

FCS MONDAY MORNING

Legislative Update

March 16, 2009

SENATE TAKES ACTION ON GREEN ACRES Senator Skoe Finds Some Consensus Over a Contentious Issue

(From Senate Briefly, March 13, 2009) Last Thursday's (3/12/) Senate floor session was dominated by debate over changes to the Green Acres provisions contained in a federal conformity tax bill. H.F. 392, authored by Sen. Thomas Bakk (DFL-Cook), conforms Minnesota individual income tax and corporate franchise tax provisions to most of the federal changes enacted since February, 2008. The Green Acres provisions were developed by Sen. Rod Skoe (DFL-Clearbrook) and added to the bill earlier in the Tax Committee.

Skoe explained the Green Acres provisions in the bill. He said the bill modifies the changes made by last year's tax bill. Skoe said the reason for making the changes last year was because a report from the Office of the Legislative Auditor showed wide variations in the implementation of the Green Acres law and that 30 counties did not implement the provisions at all. Skoe said Green Acres is a method to get preferential tax treatment on land that meets specific criteria. Originally, Green Acres lands were agricultural or used for an agricultural purpose such as pasture land, he said.

Skoe said the bill modifies the changes made last year. Under the bill, the definition of agriculture includes land set aside under conservation programs such as RIM and CRP. The measure also reduces the repayment period to three years and allows for the transfer of land to children, Skoe said. He said the individuals who choose not to be in the program will not have to begin repayment for one year. He said there is still a percentage of land that does not qualify, so the bill provides for a new conservation plan in order for that percentage to qualify for preferential tax treatment. Skoe said under the new conservation plan, owners would put a covenant on the land for eight years and if the owner chooses to sell, the covenant is transferable. Skoe said the modifications in the bill take care of about 90 percent of the parcels affected by last year's changes.

Skoe offered an amendment to take care of parcels that will be removed under the law that would have qualified for the old Green Acres program. The amendment specifies that the ten acre minimum size requirement will be considered to be met for real estate that had consisted of ten acres or more that had qualified for treatment in the past. The amendment was adopted.

Sen. Sharon Erickson Ropes (DFL-Winona) offered an amendment to repeal the changes made in 2008. She said, "Skoe has put together a very good bill, but farmers still concerned about Green Acres." She said by repealing the changes there would be an opportunity and more time to consider making changes in the program.

Skoe said the Minnesota Farm Bureau and other organizations recognize the need for change. He said the changes do not go into effect until 2013, leaving plenty of time to make further refinements. He said it is important to act on the measure quickly because of the need to provide guidance to landowners who are making land use decisions.

The Erickson-Ropes amendment failed on a 27-34 roll call vote. The bill was finally passed and sent back to the House for consideration and possible a conference committee negotiation.

NEXT MOVE RESTS WITH THE HOUSE

House Tax Committee Will Consider Another Raft of Green Acres Bills

With the Senate having taken action to resolve the Green Acres debate, the issue now shifts to the House. On Tuesday (3/17), the House Property Tax Division will review 17 different bills that have been introduced to respond to the public outcry over last year's changes. Everything from repeal to a modification to creation of an entirely new program will be on the committee docket, that evening.

Because last year's changes to the Green Acres law has drawn so much criticism, House members plan to extra time to demonstrate their responsiveness to constituent "input." House Tax Chair Ann Lenczewski has been roundly criticized for failing to given last year's changes much of a public airing. She has repeatedly denied the accusations but doesn't plan to get caught in the same fire fight this time around.

Once the House stakes its position on Green Acres, both bodies will hammer out a final solution in a conference committee on HF 392, later this month.

SENATE REVEALS IT'S BUDGET SOLUTION

House and Governor Are Expected to Offer Additional Proposals This Week

With the latest state budget forecast predicting a shortfall of nearly \$4.6 billion, lawmakers have begun to offer plans for meeting the constitutional mandate of balancing the state finances over the next 2 years. In fact, the Senate and House want to use the opportunity to restructure the state tax and spending priorities over the next 4 years by making significant cuts in state-supported programs.

The State Senate is proposing to cut all state funding by 7% including education to the tune of nearly \$1 billion. They also plan to increase taxes on the wealthy by creating another "tier" that will impose a heavier tax on people with incomes over \$250,000.

(For more complete details, we offer this review and analysis from a recent article in the StarTribune.) Public schools would suffer a nearly \$1 billion budget bite over the next two years under a fiscal blueprint outlined Thursday by DFL Senate leaders, who also hinted at the likelihood of large income tax increases for the wealthy.

Republicans and education advocates decried the proposal, but DFLers said including schools in a 7 percent reduction to nearly every part of the state budget was necessary as the state and national economies continued to spiral through a major recession. "If everyone shares in it, this is going to be much easier," said Sen. Tom Bakk, DFL-Cook, the Senate Taxes Committee chairman, explaining the across-the-board budget cut plan.

With Republican Gov. Tim Pawlenty expected to release a revised budget shortly, Thursday's announcement signaled the beginning of a political tug of war at the State Capitol over how to resolve a budget deficit that has ballooned to \$6.4 billion but has been tempered by a \$1.8 billion injection of federal stimulus money.

Republicans said the DFL Senate plan to raise revenue by \$2 billion, especially in a difficult economy, would lead to a backlash from taxpayers, and there were indications the plan would even find opposition among House DFLers.

Hours after the Senate plan was announced, House Speaker Margaret Anderson Kelliher, DFL-Minneapolis, said the House proposal, expected late next week, would include "significant cuts in spending, but not cuts across the board. Minnesotans tell us they want a strategic approach to budgeting that identifies priorities."

Bakk said the "lion's share" of the \$2 billion in new revenue would come in income tax increases that would be focused on higher-income Minnesotans. But he said he personally opposed extending the state sales tax to clothing and service providers, such as accounting and legal services. Bakk, one of the Senate's most influential members and a

gubernatorial candidate, also said he favored having local governments forgo various state aid payments and credits in a move he said would "freeze their aid payments where they're at today."

Republicans, including Senate Minority Leader David Senjem of Rochester, said that increasing taxes by \$2 billion was almost certain to target middle-income taxpayers as well. "On a good day, maybe tax[ing] the rich is worth \$800 million," he said. "Is Minnesota ready for this?"

But DFLers said the plan, which would cut \$2.4 billion in spending over the next two years, would balance the state budget without resorting to what they described as one-time accounting gimmicks that Pawlenty wants to employ. Senate Majority Leader Larry Pogemiller also said the plan, by making difficult cuts now, would position Minnesota to avoid the budget rollercoaster many other states are experiencing. "If we don't resolve and balance now, we will be like California and other states that never get ahead of the game and are constantly cutting budgets and raising taxes," he said.

Senate leaders acknowledged that the \$973 million in proposed K-12 education cuts over a two-year period would be difficult but said education represented too large a share of the overall state budget to be exempted. Under the plan, higher education would face \$221 million in cuts over the same period. While pledging to spare local police and fire departments, the DFL Senate plan nonetheless calls for \$78 million in public safety cuts over the next two years.

In an unusual political break from the DFL, the state's largest public teachers union criticized the education cuts as shortsighted. "The cuts would be devastating to our K-12 system," said Tom Dooher, president of the 70,000-member Education Minnesota. "Kids would end up in classrooms of 45 [students] or larger and that doesn't, to me, set a priority for Minnesota.

"Prioritize schools -- that's the way we're going to get out of this economic challenge," he said.

Dooher found an unlikely ally in Brian McClung, Pawlenty's spokesman, who had similar criticisms. "The DFL's proposal fails to set priorities by cutting everything equally, including some of the state's most important priorities: military and veterans programs, public safety, K-12 education, programs to crack down on sex offenders, and much more," said McClung.

"At least DFLers are finally publicly admitting they'd like to wallop the families and small businesses of Minnesota with massive tax increases," he added.

Tax aversion questioned

The plan's 7 percent cut would mean a \$719 million reduction over two years to health and human service programs, a move that also brought a negative reaction from at least one prominent DFL senator. "There needs to be cuts, but we can't be cutting the most vulnerable," said Sen. John Marty, DFL-Roseville, another gubernatorial candidate. "From what I know about it, I'm not going to sign onto this."

Republicans had for weeks said that DFLers, who hold majorities in the House and Senate, would be proposing a tax increase but were reluctant politically to make it public. At one point Thursday, House Minority Leader Marty Seifert handed out an internal DFL document he said he obtained that showed DFLers had for weeks been debating a \$2 billion tax increase plan. "This plan confirms what everyone has been waiting for," Seifert told reporters.

But Wayne Cox, the executive director of Minnesota Citizens for Tax Justice, a union lobbying group, said Republicans may in the end miscalculate the state's opposition to a tax increase. Twice within the past year, with the DFL's transportation initiative and the constitutional amendment for the outdoors and the arts, legislators and taxpayers had opted for tax increases, he said. "It seems to me like the voters are way ahead of the Republicans," Cox said.

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