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Capitol Link

State Legislative Session Begins

****Register now for ICBM's Day at the Capitol on January 19.***

The 90th Session of the Minnesota State Legislature got underway yesterday, marked with mostly ceremonial tasks and votes to elect officers, approve postage, etc.

Budget

The state's budget will drive all spending decisions, of course. The November Budget Forecast had good and bad news. The good news is that the current biennium, which will end June 30, 2017, is projected to end with a \$1.012 billion projected surplus. Reduce that amount for funds previously dedicated to the state's "Rainy Day Fund," and \$658 million remains. The good news also includes that looking ahead, the surplus is expected to increase from \$1.012 to \$1.4 billion.

While the current forecast looks good, it projects a smaller surplus than last February's forecast.

The firm that works with Minnesota Management and Budget to create these forecasts has become less optimistic about the economy. The two main items leading to a more conservative forecast are slower economic growth assumptions and the uncertainty caused by the election of Donald Trump.

Governor's Budget

All state agencies provided the Governor's staff with their budget and policy requests late last Fall. Governor Dayton has been reviewing those requests for months. His budget proposal will be based on the November forecast numbers and amended next March as necessary to account for changes in the February 2017 forecast. Dayton is expected to release his budget later this month.

Proposed Funding Increase for Bank Examiners

The Minnesota Department of Commerce has asked for Governor Dayton to approve a "significant revenue increase" to stem the tide of young state examiners moving on to work for federal agencies, since they provide significantly higher salaries. The Governor has not yet acted on this request, but it's a very serious issue, since such a huge percentage of Minnesota Department of Commerce staff in the banking division are at (or very near) retirement. If Minnesota were

David Skilbred
VP of Government Relations
ICBM

dskilbred@icbm.org
(651) 789-3983

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to lack enough examiners to oversee state-chartered banks, the state has indicated it would be very likely that federal bank regulators would step in and take over that regulatory responsibility.

Taxes

The House Tax Committee scheduled its first hearing for Thursday, January 5. The agenda involves reviewing federal conformity issues. The Senate Tax Committee will likely have a similar meeting next week.

After reviews like this are completed, tax discussions will revert to the 2016 Tax Bill vetoed by the Governor. Members will be looking for things to keep and things to discard. Then they will move on to new tax proposals.

Corporate Tax Rate Reduction

Some business groups are expected to propose a reduction in the corporate tax rate. Those advocates contend Minnesota has the second-highest tax rate in the nation. If passed, and depending on the size of the decrease, some S-corporation banks might seriously consider converting, since their rate is already one percent higher.

Individual Tax Rate Reduction

Adjusting the individual tax rate is another possible proposal. According to the Center of the American Experiment, Minnesota's individual income tax rate is now the third highest in the nation. Perhaps more importantly, Minnesota's top rate for filers is set at a much lower dollar amount than in other states. Minnesota's top rate of 9.85 percent kicks in at \$155,650 for individuals and \$259,429 for joint filers. While California is known for having the highest income tax rate, their highest rate doesn't kick in until \$263,223 for single filers and \$526,444 for joint filers.

Dayton would never allow his fourth tax tier to be repealed, but under some political circumstances, he might consider raising the dollar amount needed to reach the fourth tier. The possibility really is dependent on how much revenue would be lost.

Section 179 Expensing

Another tax proposal that has been around for some time, but might be considered again this Legislative Session, is to conform to Federal Tax Law Section 179 in relation to expensing. Minnesota did so through 2005, but hasn't since. The result is that the maximum deduction at the federal level has grown to \$500,000, with a phase-out starting at \$2 million. Minnesota's maximum deduction is only \$25,000, with a phase-out starting at \$200,000.

This issue hasn't been significant for some years, since the nation has been in a climate of declining interest rates. As a nation, we now enter a trend of rising interest rates, this becomes more important, because immediate tax benefits from expensing, rather than delayed benefits from depreciation, would allow additional cash that is received to be put to work immediately and gain value as rates rise.

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Governor's Top Priorities

Reducing healthcare premiums for those in the individual market, a tax bill, and a bonding bill to pay for the upkeep of public buildings, are the three top priorities for Governor Dayton, and likely all other caucuses. The Governor released his proposed bonding bill today (January 4), which calls for \$1.4 billion in projects. Historically speaking, this would be a very large bonding bill. Republicans will undoubtedly say it's too big.

Health Insurance Subsidies

Minnesotans obtaining health insurance through the individual market have been notified of some staggering premium increases for 2017. A special session was talked about as late as last December to help these individuals--perhaps via the state subsidizing 25 percent of their premiums. Republicans support providing assistance, but want reform as well. December negotiations not only collapsed, but a public spat between Governor Dayton and House Speaker Kurt Daudt ended on a sour note, leading Dayton to predict a "polarizing session."

Long-Term Transportation Funding

Transportation funding is an issue nearly every lawmaker the past two years has said was needed, but obtaining a compromise has been beyond the Legislature's reach. ICBM members who attended the 2016 Day at the Capitol learned how Dayton's transportation funding proposal came to be and the root of its controversy: A 16-cent-per-gallon gas tax increase.

Governor Dayton's Other Priorities

Cities across the country have been passing ordinances setting new minimum wage standards and paid parental leave. The Lieutenant Governor recently announced Minnesota will begin offering paid parental leave for state employees. Watch for Democrats to push this in the Legislature and use it as a wedge issue. Current law provides employees with 12 weeks of parental leave, but it is unpaid.

Other proposals the Governor said he favors include: Free, statewide voluntary pre-kindergarten for all children and more efforts by the state to conserve and improve Minnesota's water quality.

Committee Membership Changes

Because of the new Republican Senate Majority and several new members in the Minnesota House, committee leadership and membership have several significant changes, particularly in the Senate.

One big change is that Sen. Roger Chamberlain, R-Lino Lakes, is the new Senate Tax Chair. ICBM met with Chamberlain recently. He is very well versed in finance from his work at Thrivent Financial. He's also very aware of the significant demographic changes on the horizon and the impact those changes will have on the state's workforce and budget. ICBM left the meeting with the impression that Chamberlain's focus will be on long-term strategies that respond to these issues.

For information on legislative committees, including membership,

please visit the following links.

- [House](#)
- [Senate](#)

*Note: The next edition of *CapitolLink* will discuss ICBM's Legislative Priorities for the current session.

Register Now for Day at the Capitol

[Register](#) now for ICBM's [Day at the Capitol](#) on January 19.

The annual Day at the Capitol gives ICBM members the opportunity to hear from and speak with representatives at all levels of state government.

The day's activities will begin and end at The Saint Paul Hotel.

Information on hotel reservations for the event can be found [here](#).

Legislative or political questions? Contact David Skilbred, ICBM Vice President of Government Relations, at dskilbred@icbm.org or 651-789-3983.

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We want to hear from you!

Do you know of any banking news happening in your region? Let us know. Email Joel Runck at jrunck@icbm.org or call 651-789-3988.