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Capitol Link

Legislative Update

The last two weeks have been dedicated to passing budget and tax proposals off the floors of the House and Senate. The goal is to pass all funding and tax bills by the end of this week.

Legislators will take their spring break from April 10-14. Once work begins again on April 17, the conference committee process will be the main focus, interrupted occasionally by discussions and votes on policy bills being heard on the House and Senate floors.

Here are the top issues and priority positions ICBM took when the 2017 session began:

1. Amend the residency (domicile) law so that people living out of state may maintain and open accounts with Minnesota banks without the location of the banks being considered when determining residency for state income tax purposes.
2. Reduce the state general property tax levy on business property and repeal its automatic escalator.
3. Repeal Minnesota's estate tax or conform to federal estate tax laws.
4. Pass the proposals recommended by the Minnesota Farmer-Lender Mediation Task Force.

All of these four priorities are in play at this time!

Farmer-Lender Mediation Act (FLMA)

The Minnesota Legislature is on the brink of making history by amending the Farmer-Lender Mediation Act (FLMA). Except for changing the sunset date, this law hasn't been amended since it passed in 1986.

House Farmer-Lender Mediation (FLM) Bill

The House debated and passed its Omnibus Ag Bill (House File (HF) 1717) on April 5 with a strong majority. Language from HF1511, making changes to the mediation law, is included in HF1717. Both bills are authored by Rep. Paul Anderson, R-Starbuck.

One of the changes proposed is to raise the minimum amount of debt in default, which requires lenders to offer farmers mediation. HF1717

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proposes that minimum amount of debt be increased from \$5,000 to \$15,000. ICBM wanted a higher threshold, but the task force would not consent, and it would likely have caused Governor Dayton to veto the bill.

Before the floor vote on April 5, Rep. David Bly, DFL-Northfield, offered a floor amendment proposing to reduce the change from \$15,000 to \$10,000. The amendment failed 57-75. When the bill was heard in committee a few weeks ago, Rep. Bly offered a similar amendment, which proposed to reduce the trigger of \$15,000 back to the amount in current law, namely \$5,000. Rep. Anderson objected. ICBM testified against the Bly amendment and was the only association to do so. The Bly amendment failed in committee 7-7.

Senate Bill

The Senate companion to HF1511 died due to several realities out of ICBM's control. One was that a key senator ended up in the hospital. But even though the Senate bill is dead, the mediation changes can still become law if the Senate Omnibus Ag Bill conferees accept the House position on these changes during the conference committee.

ICBM has met with the author of the Senate's Omnibus Ag Policy Bill, Senate Ag. Policy Committee Chair Bill Weber, Luverne, and requested that he accept the House position. His response was he would do just that. If you are Senator Weber's constituent, try contacting him next week when he is home on break and thank him for his commitment to do so.

Background

If not for ICBM, the 2016 Farmer-Lender Task Force would not have been considered, and their recommendations would not be in position to pass this session. The Task Force idea evolved from a discussion ICBM had with Rep. Anderson prior to the 2016 session. He authored the 2016 bill creating the task force.

ICBM's appointee to the task force was Scott Wakefield and he did an excellent job representing community bankers.

Finally, Rep. Paul Anderson, R-Starbuck, has been the champion for this cause and without his leadership, none of the forward movement on this issue would have happened.

If these recommendations become law, it is nothing short of historic and ICBM can be very proud of its role!

Taxes

Both House and Senate Republican caucuses have made tax relief their top priorities. The Senate dedicates \$900 million and the House \$1.35 billion. In comparison, the Governor proposes \$300 million.

The facts are Republicans will need to scale back their tax relief measures drastically if they are to get Governor Dayton's signature on this bill and other bills which contain funding. Likewise, the Governor will need to increase his amount dedicated towards tax relief. After the

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anticipated vetoes, new targets will be set and Republicans will need to put some of that new funding in areas of government the Governor supports.

A Tale of Two Sessions

This session has two parts. The first will end when the tax bill and many funding bills come out of conference committee and are vetoed by Governor Dayton. Part two will then begin with new spending targets and substantially different tax and funding bills being sent to the Governor. If that second part doesn't produce compromises between the Governor and Republican legislators, a special session is likely. A government shutdown is unlikely. With Republicans controlling both the House and Senate, they would receive the majority of blame. They don't want that because it jeopardizes keeping their majority in the House during the 2018 election.

ICBM's Tax Priorities

Anticipating a smaller tax bill, the good news is three of ICBM's tax related priorities are in both bills, making it less likely they will be cast aside when Republicans begin scaling back their bills as they move closer to the governor. Those three include:

1. Domicile - For income tax purposes and proving residency, the location of a bank where an individual opened or maintains an account, cannot be considered by the Minnesota Department of Revenue or a court in determining where the individual lives. If you live in Florida and this passes, reopen your Minnesota accounts.
2. Estate Taxes - Both bills conform to Federal guidelines, but the House bill conforms more quickly.
3. State General Levy Property Tax - The Senate bill excludes the first \$100,000 of market value from the state general levy property tax and freezes the automatic inflator. The House bill exempts the first \$200,000 and freezes the rate at the 2017 level.

First Time Homebuyer Accounts

A proposal not included in ICBM's 2017 platform, but one ICBM can strongly support, is a proposal to create First Time Homebuyer Accounts. Both tax bills authorize an individual or couple to establish such accounts with any bank. Depositors would receive a subtraction based on deposits to the account for purposes of determining Minnesota taxable income.

The Commissioner of the Minnesota Department of Revenue is required to establish a process for account holders to notify the state of the account and of transfers to and from the account.

***Financial institutions are not required to take any action or ensure compliance by account holders or beneficiaries!**

Feeder Lien Modifications--Dead

Referring to it as "technical," the Minnesota Grain and Feed Association tried to pass a bill which proposed huge changes in laws governing the

security interests related to livestock and feeder liens.

Their proposal eliminated the existing Livestock Production Input and Temporary Livestock Production Input liens and modified the existing Feeder's Lien such that it covered all three liens. The effect would be to give feeders priority lien status over any other security interests. Furthermore, they proposed repealing the law requiring feeders to notify lenders if they provide feed to livestock, until 60 days after the last delivery of feed. You can see the consequences.

ICBM testified in opposition to the bill, focusing on the dramatic and negative consequences this would have on lending to livestock producers or those using livestock as collateral. Paraphrasing a member's comment on this bill my statement included: "If passed, this would stop all lending related to livestock."

The author laid the bill on the table and after that it was dead in the House. The Senate author had also been told it was a "technical change" in response to the court case of *First National Bank v. Profit Park*. After learning how controversial the matter was, he promised not to hear the bill in the Senate.

Reminder: Reporting "Debt" when completing Farmer-Lender Mediation Notice

In 2009, ICBM successfully proposed a change to one of the forms lenders use to initiate the mediation process. The change requires creditors/lenders to report the amount of debt which initiates mediation. When doing so, please make sure you report "the actual principle owed" at the time of completing that form. Some lenders have only reported the total amount of past due payments. This information is used when considering what amount of debt in default should require lenders to offer mediation.

Identity Theft via Skimmers

ICBM was part of a coalition including lenders, retailers, and law enforcement supporting a bill making it a felony when caught attaching a skimmer to an ATM, gas pump, or other type of machine that can complete financial transactions. The bill makes it a gross misdemeanor if caught removing a skimmer.

That bill is now part of the House Omnibus Public Safety Bill, authored by Rep. Tony Cornish, R-Vernon Center. The original bill was authored by Rep. Bob Loonan, R-Shakopee. The Senate's bill is dead again due to realities outside ICBM's control. ICBM is hoping, however, the House language can be adopted by the Senate conferees when the bill goes to conference committee.

Skimmers are increasingly being used by criminals, primarily at ATMs with little oversight, and at gas pumps. Those used for gas pumps are normally placed inside the pump, out of view, and some can collect about 2,000 accounts. That collected account information can be downloaded using Bluetooth technology--allowing the criminal to get the account information without even setting foot on the gas station's property.

ATM skimmers were once limited to a surface-mounted device attached to the card reader. According to the Executive Director of a best practices committee comprised of law enforcement, lenders, and retailers, three other options now exist. Just like modern skimmers can be placed inside a gas pump, newer skimmers can be placed inside an ATM using a pen-like device to read the magnetic stripe. The ATM can also have a line tap to intercept data. A deep skimmer can be placed inside the card reader slot without being noticed because it is razor thin.

On occasion the media will report that an entire ATM has been stolen. According to some law enforcement that specializes in fraud, these thefts are not primarily for the money inside. Rather, thieves take the machine apart to learn more about how it works so they might discover new ways to steal account information.

RFA Gets New Funding

HF14 has been passed and signed into law by the governor. Now referred to as Chapter 10, it authorizes the Rural Finance Authority (RFA) to sell \$35 million in bonds to make Ag loans in collaboration with Minnesota's community banks. This authority was supposed to be approved last year as part of the Bonding Bill, but that bill didn't pass.

According to RFA staff, the RFA has made 2,883 loans, providing \$215 million in funding since created in 1986. Only 20 loans have defaulted and total financial losses are \$500,000.

ICBM testified in support of the bill's authorization and bond sale. ICBM also noted that RFA staff have a very good reputation among ICBM's members. ICBM added that the very low loan losses are due in large part because of the very careful underwriting done by Minnesota's community bankers.

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