About the Coalition of Greater Minnesota Cities

The Coalition of Greater Minnesota Cities (CGMC) is a non-profit, non-partisan advocacy organization comprised of 97 cities located outside of the Twin Cities metropolitan area. For more than 30 years, the CGMC has united Greater Minnesota cities with similar concerns.

The purpose of this background information is to help candidates become more familiar with issues affecting Greater Minnesota communities. This information is available to any candidate of any political party.

Our Mission

CGMC member cities are dedicated to a strong Greater Minnesota. Our mission is to develop viable, thriving communities for businesses and families through strong economic growth and good local government. The CGMC works on the following issues on behalf of its members:

- Local Government Aid and Property Taxes
- Economic Development
- Annexation and Land Use
- Environment and Energy
- Transportation

Questions? Contact Us!

CGMC
C/o 525 Park Street
Suite 470
St. Paul, MN 55103

Phone: 651-225-8840
Fax: 651-225-9088
Email: cgmc_communications@flaherty-hood.com
Web: greatermncities.org

Table of Contents

CGMC Issues at a Glance.............Page 2
State Budget...............................Page 3
Local Government Aid.................Pages 4-10
Economic Development...............Pages 11-16
Transportation............................Pages 17-22
Environment & Energy...............Pages 23-26
Annexation & Land Use...............Page 27

Staff Contacts

Property Tax, State Budget, LGA and Economic Development: Bradley Peterson, bmpeterson@flaherty-hood.com
Transportation: Shane Zahrt, szahrt@flaherty-hood.com
Environment & Energy and Annexation & Land Use: Elizabeth Wefel, eawefel@flaherty-hood.com
CGMC Issues at a Glance

Local Goverment Aid (LGA) - LGA is a vital state program that provides funding for cities so they can provide services at a reasonable tax rate. Currently, more than 90 percent of cities in Minnesota receive some LGA. For the past few years, the CGMC has advocated for a funding increase to bring the LGA program back to its 2002 level, which was $565 million. The 2017 tax bill made some progress by increasing LGA funding by $15 million, bringing total state funding to $534 million. However, this still falls far short of the CGMC’s goal. The 2018 tax bill passed by the Legislature, and later vetoed by Governor Mark Dayton, did not include an LGA increase. When factoring in inflation and rising costs such as employee health insurance plans and construction materials, cities are often faced with having to cut services or raise property taxes (or both) to account for lagging LGA funding. To see how much LGA each city is expected to receive in 2019, please visit bit.ly/2m5gqsf.

Economic Development - Greater Minnesota cities need good state policies and funding to help their local economies grow. The CGMC and its economic development-focused sister organization, the Greater Minnesota Partnership (GMNP), support workforce housing grants to help alleviate the shortage of middle-income housing in many Greater Minnesota cities, the Greater Minnesota Business Development Public Infrastructure (BDPI) Grant Program to help cities provide public infrastructure needed for private business development, funding from the state to provide all Greater Minnesota residents and businesses with world-class broadband service, the Job Training Incentive Program to help businesses train new workers to fill positions that are currently available, and state incentives and programs to help address the child care shortage that many communities face.

Transportation - The 2017-18 biennium saw the passage of transportation bill and bonding bills that redirect existing General Fund revenues to the Highway User Tax Distribution Fund, authorize $1.4 billion in new Trunk Highway Bonds for Minnesota’s highway system, and provides a small amount of temporary funding for small-city streets. The bills made some progress toward addressing Minnesota’s transportation needs, but they fall far short of making a significant, long-term impact. The CGMC continues to advocate for additional funding for the Corridors of Commerce program and city streets in cities of all sizes. Moreover, the CGMC believes that the state cannot fund its transportation needs without revenue increases (gas tax and tab fees).

Environment & Energy - Cities across Greater Minnesota are facing huge costs to comply with new water quality regulations and upgrade aging infrastructure. The 2018 bonding bill included $98 million for water and wastewater infrastructure grant and loan programs and an additional $25 million for specific cities, about $44 million short of the CGMC’s initial bonding request. The CGMC supports additional bonding at a level sufficient to meet the needs of upgrading cities’ water systems. To make better use of state and local resources, the CGMC advocates for a collaborative approach to addressing water quality issues that brings together state agencies, cities, agricultural interests and other stakeholders. The CGMC also supports the push for regulatory reform to ensure that regulations are cost-effective and achieve measurable environmental benefits.

Annexation & Land Use - The CGMC supports land use policy that provides for urban development in cities and preserves agriculture and open spaces in townships. The CGMC believes good annexation/land use policies reduce water pollution and hold the line on infrastructure costs.
The Minnesota State Budget

General Fund Expenditures

The state general fund budget is $47.95 billion for FY 2018-19. The breakdown of expenditures is below:

- E-12: 1%
- Higher Ed: 1%
- Property Tax Aids & Credits: 6%
- HHS: 5%
- Public Safety/Judiciary: 30%
- Transportation: 30%
- Environment & Ag: 8%
- Jobs, Econ Dev, Housing: 7%
- Other: 41%

The Budget Reserve

The budget reserve is Minnesota’s “rainy day fund.” It helps the state recover more quickly during economic downturns in order to balance the state budget. The non-partisan State Council of Economic Advisors has recommended that the budget reserve be at least 5 percent of the state’s biennial general fund revenue.
Local Government Aid

Created as part of the Minnesota Miracle of 1971, Local Government Aid (LGA) is a vital state program that helps create property tax fairness and ensure that all Minnesotans — regardless of where they live or the size and wealth of their community — receive the city services necessary for a good quality of life. Today, more than 90 percent of Minnesota cities receive some LGA from the state.

LGA Is the Lifeblood of Greater Minnesota

The nuts and bolts of the LGA formula and its funding are important (and will be outlined later in this packet), but its real-world impact shows just how important the program is to residents and businesses throughout the state. A key component of LGA is its flexibility; cities are able to use LGA funds to meet their particular needs – be it for public safety, parks, infrastructure, property tax reduction or other uses.

Here are a few examples of how cities have recently chosen to spend some of their LGA dollars:

- Albert Lea has used LGA to pay for much-needed street repairs. The city administrator noted that without LGA, streets will need replacement or reconstruction – costing many times more than routine maintenance.

- Slayton has used LGA to keep property taxes low and help make the community safer. From 2002 to 2012, the city made no discretionary purchases (such as playground equipment or park shelters) and directed its LGA to property tax relief. In 2014, the city used LGA funds to purchase a pumper truck and equipment for the fire department, helping to improve fire protection services.

- In Crookston, LGA helped address the housing shortage by allowing the city to assist with a housing rehabilitation loan program. It has also been used to help purchase and demolish dilapidated downtown buildings.

One of the CGMC’s main goals is to protect and strengthen the LGA program. Recently, the CGMC has sought to restore funding for the LGA program back to its 2002 level (current LGA funding falls $30.5 million below this benchmark). In addition, the CGMC has sought to protect cities from future inflationary costs through a yearly increase to the state’s LGA appropriation.
LGA Reduces Tax Rate Disparities among Cities

LGA helps address the large variation in tax base across the state, which impacts a city’s ability to deliver local services. The LGA program is unique in that it delivers funding to a city based on a statistical measure of its need versus its ability to pay. LGA allows cities with less property wealth to keep property tax rates competitive. For example, the city of Sandstone needs a tax rate nearly 35 times that of Minnetonka Beach to generate the same amount of revenue:

State funding for LGA has varied over the past 16 years. It reached its highest level 2002, followed by a decade of drastic cuts. Since the end of the Great Recession, LGA funding has begun to creep back up, but it still falls short of the 2002 level. It is important to note that city revenue has also dropped substantially over that same 16-year period.

If one looks at all cities statewide and their total revenue per person, cities have had fewer resources to provide services:
With less money to work with, cities are faced with the choice of either cutting services or increasing taxes, or both. Further, cities that rely on LGA face inflationary pressures that other cities do not.

The cities in the graph below generate a similar amount of revenue from levy plus aid: between $623 and $653 per capita (shown by the bars and left axis), or approximately the statewide median for a city’s revenue (its levy and aid) which is $632.

While they have similar revenues, these cities’ property wealth is vastly different. Because of this, if LGA were removed, cities would either need to raise their levies or cut services. If the cities opted to raise their levies, the tax rates of property-poor cities would rise considerably. Under this scenario, tax rates among the cities would vary from 24 percent to a whopping 107 percent. Cities that do not receive LGA, such as Minnetrista, would not need to raise their levy to compensate for the loss of aid.
Objective Formula Determines LGA Funding

In the years following the creation of LGA in 1971, the LGA formula has been updated as new data has allowed it to be more accurate. Most recently, in 2013 the Legislature and city organizations such as the CGMC, League of Minnesota Cities, Metro Cities and the cities of Minneapolis and Saint Paul worked together to reform the LGA formula. This reform better reflects city funding needs while making the formula more simple and predictable.

The current formula uses various “need” factors for different-sized cities, which are proxies for the age of a city’s infrastructure, its level of service need, and how many residents and visitors it serves each day. Its need is compared to its property wealth (or ability to pay). The city’s LGA is then scaled to the LGA appropriation.

How Is LGA Calculated?

- **LGA “Need” Factors**
  - Cities less than 2,500: Population & sparsity measurement
  - Cities over 2,500 & less than 10,000: Percentage of housing built before 1940, household size, peak population decline since 1970, sparsity measurement
  - Cities over 10,000: Jobs per capita, pre-1940 housing percentage & percentage of housing built between 1940 and 1970, sparsity measurement

- **LGA Amount**
  Scaled to a particular year’s appropriation and to how far a city is from “full funding”

- **LGA Property Wealth**
  - Determined by property tax wealth
  - Adjusted for slight differences in assessment practices statewide
LGA Funding Has Not Kept Pace with State Budget Growth

The 2018 LGA appropriation is approximately $534 million, which is $30.5 million less than its appropriation in 2002. Moreover, total state spending has grown steadily over that same time period. Today, LGA accounts for just 2 percent of general fund spending, compared to 4 percent in 2002.
If LGA Is Held Flat, Inflation Will Force Increases in City Property Taxes or Service Cuts

The current LGA appropriation and funding does not account for inflation. If it did, the LGA appropriation would be more than $891 million for 2018. Since inflation is undoubtedly a factor in city budgets and expenses, the CGMC routinely advocates for a yearly adjustment to the LGA appropriation to account for inflation and population growth. Without such a yearly increase, city property taxes will go up and/or services will continue to be cut due to inflationary costs.

Dispelling Common Myths about LGA

Despite its role in keeping cities strong and providing equity among Minnesota communities, the LGA program has faced pushback from opponents. LGA detractors tend to repeatedly turn to the same misconceptions or untruths when arguing against the program. Here are some of these common myths, as well as the actual facts.

**Myth: LGA doesn’t hold down property taxes.**

**Fact:** When LGA is increased, city levies are held down. This was shown in 2013, when the Legislature partially restored some of past decade’s cuts to LGA – producing the third-lowest city levy increase since 1990. In fact, tax rates dramatically changed following the 2013 LGA reform and appropriation increase. The charts below show the percentage of LGA-receiving cities with increased or decreased tax rates from 2012 to 2013 (before the formula reform and appropriation increase) and from 2013 to 2014 (after formula reform and increase).
**Myth:** Cities in Greater Minnesota do not receive a fair share of LGA.

**Fact:** Cities throughout the state, both in Greater Minnesota and the metro area, receive LGA based on the same formula which measures a city’s need and property wealth. Greater Minnesota cities continue to receive the majority of LGA funding, as they have for the 25 years.

![Graph showing LGA: Metro and Greater MN Distribution](chart.png)

**Myth:** LGA was never intended for Minneapolis and St. Paul, and those two cities now receive too much.

**Fact:** The only two cities specifically mentioned in the original 1971 statute are Minneapolis and St. Paul. When the program started, the two cities received more than 40 percent of the LGA appropriation, now they receive 27 percent.

**Myth:** The original intent of LGA was to fund “essential services” that cities couldn’t otherwise pay for.

**Fact:** At no time since the inception of the program has there been a directive as to how LGA dollars are to be spent by cities. In fact, the original formula gave more aid to cities that levied more, which has no relation to just “essential services.”
Economic Development

As a whole, Greater Minnesota is showing promising signs of economic growth.

Like much of the metro area, many communities in Greater Minnesota are experiencing unemployment rates that are lower than the national average. In addition, recent investments — such as TruShrimp’s plan to build a $50 million shrimp production facility in Luverne and Digi-Key’s announcement that it will add 1,000 jobs to its Thief River Falls headquarters over the next decade — indicate that many businesses recognize the benefits Greater Minnesota has to offer.

However, Greater Minnesota still has unique challenges when it comes to economic development. Some areas, particularly the Iron Range and pockets of northern Minnesota, continue to experience higher-than-average unemployment rates. The State Demographer has also found that Greater Minnesota communities are “graying” rapidly, as residents over age 65 begin to constitute a larger segment of the population (see graph at right).

Further, there are specific issues that hamper economic growth in Greater Minnesota to a greater degree than in the metro area. Rural areas still lag far behind the Twin Cities and their suburbs when it comes to access to high-quality broadband and workers in Greater Minnesota have a more difficult time finding housing and child care.

The most common barriers to economic development in Greater Minnesota typically fall under two categories: people or infrastructure. As you will read in this section, additional state investments in people (the workforce) and infrastructure are needed to ensure that families, businesses and communities in Greater Minnesota are able to thrive.
Investments in People: A Strong Workforce = A Strong Greater Minnesota

Career opportunities are growing in many parts of Greater Minnesota. However, even in places where jobs are plentiful, problems still persist. Employers often lament that they struggle to find trained workers needed to fill open positions now, while potential employees are reluctant to take jobs in areas that lack available housing and child care. Small investments in the workforce of Greater Minnesota can spur huge dividends for local economies.

Job Training: Employers Need Skilled Workers Now

In Greater Minnesota, the persistently high job vacancy rate reflects the fact that employers have found it difficult to find trained workers.

The CGMC and its economic development-focused sister organization, the Greater Minnesota Partnership (which consists of Greater Minnesota businesses, economic development agencies, higher education institutions, chambers of commerce and non-profits, as well as cities) have long advocated for an employer-driven job training program that gives employers the flexibility to provide workers with the skills they need to fill open positions quickly and efficiently.

In 2015, the Legislature recognized this need by creating the Job Training Incentive Program (JTIP), which provides grants to employers for a portion of training costs incurred in hiring new employees. Through JTIP, an employer can receive funding to help train employees through the methods that work best for their situation, whether it is an in-house training program; at institutions of higher education; at federal, state or local agencies; or through private training or educational services.

Since its inception, the program has awarded $4.5 million in grants to train an estimated 585 workers – all in Greater Minnesota. With a strong return on the state’s investment, and by utilizing a flexible approach, this program has been effective at training workers who are needed to fill jobs quickly.
Workforce Housing: Lack of Housing Deters Job Seekers

Many communities in Greater Minnesota are home to businesses that provide good wages and are looking to hire now. However, employers frequently run into a roadblock when it comes to trying to hire new employees: there is nowhere for them to live. Most Minnesotans want to work within a short commute from their homes, and Greater Minnesota’s stagnant housing market is causing many would-be employees to pass up job opportunities and preventing communities from growing.

While the need for more affordable housing is a concern in the metro area and some rural areas, affordability is not the biggest obstacle when it comes to obtaining housing in Greater Minnesota. The problem is availability – Greater Minnesota communities simply do not have enough housing stock to accommodate middle-income workers and their families.

Affordable housing programs do little to solve the housing crisis in Greater Minnesota, as many families who need housing earn more than the income restriction for affordable units. The problem is not an issue of low wages or affordability, but rather the overall lack of housing availability. Simply put, the housing market in Greater Minnesota is broken.

Many communities have been trying to encourage the development of more housing, but it continues to be a struggle. Due to a number of issues such as perceived risk, an aversion to raising rents and the lack of comparable properties, investors and developers cannot put together a financing package to ensure housing gets built.

In recent years, the CGMC and GMNP have been exploring legislative solutions to jump-start local housing markets by helping to buy down some of the initial construction costs. The CGMC and GMNP have supported legislation to create a workforce housing tax credit, as well as grant programs such as the Workforce Housing Development Program (Minn. Stat. 462A.39) that focus on increasing housing construction. With only $7 million in state funding, the Workforce Housing Development Program has helped construct 416 new units in Greater Minnesota. However, more work is needed to strengthen and fund programs that can spur more housing development in areas that are ready to grow.

Child Care: Provider Shortage Hurts Economic Growth

Like the lack of workforce housing, the child care shortage is a leading deterrent for families who are considering whether to live and work in Greater Minnesota.

For example, at a recent meeting of stakeholders concerned about the lack of child care in Greater Minnesota, one business owner told a story of a potential new hire who reluctantly declined a job offer after it became apparent that he would not be able to find child care in the community. That potential employee was eager to move his family to Greater Minnesota, but ultimately decided to stay in the Twin Cities, where child care options are more plentiful.
The U.S. Census Bureau estimates that in 2014, 74 percent of Minnesota households with children under age 6 had both parents in the workforce, the third-highest in the nation behind Iowa and South Dakota at 75 percent. At the same time, Minnesota lost more than 36,000 child care slots at home-based child care spaces between 2006-2015. Child care centers have helped fill only some of the need, as shown in this chart:

Many communities in Greater Minnesota have discovered that it is difficult to encourage people to become in-home providers or to find businesses willing to open new child care facilities. There are many reasons businesses and individuals are reluctant to enter the child care field including low wages, high costs to upgrade or construct a facility, skyrocketing health care costs and nuanced regulatory issues.

The large number of job vacancies in Greater Minnesota means that having parents stay home rather than working is not a viable solution for cities and businesses seeking to grow. In fact, many nonworking poor in the United States cite a lack of child care as the reason they are not working (see chart at right).

In 2017, the Greater Minnesota Child Care Grants Program was created to support economic development by expanding child care slots in Greater Minnesota. As a result of a modest appropriation, over 300 new child care slots were created.

In 2018, the CGMC and GMNP advocated for new, bold proposals – such as bonding dollars to construct new child care facilities. A CGMC-supported bill to provide $750,000 in additional funding for the Greater Minnesota Child Care Grants Program was included in the supplemental spending bill; however, the bill containing this provision was vetoed by the Governor. The CGMC and GMNP will continue to support ways to expand child care access in Greater Minnesota going forward.
Investments in Infrastructure: Keeping Greater Minnesota Competitive

While it is undoubtedly the people — business owners, workers and their families — who keep Greater Minnesota’s economy strong, the importance of infrastructure should not be overlooked. Good roads, world-class internet and well-equipped industrial areas are critical to attracting and retaining businesses.

Broadband: Connectivity Is Crucial

High-quality broadband is vital to a rural community’s quality of life, education, economic opportunities, healthcare and agricultural productivity. However, Greater Minnesota continues to lag behind the metro area in broadband access and speeds.

In recent years, some progress has been made in getting more communities and households connected. In 2014, after aggressive advocacy by the CGMC and GMNP, the Legislature created the Border-to-Border Broadband Development Grant Program, which provides a 50 percent match to communities, co-ops, non-profits or private providers who wish to expand high-quality broadband service in “unserved” (no broadband service) or “underserved” (poor service) areas.

The grant program has received $85.5 million in funding since its creation, but that covers only a sliver of the total statewide need, which the Governor’s Task Force on Broadband has estimated to be as high as $1.4 billion.

The grant program was designed to expand broadband access, but a provision pushed by the major telecomm companies and enacted in 2017 could thwart those efforts. The provision allows incumbent providers (typically large corporations) to “challenge” whether a grant can be awarded to a new provider. This “challenge process” discourages competition and gives an inordinate amount of power to existing providers who have thus far failed to provide adequate service.

Moreover, big internet providers have often sought to direct grant funds to sparsely populated areas in order to discourage funds from spurring competition within their service territories (which would encourage upgrades and decrease prices).

The CGMC and GMNP have advocated for all rural areas to have access to world-class broadband. If a city lacks quality high-speed broadband, its entire region suffers. Therefore, the challenge process and limitations on funding for underserved areas diminish the return on the state’s investment and prevents economic growth in Greater Minnesota.
BDPI Grant Program: Helping Provide the Public Infrastructure Vital to Private Growth

Since its creation in 2002, the Greater Minnesota Business Development Public Infrastructure (BDPI) Grant Program has helped hundreds of cities attract new businesses and expand existing ones. Under the program, cities and counties in Greater Minnesota can receive grants of up to 50 percent of the capital costs for the public infrastructure, such as sewer and roads, necessary for private business growth.

Since 2003, the state has awarded more than $57.8 million in grants to 194 cities and counties, creating more than 2,214 jobs and retaining more than 8,851 jobs.

These investments have real-world impacts. For example, the city of Owatonna recently received a grant for $421,447 to expand infrastructure to Daikin Applied, resulting in creation of 40 new jobs. In Detroit Lakes, the city received $92,100 for streets to support 20 new jobs at BTD Manufacturing. And in Elk River, $290,997 was awarded to expand an industrial park, creating 45 jobs.

In 2017-18, the Legislature funded the BDPI program at $17 million in bonding. The program will also receive $2.6 million from the general fund in the 2018-19 biennium and $3.57 million in the 2020-21 biennium.

How have BDPI grants been used across the state?

- **Hibbing**: $158,987
- **Ely**: $200,000
- **Melrose**: $1,000,000
- **Two Harbors**: $241,054
- **Chatfield**: $177,103
- **Spring Grove**: $417,000
- **Claremont**: $500,000
- **Marshall**: $2,000,000
- **Stewart**: $501,075
- **Howard Lake**: $208,600
- **Arlington**: $66,275
- **Faribault**: $843,957
- **Owatonna**: $400,000

Prepared by Flaherty & Hood, P.A. for the Coalition of Greater Minnesota Cities.
Transportation

The CGMC has always supported a comprehensive transportation system. State funding sources, including new state revenues, should be distributed equitably to meet the transportation needs of Greater Minnesota and the metro area.

Current Transportation Funding Landscape

Transportation funding in Minnesota is at a crossroads. For years, the sales tax on motor vehicle fuel has been the primary mechanism for financing the construction and maintenance of the state’s transportation infrastructure. This is based on a simple bargain: by funding our transportation system using a portion of what drivers pay at the gas pump, the same people who use the roads will be the ones to provide most of the funds that support them.

However, as cars and trucks have become more fuel efficient, drivers are traveling more miles and filling up their tanks less. As a result, revenues from the gas tax have not kept pace with need. Meanwhile, inflation and market factors have driven up the cost of road construction and maintenance. Moreover, Minnesota’s road system is particularly extensive. According to the U.S. Department of Transportation, Minnesota has the fifth-most lane miles of any state road system. The combination of these factors has meant that revenue from existing transportation funding sources lags far behind our system’s needs.

Highway Funding: Nuts and Bolts

Minnesota’s Constitution establishes a public highway system, dedicates certain funding sources to that system, and provides a formula for distribution of that funding. Funding sources that are constitutionally dedicated to transportation include transportation-related taxes and fees such as the gas tax, tab/registration fees and the sales tax on motor vehicles. Once those revenues are collected by the state, they are apportioned and deposited into the accounts specified by the formula.

Since 2012, the debate over funding for Minnesota’s transportation infrastructure has centered around the findings of the Transportation Finance Advisory Committee (TFAC). TFAC was assembled by Governor Mark Dayton to develop recommendations for transportation funding and assess Minnesota’s transportation needs. TFAC found that our state faces $21.2 billion to $54.6 billion in unmet, system-wide transportation needs over the next 20 years. Later, the 2015-16 Legislature reached bipartisan agreement that the state’s highway and road system needs an additional $600 million per year just to keep pace with maintenance and repair needs. That said, until 2017 the Legislature continued to come up short on the passage of large, transportation funding bills.
2017-18 Transportation Funding Legislation

After years of failed attempts to pass a significant transportation bill, the 2017 Legislature passed a bill that provides additional funding for transportation by issuing trunk highway bonds and re-directing proceeds from certain revenue sources that were previously deposited in the General Fund. In particular, the Legislature searched for transportation-related tax revenues that could be re-dedicated to transportation spending. The Legislature declined to raise new revenues for transportation, such as a gas tax increase or higher tab/registration fees. The one exception is an increase of $75 per year in registration fees for all-electric vehicles, designed to capture revenue from drivers who pay no gas tax at all. However, this new funding source is not expected to raise significant dollars in the near future.

### General Fund Resources Redirected to HUTDF

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<th>2019</th>
<th>2020</th>
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<td>Amount of increase</td>
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While the passage of a large transportation bill was a positive development, the 2017 bill falls short of providing sufficient funding for Greater Minnesota priorities such as city street funding. The bill is — at best — a four-year plan for transportation funding.
CGMC Transportation Priorities

Statewide/Balanced Funding

The CGMC believes any transportation funding increases must be balanced to address the needs of the entire state. We support a comprehensive transportation package that includes long-term, dedicated funding for Corridors of Commerce and funds for city streets outside the constitutional formula.

City Streets

Cities of all sizes face aging, deteriorating streets. With the cost of street maintenance rising more quickly than city revenue sources, cities have been unable to keep up with necessary street expenses. Cities under 5,000 in population receive no constitutionally dedicated funding for streets at all. Cities with populations of more than 5,000 receive constitutionally dedicated Municipal Street Aid (MSA) for some of their streets. Increasingly, however, those funds are needed for cost participation expenses in state and county highway projects within cities, meaning less funding for the routine maintenance of other city streets.

Recognizing these challenges, the CGMC has advocated for appropriating $25 million per year to city streets in cities with populations greater than 5,000 and $25 million per year to cities with populations under 5,000.

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<th>City Streets Funding in 2017 Transportation Bill</th>
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<tr>
<td>City Size</td>
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<tr>
<td>Under 5,000 (pop.)</td>
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<td>More than 5,000 (pop.)</td>
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Cities under 5,000 in population

To address the unique challenges faced by small cities, the 2015 Legislature created the Small Cities Assistance Program. The program was initially funded with a one-time appropriation of $12.5 million.

The 2017 transportation bill includes $8 million per year for small-city streets, but only for 2018 and 2019. This amount will be parceled out to 705 cities, meaning this extra funding will help pay for basic maintenance like crack filing and seal coating, but it is not enough to make a real impact. Moreover, cities need funding they can count on in order to engage long-term planning for their roads.

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<th>Small Cities Assistance Program Funding</th>
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<td>Funding</td>
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Cities over 5,000 in population

Cities with populations greater than 5,000 receive MSA funding for some of their city streets, but those funds are increasingly being diverted to pay for cost participation in state and county projects. Moreover, the Minnesota Constitution limits eligibility for MSA dollars to up to 20 percent of the streets in these cities, meaning the rest are funded by special assessments and local property taxpayers. While the redirection of general fund dollars through the HUTDF formula will result in small funding increases to these cities, the 2017-18 Legislature did not otherwise address additional, sustainable funding for city streets in cities over 5,000 in population.
Corridors of Commerce

Created in 2013, Corridors of Commerce is a transportation funding program that aims to increase capacity and reduce bottlenecks on Minnesota’s interregional corridors. In Greater Minnesota, this program has been a vitally important tool for funding expansions and safety improvements on dangerous and inefficient two-lane connections between regional centers.

Because Corridors of Commerce is a pooled investment program, expenditures in right-of-way acquisition, environmental studies and design/engineering are not bondable. Therefore, CGMC lobbies for both trunk highway bonds and cash appropriations for Corridors of Commerce.

Project Selection Criteria

From the program's creation through 2016, MnDOT had broad discretion in awarding Corridors of Commerce dollars. In 2017, the Legislature made changes to the project selection process that require MnDOT to follow a set of specific criteria and metrics when it awards Corridors of Commerce program dollars. The result is a process in which MnDOT is required to fund the top-scoring projects that fit within the funding appropriated by the Legislature. The 2017 Legislature also added a requirement that MnDOT consider “regional balance” when it selects Corridors of Commerce projects, but these criteria remained undefined. MnDOT decided to use the boundaries of the agency’s own “metro district” as the metro area and define Greater Minnesota as everything beyond those boundaries.

On May 1, 2018, MnDOT unveiled the first round of Corridors of Commerce projects selected under the new criteria. The two highest-scoring Greater Minnesota projects were both located near the metro area, just outside the boundaries of MnDOT’s metro district. When taken together with the two highest-scoring metro projects, this meant that all $400 million available under the Corridors of Commerce program would be spent within 40 miles of downtown Minneapolis.

The CGMC was extremely disappointed with this result and worked with the Legislature and MnDOT to find solutions to better distribute funding. At the conclusion of the 2018 session, the Legislature passed, and Gov. Dayton signed, a bonding bill that included another $300 million in trunk highway bonds for Corridors of Commerce with accompanying language that directs those funds to the two next-highest scoring Greater Minnesota projects (2 to 4-lane expansion of Highways 14 and 23) and one additional metro-area project (Hwy 252).

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Corridors of Commerce
Greater Minnesota

*Highway 14 from Owatonna to Dodge Center has projects from both 2015 and 2018.

View Twin Cities metro area map for project details.
Transportation Economic Development (TED) Program

The TED program is a competitive grant program to communities for highway improvement and public infrastructure projects that create jobs and support economic development. The program is administered as a collaboration between MnDOT and DEED. Since its creation in 2011, the program has awarded more than $100 million in grants. The CGMC supports adequate funding of the TED program, distributed equitably between Greater Minnesota and the metro area.

Local Road Improvement Program/Local Bridge Replacement and Rehabilitation Program

These programs were formed to help local governments pay for the construction and reconstruction of local roads and bridges. The programs are funded with general obligation bonds. The CGMC supports adequate funding of these programs and equitable distribution of dollars to Greater Minnesota and the metro area.

The Legislature passed two bonding bills in the 2017-18 biennium, which included more than $194 million for the Local Road Improvement Program. Of that amount, more than $134 million was earmarked for specific projects, leaving just $60.5 million to be awarded to local governments through a competitive grant process. Nearly all of those earmarks were for projects in the metro area.

For the local bridge program, the combined total in the 2017-18 budget and bonding bills was $79 million.

Debate Over New, Constitutionally Dedicated Funding

The CGMC has a longstanding opposition to any efforts to use the State Constitution as a budgeting tool. Historically, this has included opposing any efforts to use the Constitution to re-dedicate existing General Fund revenue sources to transportation. Dedication of certain revenues through the Constitution ties the hands of policymakers and puts other vital state programs at risk.
Environment and Energy

Cities in Greater Minnesota are responsible for ensuring that their citizens have clean drinking water and that wastewater is properly treated before it reaches rivers, streams and lakes. City officials take pride in their role as stewards of Minnesota’s waters, but many worry that complying with regulations is becoming unaffordable for their residents and businesses.

Water Quality Standards and Regulations

Cities are subject to a variety of state and federal environmental regulations. Almost all CGMC cities, themselves or jointly with other cities, operate wastewater treatment facilities (WWTFs). To operate a WWTF, a city must obtain a permit, known as an NPDES permit, from the Minnesota Pollution Control Agency (MPCA). These permits contain limits on the amounts of chemicals, nutrients and other particles that can be discharged. The limits are based on water-quality standards that have been adopted by the MPCA and approved by the Federal Environmental Protection Agency (EPA).

Over the last 15 years, Minnesota has made significant progress in improving its water quality, due largely to advances in removing pollutants from point sources, which consist mainly of wastewater and industrial discharge. There is still room for improvement, but the biggest opportunity — and the biggest challenge — lies in decreasing pollution from non-point sources, which includes runoff from agricultural fields and feedlots, failing septic systems, straight pipe discharges, farm field tile drainage, and bluff and streambank erosion.

For example, in the Mississippi River basin, NPDES permitted dischargers (which includes cities and industries) are responsible for only 18 percent of the phosphorus load and 9 percent of the nitrogen load under average conditions. In the Lake Winnipeg basin in northwestern Minnesota, NPDES permitted dischargers are responsible for 11 percent of the phosphorus load and 6 percent of nitrogen load (source: Minnesota Nutrient Reduction Strategy, September 2014).

One challenge that cities face is that the MPCA and EPA do not currently have authority to regulate and set discharge limits on non-point sources. As a result, when a new contaminant emerges or additional limits must be set on a known pollutant, municipal WWTFs bear the brunt of new regulations even though they often represent a small fraction of the total pollution.

Greater MN Cities Face Expensive Upgrades

Looking out over the next decade, the costs of water infrastructure in Minnesota are staggering. Part of the cost stems from aging systems: wastewater facilities, drinking water systems and sewer lines that may be 100 years old or more that will need to be upgraded or replaced. The other significant cost driver is the growing number of regulatory initiatives from the
MPCA and EPA, including recently adopted riverine nutrient standards, changes to anti-degradation laws, new or amended standards for chloride, mercury, sulfate in wild rice waters, nitrogen, creation of the tiered aquatic life use model and more. The MPCA continues to monitor for additional pollutants, which in turn can result in more regulatory changes and expensive upgrades.

After the Clean Water Act was enacted, the federal government helped pay for much of the initial wastewater treatment infrastructure in Minnesota. However, that funding has largely dried up. Metro-area cities have an advantage because the Metropolitan Council centralizes much of the wastewater services, offering enormous economies of scale. Although some Greater Minnesota cities are able to combine efforts, few can approach the same size and scale. This means the costs are spread over a much smaller rate base. It costs millions or even tens of millions to upgrade or replace a facility — and that does not include ongoing operations costs.

With every new initiative, compliance becomes more and more expensive. When multiplied across the state, the impending infrastructure bill is daunting. State agencies estimate that Minnesota faces nearly $5 billion in wastewater infrastructure costs over the next 20 years. This estimate does not include operation costs or the estimated $7.4 billion in needed upgrades for drinking water facilities.

A recent study commissioned by the Minnesota Legislature dove deep into estimated future costs for 15 cities. The study found that for the cities requiring upgrades, residents could see an increase of 33 percent to 226 percent in user costs annually to meet current standards and 40 percent to 257 percent annually to meet future standards. (This study is available online at bit.ly/2z5bJCR)

Given these staggering costs, it is essential that the state get the science right and craft regulatory solutions aimed at addressing water quality problems in the most cost-effective manner. The CGMC’s multi-pronged environmental approach is designed to address those challenges:

- Infrastructure investment
- Cost-effective resource deployment
- Regulatory reform

Infrastructure Investment: State Financial Assistance for Unfunded Mandates

Over the last two years, the Governor and Legislature have recognized that the investment in water infrastructure must increase significantly and that the state needs to pick up a larger share of the costs of these unfunded mandates. The 2017 bonding bill included $116.9 million for three key water infrastructure grant and loan programs: Point Source Implementation Grant Program (PSIG), Water Infrastructure Fund (WIF) and state matching funds for USEPA Capitalization Grants. The 2018 bonding bill included $98 million for these three programs and an additional $25 million in grants to individual communities. Both bonding bills also included important policy changes.

This investment in clean water infrastructure had strong bipartisan support, but it did not fully cover the needs of the state. Moving forward, the Legislature and our next governor must commit to making a larger investment this biennium and over the next several biennia to modernize Minnesota’s water infrastructure statewide.

Investing in these programs is not enough to ease the increasing burden on Greater Minnesota communities, however. Numerous cities that receive the maximum grants and loans available under current programs still see their water rates skyrocket. In 2018, the CGMC proposed a supplemental grant program that would provide additional funding so that local governments would either pay no more than 50 percent of the cost of additional treatment or receive sufficient funds so that the annual cost for wastewater is no more than twice the annual cost of treatment in the Twin Cities metro area. The CGMC urges the Legislature and our next governor to support supplemental funding for wastewater so that residents and businesses in all parts of the state have the same access to clean water at an affordable cost.

Cost-Effective Resource Deployment: Shifting the Regulatory Paradigm

As Minnesotans, we all agree that we should work together to protect and improve Minnesota’s water quality. Yet our current regulatory practices do not examine whether we are spending our limited financial resources on the most effective solutions. Any plan for moving forward must look beyond a siloed approach that focuses on expensive incremental improvements at wastewater facilities to a collaborative approach that incorporates reductions by all sources and includes trading.

The CGMC believes we should begin a process that brings together and engages municipal stakeholders, agricultural interests, environmental groups and relevant agencies to assess and plan the most cost-effective method for improving and protecting water quality. A comprehensive plan would likely include point-to-point and point-to-nonpoint trading, a process in which a regulated entity, such as a wastewater treatment facility, pays to have another party take action to slow or stop the flow of pollution in a less expensive way, such as paying for wetland restoration or conservation tillage.
Regulatory Reform: Limited Resources Require Effective Regulations

Over the last several years, the CGMC has pushed for regulatory reform at the Legislature. For example, the CGMC pushed to ensure that expensive new regulations and certain permits undergo independent scientific peer review that includes opportunity for public comment. In 2017, the MPCA recognized this need when Commissioner John Linc Stine issued a directive regarding the agency's peer review process. The directive implemented several features that the CGMC had advocated for, such as greater independence for the reviewers, but we are concerned that these changes will be ignored unless they are formally enacted through a rule or state statute.

The CGMC is also concerned about the MPCA’s practice of relying on guidance documents, which have not gone through the rulemaking process, when implementing water quality standards. Minnesota's rulemaking process allows for public comment so that rules can be tested and examined before they are enforced. This open, public process helps ensure that rules are reasonable, grounded in good science, predictable and within the MPCA’s legal authority to regulate. Recently, as it implemented a new water quality standard, the MPCA relied on a “guidance document” that did not go through public rulemaking. As a result, the implementation has been far more restrictive than what was initially communicated to the public and beyond what the plain language of the rule supports. This has resulted in proposed permit limits that are more restrictive than they should be. When permits are stricter than necessary, cities and the state may be forced to spend money on upgrades that do not improve water quality — money that could be used elsewhere for actual water quality improvement.

The CGMC also advocates for strengthening court review of whether MPCA experts provide specific and meaningful responses to the substance of scientifically supported objections to proposed technical regulations made during a public rulemaking process. Currently, judges defer to the MPCA on scientific issues and focus their inquiry on whether the process has been properly followed. They do not inquire into whether the MPCA has adequately responded to objective evidence that agency rules are contrary to law or peer reviewed science.
Annexation and Land Use

Most Minnesotans agree on the importance of protecting agricultural land and open spaces and spending limited taxpayer resources wisely. Current state annexation and land use policy (Minnesota Boundary Adjustments statute, Legislative Findings, Minn. Stat. 414.01) recognizes that the best way to accomplish those goals is by ensuring that urban development occurs in cities and that agricultural land and open spaces are preserved in townships.

These priorities make sense. We all support Minnesota’s economic growth, but we have seen what can happen if population growth happens outside of city limits: open space and valuable farmland can be destroyed; rural septic systems break down and pollute the state’s waters; taxpayers foot the bill for expensive retrofits of roads, water and wastewater; and city property owners pay for services that those living outside the city limits use. That is why the CGMC advocates for sound annexation and land use laws.

Annexation Process Basics

Annexation is the process used to bring property outside municipal boundaries into a city. It protects farmland and open space, prevents pollution and ensures that landowners help pay for the services they receive.

There are three ways that land can be annexed into a city. Automatic annexations (known as annexation by ordinance) may be accomplished without an expensive hearing by a city under specific circumstances, such as when a property owner petitions for annexation or a city completely surrounds a township area. Such proceedings still require notice and public hearings. Cities and townships can also negotiate an annexation agreement. If they are unable to reach an agreement, state law provides for contested-case hearing annexations in which an administrative law judge decides based on statutory criteria.

Keeping Property Taxes in Check by Streamlining the Annexation Process

The time to build the infrastructure needed for economic development, such as sewers, water systems and roads, is before new housing or a new industrial park has been built, not afterward when it is much more expensive. The CGMC supports annexation laws that prevent wasteful spending of taxpayer dollars by requiring that proposed urban development is annexed into city limits before development occurs.

Reduce Water Pollution and Hold the Line on Infrastructure Costs through Annexation

As mentioned in the previous “Environment and Energy” section, Minnesota is facing a water infrastructure crisis, with billions of dollars needed to upgrade and replace wastewater and drinking water throughout the state. To keep those infrastructure costs from skyrocketing even more and to prevent the proliferation of septic systems that can pollute ground water, residential and industrial development should occur within city limits where the infrastructure connections can be made in the most cost-effective manner. Annexation laws should make it easier, not harder, to bring industrial, commercial and residential development within city limits.

One Community, Not Competing Interests

Cities and their surrounding townships are one community. They should not fight each other for economic development. Open space and agricultural land should be preserved in our townships. Economic development should be planned and constructed within city limits. This “one community” approach through good land use and annexation policies is the best way for Minnesota to grow.