law, the E10 option could change if the EPA authorizes additional ethanol blends. Fuel sellers who choose the ethanol option will be required to sell E15, E20, or any other blend approved by the EPA for use in all light-duty vehicles. However, if the EPA allows the use of new ethanol blends only in certain vehicles, the law's ethanol option will remain at E10. For example, the EPA has approved E15. However, Minnesota's ethanol mandate did not increase correspondingly because the EPA authorized E15 use only in model-year 2001 and newer light-duty vehicles.

What is the requirement for diesel?

The biodiesel mandate law requires a 20 percent blend of biodiesel ("B20") in most diesel fuel sold in Minnesota during the warm-weather period of April 15 through the end of September. October through March, the mandate level reverts to B5 due to concerns about B20's performance in cold weather. During the spring transition from B5 to B20 each April, the minimum content level is temporarily B10 in order to provide time for fuel sellers to transition their diesel inventory to B20.

By **Colbey Sullivan,** 651-296-5047

The law authorizes the executive branch to suspend the use mandate for a limited period of time if there is not enough biodiesel fuel available or if the wholesale price of biodiesel is so high relative to diesel fuel that the mandate would cause economic hardship for gas stations and other diesel fuel sellers who may lose business to competitors located outside of the state.

What exemptions exist?

The legislature granted exemptions from the use mandates for certain vehicles, equipment, and fuels. The exemptions reflect stakeholder concerns about the suitability of biofuel-blended fuels for their vehicles and other gasoline- or diesel-powered equipment. For a list of exemptions, see the table below.

Biofuel Mandates, Implementation Dates, and Exemptions

	Diesel	Gasoline
Mandate Level	Minimum of 20 percent biodiesel per gallon April 15 through September 30, 5 percent October 1 through March 31, and 10 percent April 1 to April 14	Option of (1) the highest ethanol blend approved by the U.S. EPA for all vehicles, or (2) 10 percent of another EPA-approved biofuel
Initial Implementation	2005*	2003**
Exemptions	Number 1 diesel fuel; Number 2 diesel used by or for nuclear plants, trains, off-road mining and logging equipment, generator manufacturers, Coast Guard boats, and certain boats subject to Coast Guard inspection	Gasoline used by or for aircraft, resorts, marinas, houseboat companies, recreational vehicle manufacturers, riparian landowners, motor sport racing events, collector vehicles, off-road vehicles, motorcycles, boats, snowmobiles, and small engines

* The legislature increased the biodiesel mandate level over time, beginning with B2 in 2005, B5 in 2009, B10 in 2014, and B20 in 2018. As required by law, the B10 and B20 levels took effect only after executive branch officials certified that certain statutory conditions had been met.
** The legislature required E10 use statewide in 2003. From 1997 to 2003, the law effectively required E7.7 statewide.

For more information: For mandate compliance information, contact the Minnesota Department of Commerce, Weights and Measures Division, at 651-215-5821. For more detail on the mandates, see the following reports from the Minnesota Department of Agriculture: *Legislative Report on Ethanol – Review of E20* (January 2011) and *Report to the Legislature - Annual Report on Biodiesel* (January 2018). For legislative issues, contact legislative analyst Colbey Sullivan at 651-296-5047.

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MN HOUSE RESEARCH

Child Care Assistance

June 2019

What is child care assistance?

Child care assistance programs subsidize the child care expenses of eligible low-income families. The Minnesota Department of Human Services administers two child care assistance programs: Minnesota Family Investment Program (MFIP) child care assistance and Basic Sliding Fee (BSF) child care assistance. MFIP child care subsidizes the child care costs of families receiving cash assistance through MFIP and provides child care assistance for eligible families for the first 12 months after the family leaves MFIP cash assistance (transition year child care). BSF child care provides a child care subsidy to low-income working families who are not receiving cash assistance from MFIP.

What are the eligibility requirements for child care assistance?

To be eligible for child care assistance, both parents (or one parent in single-parent households) must participate in an authorized work, education, or training activity, cooperate with child support enforcement, and meet income eligibility guidelines. The maximum income limit to be eligible for child care assistance is 47 percent of state median income at program entry and 67 percent or less of state median income at program exit. (For fiscal year 2019, 47 percent of state median income was $39,455, and 67 percent of state median income was $56,244 for a family of three.)

Children up to age 12 are eligible for child care assistance (up to age 14 for disabled children). During fiscal year 2018, there were an average of 2.1 children per family receiving MFIP child care assistance and 1.9 children per family receiving BSF child care assistance.

County agencies or their contractors must determine eligibility within 30 days of receiving a request for child care assistance. Direct reimbursement is the only method of receiving child care assistance.

What is the average annual subsidy a family receives?

In fiscal year 2018, the estimated average annual subsidy for a family receiving MFIP child care assistance was $20,088, and the estimated average annual subsidy for a family receiving BSF child care assistance was $13,884.

Maximum reimbursement rates paid for child care assistance are set by the legislature. The 2011 Legislature decreased provider reimbursement rates by 2.5 percent, effective October 31, 2011. The 2013 Legislature modified reimbursement rates effective February 3, 2014, and created a provider rate differential for child care providers that hold a three- or four-star quality rating under the Parent Aware quality improvement and rating system.

Are families required to pay for some child care expenses?

There is a family co-payment requirement based on family size and income. The maximum family co-payment is about 14 percent of gross monthly income. Families with incomes below 75 percent of the federal poverty level are exempt from making co-payments ($15,998 and below for a family of three in 2019).

By **Danyell Punelli,** 651-296-5058

How is child care assistance funded?

The child care assistance programs receive funding from a variety of sources, including the federal Child Care Development Fund (CCDF), federal Temporary Assistance for Needy Families (TANF) funds, the state general fund, and county funds.

Total estimated fiscal year 2019 annual direct service payments are $159.5 million for MFIP and transition year child care and $109.4 million for BSF child care assistance.

How many families receive child care assistance?

During fiscal year 2019, an estimated average of 8,251 families received MFIP child care assistance and 7,782 families received BSF child care assistance per month.

Not all families who apply for child care assistance receive it. MFIP child care is a forecasted, fully funded program, while BSF child care receives a capped allocation. As of March 31, 2019, there were 1,678 families on the waiting list for BSF child care assistance.

What is the child care quality rating system?

Minnesota has a voluntary child care and early learning program quality rating system called Parent Aware. The rating system is available in all 87 counties.

What are some potential legislative issues?

During previous legislative sessions, there were several proposals to consolidate the child care assistance programs into one program to reduce administrative and program complexity. However, none of these proposals have been passed by the legislature. There may be future attempts to consolidate the child care assistance programs.

There have also been proposals to make BSF child care a forecasted, fully funded program to eliminate the waiting list (see House File 724, 2017 legislative session).

Finally, the federal child care development block grant was reauthorized by Congress in 2014. This reauthorization requires the state to make changes to the child care assistance programs to comply with federal laws and regulations.

In order to be in full compliance, the state still needs to enact changes to provider reimbursement rates.

MN HOUSE RESEARCH

State Jury Service

July 2019

The Minnesota Constitution guarantees citizens the right to a jury trial in all criminal actions in which a defendant may be sentenced to prison and civil actions in which a plaintiff seeks legal relief (such as money damages) rather than equitable relief (such as performing a specific act). (Minn. Const. art I, §§ 4, 6) There is no right to a jury when the only potential penalty is a fine (i.e., traffic tickets). A person may waive the right to a jury trial.

How many people serve on a jury?

The size of a jury depends on whether a case is civil or criminal, and what level of criminal charges a defendant faces. A felony jury has 12 members. Civil and other criminal juries have at least six members.

How are people selected for jury service?

Potential jurors are drawn at random from voter registration, state identification, and drivers' license lists to provide the broadest feasible cross section of the population of the area served by the court. All "qualified citizens" can be considered for jury service and must serve when summoned. Exclusions on the basis of race, color, creed, religion, sex, national origin, marital status, disability, age, occupation, economic status, status with regard to public assistance, or a physical or sensory disability are illegal.

Who is a "qualified citizen"?

A prospective juror qualifies to serve if that person is *all* of the following: a United States citizen; at least 18 years of age; a resident of the county; able to communicate in English; and physically and mentally capable of serving.

A person does ***not*** qualify to serve if the person is *any* of the following: under a sentence for a felony conviction; a former juror who served on a state or federal grand or petit jury in the past four years; or a judge serving in the judicial branch.

When may a person be excused from jury service?

People who are 70 years old or older are excused from jury service upon request. During the legislative session, a member, officer, or employee of the legislature is excused from jury service. A jury commissioner may excuse people if their ability to receive and evaluate information is so impaired that they cannot perform juror duties or if their service would be a continuing hardship.

May a person defer jury service to a later date?

Counties may establish conditions for deferral of jury service for situations including: temporary health problems, vacation plans, employment conflicts, prescheduled medical appointments, and arrangement of child care. Candidates for elected office may request deferral during a campaign. Deferrals shall be for a reasonable time, after which the prospective juror must be available for service.

By **Ben Johnson,** ben.johnson@house.mn

What if a prospective juror fails to appear when summoned to jury service?

The court will order a person who fails to appear when summoned to explain the reason for failing to comply with the summons. If the person does not show good cause, the person is guilty of a misdemeanor. It is also a misdemeanor to complete a jury qualification questionnaire or willfully misrepresent a material fact on the questionnaire for purposes of securing or avoiding jury service.

Are jurors compensated for time spent on jury duty?

Jurors receive compensation for travel, and for their required attendance. Jurors may request child care and parking expenses. The Minnesota Supreme Court determines compensation rates and, as of 2019, jurors receive $20 a day and $.54 per mile for a round trip from their homes to the courthouse.

Are employers required to give employees time off for jury service?

Employers cannot fire or otherwise coerce an employee because the employee receives a jury summons, attends court as a prospective juror, or serves as a juror. An employer who violates this provision faces a charge of criminal contempt, as well as a fine of up to $700 and/or six months' imprisonment. A discharged employee may also bring a civil action against the former employer for the recovery of lost wages and for an order requiring reinstatement. The employee has 30 days to bring a civil action. The court must award reasonable attorney's fees to a prevailing employee. Employers are not required to pay an employee while on jury leave.

How long is the term of jury service?

The time that a person is called upon to perform or be available for jury service varies by county. In counties with a population of 100,000 or more, a term of service must not exceed two weeks or the completion of one trial, whichever is longer. In counties with a population of less than 100,000, the maximum term of service ranges from two to four months; however, service ends after the person has reported to the courthouse for ten days or after the completion of a trial, whichever is longer.

What is the difference between a petit jury and a grand jury?

There are two types of juries: petit and grand. Petit (trial) juries consist of six to 12 people who hear evidence and issue verdicts in civil or criminal trials. In contrast, a grand jury determines whether probable cause exists to believe a person committed an offense and the person should be charged. Grand juries issue charges through an indictment, a written accusation similar to a complaint issued by a prosecutor. The grand jury consists of 16 to 23 people and may find an indictment only upon the concurrence of 12 or more jurors. Offenses that may be punished by life imprisonment must be prosecuted by indictment.

What is the process for selecting juries?

Voir dire ("vwhar deer") is the jury selection process; its purpose is to produce a qualified and impartial jury. The parties may examine prospective jurors to discover grounds to challenge (and dismiss) a prospective juror. Jurors may be challenged for cause because of bias, prejudice, or having a relationship to or with the defendant, victim, or an attorney in the case. Parties may also use a limited number of peremptory challenges to dismiss prospective jurors without giving a reason. A peremptory challenge cannot be used on the basis of race or gender.

MN HOUSE RESEARCH

Mortgage and Deed Taxes

July 2019

What are the mortgage registry and deed taxes?

The mortgage registry tax (MRT) and deed taxes are two separate state taxes that apply to many real estate transactions. While these taxes are independent of each other, they are often thought of together, since many property transactions trigger both taxes. Both taxes can be found under Minn. Stat. ch. 287.

How does it work?

The MRT is based on the amount of debt secured by a mortgage of real property and is imposed when the mortgage is recorded. The MRT rate is 0.23 percent of the total debt. The deed tax is a transfer tax. It is imposed on the value of real property transferred. The deed tax rate is 0.33 percent of net consideration (i.e., the price paid for the real property). However, for deeds recorded after December 31, 2019, the deed tax will not apply to deeds valued less than $3,000.

These rates have been in effect since 1987. The following example illustrates how each tax applies to a typical home purchase.

Mortgage Registry Tax

The Andersons buy a home with a purchase price of $150,000. The Andersons make a $20,000 down payment and take out a home loan with a principal amount of $130,000.

How much mortgage registry tax do the Andersons owe?

> Principal debt x 0.23% = MRT liability
> $130,000 x 0.23% = $299

The Andersons owe $299 in MRT.

Deed Tax

The Andersons record the deed for their new home. The deed is valued at $150,000.

How much deed tax must be paid?

> Value of the deed recorded x 0.33% = deed tax liability
> $150,000 x 0.33% = $495

$495 must be paid when the deed is recorded.

Who is responsible for paying the tax?

The mortgagor (borrower) is liable for the MRT, while the seller is liable for the deed tax. As a practical matter, the lender usually collects both of the taxes at closing and remits them to the county when the mortgage and deed are recorded.

The seller is ultimately liable for the deed tax. However, statute does not prohibit the seller from assigning the tax to the buyer in a private contract. Thus, a buyer may be assigned the deed tax via a purchase agreement or other contract.

By **Alexandra Haigler,** alexandra.haigler@house.mn

Who collects the money?

County treasurers collect these taxes. Each month, each county remits 97 percent of the revenues to the state for deposit in the state general fund. The county retains the other 3 percent for its administrative expenses.

How much is collected?

The table below shows the MRT and deed tax collected by the state since 2008. The amounts reflect only the state's 97 percent share. Collections are sensitive to the volume and value of real estate transactions and heavily depend on the state of the real estate market; MRT collections are also sensitive to refinancing activity.

State MRT and Deed Tax Revenue (in millions)

Fiscal Year	Mortgage	Deed	Total	Change (from previous year)	Percent Change (from previous year)
2008	114.4	84.3	198.7	-62.5	-23.9%
2009	101.2	59.7	160.9	-37.8	-19.0%
2010	94.6	58.5	153.1	-7.8	-4.8%
2011	98.9	54.6	153.5	0.4	2.6%
2012	103.0	57.1	160.1	6.6	4.3%
2013	139.9	73.6	215.5	55.4	34.6%
2014	93.4	87.1	180.5	-35.0	-16.2%
2015	107.4	99.8	207.2	26.7	14.89%
2016	115.6	110.4	226	18.8	9.07%
2017	125.2	118.4	243.6	17.6	7.79%
2018	119.6	128.2	247.8	4.2	1.72%

Source: Minnesota Department of Revenue, Special Taxes Division.

Are there exemptions from the taxes?

Both taxes have multiple exemptions. MRT exemptions include contracts for deed, certain agricultural mortgages, marriage dissolution decrees, and certain low- and moderate-income housing mortgages. Common deed tax exemptions are mortgages, plats, wills and testamentary distributions, leases, sheriff's foreclosure sale certificates, and marriage dissolution decrees.

Can local governments also impose mortgage and deed taxes?

State law authorizes Ramsey and Hennepin counties to impose local mortgage and deed taxes at a rate of 0.0001 (or 0.01 percent) for both taxes. The taxes expire on January 1, 2028, unless extended by the legislature.

MN HOUSE RESEARCH

School District Collective Bargaining

July 2019

PELRA governs labor relations for school district employees

The Public Employment Labor Relations Act (PELRA) governs labor relations for state and local government employees in Minnesota (Minn. Stat. ch. 179A), including school district employees. PELRA also applies to charter schools. It does not apply to independent nonpublic contractors or their employees who provide transportation, food service, or other contracted services to a school district. PELRA provides criteria for grouping employees into bargaining units, the scope of collective bargaining, and procedures for resolving labor disputes.

Two state agencies are responsible for administrative tasks under PELRA: the Bureau of Mediation Services (BMS) and the Public Employment Relations Board (PERB). The BMS determines appropriate bargaining units, certifies exclusive representatives of employees, and provides alternative dispute resolution in negotiations and grievances. The PERB investigates and resolves complaints of PELRA violations brought by public employers or unions.

Most school district employees, including teachers and principals, have the right to bargain collectively with the school board. Superintendents and certain part-time and temporary employees do not have the right to bargain under PELRA.

Bargaining units are determined by employees' job descriptions

The BMS uses criteria specified in PELRA to determine an employee's appropriate bargaining unit. All teachers with a tier 2, 3, or 4 license in a school district are in the same bargaining unit. Teachers with a tier 1 license, which is more limited in duration and scope than the other tiers, must be in a separate bargaining unit than teachers with the higher levels of licensure. If principals and assistant principals organize, they are in a different bargaining unit. There are considerable variations among school districts in bargaining units for nonlicensed employees, such as educational aides and food service workers.

A school district employee is not required to join a union

The members of a bargaining unit may select a union as the employees' exclusive representative. An employee may join the union, and pay fees to cover the costs of negotiating the contract and processing grievances, as well as the union's political activities. An employee is not required to join the union. In 2018, the United States Supreme Court held that an employee cannot be required to pay union fees and that consent to paying union fees must be clear and affirmative. The union contract governs the terms and conditions of employment of all members of the bargaining unit regardless of whether an employee in the unit has joined the union or paid union fees.

Collective bargaining agreements govern the terms and conditions of employment

Public employers must negotiate terms and conditions of employment with the unions including hours of employment, fringe benefits, and personnel policies affecting working conditions. While most retirement benefits are not negotiable, school boards may negotiate contributions to premiums for group insurance coverage of retired employees and severance pay provisions. School district education policies are not part of teacher negotiations. School boards need not negotiate inherent managerial

By **Cristina Parra,** cristina.parra@house.mn

policies such as budget matters, technology use, organizational structure, and the direction, number, and selection of personnel.

Teachers' collective bargaining agreements must have two-year terms beginning July 1 in an odd-numbered year. Other collective bargaining agreements may have terms of up to three years. Teachers' agreements must establish teachers' compensation, including fringe benefits, for the entire two-year term and must not contain a wage reopening clause or other provision for renegotiating teachers' compensation during the two-year term.

PELRA authorizes teacher strikes

Parties may resolve a bargaining impasse through mediation, arbitration, or a strike:

- Either the school board or the union may ask the commissioner to provide nonbinding mediation to try to resolve a disagreement.

- For essential employees (principals and assistant principals), either party can trigger binding arbitration to decide contract terms after reaching an impasse in bargaining. For other employees (teachers and nonlicensed employees), binding arbitration occurs only if the school board and the union mutually agree on arbitration.

- Essential employees cannot strike. Nonessential employees may strike under certain conditions. Teachers may strike in two situations. The first occurs when: (1) the collective bargaining agreement has expired or the parties have reached impasse in negotiating an initial agreement; (2) the parties participated in mediation over at least 30 days; and (3) no party requested arbitration or one party rejected arbitration. The second occurs when the employer refuses to comply with an arbitration decision. All employees, including teachers, must provide sufficient and timely notice of a strike.

Continuing contract laws establish procedural requirements and substantive grounds for terminating a teacher

Two statutory sections separate from PELRA govern probationary and continuing employment for tier 3 and 4 teachers in school districts. The tenure statute applies to the four first-class city school districts of Minneapolis, St. Paul, Duluth, and Rochester (Minn. Stat. § 122A.41), while the continuing contract statute (Minn. Stat. § 122A.40) applies to all other school districts. These statutes establish procedural requirements and substantive grounds, such as inefficiency or neglect of duties, for terminating a teacher's employment and require a school board and the union to negotiate a plan for unrequested leaves of absence due to teacher cutbacks. The probationary and continuing contract statutes do not apply to tier 1 and 2 teachers.

MN HOUSE RESEARCH

Minnesota's Public School Fee Law

July 2019

State policy is that public K-12 education must be free to all students

Minnesota's Public School Fee Law, Minnesota Statutes, sections 123B.34 to 123B.39, regulates the fees that public schools may and may not charge to students. The law declares that it is the policy of the state of Minnesota that public school education must be free, and no student may be denied an education based on inability to furnish books or other educational supplies needed to complete high school graduation or other related educational requirements. The law applies to both school districts and charter schools.

Public school fee law defines prohibited and authorized fees

The Minnesota Public School Fee Law authorizes certain fees and prohibits certain fees. Public schools must hold a hearing before imposing fees that are neither authorized nor prohibited. Schools may not suspend or exclude students or withhold students' grades or diplomas for failing to pay school fees.

Schools may accept voluntary contributions and may charge fees for extracurricular and noncurricular activities, or activities that supplement a class or educational program. The commissioner of education has adopted rules defining curricular, cocurricular, noncurricular, extracurricular, and supplementary activities for purposes of the public school fee law (Minnesota Rules, part 3500.1050); "extracurricular," "noncurricular," and "supplementary" activities have the same meaning. Extracurricular activities are:

- not for credit or required for graduation;
- conducted for the most part during other than school hours, or if partly during school hours, at times agreed by the participants, and approved by school authorities;
- determined primarily by the interests of the student participants and their parents with only the guidance of the staff member or other adult; and
- self-sustaining through dues, admissions, or other pupil fund raising events, except for salaries or indirect costs of the use of school facilities.

Schools are prohibited from charging fees for necessary goods and services

Minnesota's guarantee of a free public school education for all eligible students means schools are prohibited from charging fees for necessary goods and services. State law defines necessary goods and services to include instructional materials and supplies, required library books, required school activities, lockers, graduation caps and gowns, diplomas, and bus fees for students who live more than two miles from school. However, schools may charge bus fees to students who live within two miles of school and wish to ride the school bus.

Schools may not withhold the grades or diplomas of students who fail to pay fees, but may seek court action to collect unpaid fees. It is unclear whether remedial instruction that is not required by the school, conducted outside of the school day, and in a program separate from an extended time program constitutes supplemental education, where a fee is permitted, or core curricula, where a fee is prohibited.

By **Cristina Parra,** cristina.parra@house.mn

Schools may charge students for certain school-related costs

Schools may require students to pay for certain school-related costs including fees for school uniforms, extracurricular activities, security deposits, personal athletic equipment, supplementary field trips, voluntary student insurance, musical instruments, student publications, graduation announcements, class rings, community education programs (other than adult basic education programs), and personal stationery supplies.

A school may charge fees for lost or destroyed textbooks, workbooks, and library books if the school annually informs parents and students about its fee policy regarding lost and destroyed books. Schools may waive fees for students from low-income families, and for students whose parents serve in or recently served in active military service.

School nutrition programs are subject to the public school fee law

Schools may charge a student for meals, unless the student qualifies for a free meal based on family income. School nutrition programs receive substantial state and federal funding, and state law requires schools that participate in the school lunch program to provide lunch at no cost to all students that qualify for free or reduced-price lunch.

A 2019 opinion by the attorney general states that a charge for a meal by a public school is a "fee" subject to the Public School Fee Law, and that schools cannot restrict participation in graduation ceremonies based on outstanding school meal balances. The opinion also found that denying students the opportunity to participate in school graduation due to nonpayment of meals would demean or stigmatize students, in violation of state lunch aid laws. (Op. Att'y Gen. 169j, May 14, 2019)

MN HOUSE RESEARCH

The Working Family Credit and Federal Earned Income Credit

August 2019

What are the credits?

The Minnesota working family credit (WFC) and federal earned income tax credit (EITC) equal a percentage of the earnings of low-income individuals. The credits are refundable; if the credit exceeds a filer's tax liability, the rest is paid as a refund. Since these credits increase their recipients' earnings, they act as wage supplements and are thought to provide a work incentive. Filers claim the credits when they file their federal and state income tax returns, by completing a schedule or worksheet.

Who is eligible for the credits?

To claim the EITC and the WFC, an individual must have wages or self-employment income. Taxpayers generally must qualify for the federal credit to claim the Minnesota credit. Certain taxpayers are not eligible for the federal credit, including nonresident aliens, individuals living abroad, and individuals without a Social Security number. Individuals with significant investment income (more than $3,600 in tax year 2019) are also ineligible for the credit. To claim the federal credit, a taxpayer must either be 25 years old or have at least one qualifying child; the age requirement for the Minnesota credit is 21.

How are the credits calculated?

The credits equal a percentage of earned income, up to a maximum credit amount, and are phased out when the claimant's total income exceeds a threshold. The maximum credit amounts and income levels at which the credits are phased out vary depending on the number of children in the household and whether the claimants are married. Both the maximum credit and the phaseout threshold are adjusted annually for inflation. The numbers for tax year 2019 are as follows:

	Maximum credit		Phaseout threshold		Income at which credit fully phased out	
	EITC	WFC	EITC	WFC	EITC	WFC
			Unmarried claimants			
No children	$529	$279	$8,650	$8,730	$15,570	$22,673
1 child	$3,526	$1,117	$19,030	$22,770	$41,094	$41,392
2 children	$5,828	$2,156	$19,030	$27,000	$46,703	$47,533
3+ children	$6,557	$2,500	$19,030	$27,300	$50,162	$51,110
			Married claimants			
No children	$529	$279	$14,450	$14,570	$21,370	$28,513
1 child	$3,526	$1,117	$24,820	$28,610	$46,884	$47,232
2 children	$5,828	$2,156	$24,820	$32,840	$52,493	$53,373
3+ children	$6,557	$2,500	$24,820	$33,140	$55,952	$56,950

By **Sean Williams,** sean.williams@house.mn

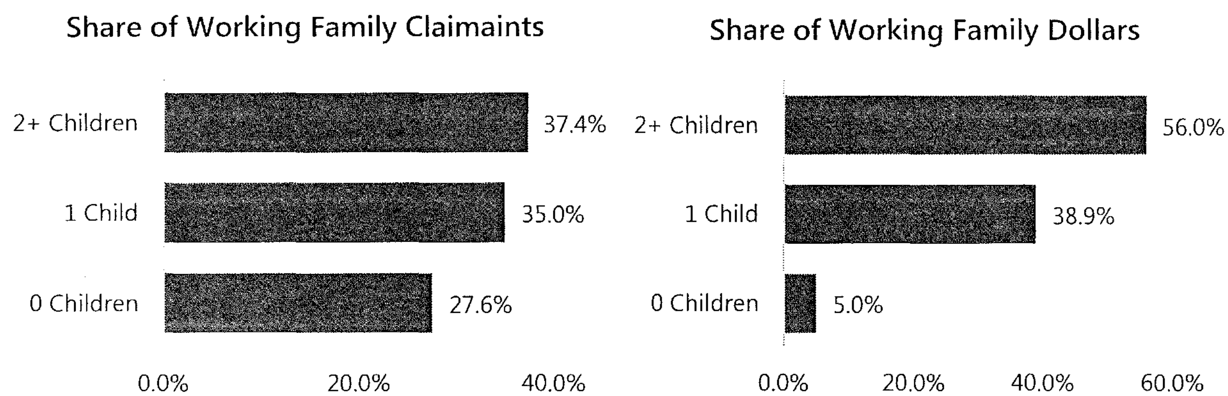
How many Minnesotans claim the credits, and how much is paid out?

In tax year 2016, 343,550 Minnesota returns claimed the EITC and 324,390 claimed the WFC. These claims represent 12.6 percent of all federal returns filed by Minnesotans and 11.3 percent of all state returns.

In tax year 2016, Minnesotans claimed $744 million in EITC, of which $98 million offset tax liability, and the remaining $645 million was paid as a refund. The average EITC claimed by Minnesotans was $2,167. Minnesota returns claimed $249 million in WTC, of which $44.3 million offset tax liability, and the remaining $204.8 million was paid as a refund. The average WFC was $768.

How are the credits distributed among different types of families?

Seventy-two percent of all working family credits went to families with one or more children. These families received about 95 percent of the total amount of credits paid in 2016. The distribution of earned income tax credits is similar.



How are the credits distributed geographically?

In 2016, just over half (52 percent) of the returns claiming credits were in the Twin Cities metropolitan area and just under half (48 percent) in Greater Minnesota. In Wadena County, 18.7 percent of returns claimed credits, as compared with only 6.5 percent in Carver County. The highest average credit went to Lyon County claimants, at $863, and lowest to Cook County claimants, at $656.

How does Minnesota compare with other states?

Nationwide, 18.2 percent of all income tax returns claimed the EITC in tax year 2016, compared to 12.5 percent in Minnesota. The average EITC nationwide in 2016 was $2,421; it was $2,166 in Minnesota. Minnesota's number of recipients and credit amounts are lower than the national averages because state residents have above-average incomes. In tax year 2017, 29 other states and the District of Columbia provided a state version of the EITC. In most cases the state credit equals a percentage of the federal EITC.

For more information: See the House Research publication *The Federal Earned Income Tax Credit and the Minnesota Working Family Credit*, December 2016.

MN HOUSE RESEARCH

Cigarette and Tobacco Excise Taxes and Fees

August 2019

This publication summarizes the taxes and fees imposed on cigarettes and tobacco products, including vapor products. These taxes can be found under Minnesota Statutes, chapter 297F.

License and stamp requirements

Any distributor or subjobber wishing to sell or distribute cigarette or tobacco products must obtain a license from the commissioner of revenue. Further, all packs of cigarettes sold must be affixed with a Minnesota cigarette stamp, which distributors can obtain from the commissioner of revenue.

Cigarette excise taxes and fees

Excise tax. Minnesota imposes an excise tax of 15.2 cents per cigarette ($3.04 per pack of 20) on the sale or possession of cigarettes. The tax on cigarettes is different from a traditional sales tax because it is imposed on a "per unit" basis—i.e., on the number of cigarettes sold, not as a percentage of the sale price. As a result, the tax does not vary based on variables such as the cigarette brand, the base price of the pack, or the location where the cigarettes are purchased.

In-lieu sales tax. In addition to the excise tax, a tax in lieu of the state sales tax is imposed on each pack of cigarettes. Effective January 1, 2019, the rate is 58.8 cents per pack. Each January, the commissioner of revenue sets the in-lieu tax based on a survey of Minnesota retail cigarette prices. Cigarettes are exempt from local sales taxes.

Settlement fee. Cigarettes manufactured by companies other than Philip Morris, R.J. Reynolds, Lorillard, and Liggett are subject to an additional fee of 50 cents per pack. In 1998, a group of states entered into a settlement agreement (the Tobacco Master Settlement Agreement) with the four largest tobacco companies in the United States. Under this agreement, the tobacco companies are required to make annual payments to the states to offset state-incurred medical costs of persons with smoking-related illnesses.

Minnesota was not part of the Master Settlement Agreement and instead entered into its own agreement with the same four tobacco companies. Similar to the national settlement, these companies make annual payments to Minnesota to offset state-incurred medical costs of persons with smoking-related illnesses. Thus, because those four companies make annual payments to Minnesota, cigarettes made by those companies do not incur an additional fee.

Use tax. A use tax may apply to an individual who purchases cigarettes in another state for use in Minnesota. The use tax applies if, in one month, an individual brings into Minnesota more than one carton of cigarettes. The tax is the same as the rate of the cigarette excise tax. The one carton exemption does not apply to cartons purchased over the Internet.

Other tobacco products

An excise tax of 95 percent of the wholesale price applies to other tobacco products, such as cigars, vapor products, pipe tobacco, snuff, and chewing tobacco. Since this tax is a percentage of price, it fluctuates along with the prices of the products.

By **Alexandra Haigler,** alexandra.haigler@house.mn

Moist snuff. A minimum tax equal to the tax rate on a pack of 20 cigarettes applies to each container of moist snuff and represents the lowest the tax can be.

Premium cigars. Premium cigars (with a wholesale price of $2 per cigar or more) are taxed at a rate of 50 cents per cigar.

Use tax. As with cigarettes, a use tax may apply to other tobacco products purchased out-of-state for use in Minnesota. The use tax applies if, in one month, an individual brings into Minnesota more than $50 of tobacco products. The tax is the same as the rate of the tobacco products and premium cigar excise tax rate. The $50 exemption does not apply to products purchased over the Internet.

Revenue dedication

For fiscal year 2019, reported revenues from cigarette and tobacco taxes totaled $624 million. Revenues from the cigarette and tobacco products taxes are deposited in the general fund. However, each fiscal year, $22.25 million is dedicated to fund the Academic Health Center at the University of Minnesota, and $3.94 million is dedicated to the medical education and research account and appropriated to the commissioner of health.

Neighboring state comparison

Because cigarettes can easily be transported, the tax rates in other states (especially border states) are important. Minnesota excise tax ($3.04/pack) is higher than any of the bordering states: Wisconsin ($2.52), South Dakota ($1.53), Iowa ($1.36), North Dakota ($0.44), but is significantly lower than the highest tax state, Connecticut ($4.35).

State Cigarette Tax Rates*
as of January 1, 2019
cents per pack

*These exclude local taxes
Source: Federation of Tax Administrators

MN HOUSE RESEARCH

Small Cities Assistance

August 2019

The Small Cities Assistance program has provided formula-based road aid for smaller Minnesota cities that do not receive municipal state-aid street funding. Minn. Stat. § 162.145. Aid totaled $8.0 million in fiscal year 2019. No funds are appropriated for 2020 or after.

Background

The largest state program for transportation-related assistance to cities is municipal state-aid street (MSAS) funding, which is part of a constitutional framework. However, under the constitution the funds are limited to cities having a population of at least 5,000. Minn. Const. art. XIV, § 8. The vast majority of Minnesota's cities fall below this population threshold and do not receive MSAS funds.

From 2005 to 2013, supplemental aid for cities under 5,000 population had been provided as part of the local government aid (LGA) formula. Aid amounts were calculated on a per capita basis, and in later years, an offset was determined based on a city's taxing capacity. The aid component was eliminated in 2013 in conjunction with adoption of a new LGA formula. Laws 2013, ch. 143, art. 2, § 36.

Requirements

Aid conditions and characteristics include the following:

- Eligibility is limited to cities that are not receiving MSAS funds, which generally means that the city must have a population of under 5,000
- Aid is restricted to construction and maintenance of roads and bridges on projects located at least partially within the city
- Funds can be used for various aspects of a road project, such as land acquisition as well as design and engineering work, and can be put towards a city's share on other road projects
- There is no specified timeline for when funds must be used
- Except for work on state-aid system streets or highways, the state-aid design and engineering standards do not apply
- Funds are distributed as block grants rather than on a reimbursement basis
- The city must comply with required financial reporting to the State Auditor and maintain records on aid spending (otherwise, funds can be withheld)

Administration

Assistance is jointly administered by two state agencies. Formula calculations are handled by Minnesota Department of Transportation (MnDOT), while aid is distributed by the Department of Revenue in conjunction with administration of LGA. Payments are generally made in two equal installments, by July 20 and December 26 in the fiscal year in which the funds are appropriated.

Funding

Funding for the program has not been continuous. It was first funded in fiscal year 2016 through a $12.5 million general fund appropriation. There was no funding in fiscal year 2017. The legislature subsequently enacted appropriations of $8.0 million from the general fund for each of fiscal years 2018 and 2019. Currently there are no appropriations for fiscal year 2020 or after.

By **Matt Burress,** matt.burress@house.mn

Allocation Formula

The aid is formula based, so that cities do not apply or compete for funds. The distribution formula contains four components:

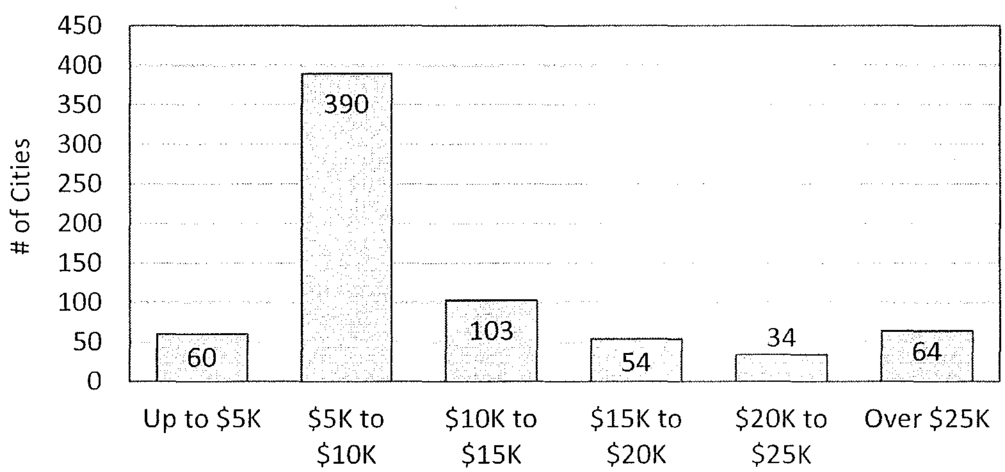
- 10 percent of the funds available in each year is divided equally among all eligible cities
- 35 percent is allocated proportionally based on each city's population
- 35 percent is allocated proportionally based on each city's municipal street lane-miles
- 25 percent is split proportionally in an amount that declines based on lane-miles of county state-aid highway (CSAH) located within each city, so that this aid under this component drops (down to $0) as a city's CSAH lane-miles increase

Another feature of the formula is an apportionment cap, so that a city cannot receive more than 3.5 times the average aid being provided. For fiscal year 2019, the cap amounted to $39,716 per city.

Allocation of Aid

Funds are distributed among 705 cities throughout Minnesota. For fiscal year 2019, the average amount was just over $11,300, or about $12 per capita. Assistance ranged from $4,000 to the cap of nearly $40,000. About 78 percent of cities received under $15,000 in aid, and ten cities were at the distribution cap.

Small Cities Aid Distribution
Number of Cities in Each Aid Range



For more information: See the House Research publications *Municipal State-Aid Street System*, August 2019, and *Highway Finance*, January 2019.

MN HOUSE RESEARCH

Municipal State-Aid Street System

August 2019

Some cities receive state assistance for construction and maintenance of streets that are part of a municipal state-aid street system. Funding comes from transportation-related taxes and is distributed following a statutory formula. Calendar year 2019 direct aid totals $192.5 million.

System Overview

The municipal state-aid street (MSAS) system is a collection of higher volume and key streets located in 148 Minnesota cities, of which 84 are in the Twin Cities metropolitan area. The roughly 3,700 miles of state-aid streets constitute around 16 percent of centerline miles of all city streets. Minn. Stat. § 162.09.

Constitutional Framework for Aid

The Minnesota Constitution lays out a basic framework for state highway finance. Among its features, the constitution dedicates specific transportation-related taxes to transportation purposes; allocates tax revenues by formula; and creates a MSAS fund for financial assistance to cities. Minn. Const. art. XIV.

Eligibility Based on Population

The constitution requires a city to have a population over 5,000 in order to qualify for MSAS aid. Minn. Const. art. XIV, § 8. Population is determined by the last federal decennial census or most recent estimates. However, some statutory provisions allow cities whose populations drop below 5,000 to receive aid, including:

- an exception for Chisholm, which was grandfathered in following the 2000 census; and
- a transition period that provides continuation of aid to a city that had been receiving assistance but whose population drops below the cutoff in a decennial census (2015 was the last transition year in this decade). Minn. Stat. § 162.09, subd. 4 (f); Laws 2001, 1st spec. sess., ch. 8, art. 2, § 6; Laws 2002, ch. 364, § 29.

Other Assistance to Ineligible Cities

While cities having a population under 5,000 are not eligible for MSAS funds, the legislature established a Small Cities Assistance program. Minn. Stat. § 162.145. It was most recently funded at $8.0 million in each of fiscal years 2018 and 2019 (with no funding for 2020 and after). Smaller cities are also supported indirectly through state aid to counties: a share of state funds for the county state-aid highway system must be allocated to a municipal account for use on portions of county state-aid highways located within smaller cities. Minn. Stat. § 162.08, subd. 1.

Program Administration

The Minnesota Department of Transportation (MnDOT) administers the state-aid program. MnDOT determines amounts annually based on a combination of tax receipts and future estimates. Aid apportionments are released each January and distributed on a calendar-year basis. MnDOT has also adopted administrative rules governing the program, which cover topics such as minimum roadway

By **Matt Burress,** matt.burress@house.mn

design and engineering standards, design variance procedures, apportionment between construction and maintenance, and contract and bidding requirements. Minn. Rules, ch. 8820. While the department oversees aid distribution and provides technical assistance, prioritization of road projects as well as their development are under the purview of each city.

Allocation and Use of Funds

Following state statutes, MSAS funds are used to provide aid and for related activities (such as administration). Total funding for calendar year 2019 is at $197.4 million, and allocations consist of:

- $192.5 million apportioned to cities as direct aid;
- $3.9 million for MnDOT agency expenses;
- $68,700 to a disaster account; and
- $961,400 to a research account. Minn. Stat. §§ 162.12, 162.13.

MnDOT apportions the direct aid to cities following a formula in state statute, so that:

- 50 percent is divided proportionally based on the population of each city (compared to the total for all municipal state-aid cities); and
- 50 percent is proportional based on city construction needs. Minn. Stat. § 162.13.

The "needs" calculation under the aid formula is structured to enable comparison across the cities (and does not identify total costs to bring municipal state-aid streets up to state standards). Calculations submitted by cities are reviewed by a screening board composed of city engineers.

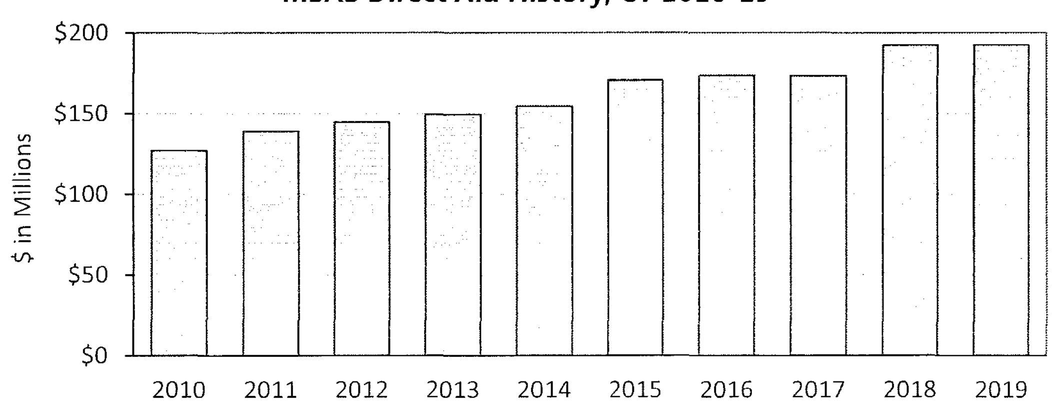
Distribution to Cities

Calendar year 2019 direct aid to each city ranges from around $195,000 to $17.5 million (or $33.79 to $88.56 on a per capita basis). Average aid per city is about $1.3 million ($48.6 per capita). Forty-one cities receive $500,000 or less, and 22 cities receive $2 million or more.

Historical Aid

The chart below identifies direct aid in recent years.

MSAS Direct Aid History, CY 2010-19



MN HOUSE RESEARCH

County State-Aid Highway System

August 2019

Counties receive formula-based assistance for construction and maintenance of county highways within the state-aid system. Funding in calendar year 2019 totals $735.1 million.

System Overview

The county state-aid highway system is a collection of key highways under county jurisdiction. It covers roughly 30,600 centerline miles throughout all Minnesota counties, composing over two-thirds of county highway miles.

Sources of Revenue

Aid is provided through the County State-Aid Highway (CSAH) fund, which is established by the Minnesota Constitution. The bulk of the revenue comes from a formula-based share of taxes on motor fuels, vehicle registration, and vehicle sales. A portion of state general sales tax revenue, known as the motor vehicle lease sales tax (MVLST), is also directed to some Twin Cities metropolitan area counties.

Program Administration

Money in the CSAH fund is administered by the Minnesota Department of Transportation (MnDOT). Using a combination of tax receipts and future estimates, aid apportionments are released each January with distribution on a calendar-year basis. MnDOT also adopts administrative rules governing the program (covering topics such as design standards). Road project prioritization, selection, and construction management are under the purview of each county.

Aid Requirements

Among the aid requirements, counties must typically expend 60 percent on construction projects and 40 percent on maintenance efforts. Minn. Rules, part 8820.1400. Counties must also expend a share of aid on stretches of state-aid highways located within "small cities" having a population under 5,000, generally in amounts proportional to the share of construction needs for county state-aid highway segments located in the small cities. Minn. Stat. § 162.08, subd. 1.

Allocation and Use of Funds

Total state funding is $735.1 million in calendar year 2019 (which excludes state bonding).

- **Core aid** provided to counties is $615.6 million in calendar year 2019. It is divided into two categories: the apportionment sum and the excess sum. Each sum is allocated among the counties following formulas specified in state statute. Minn. Stat. § 162.07.
- $37.8 million in **MVLST** revenue is allocated based on population to counties in the Twin Cities metropolitan area, other than Hennepin and Ramsey. Minn. Stat. § 297A.815.
- $59.9 million from a "set-aside" in the **flexible highway account** is provided for county road turnbacks (generally, trunk highway segments that are improved and turned over to become part of the state-aid system). Minn. Stat. § 161.081.

By **Matt Burress,** matt.burress@house.mn

- Based on statutory requirements, $21.8 million in **deductions** are made for county highway purposes. The deductions are for: (1) MnDOT administrative costs, (2) a disaster account, (3) a research account, and (4) a state park roads account. Minn. Stat. § 162.06.

Apportionment Formulas

Available core aid dollars are distributed 68 percent through the apportionment sum and 32 percent through the excess sum. Minn. Stat. § 162.07.

The formula to distribute the **apportionment sum** among counties is:

- 10 percent of the apportionment sum is divided equally
- 10 percent is proportional based on the number of motor vehicles registered in each county (compared to the total for all counties)
- 30 percent is proportional based on a county's state aid lane-miles
- 50 percent is proportional based on construction needs for each county, with the calculation structured to enable comparison across the counties (so that it does not identify total costs to bring county state-aid highways up to state standards). Counties submit needs amounts for review by a screening board composed of county engineers. Minn. Stat. § 162.07.

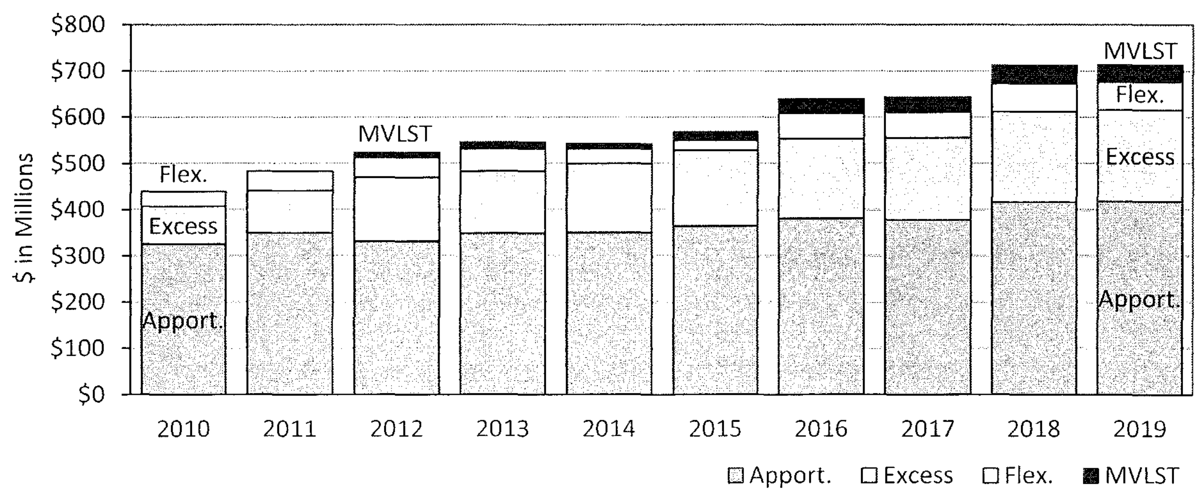
The **excess sum** was basically created to capture increased funding for transportation due to finance changes made over 2006 to 2008. It is distributed through a separate formula:

- 60 percent of the excess sum is in proportion to each county's share of construction needs
- 40 percent is allocated in proportion to each county's share of the total number of motor vehicles registered. Minn. Stat. § 162.07.

Historical Aid

The following chart summarizes aid by source (excluding deductions) over recent years.

County Aid History, CY 2010-19



MN HOUSE RESEARCH

Long-Term Care Insurance Tax Credit

August 2019

What is the credit?

The Minnesota long-term care insurance credit offsets the cost of long-term care insurance premiums by providing a credit against state income tax liability. The maximum Minnesota credit is equal to the lesser of $100 or 25 percent of the amount paid for each beneficiary. The maximum total credit is $200 annually on a joint return or $100 for individual filers.

This credit was enacted in 1997 and took effect in tax year 1999.

What is the rationale for the credit?

The Minnesota long-term care tax credit provides an incentive for Minnesotans to purchase long-term care insurance coverage. If more Minnesota residents purchase long-term care insurance, there may be a decrease in the cost to the state of providing for the long-term care of residents who are unable to afford long-term care services.

Is the credit refundable?

The Minnesota credit is a nonrefundable credit and may be used only to offset tax liability. If an individual qualifies for a credit that is greater than her or his tax liability, the excess will *not* be paid as a refund.

Who is eligible for the credit?

A Minnesota taxpayer who purchases insurance to provide long-term care coverage, such as nursing home or home care coverage, for him or herself or spouse is eligible for the credit. To qualify for the credit, the long-term care policy must:

- qualify for the federal itemized deduction for medical expenses, disregarding the 10 percent income test; and
- have a lifetime long-term care benefit limit of $100,000 or more.

How is the credit calculated?

The Minnesota credit equals 25 percent of qualifying long-term care insurance premiums for one beneficiary, up to a maximum of $100 for individuals and up to $200 for married couples filing jointly who both have coverage. A taxpayer may claim only one policy for each qualified beneficiary. It is *not* necessary that the taxpayers filing jointly have separate policies or premiums. The amount of premiums used to calculate the credit must be reduced by any premiums claimed as a medical expense deduction on the taxpayer's federal return.

How many Minnesotans claim the credit?

For tax year 2016, the Department of Revenue reports that about 63,000 Minnesota returns claimed the credit. This is about 2.2 percent of all state returns filed by Minnesotans.

By **Sean Williams**
Danyell Punelli

How much is paid out in credits?

In tax year 2016, Minnesotans claimed $8.91 million of long-term care credits. The average credit was $120 in tax year 2016. The average credit exceeds the maximum credit of $100 per qualified beneficiary because married couples filing joint returns may claim the credit for both spouses (up to a total of $200).

How does Minnesota compare with other states?

Many states—including Minnesota—allow taxpayers to deduct long-term care insurance premiums as part of the medical expense deduction. However, most states limit the deduction to medical expenses in excess of a certain percentage of adjusted gross income, meaning taxpayers without high medical expenses relative to their incomes cannot deduct their long-term care insurance premiums.

As of tax year 2018, at least seven states allowed specific deductions for long-term care insurance premiums (separate from the deduction for medical expenses). The states with deductions were Alabama, Indiana, New Jersey, Ohio, Virginia, West Virginia, and Wisconsin.

Six states including Minnesota allowed a tax credit for long-term care insurance premiums in 2018. Unless otherwise specified, data on the number of claimants and cost by state is for tax year 2016 and was provided by staff at state revenue departments and legislative offices.

	Maximum credit	Credit rate*	Returns claiming the credit	Cost to the state for the credit
Colorado[1]	$150	25%	15,178	$3.1 million
Maryland[2]	Varies by age: $410-$500	100%	3,690	$1.95 million
Minnesota	$100	25%	63,000	$8.7 million
Mississippi	$500	25%	Recent data unavailable; TY 2013: 3,374 returns; $1.5 million	
New York	None	20%	130,000	$87.9 million
North Dakota[3]	$500	100%	1,372	$0.56 million

* The credit rate is the percentage of premiums allowed as a credit.

1 Colorado's credit is income-limited; the maximum for joint filers is $150 per spouse.

2 Maryland's credit can be claimed only once per person.

3 North Dakota's credit is limited to long-term care plans that meet consumer protection criteria and provide inflation protection; the maximum for single filers is $250.

In addition to the states listed, Montana allows a credit for expenses of individuals who pay for long-term care for elderly and disabled family members, including long-term care premiums. New Mexico allows a refundable credit for medical expenses, including long-term care premiums.

Some states offered credits in the past, but no longer offer the credits

North Carolina, Oregon, and Virginia previously offered long-term care credits for individuals, but they were repealed or sunset. Maine previously offered a credit to employers who provided coverage to employees; that credit was also repealed.

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MN HOUSE RESEARCH

Alcoholic Beverage Taxes

September 2019

This publication summarizes the taxes imposed on liquor and other alcoholic beverages. These taxes can be found in Minnesota Statutes, chapter 297G.

Liquor tax rates

Minnesota imposes two types of special taxes on alcoholic beverages: excise tax and gross receipts tax.

Excise tax. This tax is imposed on manufacturers, wholesalers, or brewers of alcoholic beverages. The tax is reported and remitted monthly to the Department of Revenue. The tax rates vary by beverage type, and are a fixed dollar amount per unit (barrel or liter) of the beverage. Additionally, a special "bottle tax" of one cent per bottle also applies to each wine and liquor bottle that is 200 milliliters or larger. The table below shows the applicable rates for the most common beverage categories:

Because the excise taxes are fixed dollar amounts, they do not vary by the price of the product. Higher priced products pay the same tax as lower priced products. Thus, revenues grow only as more liters or barrels of the products are sold.

The excise taxes do not automatically adjust for inflation. For this to occur, the legislature must take direct action to increase the tax rates periodically. Historically, the legislature has only done so sporadically (most recently in 1987).

The following products are exempt from this tax:

- Sacramental wine
- Products sold to food processors and pharmaceutical companies
- The first 25,000 barrels of beer produced by a brewery with annual production of less than 250,000 barrels (31 gallons)

Beverage Type	Excise Tax Per	
	Gallon	Liter
Beer < 3.2% alcohol	$0.08	NA
Beer > 3.2% alcohol	0.15	NA
Cider < 7% alcohol	0.15	NA
Low-alcohol dairy cocktails	0.08	$0.02
Wine < 14% alcohol	0.30	0.08
Wine > 14% alcohol	0.95	0.25
Sparkling wine	1.82	0.48
Distilled spirits*	5.03	1.33

* Unlike the tax at the federal level, Minnesota tax on distilled spirits is imposed on the volume of the beverage sold, rather than its alcoholic content.

Gross receipts tax. A tax of 2.5 percent is imposed on retailers making both on-sale (to be consumed in bars or restaurants) and off-sale (in liquor stores or by other sellers) sales. This tax is typically paid by the consumer and applies to the purchase price of the beverage sold. This tax is imposed in addition to the state sales tax, as well as any applicable local sales taxes. Minn. Stat. § 295.75.

Use tax. A use tax may apply to alcoholic beverages purchased out-of-state for use in Minnesota. The use tax applies if, in one month, an individual brings into Minnesota from another state more than one liter of liquor or 288 ounces of malt liquor. Similarly, the use tax applies to international purchases of more than four liters of liquor or 320 ounces of malt liquor.

Tax credits

Minnesota law allows certain entities to claim a tax credit based on volume of the beverage sold. Annual production limitations are measured on the calendar year from January 1 to December 31. However,

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application of the tax credit runs on the state fiscal year, July 1 to June 30, and are applied in the fiscal year after qualification. Eligible entities must report their total production amounts to the Department of Revenue each December.

Brewery credit. A brewery with annual production amounts under 250,000 barrels may take a tax credit of $4.60 per barrel on up to 25,000 barrels per year.

Microdistillery credit. A microdistillery with annual production amounts under 40,000 proof gallons may take a tax credit of $1.33 per liter on up to 100,000 liters of distilled spirits sold per year.

Small winery credit. A winery with annual production amounts under 75,000 gallons of wine or cider may claim a tax credit equal to the amount of excise tax it owes, up to $136,275 per year.

Annual revenues

Revenues from both the excise taxes and the gross receipts tax go to the general fund. Fiscal year 2019 revenues from the excise taxes were about $93 million and from the gross receipts tax, about $95 million.

The table to the right shows the collections by beverage type for the excise tax and for the gross receipts tax. The excise tax revenue from liquor reflects the higher rates imposed on these products, rather than their share of the market (measured by dollars spent).

Beverage Type	FY2019 Revenues (000)	% of Total
Beer	$15,260	8.15%
Wine	7,764	4.14
Distilled Spirits	69,451	37.08
Excise tax total	92,437	49.35
2.5% gross receipts tax	94,840	50.63
Total	**$187,315**	

Source: MN Department of Revenue

Neighboring state comparison

Minnesota's wine and beer excise taxes are average or below average compared with most other states. The table compares Minnesota's tax rates with its bordering states as of January 1, 2019.

Minnesota's tax on distilled spirits (liquor) is among the higher taxes for states with excise taxes. A number of states (including Iowa) have state liquor monopolies, meaning the state government controls alcohol wholesale and retail sale of liquor. In these states a portion of the price markup is a de facto tax and thus it is difficult to compare the tax burden with these states. Only North Dakota imposes a gross receipts tax (at a 2 percent rate) similar to Minnesota's. Thus, the total Minnesota alcohol tax burden is higher than suggested by simply comparing excise tax burdens.

Excise Tax Rates (per gallon)
Bordering States

	Strong Beer	Table Wine	Liquor
IA	$.19	$1.75	NA
MN	**.15**	**.30**	**$5.03**
ND	.16	.50	2.50
SD	.27	.93	3.93
WI	.06	.25	3.25

Source: Federation of Tax Administrators

MN HOUSE RESEARCH

Community First Services and Supports (CFSS)

September 2019

What are community first services and supports?

The Community First Services and Supports (CFSS) program was created by the 2013 Legislature (see Minn. Stat. § 256B.85) and will replace the Personal Care Assistance (PCA) program and consumer support grants. CFSS will be available statewide to eligible individuals to provide assistance and support to persons with disabilities, the elderly, and others with special health care needs living independently in the community.

CFSS will be a federal-state funded service, with 50 percent paid with federal MA funds and 50 percent paid with state general funds. CFSS will be phased in beginning in June 2020.

How does CFSS differ from the PCA program?

CFSS is intended to be more accessible and flexible than the PCA program. CFSS will prevent or delay future institutional admissions and support community living. CFSS will assist participants to recover and/or gain skills to increase and maintain community stability, use technology or home modifications to decrease the need for human assistance when appropriate, avoid the use of inappropriate services, and increasingly direct their own services. CFSS will allow for testing of innovative models of coordinating services for children receiving services across home, school, and community.

CFSS changes the structure of fiscal support entities under the PCA program to support people hiring and directing their own staff. CFSS includes a budget model that allows participants to exercise more responsibility and control over the services and supports described and budgeted within the CFSS service-delivery plan. An agency-provider model is available for participants who are unable to direct their own services.

Who will be eligible for CFSS?

CFSS is available to a person who meets one of the following criteria:

- is a Medical Assistance (MA) enrollee
- is a participant in the alternative care program
- is a MA waiver recipient (elderly waiver, developmental disabilities waiver, brain injury waiver, community alternative care waiver, or community alternatives for disabled individuals waiver)
- has medical services identified in a participant's individualized education program and is eligible for MA special education services

In addition to meeting the eligibility criteria above, a person must also:

- require assistance and be determined dependent in one activity of daily living (ADL) or Level I behavior based on an assessment; and
- not be a family support grant recipient.

By **Danyell Punelli,** 651-296-5058

What services will be provided?

CFSS services include:

- assistance with ADLs, including eating, toileting, grooming, dressing, bathing, mobility, positioning, and transferring;
- assistance with instrumental activities of daily living (IADLs), such as meal planning, preparation, and cooking; shopping for food, clothing, or other essential items; laundry; housecleaning; assistance with medications; managing finances; communicating needs and preferences during activities; arranging supports; and assistance with traveling around and participating in the community;
- assistance with health-related procedures and tasks that can be delegated or assigned by a state-licensed health care or mental health professional and performed by a support worker;
- assistance to acquire, maintain, or enhance the skills necessary for the participant to accomplish ADLs, IADLs, or health-related procedures and tasks;
- expenditures for items, services, supports, environmental modifications, or goods, including assistive technology;
- observation and redirection for behavior or symptoms when there is a need for assistance;
- back-up systems or mechanisms, such as the use of pagers or other electronic devices, to ensure continuity of the participant's services and supports;
- services provided by a consultation services provider under contract with DHS and enrolled as a Minnesota health care program provider;
- services provided by a financial management services provider;
- services provided by a support worker who is a parent, step-parent, legal guardian of a participant who is under age 18, or who is the participant's spouse; and
- worker training and development services.

Who will provide CFSS services?

CFSS will be provided by support workers who will be employed by agency providers or the participant. Support workers must enroll with the Department of Human Services, complete a background study, and meet all other requirements. Agency providers must be MA-enrolled health care program providers and meet all applicable provider standards and requirements, including compliance with background study requirements, reporting maltreatment of minors and vulnerable adults, providing the participant with service-related rights, and verifying and maintaining records of all services and expenditures by the participant.

What are some recent legislative changes?

Since its enactment in 2013, the statute governing CFSS has been amended several times as DHS has sought federal approval for this program under Medicaid. Some of the changes have included modifications to definitions, eligibility, and covered services.

MN HOUSE RESEARCH

Distracted Driving: Cell Phone Use While Driving

October 2019

In 2019, the Minnesota Legislature passed a "hands free" law making it illegal for drivers to use hand-held cell phones while driving. While it was previously illegal to text while driving, the new law also increased restrictions on using all electronic communication devices.

"Hands free" means it is generally illegal to hold a cell phone while driving.

When a motor vehicle is in motion or a part of traffic, it is illegal for a driver to use a cell phone or other electronic device while holding it. A vehicle stopped at a stop sign, traffic light, or in a traffic jam is still a part of traffic. Use is only permitted if a vehicle is not obstructing traffic and is fully stopped in a location that is not ordinarily used for vehicular travel.

Other distracting actions are also illegal. The law prohibits reading from a phone, tablet, laptop, or similar device. In addition, the driver cannot use a hand to type or access content from the internet or device, including video or audio, pictures, games, or software applications. It is also illegal to dial a phone number or engage in a cell phone call while holding a phone.

It is legal to use a phone in hands-free mode or a device that is not a "wireless communications device."

A driver can participate in a phone call and send or receive electronic messages as long as the driver can activate the device with a verbal command or single touch and perform any other necessary actions without touching the phone. However, hands-free mode cannot be used for actions that involve looking at the device, such as accessing video content or gaming data, live-streaming, or reading messages.

The law limits the use of wireless communications devices, and drivers can continue to use other items. A driver can use a radio; a device or feature that is permanently physically integrated into the vehicle; a navigation system that is only capable of being used for navigation purposes; and a two-way radio, citizens band radio, or amateur radio equipment.

There are some exceptions for GPS, audio content, and emergency situations.

The law allows drivers to:

- view or operate a phone used as a GPS in a manner that does not require the driver to type or hold a device;
- listen to audio content in a way that does not involve scrolling, typing, or holding a device;
- obtain emergency assistance for an accident or medical emergency, or to prevent a crime that is about to be committed; or
- send or read an electronic message in the reasonable belief that a person's life or safety is in immediate danger.

Drivers of authorized emergency vehicles can send or read an electronic message while driving as part of official duties. Minn. Stat. § 169.475.

By **Ben Johnson,** 651-296-8957

Violations of the law are punished with a fine.

Violations of the law are payable offenses, which means that, like a speeding ticket, they are punished by a fine. The law allows the Judicial Council to set the fine amount. Payable offenses are not technically crimes under Minnesota law and do not require a court appearance. A person receiving a ticket may pay the citation online. Failure to pay a fine can result in the suspension of a driver's license.

The current fine for a first offense is $50. A second offense results in a fine of $275. Tickets for violating the law are also subject to the surcharge on all criminal and traffic offenses, which increases the amount an offender must pay by at least $75.

Causing an accident while distracted can result in more serious charges.

If using an electronic device results in some other dangerous driving conduct, prosecutors can charge a more serious crime. For example, if composing or reading an electronic message while driving endangers another person, it could rise to the level of careless or reckless driving.

Driving a vehicle carelessly in a manner likely to endanger another person is careless driving. Driving while aware of a substantial risk to another's safety and in disregard of that risk is reckless driving. Both careless driving and reckless driving are misdemeanors, which can be punished by up to 90 days in jail, a $1,000 fine, or both. If a person driving recklessly causes the death of another, the penalty increases to up to a year in jail, a $3,000 fine, or both. Minn. Stat. § 169.13.

Most states ban texting and driving and more are restricting all cell phone use.

Currently, 48 states and the District of Columbia ban texting while driving. The only exceptions are Missouri and Montana. Nineteen states and the District of Columbia also ban using a hand-held phone.

In every state that bans texting or use of a hand-held phone, the initial penalty is a fine. Fines for a first violation range from $20 to $500 and, like Minnesota, most states include an escalated penalty for subsequent violations. A few states also suspend a violator's license and, in Oregon, a person cited for texting or talking on a hand-held phone for the third time in ten years is guilty of a misdemeanor.

Several states, including Alaska, Illinois, Maryland, Pennsylvania, and Utah explicitly state that a person who is texting and causes an accident resulting in serious injury or death is guilty of a criminal offense that can be punished with jail or prison.

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MN HOUSE RESEARCH

Property Tax 101: Property Tax Variation by Property Type

November 2019

Causes of property tax variation between property types

The primary cause of variation in property tax burdens is Minnesota's classified property tax system. In a classified system, each class of property is assigned one or more *class rates*. The property's taxable market value is multiplied by the class rate(s) to determine the property's tax base, known as its *net tax capacity*.

Besides the class rates, variations in tax by type of property also occur because the state general tax and school district operating referendum levies apply to some types of property but not to others. (All voter-approved levies are levied on referendum market value, except school district levies for bonded debt and other units' debt levies approved by voters after June 30, 2008; those levies are levied on the net tax capacity of all types of property.)

Class Rates Schedule for Taxes Payable in 2020

Class	Property Type (major property types only)	Class Rate	Subject to State Tax?	Subject to Referendum Levies?
1	**Homestead**			
1a	Residential homestead			
	Up to $500,000	1.00%	No	Yes
	Over $500,000	1.25	No	Yes
2	**Agricultural**			
2a	Agricultural homestead			
	House, garage, & 1 acre: up to $500,000	1.00	No	Yes
	House, garage, & 1 acre: over $500,000	1.25	No	Yes
	Agricultural land & buildings			
	Up to $1,880,000	0.50	No	No
	Over $1,880,000	1.00	No	No
2b	Agricultural nonhomestead	1.00	No	No
2c	Nonhomestead rural vacant land	1.00	No	No

By **Jared Swanson,** jared.swanson@house.mn

Class	Property Type (major property types only)	Class Rate	Subject to State Tax?	Subject to Referendum Levies?
3	**Commercial/Industrial/Public Utility**			
3a	Commercial/Industrial/Public Utility			
	Up to $150,000	1.50	Yes*	Yes
	Over $150,000	2.00	Yes*	Yes
	Electric generation attached machinery	2.00	No	Yes
4	**Other residential**			
4a	Apartments (4 or more units)	1.25	No	Yes
4bb	Residential nonhomestead single unit:			
	Up to $500,000	1.00	No	Yes
	Over $500,000	1.25	No	Yes
4b	Residential nonhomestead 2-3 unit and undeveloped land	1.25	No	Yes
4c	Seasonal recreational residential (noncommercial):			
	Up to $500,000	1.00	Yes**	No
	Over $500,000	1.25	Yes**	No
4d	Low-income apartments:			
	Up to $150,000 per unit	0.75	No	Yes
	Over $150,000 per unit	0.25	No	Yes

* Subject to state general tax at commercial-industrial rate.
** Subject to state general tax at seasonal recreational rate.

Other factors that cause variation

Variations also occur because of various property tax exclusions and credits. Homesteads benefit from the homestead market value exclusion, which provides for up to $30,400 of a homestead's market value to be deducted before determining the taxes payable. Other exclusions are the disabled veterans' exclusion and the agricultural "Green Acres" program. Certain types of property also qualify for property tax credits that reduce the net tax on the property. The biggest property tax credit programs are the agricultural market value credit, the taconite homestead credit, the disparity reduction credit, and the school building bond agricultural credit.

Local variation also occurs because tax rates are determined separately for each taxing jurisdiction in the state, based on each jurisdiction's levy and tax base.

Effective tax rate

Effective tax rate is a measure of tax burden useful in making property tax comparisons. It is defined as net tax divided by market value (i.e. tax as a percent of market value). It allows comparison of tax burdens between properties of different values, different types, and different locations.

Comparison of Property Taxes on Various Types of Property, Within the Same Taxing Jurisdiction, Each with an Estimated Market Value of $200,000 (Property taxes payable in 2020)

Property Type	Class Rate(s)	Net Tax Capacity	Property Tax*		Effective Tax Rate
			Gross	Net	
Agricultural homestead**	0.5/1.0%	$1,040	$1,112	$683	0.34%
Agricultural nonhomestead	1.0	2,000	2,000	2,000	1.00
Residential homestead	1.0	1,808	2,168	2,168	1.08
Seasonal recreational residential (i.e., cabin)	1.0	2,000	2,309	2,309	1.15
Residential nonhomestead (1 unit)	1.0	2,000	2,360	2,360	1.18
Residential nonhomestead (2-3 units)	1.25	2,500	2,860	2,860	1.43
Apartment	1.25	2,500	2,860	2,860	1.43
Low-income apartment	0.75/0.25	1,250	1,475	1,475	0.74
Commercial/Industrial	1.5/2.0	3,250	4,398	4,398	2.20
Commercial/Industrial @ $2,000,000***	1.5/2.0	39,250	59,838	59,838	2.99

* These examples assume a total local net tax capacity tax rate of 100 percent, a total market value tax rate of 0.18 percent, a state commercial-industrial tax rate of 45 percent, and a state seasonal recreational tax rate of 20 percent.
** The agricultural homestead is assumed to consist of a house valued at $40,000 and agricultural land and buildings valued at $160,000.
*** This property has a market value of $2,000,000 to show a typical effective tax rate on a larger commercial/industrial property.

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MN HOUSE RESEARCH

Disabled Veteran Homestead Valuation Exclusion

November 2019

What is the disabled veteran valuation exclusion?

This program provides a property tax benefit to qualifying homeowners by reducing the value of their home for property tax purposes by up to $300,000. The benefit applies to certain veterans with a disability, their surviving spouses, the surviving spouses of military personnel who have died in the line of duty, and certain primary caregivers of qualifying veterans.

What is the benefit?

Veterans who are totally and permanently disabled (100% T&P) are eligible for a valuation exclusion of $300,000. Veterans who are not totally and permanently disabled, but who have a disability rating of 70 percent or higher, are eligible for an exclusion of $150,000. If a qualifying veteran does not own a house, but has a designated "primary family caregiver" who does own a house, the caregiver can receive the exclusion for the time he or she continues in that role.

What are the benefits for surviving spouses?

For a veteran who received the 100% T&P benefit, the surviving spouse continues to receive program benefits following the death of the veteran, until the spouse remarries or no longer uses the property as a homestead. (There is no survivor benefit for spouses of veterans qualifying at the 70 percent standard.)

Surviving spouses of military personnel who have died in the line of duty are eligible to receive the 100% T&P benefit until the spouse remarries or no longer uses the property as a homestead.

Surviving spouses of veterans who were eligible for the 100% T&P benefit but did not apply for or receive the benefit before dying and spouses who have been awarded dependency and indemnity compensation are also eligible to receive the maximum benefit following the death of the veteran. The benefit is available until the spouse remarries or no longer uses the property as a homestead.

How does the benefit work?

The exclusion amount is subtracted from the value of the homestead as determined by the assessor before property taxes are calculated. If the value of the homestead in any year is less than the exclusion amount, the homestead is totally exempt from property taxes for that year. The actual tax benefit for a specific property will vary based on the value of the home and the local tax rate.

What are the qualifications for veterans with a disability?

To qualify under this program as a veteran with a disability, the veteran must have been honorably discharged from the U.S. armed forces as indicated by U.S. Department of Defense form DD214 or other official military discharge papers, and must be certified by the U.S. Department of Veterans Affairs (VA) as having a service-connected disability with a disability rating of 70 percent or higher.

By **Jared Swanson,** jared.swanson@house.mn

How do you enroll in the program?

Application for benefits under this program must be filed with the county assessor. A veteran with a disability must provide form CR-DVHE70 or CR-DVHE100 and provide proof of honorable discharge and of disability rating. A surviving spouse of a service member who dies while in active service must provide either U.S. Government Form DD1300 or DD2064. Primary family caregivers must provide certification that they qualify under the VA Program of Comprehensive Assistance for Family Caregivers.

When do the benefits begin?

Applications received by December 15 of any year take effect for taxes payable in the following year, unless the homestead is a manufactured home, in which case the benefit takes effect in the same year. Veterans who fail to apply in the first year that they are eligible may file in any subsequent year and begin receiving benefits after that.

How is the tax benefit paid for?

Excluding all or a portion of the value of the veteran's home from property taxes slightly increases the taxes on other properties (homes, businesses, farms, etc.) in the taxing jurisdictions where the home is located, meaning that the veteran's property tax benefit is essentially being provided by the other properties within the same taxing jurisdictions.

What about special assessments?

Other charges that might appear on the property tax statement, such as special assessments and various types of fees, are not affected by the valuation exclusion and must continue to be paid in full.

How does the exclusion apply to an agricultural homestead?

For agricultural homesteads, the exclusion applies only to that portion of the property consisting of the house, garage, and surrounding one acre of land.

Does the market value exclusion affect other property tax relief programs?

Properties that qualify for the disabled veterans homestead valuation exclusion do not receive the "regular" market value homestead exclusion of $30,400 or less. Properties that qualify for the disabled veterans homestead valuation exclusion are not eligible to receive the preferential classification (1b) generally available on the first $50,000 of market value on homesteads owned by persons who are blind or disabled. Qualifying veterans, surviving spouses, and primary caregivers continue to be eligible for the property tax refund program, although it is likely that they would qualify for a significantly smaller refund because their property taxes would be so much lower due to the exclusion.

For more information: See the Department of Revenue's fact sheet on this exclusion at https://www.revenue.state.mn.us/sites/default/files/2019-08/Fact%20Sheet%2011%20Exclusion%20for%20Veterans%20with%20a%20Disability.pdf.

MN HOUSE RESEARCH

The Dislocated Worker Program

November 2019

What is the Dislocated Worker Program?

The Dislocated Worker Program provides assistance to eligible individuals who are displaced from their employment or source of support and require assistance in returning to or entering the workforce (Minn. Stat. § 116L.17).

Who is eligible for assistance?

Several kinds of workers are eligible for assistance under the program. They include those who:

- were separated or have received a notice of permanent separation from their employment, are eligible for or have exhausted their unemployment benefits, and are unlikely to return to their previous industry or occupation;
- have been long-term unemployed and have limited opportunities for similar reemployment in the area where they live, including older individuals who may have substantial barriers to employment by reason of age;
- were terminated or have been notified of impending termination as part of a plant closing or other large layoff;
- have been self-employed (including as farmers or ranchers) and are unemployed as a result of economic conditions or natural disasters;
- are veterans discharged or released from active duty under honorable conditions and are unemployed or underemployed;
- have been determined by the U.S. Department of Labor to be covered by trade adjustment assistance under United States Code, title 19, sections 2271 to 2331, as amended; or
- are displaced homemakers, meaning they have spent a number of years providing homemaking service while dependent on another person and that person is no longer providing support as a result of the other person's disability or death, or because of a divorce. "Displaced homemaker" can also include a person who previously was supported by public assistance because of the presence of a dependent in the household who is no longer present.

What kind of assistance is available?

The program provides basic employment services such as job counseling, testing, skills assessment, job search, and placement assistance. It provides money for training, including classroom training, on-the-job training, skills training, and basic education including English as a second language. In some cases, it offers support services, including temporary help with expenses such as emergency housing assistance and rent, health care, transportation, child care, work-related tools and clothing, and similar costs that may need to be covered while a person is in training.

By **Anna Scholin,** anna.scholin@house.mn

Under the Converting Layoffs into Minnesota Businesses (CLIMB) program, a special component of the Dislocated Worker Program, dislocated workers can also receive assistance in starting or growing their own business. Assistance may include entrepreneurial training, business consulting, and technical assistance. Participating individuals create a business plan and remain eligible for unemployment insurance benefits while working towards that plan.

How is the money distributed?

Funds are appropriated to the Job Skills Partnership Board and then allocated to workforce service areas or other eligible organizations, which may include labor organizations, business organizations, state or local government agencies, or nonprofit agencies. These areas and organizations often in turn contract with individual service providers to deliver services to individuals.

Where does the money come from?

Employers pay a special assessment along with their unemployment insurance taxes that goes into a separate fund called the Workforce Development Fund.

Not all the money in the Workforce Development Fund goes to fund the Dislocated Worker Program. The legislature appropriates some of the money in the fund to support other employment and training programs. Whatever money remains after these appropriations are made is available for the Dislocated Worker Program. Under certain circumstances, if there is more money in the fund than is necessary to meet the needs of dislocated workers, the Job Skills Partnership Board can use the extra money for other workforce training programs.

In addition to the state money, there are federal funds appropriated for the federal Dislocated Worker Program, which is similar to the state program, as well as funds available through federal National Dislocated Worker Grants. These funds are administered by the same state agency that runs Minnesota's Dislocated Worker Program.

How do individuals apply for assistance?

As soon as individuals receive a notice of permanent layoff or termination, they can contact their local CareerForce Center for assistance. Staff at the local site will help determine what services that worker qualifies for under the state and federal dislocated worker programs. CareerForce Centers are listed on Department of Employment and Economic Development website, https://www.careerforcemn.com/locations.

MN HOUSE RESEARCH

Terms Used in Local Government Law

November 2019

Minnesota statutes use a number of terms to refer to local governmental units, and from one law to another they may not mean the same thing. This is a summary of commonly used terms.

City: statutory or home rule charter; classification

There are two types of cities in Minnesota: statutory and home rule charter. A statutory city is governed by statute and any special laws enacted for that city. A home rule charter city is governed by its charter and any special laws enacted for that city. Also, if the home rule charter is silent on a matter that is addressed for statutory cities by general law, and general law does not prohibit a city charter from addressing the matter or expressly provide that a city charter prevails over general law, then the city may apply the general law on the matter. Minn. Stat. § 410.33.

"In any law adopted after July 1, 1976, the word 'city' when used without further description extending the application of the term to home rule charter cities means statutory cities only." Minn. Stat. § 410.015.

Classification: Cities are divided, for legislative purposes, into four classes based on population. Changes in classification take effect after the federal decennial census. Minn. Stat. § 410.01. For more information, see the House Research publication *Classification of Cities*.

"Village" and "borough" are obsolete terms. All villages and boroughs in the state became statutory cities in the early 1970s.

County

"County" rarely needs additional definition except to limit its application or to define it as a shorthand reference to the county board or some other entity covered by the law.

Governing body

For a city, the governing body is the city council. For a county, it is the county board of commissioners. For a town it may be the electors or the town board of supervisors.

Incorporated; unincorporated

In the context of governmental units, "incorporated" means a city and "unincorporated" means a town, whether organized or unorganized. See Minn. Stat. § 414.011, subd. 3.

Local government

"Local government" usually refers to counties, towns, and cities. Single- or multi-purpose special districts or entities, such as school districts, are frequently included in the term "political subdivision" but are less often defined as local governments. Sometimes, absent a definition, only the context of the law will indicate what entities are meant to be included.

By **Deborah A. Dyson,** deborah.dyson@house.mn

Metropolitan area

There are at least two definitions of "metropolitan area" used in state law. One means the seven-county area of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties that is within the jurisdiction of the Metropolitan Council. Minn. Stat. § 473.121, subd. 2.

Another definition used in state law is metropolitan statistical area (MSA), defined by the federal Office of Management and Budget (OMB) using OMB standards applied to U.S. Census Bureau data. In some statutes, the MSA is tied to the MSA as of a specific date. See e.g., Minn. Stat. § 466A.02. As of September 2018, the Minneapolis-St. Paul-Bloomington MSA includes 13 Minnesota counties (Anoka, Carver, Chisago, Dakota, Hennepin, Isanti, Le Sueur, Mille Lacs, Ramsey, Scott, Sherburne, Washington, and Wright), and the Wisconsin counties of Pierce and St. Croix.

Municipal corporation; municipality

In the narrowest sense, a municipal corporation is a city. However, the term can be defined for the purposes of a law to include other governmental units.

"Municipality" generally means a city but many statutes define it to include other entities. For example, the Uniform Municipal Contracting Law defines "municipality" to mean "a county, town, city, school district or other municipal corporation or political subdivision of the state authorized by law to enter into contracts." Minn. Stat. § 471.345, subd. 1.

Political subdivision

"Political subdivision" is probably the broadest term used to describe any public body that is not state or federal government. However, a statute may define the term to mean specific entities.

Public corporation

In the context of local government, "public corporation" means an entity created for the administration of public affairs, an instrumentality of the state, and may include counties, cities, towns, and special purpose entities, such as the Metropolitan Airports Commission. Minn. Stat. § 473.603, subd. 1. It also applies to quasi-governmental entities, created in law and often exempt from some laws that apply to state agencies. See, e.g., Enterprise Minnesota, Inc. Minn. Stat. § 116O.03, subd. 1.

Town and township

"Town" and "township" have been used interchangeably in Minnesota law, but "town" is the correct term to refer to an organized governmental unit and "township" is the term to refer to the geographic area. In county areas without organized town government, the term "unorganized territory" is also used. As in other states, Minnesota towns are based on the congressional townships—generally 36 square miles. Organized towns are the primary local government units for unincorporated areas. Urban towns are those towns that have been granted some of the same powers as statutory cities. Minn. Stat. ch. 368.

MN HOUSE RESEARCH

State-Local Relations

November 2019

Local governments in Minnesota are "creatures of the state" and subject to the will of the state legislature, within any constitutional restrictions. This publications provides a brief overview on how the state and local governments interrelate.

"Local Government"

"Local government" is a general term for those governmental entities or political subdivisions of the state that provide functions and services at the local level. In Minnesota, the term usually refers to counties, towns, and cities. Single- or multipurpose (special) districts are frequently included in the term "political subdivision" but are less often defined as local governments.

Cities and towns are general purpose local governments. Counties were originally established to be administrative arms of the state to administer elections, tax assessments and collections, and state programs. Over time, counties have been given more authority to function as general purpose local governments.

"Creatures of the State"

All local governmental units are "creatures of the state" and subject to state law. The U.S. Constitution is silent on local government. Control of local government is not one of the enumerated federal powers of the Constitution, nor is it expressly prohibited to the states. It is, therefore, a residual power left to the states and people by the Tenth Amendment. Furthermore, local units of government do not have recourse to the federal constitution in order to resist state legislative interference or control. *Williams v. Mayor and City Council of Baltimore*, 289 U.S. 36, 40, 53 S.Ct. 431, 432 (1933) ("A municipal corporation, created by a state for the better ordering of government, has no privileges or immunities under the Federal Constitution which it may invoke in opposition to the will of its creator.").

Under the Minnesota Constitution, "The legislature may provide by law for the creation, organization, administration, consolidation, division and dissolution of local government units and their functions, for the change of boundaries thereof, for their elective and appointive officers including qualifications for office and for the transfer of county seats. A county boundary may not be changed or county seat transferred until approved in each county affected by a majority of the voters voting on the question." Minn. Const. art. XII, § 3. Several chapters of Minnesota Statutes are devoted to just these purposes.

Powers of a Municipal Corporation: Dillon's Rule

Local governments "possess only those powers that are conferred by statute or implied as necessary to carry out legislatively conferred powers." *Breza v. City of Minnetrista*, 725 N.W.2d 106, 110 (Minn. 2006). This basic principle of what powers a local government has follows the principle first stated in 1872 in a treatise on municipal corporations, written by Iowa Supreme Court Judge John F. Dillon; it is known as Dillon's Rule. The two major modifications the legislature has made to the rule are the authority for cities to adopt home rule charters and the broad grant of authority to legislate for the general welfare.

By **Deborah A. Dyson**, deborah.dyson@house.mn

Modification of Dillon's Rule: Home Rule Charters

The legislature has granted cities the authority to adopt home rule charters; this action is the first significant mechanism in diminishing the practical effect of Dillon's Rule. A home rule charter, or a local constitution, not only provides for the particular governmental organization of a municipality but also provides for substantive authority to be exercised by the governing body for the community. A charter must be consistent with the state constitution, and state law can overrule a charter provision.

The Minnesota Constitution authorizes any local government unit, when authorized by law, to adopt a home rule charter for its government. Minn. Const. art. XII, § 4. A charter must be approved by the voters of the local government unit as prescribed by general law.

A city may adopt a home rule charter following the procedures in Minnesota Statutes, chapter 410. Of the 853 cities in the state, 107 are home rule charter cities and the others are known as statutory cities. There is no general law enabling other local units of government to adopt home rule charters. A 1987 special law allowed Ramsey County to establish a commission to study the need or desirability of a home rule charter for the county, and if necessary to prepare and present a charter to the voters of the county. Laws 1987, ch. 103 (codified in Minn. Stat. §§ 383A.551, et seq.) The voters approved a charter in 1990.

Modification of Dillon's Rule: General Welfare

The statutory authority to legislate for the general welfare also mitigates the severity of Dillon's Rule. It is a broad grant of authority for a local government to exercise any power not enumerated specifically that contributes to the protection of the health, morals, peace, and good order of the community; promotes its welfare in trade, commerce, and manufacture; or aids in carrying out all appropriate objects contemplated in the creation of a city.

All statutory cities and towns in Minnesota have authority to legislate for the general welfare. Minn. Stat. §§ 412.221, subd. 32; 365.10, subd. 17; 368.01, subd. 19. A home rule charter city may include a general welfare clause or "all powers" clause within its charter, or rely on the statute that allows a home rule charter city to use powers granted to statutory cities. Minn. Stat. § 410.33.

Counties do not have "general welfare" authority, although Minnesota Statutes, section 145A.05, is sometimes viewed as providing a relatively broad grant of authority by authorizing ordinances protecting the public health.

MN HOUSE RESEARCH

Election of University of Minnesota Regents

November 2019

The University of Minnesota is governed by a board of 12 regents elected by the Minnesota Legislature. This document describes the process for recruiting, reviewing, and electing regents.

The legislature elects regents to staggered six-year terms

The University of Minnesota Charter, which is perpetuated by the Minnesota Constitution, requires that members of the Board of Regents be elected by a joint convention of the state legislature to staggered six-year terms.[i] One-third of the board is elected each odd-numbered year. Minnesota law specifies that at least one regent reside in each of Minnesota's eight congressional districts. The four remaining regents are elected from the state at-large. Also, under law, one of the four at-large regents must be a University of Minnesota student at the time of the election.[ii]

The RCAC recruits and screens regent candidates, and makes recommendations to a joint legislative committee

The Regent Candidate Advisory Council (RCAC) was established in 1988, in the wake of a 1986 report from a Minnesota Alumni Association study group that recommended creating a citizen search committee for regent candidates.[iii] The RCAC identifies, recruits, screens, and recommends qualified regent candidates to the legislature.[iv] The RCAC has 24 members, including two student members, with appointments split between the House of Representatives and the Senate.

The RCAC is required to develop selection criteria for recruiting regent candidates. In 2005, diversity became an explicit part of the criteria, including geography, gender, race, occupation, and experience. The selection criteria must not include a limit on the number of terms served by an individual regent.

The RCAC must make recommendations to the regent nomination joint legislative committee by January 15 of each odd-numbered year. The council must recommend two to four candidates for each vacant seat and submit a report that identifies the membership needs of the board.

The joint committee considers RCAC recommendations as well as new nominations, and makes its own recommendations to the joint convention

The regent nomination joint committee was first established in 2005, when the governor was given a role in the nomination process. The governor's role was eliminated in 2007, but the joint committee remained. The joint committee meets to consider the RCAC's recommended candidates as well as any new nominations from committee members, and make recommendations to the joint legislative convention.[v] In making recommendations, the law requires the committee to consider the needs of the board, and its gender, racial, and ethnic balance.

The joint committee consists of the members of the higher education budget and policy divisions of the Senate and the House, with the Senate and House committee chairs serving as co-chairs. The joint committee must meet by February 28 of each odd-numbered year, or on a date set by concurrent resolution. For regent seats for specific congressional districts, a delegation of legislators from that district may present their own recommendation to the joint committee.[vi]

By **Nathan Hopkins,** 651-296-5056

The joint committee may nominate and consider a candidate who is not recommended by the RCAC, but the nominee must be supported by at least two joint committee members from the Senate and three from the House. For each vacancy, the regent nomination joint committee may recommend only one candidate to the joint convention.[vii] A majority of the House members and a majority of the Senate members on the joint committee must support a candidate for that candidate to be recommended to the joint convention.

A joint convention of the Senate and the House elects regents

The joint rules provide for the election of the regents at a joint convention of the House and Senate, as required by the University Charter. Under the joint rules, candidates recommended by the joint committee are considered to be nominated for the respective vacancy.[viii] Members of the legislature may submit additional nominations from the floor, and the joint rules govern voting on all nominations. The candidate for a regent vacancy who receives a majority of the votes cast is declared the winner.

Irregular vacancies may be filled by the legislature or governor

If a vacancy arises due to a regent's death or resignation, a replacement can either be appointed by the governor or elected by the legislature (if it is in session) to serve out the remainder of the regent's term.[ix] If the governor appoints a replacement *before* the legislature elects a replacement, the governor's appointee serves only until the close of that annual or special legislative session in which the legislature elects a replacement. If the legislature elects a replacement *before* the governor makes an appointment, then there is no longer a vacancy for the governor to fill and the elected person immediately fills the vacancy. Finally, if the legislature fails to elect a replacement, and the governor appoints someone to fill the vacancy, the governor's appointee will serve until the close of that session, and continue to serve until the close of the session in which the legislature elects a replacement.

Statutes regarding the RCAC and joint committee only contemplate regular, odd-numbered year elections, but, when faced with an irregular vacancy, the legislature may choose to involve RCAC or the joint committee on an ad hoc basis as it sees fit.

MN HOUSE RESEARCH

Minnesota House Research Department provides nonpartisan legislative, legal, and information services to the Minnesota House of Representatives. This document can be made available in alternative formats.

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[i] *See* Minn. Const. art. XIII, § 3, and Minnesota Territorial Laws 1851, ch. 3, §§ 4–5.

[ii] *See* Minn. Stat. §§ 137.023–024.

[iii] See Regents Selection Process Study Group, Final Report and Recommendations, April 1, 1986.

[iv] *See* Minn. Stat. § 137.0245.

[v] *See* Minn. Stat. § 137.0246. In addition to any rules adopted by the joint committee itself, the operation of the joint committee is also governed by Rule 4.01 of the Joint Rules of the Senate and House of Representatives.

[vi] This congressional district recommendation is an informal procedure not provided for by statute or rule.

[vii] Several times, the joint committee has deadlocked on two candidates, neither of whom was able to receive the requisite vote threshold for recommendation. In those instances, the committee has voted to suspend its rules, and forward the names of both candidates to the joint convention.

[viii] *See* Rule 4.02 of the Joint Rules of the Senate and House of Representatives.

[ix] *See* Minnesota Territorial Laws 1851, ch. 3, § 6; Letter from John Tunheim, Chief Deputy Att'y Gen., to Jane Tschida, RCAC Chair (Dec. 31, 1992) (on file with HRD).

MN HOUSE RESEARCH

Regulation of Electronic Cigarettes

November 2019

The sale and use of electronic cigarettes, referred to as electronic delivery devices in state law, have been regulated at the state level since 2014. The Minnesota Clean Indoor Air Act (MCIAA) prohibits the use of electronic cigarettes in indoor settings in the same manner as it prohibits smoking of tobacco products. Requirements for the sale and use of electronic cigarettes are generally the same as requirements for the sale and use of tobacco and tobacco-related devices.

What is an electronic cigarette?

An "electronic delivery device" (referred to as an electronic cigarette) is defined as any product containing or delivering nicotine, lobelia, or other substance intended for human consumption that is used to simulate smoking through inhalation of vapor. This includes all of the components of the product, even if they are sold separately, but does not include products approved by the Food and Drug Administration as tobacco-cessation products, as tobacco-dependence products, or for other medical purposes, which are marketed and sold for that purpose. The definition of "tobacco-related devices" also includes devices intended to be used to inhale the vapor of tobacco or tobacco products. (Minn. Stat. § 609.685, subd. 1, paras. (b) and (c))

Where is the use of electronic cigarettes prohibited?

The MCIAA prohibits smoking of tobacco products in public places, at public meetings, in public transportation, and in places of employment. (Minn. Stat. §§ 144.411 to 144.417) In 2019 the definition of smoking was amended to include carrying or using an activated electronic delivery device. (Minn. Stat. § 144.413, subd. 4) With this change, the use of electronic cigarettes is prohibited in public places, at public meetings, in public transportation, and in places of employment, in the same manner as the smoking of tobacco and other plant products is prohibited.

Prior to 2019, the use of electronic cigarettes was prohibited in certain buildings and facilities: buildings owned or operated by the state or a local government; buildings owned by Minnesota State Colleges and Universities or the University of Minnesota; facilities such as schools, day care centers, and, during hours of operation, family home or licensed group family day care provider homes; health care facilities; facilities licensed by the Department of Human Services; and facilities licensed by the Department of Health and also subject to federal licensing requirements.

Can local jurisdictions or businesses adopt more restrictive ordinances?

Cities and counties may enact and enforce more stringent measures than those in state law to protect individuals from involuntary exposure to aerosol or vapor from electronic cigarettes, or more stringent measures regarding the sale or furnishing of electronic cigarettes or the use of electronic cigarettes. (Minn. Stat. §§ 144.417, subd. 4; 609.685, subd. 4)

By **Elisabeth Klarqvist,** 651-296-5043

Are electronic cigarettes licensed the same as tobacco products?

Under Minnesota Statutes, section 461.12, the sale of electronic cigarettes is subject to the same municipal licensing provisions as other tobacco products. The law also extends a municipality's ability to conduct compliance checks to places where electronic cigarettes are sold. Electronic cigarettes are prohibited from being:

- accessible to the public in open displays without the intervention of a store employee except in adult-only tobacco product shops;
- sold in vending machines except in adult-only tobacco product shops; or
- sold from kiosks. (Minn. Stat. §§ 461.18; 461.21)

These limitations on sales also apply to tobacco products.

What are the packaging requirements for electronic cigarettes?

Liquids sold for use in an electronic cigarette, regardless of whether it contains nicotine, must be packaged in child-resistant packaging. Child-resistant packaging is defined under the Code of Federal Regulations, title 16, section 1700.20, effective on January 1, 2015. (Minn. Stat. § 461.20)

How are the sales and use of electronic cigarettes regulated?

A person must be 18 years old to purchase and use electronic cigarettes. The criminal and administrative penalties for selling or furnishing an electronic cigarette to a person under 18, or for the use of electronic cigarettes by a person under 18, are the same as the criminal and administrative penalties for selling or furnishing tobacco or tobacco-related devices to persons under 18, or for the use of tobacco by persons under 18. (Minn. Stat. §§ 461.12; 609.685)

How are electronic cigarettes taxed?

Electronic cigarettes are subject to the state's other tobacco products tax. The tobacco products subject to this tax include "any product containing, made, or derived from tobacco that is intended for human consumption" including "nicotine solution products." (Minn. Stat. § 297F.01, subds. 19 and 22b)

The tax is imposed at the rate of 95 percent of the wholesale price of the tobacco product. The tax is administered so that it only applies to the nicotine cartridge or solution used in an electronic cigarette, provided the device for which the nicotine cartridge or solution is used is sold separately. If a cartridge or solution is not sold separately from the electronic cigarette (disposable electronic cigarettes, for instance), the tax is imposed on the entire value of the electronic cigarette product. (Minn. Stat. § 297F.05, subd. 3, para. (a))

MN HOUSE RESEARCH

Senior Citizens Property Tax Deferral Program

November 2019

What is the Senior Citizens Property Tax Deferral Program?

The Senior Citizens Property Tax Deferral Program allows property taxpayers who are 65 years or older, and whose total household income is $60,000 or less, to defer a portion of their homestead property taxes until some later time. It allows senior citizens whose property taxes are high relative to their incomes, but who wish to stay in their homes, an option for paying their property taxes.

How does it work?

Regardless of how high the tax is on the homestead, the taxpayer initially pays an amount equal to 3 percent of the total preceding year's household income. The state pays any amount over 3 percent, called the "deferred tax," to the county in which the home is located. A lien attaches to the property. The deferred tax is a loan. Interest on the loan is calculated at the same rate as unpaid state taxes; a floating rate that cannot exceed 5 percent. Before the owner can transfer the title of the property, the deferred tax plus interest must be repaid.

For example, John and Mary Jones own a home; its total property tax is $1,400. They have a total household income of $30,000. Under this program, they must pay $900 in tax (3 percent of $30,000); the remaining $500 ($1,400 minus $900) is deferred.

Who qualifies?

In order to qualify for the program, **all** of the following criteria must be met:

- The property must be owned and occupied as a homestead by a person at least 65 years old (If married, one spouse must be at least 65 years old and the other must be at least 62 years old)
- Total household income must be $60,000 or less for the calendar year preceding the year of the initial application
- The home must have been owned and occupied as the homestead of at least one of the homeowners for at least 15 years before the initial application
- There must be no state or federal tax liens or judgment liens on the property
- The total unpaid balances of debts secured by mortgages and other liens on the property, including deferred tax and interest amounts under the program, unpaid and delinquent special assessments and property taxes, penalties and interest (but excluding the current year's property taxes and Property Assessed Clean Energy liens), do not exceed 75 percent of the assessor's estimated market value for the current year

What information is the applicant required to provide?

An applicant must provide, at her or his own expense, a report detailing any mortgages, liens, judgments, or unpaid property taxes on the property. For "Abstract" properties, these reports must be prepared by a licensed abstracter. For "Torrens" properties, the information is part of the "Condition of Register" available from the county recorder. If owners are unsure which type of property they have, they may find out from the county recorder.

By **Jared Swanson,** jared.swanson@house.mn

Does the taxpayer need to annually reapply?

No, once a taxpayer is enrolled in the program, annual applications are not required. However, if household income exceeds $60,000 in any calendar year, the owner must notify the Department of Revenue, and no further property taxes may be deferred. However, the owners will remain enrolled in the program, and once their income falls below the $60,000 threshold again, they may notify the state and request that the deferral be resumed.

Can the taxpayer still file for refunds?

Yes, a taxpayer is still allowed to file for the property tax refund and any other property rebates that the state offers. However, no direct cash payments will be made to the taxpayer. Rather, the amount of the refund will be applied to the total amount of the deferred property tax on the taxpayer's home. The property tax refund is calculated on the full tax amount.

When does it terminate?

The deferral terminates when **any one** of the following events occurs:

- the property is sold or transferred
- all qualifying homeowners die
- the homeowner notifies the Commissioner of Revenue, in writing, of intent to withdraw from the program the property no longer qualifies as a homestead

How many people participate in the program?

For property taxes payable in 2017, 336 people participated in the program across the state. The total amount of property taxes deferred for fiscal year 2018 was $1.3 million.

Where does a taxpayer apply for the program?

Applications are available in the county auditor's office or may be obtained from the Department of Revenue's website at https://www.revenue.state.mn.us/senior-citizens-property-tax-deferral-program.

MN HOUSE RESEARCH

Minnesota Taxable Income

November 2019

Calculating Minnesota Taxable Income

Minnesota taxable income is the tax base used to calculate Minnesota individual income tax liability. Income tax rates and brackets are applied to a taxpayer's Minnesota Taxable Income (MTI). Beginning with tax year 2019, Minnesota will use Federal Adjusted Gross Income (FAGI) as the starting point for calculating MTI. The state used Federal Taxable Income (FTI) as the starting point for calculating MTI from tax year 1987 to tax year 2018. After calculating FAGI on the federal return, a taxpayer must add to FAGI the amount of the taxpayer's Minnesota additions and subtract the amount of the taxpayer's Minnesota dependent exemptions, standard or itemized deductions, and other Minnesota subtractions.

Federal Adjusted Gross Income (FAGI)
+ Minnesota Additions
- Minnesota Dependent Exemption
- Standard or Itemized Deductions
- Other Minnesota Subtractions
= Minnesota Taxable Income (MTI)

The following sections of this publication will discuss each component of this calculation.

Federal Adjusted Gross Income

FAGI is a broad federal definition of income. It includes most of a taxpayer's gross income, including wages, interests, dividends, capital gains, retirement income, and part of a taxpayer's Social Security benefits. FAGI includes deductions for certain "adjustments to income." In tax year 2018, there were 11 adjustments to income, including educator expenses, health savings account contributions, deductible self-employment taxes, alimony paid, IRA deductions, and student loan interest.

Gross Income
- Adjustments to Income
= Federal Adjusted Gross Income (FAGI)

Minnesota Additions

Most Minnesota additions fall into two categories—additions for income that is exempt from federal tax but subject to Minnesota tax, and additions related to Minnesota's nonconformity to federal law.

- **Example nonconformity additions:** section 179 and bonus depreciation additions; suspended losses; and fines, fees, and penalties deducted as a business expense.
- **Examples of income not taxed federally:** interest from municipal bonds of another state or local government, capital gains portions of a lump-sum distribution.

By **Sean Williams,** 651-296-5053

Minnesota Dependent Exemption

The federal and Minnesota tax codes adjust a taxpayer's liability to account for family size. Minnesota allows a dependent exemption, modeled on the personal exemptions that existed in federal law prior to tax year 2018. A taxpayer with dependents is allowed to subtract $4,250 for each dependent. This amount is adjusted for inflation each tax year. For taxpayers without dependents, the exemption is $0.

Minnesota Standard or Itemized Deductions

A Minnesota individual income taxpayer may either claim the Minnesota standard deduction or deduct the amount of taxpayer's Minnesota itemized deductions. Minnesota's standard and itemized deductions are similar—but not identical—to those allowed federally.

Minnesota's standard deduction amounts are set in state law; the Minnesota amounts are the same as the federal amounts for tax years 2019 to 2025. In tax year 2019, the Minnesota standard deduction is $24,400 for married taxpayers filing a joint return, $12,200 for single taxpayers, and $18,350 for taxpayers filing as a head of household. Taxpayers who are older than 65 or blind are allowed a larger standard deduction. The standard deduction amounts are adjusted for inflation each tax year.

Minnesota allows a similar list of itemized deductions to the deductions allowed federally, except the state allows a deduction for unreimbursed employee expenses and a broader deduction for losses.

- **Taxes paid:** Up to $10,000 of property and certain foreign taxes paid.
- **Charitable contributions:** Allowed under federal law, up to 60 percent of FAGI.
- **Interest:** Mortgage interest and investment interest allowed as a federal deduction.
- **Medical expenses:** In excess of 10 percent of the taxpayer's FAGI.
- **Unreimbursed employee expenses:** In excess of 2 percent of the taxpayer's FAGI.
- **Losses:** Personal casualty and theft losses in excess of 10 percent of the taxpayer's FAGI.
- **Miscellaneous deductions:** Miscellaneous deductions allowed federally.

Minnesota's itemized and standard deduction are subject to an income-based limitation. For most taxpayers, the limit begins with FAGI above $194,650 in tax year 2019 (for married couples filing separately, the threshold is half that amount). State law reduces the itemized and standard deductions of taxpayers by 3 percent of FAGI above the threshold, up to 80 percent of the deduction amount

Other Minnesota Subtractions

In addition to itemized deductions, Minnesota allows a number of other subtractions from FAGI. Taxpayers are allowed to claim these subtractions even if they do not itemize their deductions. Many state subtractions relate to income the state cannot constitutionally tax. Others are tax expenditures the legislature enacted to achieve certain policy goals. Others are required due to nonconformity.

- **Examples of income that cannot be taxed:** interest on U.S. government bonds, railroad retirement benefits, and reservation-source income of an American Indian tribe member.
- **Example tax expenditures:** education expenses, charitable contributions of nonitemizers, organ donation expenses, 529 contributions, Social Security benefits, elderly exclusion.
- **Example nonconformity subtractions:** Bonus depreciation and section 179 subtractions.

MN HOUSE RESEARCH

Property Tax 101: Administration

November 2019

Who does what

Counties are responsible for property tax administration; the Department of Revenue provides assistance and oversight. The list below shows each county office's responsibilities for property tax administration. In some counties these offices are merged and one or two offices may perform the functions.

- **Assessor:** Values property; determines proper classification; and sends valuation notices to taxpayers
- **Auditor:** Determines each taxing jurisdiction's total tax capacity (i.e., its tax base); calculates proposed and final tax rates; and prepares truth-in-taxation notices (based on proposed levies)
- **Treasurer:** Prepares and mails out property tax statements; collects property tax payments; and distributes property tax receipts to each taxing jurisdiction

Property tax timeline

The process of calculating, imposing, and collecting Minnesota property taxes for a year actually spans two calendar years. As shown on the reverse side, the two-year cycle begins with the January 2 statutory assessment date and extends all the way through the next calendar year until the property taxes have been paid. For example, for taxes payable in 2020, the cycle begins on January 2, 2019, and doesn't end until the final payments are made in October/November 2020.

Appeal process

If a property owner disagrees with the assessor's valuation (shown on the valuation notice), the taxpayer can seek relief directly from the assessor. This may resolve the matter, so that no further action is necessary. If it does not, there are two separate avenues of appeal:

1) A three-step appeal process, consisting of an appeal to:
   - the local board of review; if not satisfied, appeal to,
   - the county board of equalization; if not satisfied, appeal to,
   - the Minnesota tax court.
2) A single-step appeal to the Minnesota tax court. There are two divisions:
   - The regular division, which can be used for any property. Proceedings are formal (an attorney is recommended), and the decision may be appealed to the Minnesota Supreme Court; or
   - The small claims division, which can be used only for homesteads (regardless of value) and other property where the market value is under $300,000. Proceedings are less formal, and decisions are final.

By **Jared Swanson,** jared.swanson@house.mn

Property Tax System Timeline

		Assessment Year 2019 Taxes Payable 2020	Assessment Year 2020 Taxes Payable 2021
2019	January	Assessment date (2nd)	
	March	Valuation notices mailed	
	April	Local boards of appeal and equalization	
	June	County board of appeal and equalization; state board of equalization	
	July	Certification of state aid amounts	
	September	Truth-in-taxation levy certifications (15th, 30th)	
	November	Truth-in-taxation notices mailed	
	December	Final budget hearings; final levy certifications (27th)	
2020	January	County auditors compute tax rates	Assessment date (2nd)
	March	Property tax statements mailed	Valuation notices mailed
	April		Local boards of appeal and equalization
	May	1st half tax payments due (15th)	
	June		County board of appeal and equalization; state board of equalization
	July	1st half state aid payments made (20th)	Certification of state aid amounts
	September		Truth-in-taxation levy certifications (15th, 30th)
	October	2nd half tax payments due – except on agricultural property (15th)	
	November	2nd half tax payments due – on agricultural property (15th)	Truth-in-taxation notices mailed
	December	2nd half state aid payments made (26th)	Final budget hearings; final levy certifications (27th)
2021	January		County auditors compute tax rates
	March		Property tax statements mailed
	May		1st half tax payments due (15th)
	July		1st half state aid payments made (20th)
	October		2nd half tax payments due – except on agricultural property (15th)
	November		2nd half tax payments due – on agricultural property (15th)
	December		2nd half state aid payments made (26th)

MN HOUSE RESEARCH

MinnesotaCare: An Overview

December 2019

MinnesotaCare provides subsidized health care coverage to low-income individuals. The program is administered by the Minnesota Department of Human Services (DHS) under federal guidance as a Basic Health Program. DHS, in cooperation with MNsure, the state's health insurance exchange, is responsible for processing applications and determining eligibility.

Eligibility

Most MinnesotaCare enrollees are parents and caretakers, children ages 19 to 20, and adults without children.

To be eligible for MinnesotaCare, an individual must meet the following criteria:

- Have gross income that is greater than 133 percent of the federal poverty guidelines (FPG) ($16,611 for a household of one) but does not exceed 200 percent of FPG ($24,280 for a household of one). Exceptions to the income floor are made for certain children under age 19 and legal noncitizens, who are not eligible for MA.
- Not be eligible for Medical Assistance (MA). This requirement has the effect of shifting the vast majority of pregnant women and children from MinnesotaCare to MA.
- Not have access to subsidized health coverage that, as defined in the federal Affordable Care Act (ACA), is affordable (the employee pays no more than 9.78 percent of income for self-only coverage for 2020) and provides minimum value (pays for at least 60 percent of medical expenses on average).
- Not have minimum essential health coverage (defined in the ACA as coverage under Medicare, Medicaid and other government programs, employer-sponsored coverage, individual market coverage, and other specified coverage).
- Be a resident of Minnesota. Enrollees must meet the residency requirements of the MA program.

Covered services

Enrollees age 21 and over are covered for most, but not all, services covered under MA. Covered services include physician care, hospitalization, prescription drugs, therapy services, and a wide range of other health care services. Services not covered include personal care attendant services, private duty nursing, nursing home care, ICF/DD (intermediate care facility for persons with developmental disabilities), and special transportation services.

Children ages 19 and 20, and certain children under age 19, receive coverage for a broader range of services than adults.

Premiums and cost-sharing

Enrollees age 21 and older pay monthly, per-person premiums based on a sliding scale. Persons under age 21, persons with incomes less than 35 percent of FPG, and American Indians and Alaska natives are

By **Randall Chun,** 651-296-8639

not charged premiums. Adult enrollees are subject to copayments and other cost-sharing for specified services.

Provider reimbursement

Enrollees receive health care services through prepaid health plans. The MinnesotaCare program pays prepaid health plans a monthly capitation payment for each MinnesotaCare enrollee. MinnesotaCare does not set provider reimbursement rates; these rates are instead the result of negotiation between health care providers and the prepaid health plan.

MinnesotaCare as a basic health program

Under the ACA, states have the option of operating a basic health program to provide health coverage to persons with incomes greater than 133 percent but not exceeding 200 percent of FPG. Federal approval to operate MinnesotaCare as a basic health program was received December 15, 2014, and implementation began January 1, 2015.

Expenditures and funding

In fiscal year 2018, the MinnesotaCare program paid $426.6 million for medical services provided to enrollees. About 86 percent of this cost was paid for by the federal government, 5 percent by the state, and 9 percent by enrollees through premium payments and cost-sharing.

Through 2014, the state received federal funding at the MA match rate for health care services provided to enrollees under a federal waiver. Since January 1, 2015, the state has received from the federal government a basic health program payment for each enrollee equal to 95 percent of the subsidy that the individual would have otherwise received through MNsure.

State funding for MinnesotaCare and other health care access initiatives is provided by a tax of 1.8 percent (effective January 1, 2020) on the gross revenues of health care providers and a tax of 1 percent on the premiums of nonprofit health plan companies. The tax on health care provider revenues was reduced from 2.0 percent to 1.8 percent by the 2019 Legislature. The Commissioner of Management and Budget is required to reduce the rate of the tax on health care provider revenues if certain financial criteria are met.

Recipients

As of September 2019, 80,998 individuals were enrolled in the MinnesotaCare program.

Application procedure

MinnesotaCare applications can be obtained by calling the Department of Human Services (1-800-657-3672) or MNsure, the state's health insurance exchange (1-855-366-7873). Applications are also available at county human services agencies and other locations.

For more information: See the longer House Research Department publication *MinnesotaCare* (November 2019) for more on the administration, eligibility, benefits, premiums, funding and expenditures, recipients, and other aspects of the program.

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MN HOUSE RESEARCH

Minnesota's Tax Credit and Subtraction for 529 Contributions

December 2019

Federal and state tax advantages for section 529 college savings accounts

Investment income on 529 accounts is exempt from both federal and Minnesota income taxes, if the income is used for qualifying higher education expenses. Qualifying expenses include tuition, fees, room and board, books, and some other education expenses. Investment income on the accounts that is used for nonqualifying purposes is taxed as ordinary income, plus a 10 percent penalty. 529 plans also provide special estate and gift tax benefits.

Minnesota allows both a nonrefundable income tax credit and an income tax subtraction for contributions to any state's 529 plan. A taxpayer may claim either the credit or the subtraction, but not both. Any Minnesota resident who makes a contribution to a 529 plan or prepaid tuition plan may claim the credit or subtraction, as long as the individual is not claimed as a dependent. An individual does not need to be the account owner to be eligible to claim the credit or subtraction.

Minnesota's subtraction for 529 account contributions

Minnesota offers a subtraction for contributions to any state's section 529 Plan. A taxpayer may subtract up to $1,500 ($3,000 for married joint filers) of contributions to any state's section 529 college savings plan or prepaid tuition plan. The subtraction excludes any amounts that are rolled-over from other college savings plans. Taxpayers who claim the credit cannot take the subtraction.

529 Subtractions Claimed by Minnesota Taxpayers, Tax Year 2017

Income (FAGI, married or single)	Average Subtraction Claimed	Estimated Subtractions Claimed	Share of Subtractions	Estimated Claimants	Share of Claimants
Less than $50,000	$956	$456,000	0.8%	480	1.9%
$50,000 to $75,000	$2,554	$681,000	1.2%	270	1.0%
$75,000 to $100,000	$1,174	$491,000	0.8%	420	1.6%
$100,000 to $150,000	$1,559	$5,112,000	8.8%	3,280	12.7%
$150,000 to $200,000	$2,173	$15,958,000	27.3%	7,340	28.5%
$200,000 or Greater	$2,550	$35,695,000	61.1%	14,000	54.3%
Total	**$2,265**	**$58,393,000**	**100%**	**25,790**	**100%**

In tax year 2017, about 25,790 taxpayers claimed the 529 subtraction. In total, taxpayers claimed about $58.4 million in subtractions. The total revenue lost due to the subtraction is about $4.1 million, meaning taxpayers who claimed the subtraction paid an average marginal rate of about 7.0 percent. The average taxpayer who claimed the subtraction saw a tax reduction of $166 as a result of the subtraction.

By **Sean Williams**

Minnesota's tax credit for 529 account contributions

Minnesota's Section 529 Plan Credit is a nonrefundable credit for contributions to a college savings account established by any state under section 529 of the Internal Revenue Code. The credit equals 50 percent of contributions, up to a maximum of $500. The maximum credit is phased out as income increases with varying thresholds for individuals and married joint filers. The phaseouts for tax year 2019 are described in the table below.

For individual filers, the maximum credit is phased out by 2 percent of federal adjusted gross income (FAGI) in excess of $78,340. FAGI is a broad definition of income defined in federal law. The credit is fully phased out for individual filers at $103,340 of FAGI. For married couples filing joint returns, the maximum credit is phased out for taxpayers with FAGI above $78,340. The credit is reduced by 2 percent of FAGI in two phases, and is fully phased out when FAGI reaches $166,010.

529 Credits Claimed by Minnesota Taxpayers, Tax Year 2017

Income (FAGI)	Average Credit Claimed	Estimated Credits Claimed	Share of Credits	Estimated Claimants	Share of Claimants
Less than $50,000	$414	$459,000	11.8%	1,110	7.4%
$50,000 to $75,000	$409	$881,000	22.6%	2,150	14.4%
$75,000 to $100,000	$271	$1,106,000	28.4%	4,090	27.4%
$100,000 to $150,000	$205	$1,421,000	36.4%	6,950	46.6%
$150,000 to $200,000	$51	$32,000	0.8%	630	4.2%
$200,000 or Greater	$0	$0	0.0%	0	0.0%
Total	**$261**	**$3,899,000**	**100%**	**14,930**	**100%**

Comparison of the credit and subtraction

The credit and subtraction differ in three main ways. First, income limits apply to the credit, but not the subtraction. Second, for the same contribution amount, the credit will typically provide a larger tax benefit than the subtraction. A credit reduces tax liability dollar-for-dollar, while the value of a subtraction depends upon the taxpayer's marginal tax rate. Third, the credit can result in a marriage penalty or bonus, while the subtraction can only provide a bonus.

What incentives do other states offer for 529 plan contributions

States offer a wide variety of incentives for 529 plan contributions, including income tax deductions, tax credits, and matching grants. In tax year 2017:

- 29 states other than Minnesota and the District of Columbia allowed **tax deductions**
- Two states other than Minnesota (Vermont, and Utah) offered **credits** for 529 contributions
- Seven states with income taxes don't offer 529 plan deductions or credits
- Most states limit deductions to contributions to the state's own plan, but six states (including Minnesota) provide deductions for contributions to any state plan
- Ten states offer **matching grants** of some kind; seven offer matching grants and three offer onetime grants, either at the time of the child's birth or the opening of an account

MN HOUSE RESEARCH

Medical Assistance: An Overview

December 2019

Medical Assistance (MA), the state's Medicaid program, is a federal-state program that pays for health care services for low-income individuals. The program is administered by counties, under the supervision of the state Department of Human Services (DHS). Federal Medicaid law allows states considerable flexibility in designing their Medicaid programs.

Eligibility

To be eligible for MA, an individual must meet the following criteria:

- Be a member of a group for which MA coverage is mandatory under federal law or a member of an optional group that the state has chosen to cover. Covered groups include families, children, pregnant women, the elderly, persons with disabilities, and adults without children.
- Meet program income and any applicable asset limits. Certain types of income and specified assets are excluded when determining eligibility. Income and asset limits for selected groups are described below.
- Be a U.S. citizen or a noncitizen who meets specified immigration criteria.
- Be a resident of Minnesota.
- Meet other program eligibility requirements.

Eligibility group	Net income limit, as % of federal poverty guidelines (FPG)	Asset limit*
Children < age 2	283	None
Children 2 through 18	275	None
Children 19 through 20	133	None
Pregnant women	278	None
Parents and caretakers	133	None, unless on spenddown
Age 65 or older, blind, or have a disability	100	$3,000 for one/$6,000 for two/$200 each additional
Adults without children	133	None

* The homestead, household goods, a vehicle, a burial plot and certain assets for burial expenses, and other specified items are not counted as assets.

Some individuals with incomes over these limits can also qualify for MA through a spenddown. Under a spenddown, an individual must incur medical bills in an amount that is equal to or greater than the amount by which the individual's income exceeds the spenddown limit of 133 percent of FPG for families and children and 81 percent of FPG for individuals who are age 65 or older, blind, or have a disability. There is no spenddown for adults without children.

By **Randall Chun,** 651-296-8639

Covered services

Minnesota provides all federally mandated services and most services designated by the federal Medicaid program as optional. These services include, but are not limited to: physician care, hospitalization, therapy and rehabilitation, dental, medical equipment and supplies, home health care, health clinic services, mental health, prescription drugs, medical transportation, nursing home, and intermediate care facility for persons with developmental disabilities (ICF/DD) services. Adult enrollees who are not pregnant are subject to copayments for certain services.

The state has also received federal approval to provide home and community-based "waivered services" not normally covered by Medicaid that are intended to allow individuals to remain in the community, rather than reside in a hospital, nursing home, or intermediate care facility for persons with development disabilities (ICF/DD).

Provider reimbursement

The MA program reimburses providers under both a fee-for-service system and a managed care system (composed of the Prepaid Medical Assistance Program or PMAP, county-based purchasing initiatives, and programs for the elderly and persons with disabilities). In recent years, DHS has used competitive bidding to select managed care and county-based purchasing plans to deliver services to MA enrollees who are families and children.

Funding and expenditures

In state fiscal year 2018, total state and federal MA expenditures for services were $12.554 billion. The federal share of MA costs is determined by a formula based on state per capita income. In most fiscal years, the federal government has paid 50 percent of the cost of MA services, with Minnesota responsible for the remaining 50 percent. The federal government is providing an enhanced federal match, initially 100 percent of the cost of services and phasing down to 90 percent by 2020, for services provided to adults without children.

Recipients

During state fiscal year 2018, an average of 1,115,496 individuals were eligible for MA services each month. As of August 2019, 848,207 MA recipients received services through the MA managed care system, with the remaining enrollees served through fee-for-service.

Application procedure

Individuals interested in applying for MA should contact their county human services agency or MNsure, the state's health insurance exchange.

For more information: See the longer House Research Department publication *Medical Assistance* (November 2019) for more on the administration, eligibility, benefits, covered services, funding and expenditures, recipients, and other aspects of the program.

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MN HOUSE RESEARCH

Budget Forecasts, Surpluses, and Deficits

December 2019

When are budget forecasts prepared?

The commissioner of Minnesota Management and Budget (MMB) must prepare a forecast of general fund revenues and expenditures twice each year—in February and November. Employment levels, wages, sales of taxable goods and services, health care costs, the number of children enrolled in public schools, and numerous other factors influence state expenditures and receipts. MMB's budget forecasts attempt to predict how these factors will collectively impact the state budget during the forecast period.

How are the forecasts used?

The forecasts inform the governor's budget proposals and the legislature's development of tax and spending laws. In this way, the legislature and governor use the forecasts to enact a balanced general fund budget in which total biennial revenues meet or exceed total expenditures.

The November forecast in even-numbered years informs the governor's initial budget recommendations for the next biennium. For example, the November 2018 forecast provided the revenue and expenditure projections that Governor Tim Walz used to prepare a preliminary budget proposal for the fiscal years (FY) 2020-2021 biennium, which runs from July 1, 2019, to June 30, 2021. The same November 2018 forecast projected that the state was on track to finish the FY 2018-2019 biennium, which ended on June 30, 2019, with a positive general fund balance.

The February forecast updates the preceding November forecast with the latest economic, revenue, and spending data. Following the February 2019 forecast, Governor Walz submitted revised budget recommendations informed by the latest revenue and expenditure estimates. The February 2019 forecast also established the budgetary framework in which the 2019 Legislature enacted a balanced state budget for the FY 2020-2021 biennium.

The November forecast in odd-numbered years and the February forecast in even-numbered years update revenue and expenditure estimates for the current biennium. Using the projections in the November 2019 and February 2020 forecasts, Governor Walz may propose modifications to the enacted FY 2020-2021 budget. The 2020 Legislature will use the latest projections in the February 2020 forecast to determine whether changes are required to end the FY 2020-2021 biennium with a balanced general fund budget.

What if a forecast predicts a general fund deficit?

If a balanced budget is enacted but a subsequent forecast anticipates a general fund deficit in the current biennium, the commissioner of MMB may access money in the budget reserve account as needed to pay for all enacted expenditures. If a deficit remains after the budget reserve is exhausted, the commissioner may reduce or delay enacted appropriations, commonly referred to as "unallotment." Before tapping the budget reserve or unalloting general fund appropriations, the commissioner must obtain the approval of the governor and consult the Legislative Advisory Commission. If the legislature is in session or will soon convene, the governor typically makes recommendations to the legislature on how to resolve the shortfall by law before approving use of the budget reserve or unallotment.

By **Colbey Sullivan,** 651-296-5047

What if the forecast predicts a general fund surplus?

If a forecast projects a general fund surplus for the current biennium, the commissioner of MMB must allocate the surplus in priority order as follows:

1) to the cash flow account, until it reaches $350 million (currently satisfied)
2) to the budget reserve account, until it reaches $1,596,522,000 (currently surpassed)
3) to increase the school aid payment schedule to 90 percent, in increments of one-tenth of 1 percent with any residual amount deposited in the budget reserve (currently satisfied)
4) to restore previous school aid reductions and reduce the property tax recognition shift accordingly (currently satisfied)

If a November forecast predicts a surplus and priorities (1) to (4) have been satisfied, MMB must transfer up to 33 percent of the remainder to the budget reserve until it reaches the level recommended by MMB. No later than September 30 each year, MMB must assess the volatility of state tax revenues and report to the legislature any corresponding change in the agency's budget reserve target. As of the November 2019 forecast, the budget reserve is at MMB's recommended level of $2.36 billion.

Any surplus remaining after satisfying the four statutory priorities and transferring up to 33 percent of any remainder to the budget reserve is reported in the forecast as a positive general fund balance. For the FY 2020-2021 biennium, MMB anticipates a positive general fund balance.

Has the treatment of budget surpluses changed recently?

Laws 2014, chapter 150, required MMB to recommend a budget reserve level (specified as a percentage of nondedicated general fund revenue for the current biennium), to update this percentage each January, and to transfer up to 33 percent of a November forecast surplus to the reserve. Laws 2015, chapter 77, pushed the commissioner's annual update back to September. Laws 2017, first special session, chapter 1, added a requirement to transfer $22 million of general fund surplus dollars to the Clean Water Fund. MMB performed this $22 million transfer when the agency's February 2018 forecast projected that a sufficient surplus existed in the general fund for the FY 2018-2019 biennium.

For more information: See the House Research publication *Unallotment: Executive Branch Power to Reduce Spending to Avoid a Deficit*, November 2018.

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MN HOUSE RESEARCH

Basics of Emergency General Assistance

December 2019

Emergency General Assistance (EGA) is a state program that provides income assistance in emergency situations.

What is EGA?

EGA is a state program that provides income assistance in emergency situations. It is administered by Minnesota counties. EGA was established in 1973 as part of a broader legislative initiative that replaced county "Poor Relief" and the "Township Relief System" with General Assistance.

What is an "emergency situation"?

An emergency situation is a situation in which an individual or family is without, or will lose within 30 days after application, a basic need item and requires immediate financial assistance. "Basic needs" are limited to food, clothing, shelter, utilities, and other items, the loss or lack of which pose a direct, immediate threat to the physical health or safety of the applicant.

The assistance must be temporary and must not exceed 30 days following the date of application. Assistance must be paid for needs that accrue before the 30-day period when it is necessary to resolve emergencies arising or continuing during the 30-day period.

Who is eligible?

An individual, childless couple, or family without financial resources immediately available to resolve an emergency situation is eligible for EGA if:

- The person or family is not eligible for Minnesota Family Investment Program (MFIP), the Diversionary Work Program (DWP), or county emergency assistance through the MFIP consolidated fund;
- The person or family has annual net income no greater than 200 percent of the federal poverty guidelines (FPG) for the previous calendar year (in 2019, for a family of three, 200 percent of FPG was $42,660);
- The person or family is without financial resources immediately available to resolve the emergency;
- The emergency did not arise because the person or family member has been disqualified from General Assistance (GA) or MFIP; and
- The person or family meets all other eligibility criteria adopted by the county agency.

Persons or families in need who are not state residents may also receive assistance to meet emergency needs. State law requires that nonresidents must reside in Minnesota for 30 days before applying for EGA.

Applicants for or recipients of Supplemental Security Income (SSI) or Minnesota Supplemental Aid who have emergency need may apply for EGA.

By **Danyell Punelli,** 651-296-5058

An individual or family may receive EGA not more than once in any 12-month period.

How is EGA funded and how are benefits paid?

EGA is funded with state general fund dollars.

EGA is provided within the limits of available appropriations and funds are allocated to counties by the state. The minimum county allocation is $1,000 per fiscal year. Counties may make expenditures above the amount of their state allocation but additional expenditures must be made from county funds.

EGA grants are paid for with vouchers or in the form of a vendor payment unless the county determines that a cash grant will better meet the needs of the emergency situation.

How has EGA changed over time?

The EGA statute has been modified several times over the years. Changes include limiting state funding to the appropriation, authorizing county agencies to adopt written criteria for determining emergency situations, limiting receipt of EGA to not more than once in a 12-month period, and establishing a minimum county allocation of $1,000 per fiscal year.

For more information: See the House Research publication *Minnesota Family Assistance*.