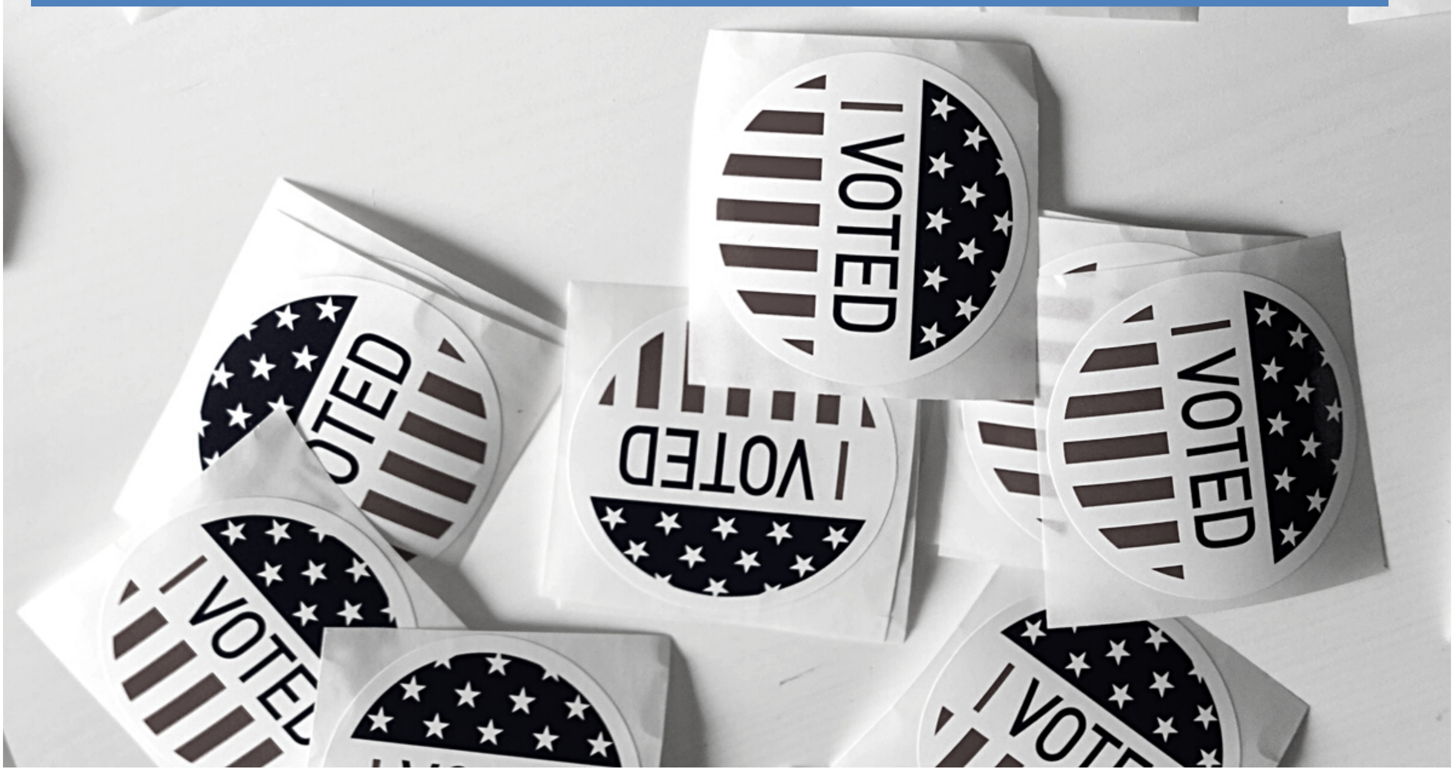
ELECTION 2022

GREATER MINNESOTA'S TOP ISSUES



PREPARED BY

COALITION OF GREATER MN CITIES

ELECTION 2022: GREATER MINNESOTA'S TOP ISSUES

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About the Coalition of Greater Minnesota Cities

The Coalition of Greater Minnesota Cities (CGMC) is a non-profit, non-partisan advocacy organization comprised of more than 100 cities located outside of the Twin Cities metropolitan area. For 40 years, the CGMC has united Greater Minnesota cities with similar concerns to help them achieve common goals.

The purpose of this informational guide 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 robust economic growth and good local government. The CGMC works on the following issues on behalf of its members:

- Local Government Aid (LGA) & Property Taxes
- Economic Development
- Environment
- Transportation
- Annexation & Land Use
- Public Safety

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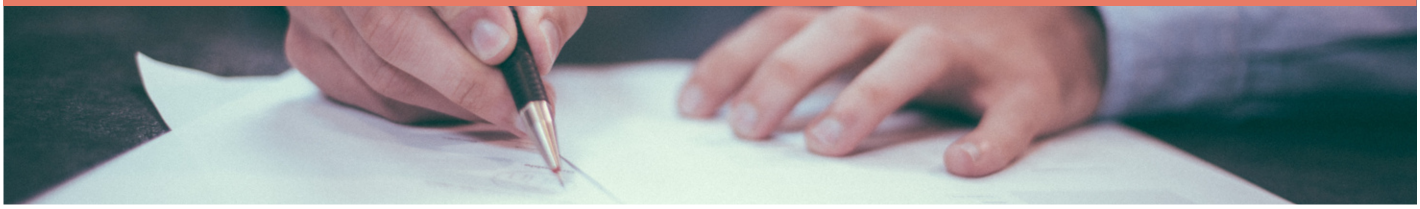
Prepared for the Coalition of Greater Minnesota Cities by Flaherty & Hood, P.A.

CGMC ISSUES AT A GLANCE



Local Government Aid (LGA)

LGA is a state program that provides funding for cities so they can administer services at a reasonable tax rate. Currently, 87% of cities in Minnesota receive some LGA. The current economic difficulties and rising inflation make LGA funding even more critical to cities, especially those in Greater Minnesota. From 2009 to 2022, the LGA allocation has grown only 17%, while inflation has grown by 41%. The CGMC is advocating for an LGA appropriation increase to ensure cities can continue to provide essential services to their communities. When factoring in inflation and rising costs, such as employee health insurance plans and construction materials, cities often have to cut services or raise property taxes (or both) to account for stagnant LGA funding. To see how much LGA each city is expected to receive in 2023, please visit bit.ly/2023-LGA.

Economic Development

Greater Minnesota needs good state policies and funding to help local economies grow. The CGMC and its economic development-focused partner organization, the Greater Minnesota Partnership (GMNP), support state incentives and programs to address child care and housing shortages, workforce development to help businesses train new workers, funding from the state to provide all Greater Minnesota residents and businesses with world-class broadband service, and the Greater Minnesota Business Development Public Infrastructure (BDPI) Grant Program to help cities provide public infrastructure needed for private business development.

Environment

Cities across Greater Minnesota are facing huge costs to upgrade and rehabilitate aging infrastructure and to comply with new water quality regulations. Although recent bonding bills have increased the amount spent on water infrastructure, funding from the state has not kept pace with growing needs. This problem has been exacerbated by the failure to pass a bonding bill in 2022. The CGMC supports additional bonding, increased funding levels, and ongoing general funds so that the state can meet the needs of upgrading cities' water systems. To make better use of state and local resources, the CGMC advocates for a collaborative effort to addressing water quality issues that brings together state agencies, cities, agricultural interests and other stakeholders, and an approach that targets emerging contaminants at their source.

Transportation

Minnesota's transportation system is facing a massive shortfall in its ability to keep up with infrastructure needs. Political leaders have repeatedly failed to build the consensus needed to raise sustainable revenues to maintain and advance our infrastructure. Significant inequities remain as to the funding support local governments receive for their streets. Cities with populations over 5,000 receive some help from the state, but those dollars are limited and often consumed by cost participation in state or county projects. Meanwhile, cities with populations of less than 5,000 do not receive dedicated funding support for their streets at all. Unless the Legislature expressly appropriates dollars, they are forced to rely on the property tax. The CGMC believes that Minnesota needs to address these shortfalls by increasing permanent, dedicated revenues for transportation and allocating them fairly throughout the state.

Annexation & Land Use

The CGMC supports land use policy that provides for residential and commercial development in cities and preserves agriculture and open spaces in townships. The CGMC believes good annexation and land use policies reduce water pollution and hold the line on infrastructure costs.

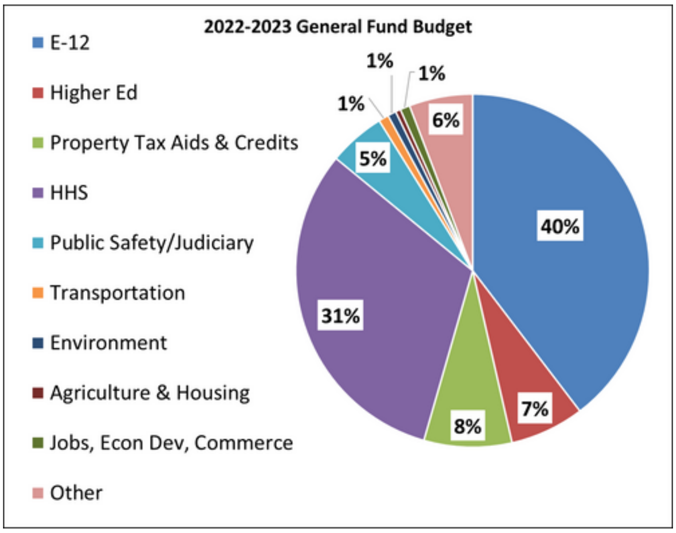
Public Safety

State law requires public employers to provide and contribute to health care coverage for employees who are designated as duty disabled and their dependents until age 65. The state fund created to support public employers to continue these benefits has become deficient. In 2021, only 21% of claim requests were reimbursed. The CGMC asks the state to fully fund this benefit to support public employees.

THE STATE BUDGET

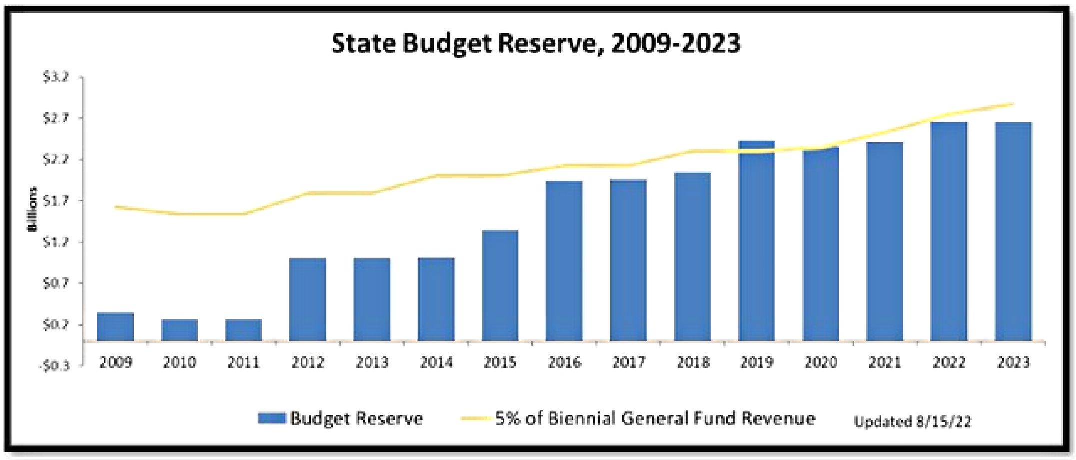
General fund expenditures

During the 2021 legislative session, the Legislature set the state general fund budget for the next two years: $51.7 billion for FY 2022-23. The breakdown of expenditures is illustrated by the chart on the right:



The budget reserve

The budget reserve is Minnesota's "rainy day fund." It is used during economic downturns to balance the state budget. The non-partisan State Council of Economic Advisors has recommended that the budget reserve be at least 5% of the state's biennial general fund revenue.

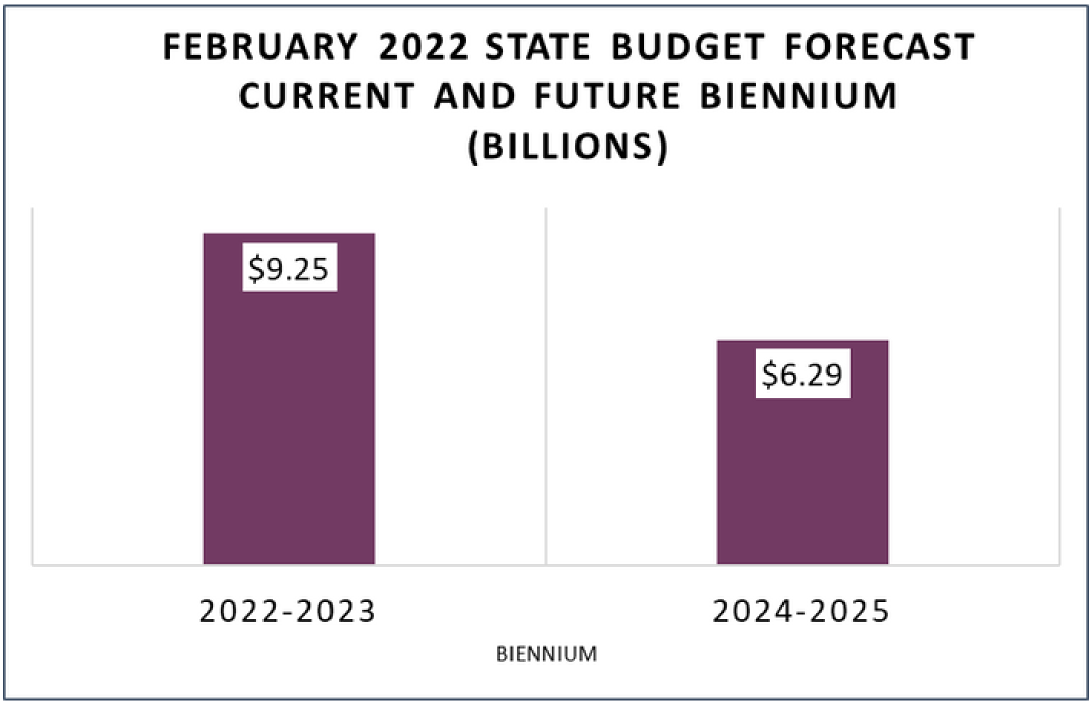


Minnesota's state budget reserve is on a good trajectory, maintaining the highest balance in state history of $2.6 billion.

State budget surplus

A budget forecast took place in February 2022, showing a budget surplus for the current biennium of $9.25 billion, which is an increase of $1.5 billion above the November 2021 forecast.

This budget surplus is significant; however, it is only a snapshot in time. Rising inflation and economic turmoil since the February 2022 forecast leave some uncertainty for the upcoming forecast in November. At the time of publication, state monthly revenue reviews this year have shown revenue to remain relatively steady and sales tax collections to exceed their projections in July.



The February forecast also included a projection for the 2024-2025 biennium, with a projected surplus of $6.29 billion. The 2024-2025 projected budget forecast only compares forecasted revenues and projected spending and excludes the impact of balances from prior year budget surpluses. This projection assumes current law funding levels and policies continue unchanged. To learn more about the February forecast and the monthly revenue reviews produced by Minnesota Management and Budget (MMB), visit their website here: https://mn.gov/mmb/forecast/.

The 2023 incoming state legislature will face a difficult task when preparing the 2024-2025 state budget. The upcoming November forecast will better inform us as to whether the $9.25 billion budget surplus has grown or shrunk and will be an indicator for new legislators on how to proceed with the state budget.

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, 87% of Minnesota cities receive some LGA from the state.

LGA is the lifeblood of Greater Minnesota

Local Government Aid is **the top priority** of the CGMC. LGA is extremely important for maintaining essential services for communities across 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 purposes. With rising inflation squeezing city budgets, LGA is more important than ever to ensure cities can provide these services.

Cities are able to spend LGA on the needs that are most vital to their communities. Common uses of LGA include:

Street Repair & Maintenance

Property Tax Relief

Public Safety

Libraries

Parks & Recreation

Objective formula determines LGA funding

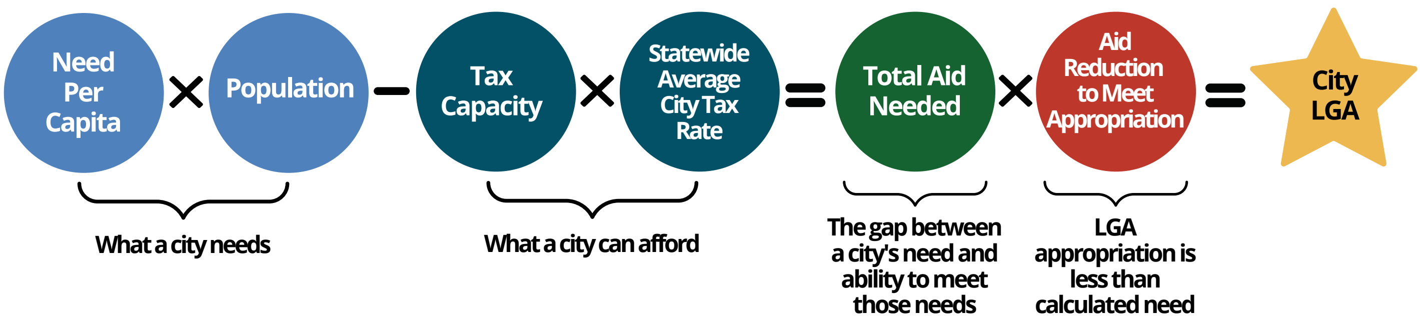
In the years following the creation of LGA, the LGA formula has been updated as new data has allowed it to be more responsive to city needs. It is a complex formula with a simple goal of addressing unmet needs faced by all cities. Most recently, in 2013, the Legislature and city organizations such as 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 reflected city funding needs while making the formula more straightforward and predictable. In late 2021 and during the 2022 session, the same group of cities met monthly to discuss another update to the formula following the decennial census.

Although this formula update was not adopted during the 2022 legislative session, the CGMC remains committed to ensuring the LGA formula adequately addresses city needs.

The LGA formula calculates city needs

The current formula uses various "need" factors for different-sized cities. Cities are divided into three groups: cities with a population of less than 2,500, cities between 2,500 and 10,000, and cities above 10,000. The need factors differ for each city's size, and they are proxies for the age of a city's infrastructure, its level of service need, and how many residents and visitors it serves daily.

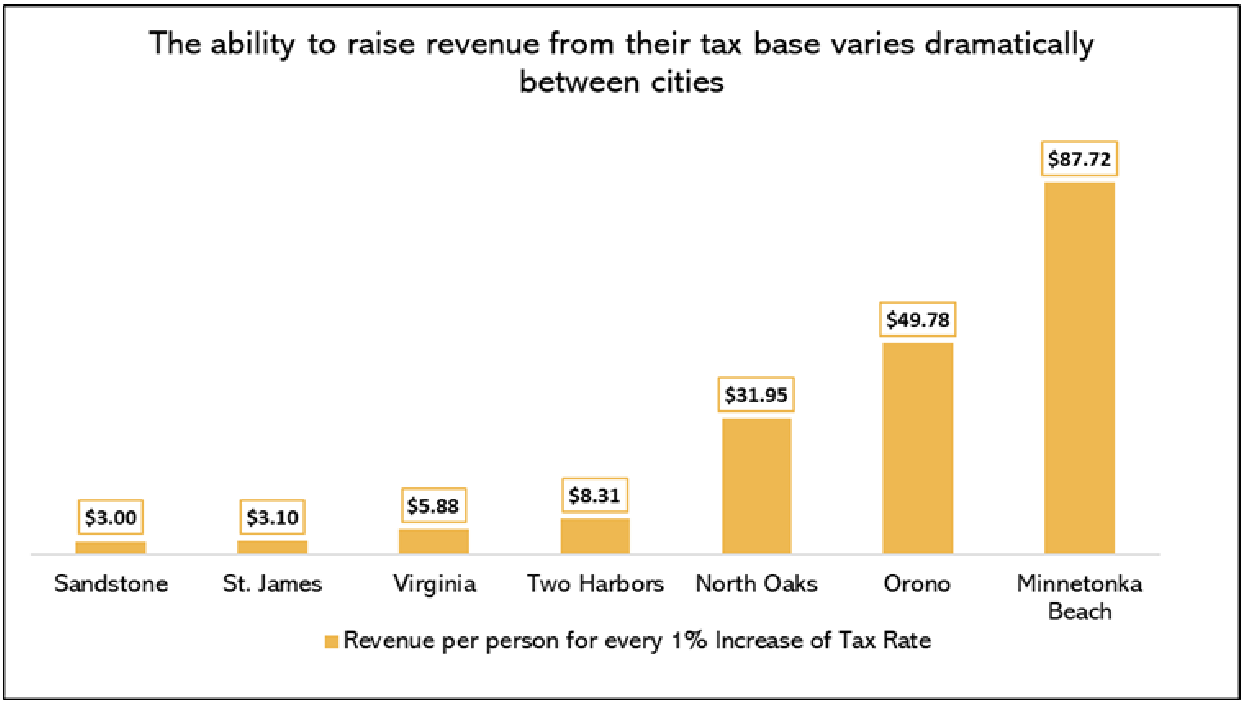
As shown in the graphic below, the city need is compared to its property wealth (or ability to pay) to determine its unmet need. The unmet need then helps determine how much LGA a community will receive.



To learn even more about the details of how the LGA formula works, watch the CGMC video on the LGA formula here: bit.ly/LGA-Explained.

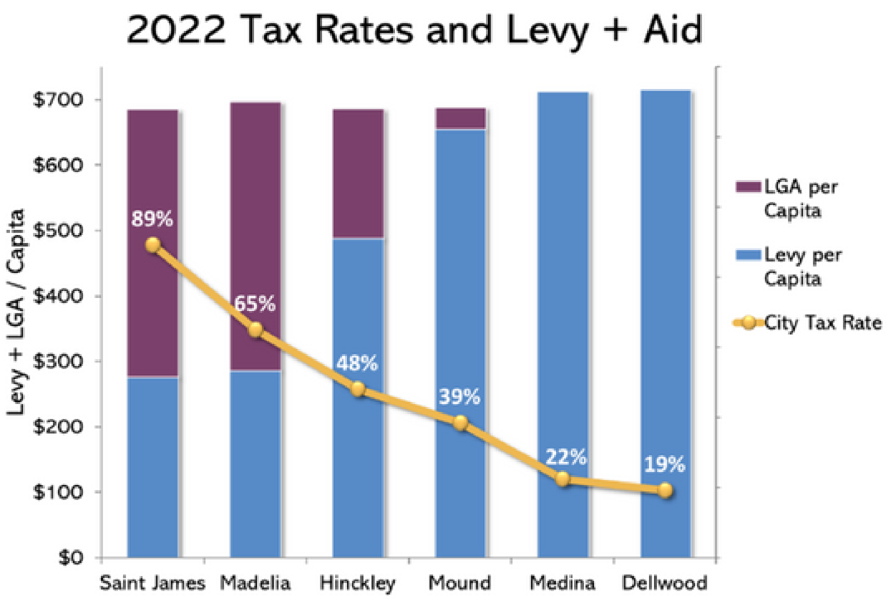
LGA reduces tax disparities among cities

LGA helps address the considerable 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 provides funding to a city based on a statistical measure of its need compared to its ability to pay. LGA allows cities with less property wealth to keep property tax rates competitive. For example, without LGA, the City of Sandstone would need a tax rate nearly 28 times that of Minnetonka Beach to generate the same amount of revenue (*see next page*):



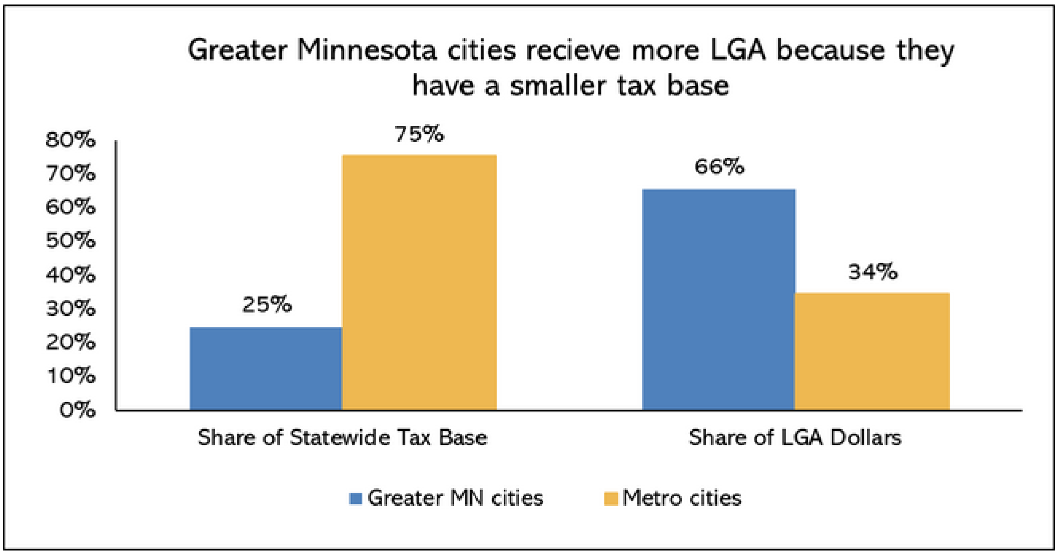
The cities in the graph below generate a similar amount of revenue from levy plus aid: between $685 and $715 per capita (shown by the bars and left axis), or approximately the statewide median for a city's revenue (its levy and aid) which is $712 per capita.

A city's tax rate is determined by the tax base of the community and the levy set by the city. The higher the city tax rate, the greater the burden on residents and businesses in that community.
Tax rate figures in this chart are estimated



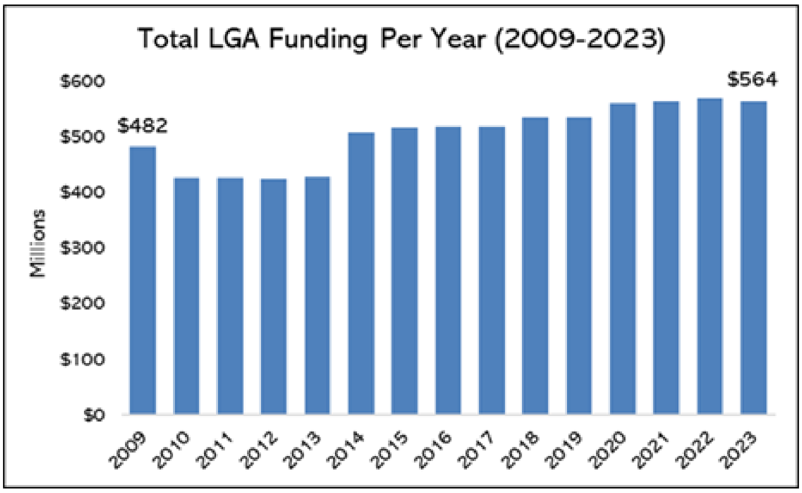
While they have similar revenues, these cities' property wealth is vastly different. Because of this, if LGA were removed, cities would either need to raise their levies or cut services. If cities opted to raise their levies, the tax rates of property-poor cities would rise considerably. Under this scenario, city tax rates would vary from 19% to a whopping 221%. Cities that do not receive LGA, such as Medina and Dellwood in the chart above, would not need to raise their levy to compensate for the loss of aid.

Because LGA is a property tax equity program, Greater Minnesota – which has less of the state's overall tax base – receives more LGA than the metro area.

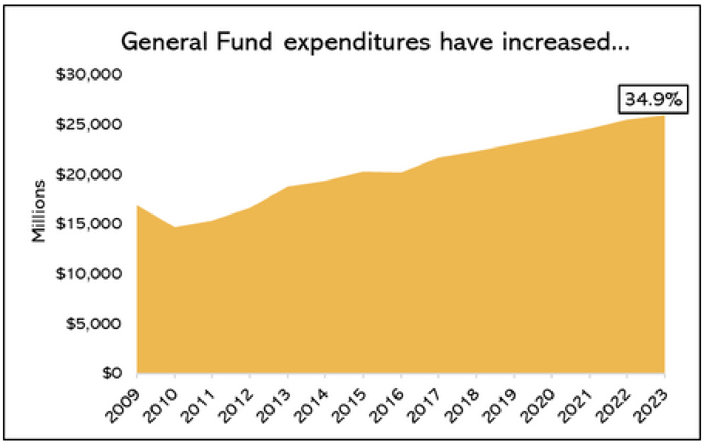


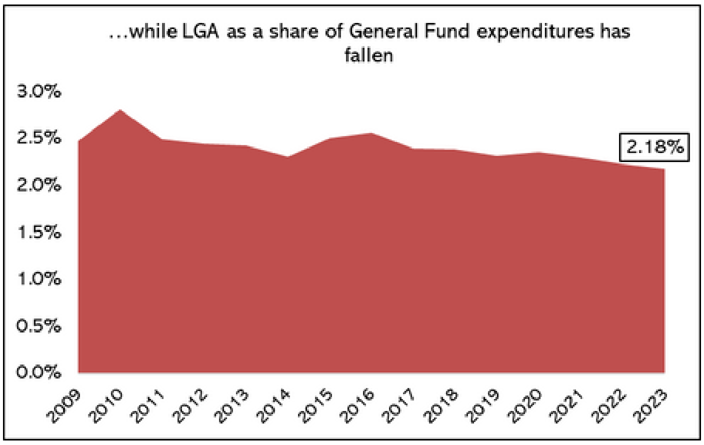
LGA funding has not kept pace with state budget growth

The LGA appropriation is fixed in statute and can only change through legislation.

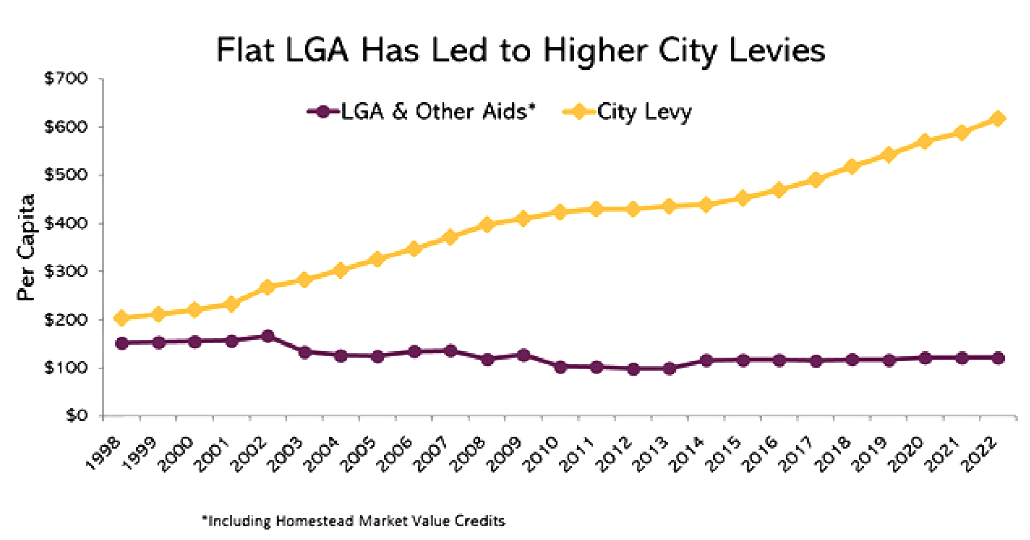


LGA funding has not kept pace with state budget spending increases. Since 2009, LGA as a share of general fund expenditures has continued to decrease, from 2.5% to 2.18%.

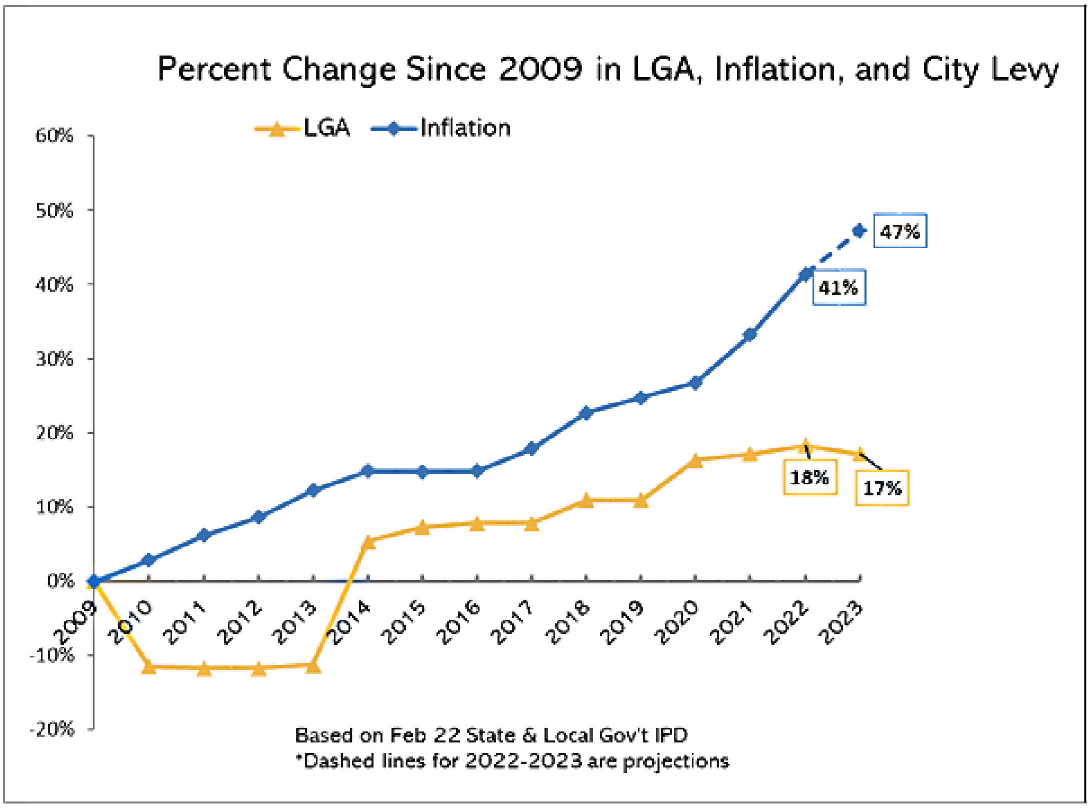




With less money to work with as LGA funding remains flat, cities are faced with the choice of cutting services, increasing taxes, or both.



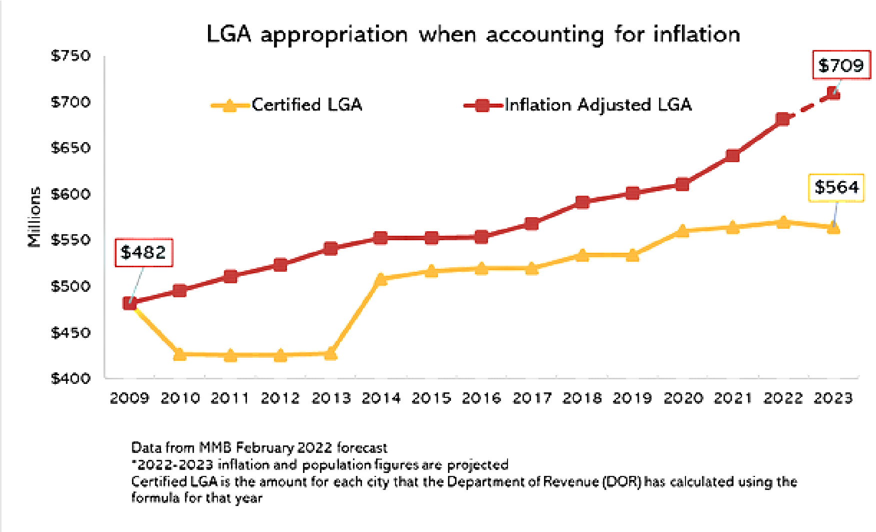
LGA funding has not kept pace with inflation



The unprecedented inflation in 2022 is projected to continue to rise. This inflation is squeezing city budgets and increasing city project costs, making it more difficult than ever for cities to maintain essential services for their communities while keeping property taxes down.

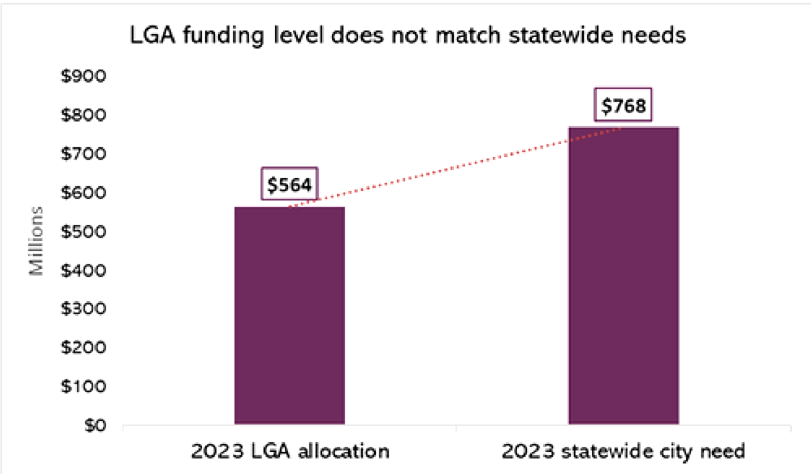
The chart above shows that historically, LGA formula funding has not kept pace with inflation. Inflation alone has increased by 41% from 2009 to 2022 and is projected to grow to 47% in 2023. The LGA appropriation has increased by only 17% in that same period.

The chart below shows how if the LGA formula had increased with inflation since 2009, the 2023 allocation would be 47% higher than the 2009 LGA allocation, making it $709 million in 2023. Annual LGA increases based on inflation growth would allow city budgets to continue to provide the same level of service each year.



The LGA formula needs an appropriation increase

In 2023, if the LGA program were to meet total city needs as calculated by the formula, it would be funded at $768 million. This means that the current LGA formula allocation of $564 million makes up only 73% of statewide city needs, creating a gap of about $204 million between the funding need and the current allocation.



LGA is vital for thriving communities

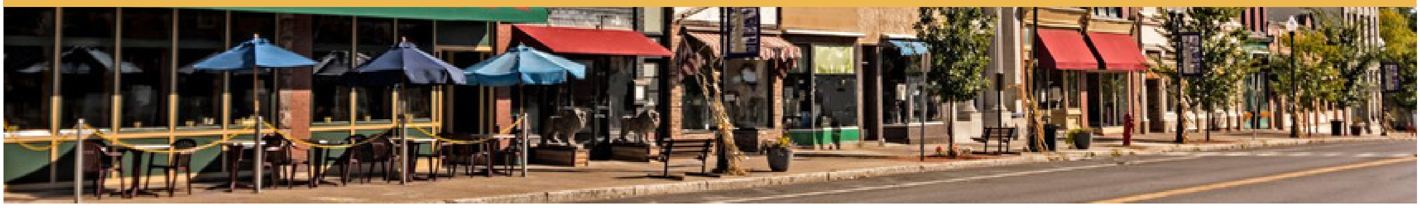
The CGMC has consistently advocated for maintaining a strong LGA program to support local governments, and LGA continues to be a top priority for Greater Minnesota cities. With the current rise in inflation squeezing city budgets, it is crucial that the LGA formula appropriation be increased to keep pace with the costs that cities are facing. During the 2023 legislative session, the CGMC is asking to increase the LGA appropriation by $102 million, half of the unmet need gap described above. This amount is only a fraction of cities' needs, but it is a promising start towards fully funding the program. An LGA appropriation increase will ensure that cities across the state can provide and maintain essential services for residents and is the key factor in supporting city budgets during times of economic uncertainty.

Additional LGA resources

The CGMC is a great resource to learn the intricacies of Local Government Aid. In addition, here are some more resources for understanding LGA:

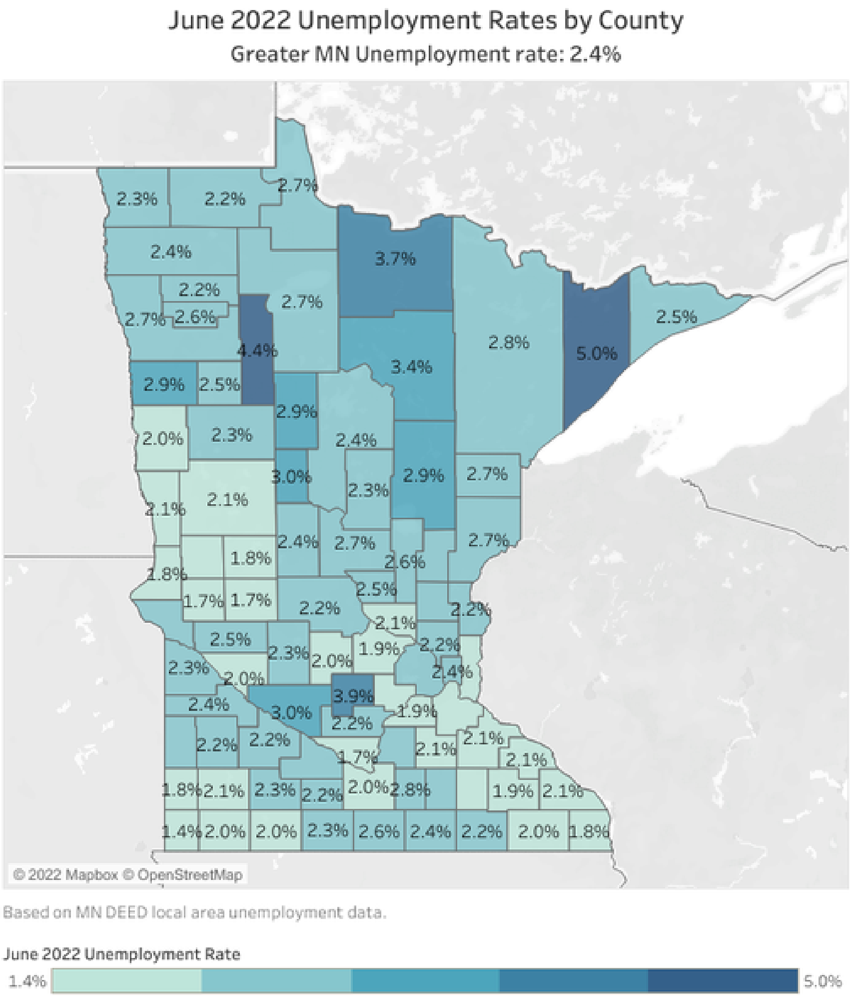
- Certified 2023 LGA for each city: bit.ly/2023-LGA
- CGMC Local Government Aid Explained Video: bit.ly/LGA-Explained
- House Research summary of LGA: bit.ly/HouseResearchLGA

ECONOMIC DEVELOPMENT



Many questions remain as to the long-term effects COVID-19 and the resulting business shutdowns will have on jobs and economic development in Greater Minnesota, but it is clear that the pandemic has amplified many of the preexisting economic challenges rural communities were already struggling to overcome. A dire lack of child care and housing, inadequate broadband, and a shortage of skilled workers and infrastructure needs remain the biggest barriers to economic growth in Greater Minnesota.

The CGMC and its economic development-focused sister organization, the Greater Minnesota Partnership (gmnp.org), are working hard to develop solutions to these concerns. As you will read in this section, additional investments are needed to make sure Greater Minnesota families, businesses and communities are able to thrive and prosper.



Based on MN DEED local area unemployment data.

Child Care

40,000+ child care spots needed in Greater Minnesota

Business and city leaders across Greater Minnesota consistently raise the lack of available child care as a top barrier to economic growth. Employers often say that access to child care for their employees is one of the primary variables they consider when deciding whether to relocate to or expand in a community. Likewise, employees and families often look at the availability of child care when deciding what community to live and work in. Unfortunately, child care is often unavailable, making it difficult to attract and retain employees and employers in Greater Minnesota.

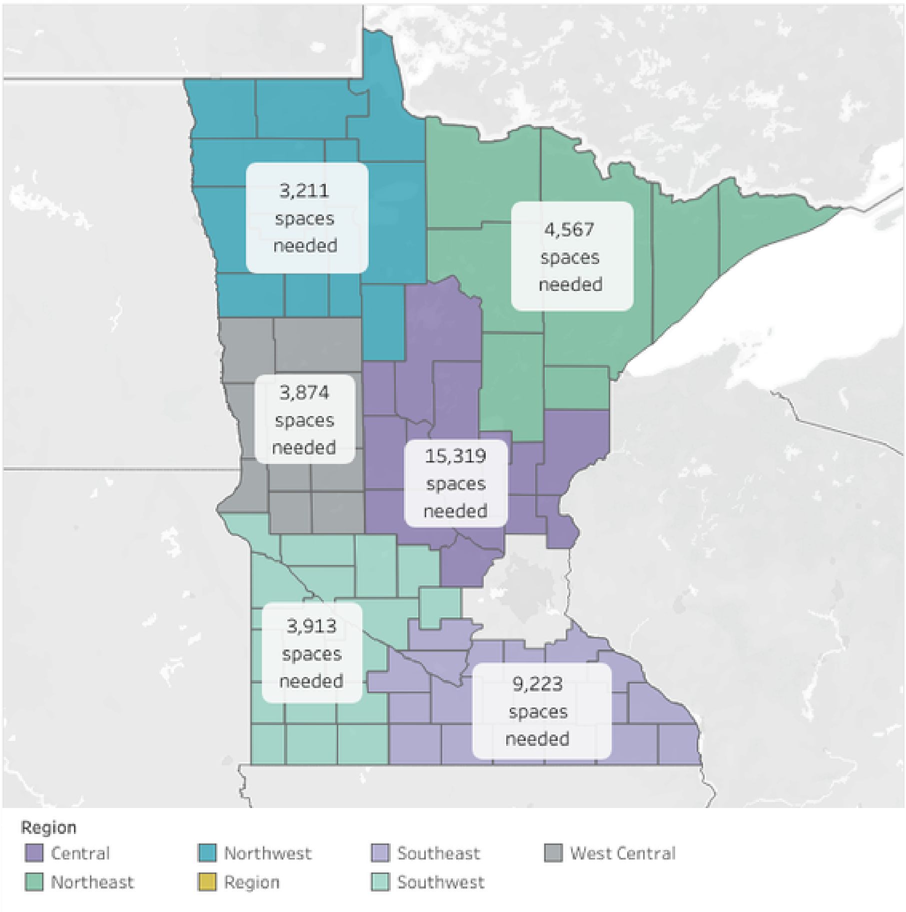
In 2016, the Center for Rural Policy and Development issued its seminal report “A Quiet Crisis: Minnesota’s Child Care Shortage,” which identified that Greater Minnesota required more than 36,000 additional child slots to meet our region’s need. By 2021, that number had jumped to more than 40,000.

State interventions are working

State interventions and investments have proven successful in helping existing child care providers stay in operation and bring new providers into the marketplace. Examples of such state assistance include DEED's Child Care Economic Development Grants and the six Initiative Foundations' child care provider support programs. However, the rate of providers retiring or leaving the industry continues to outpace any growth that is occurring.

In 2021, the Legislature approved $5 million for DEED's Child Care Economic Development Grants. These flexible grants allow providers or communities to identify and address their specific child care needs. Over the past several years, we have seen a number of different uses for these grants: funds for community planning and identifying local child care needs; existing facility improvements and expansion; capital for new child care space; and access to training and workforce support, just to name a few.

Greater MN Childcare Shortage



Additionally, the Legislature appropriated $3 million to the six Minnesota Initiative Foundations (MIFS) to support their child care programs in 2021. The MIFs work in the six geographic areas of Greater Minnesota to support community development and economic expansion throughout the region. For the past two decades, each of the six MIFs has developed programs to support child care providers in their service areas and local communities. Services include:

- Providing local training for existing child care providers to meet their annual training and licensure requirements
- Providing technical and business development services for providers looking to enter the child care industry
- Supporting cities to conduct community needs assessments

In recent years, we have seen the MIFs play more of an emergency response role when a child care business is on the verge of closing to do the following:

- Bring the resources needed to change the business model to one that is more sustainable
- Identify local community resources to help bridge the childcare provider into their new operation model
- Help transition ownership or operation of a child care facility from one provider to the next so that a community does not lose the child care space

In 2020, the Legislature created the Greater Minnesota Child Care Facilities Grant program. Housed at DEED, this program is a grant program aimed at providing access to capital for local governments—cities, counties, or school districts—that are looking to build new child care facilities or rehabilitate existing, often vacant, space into a child care facility. City leaders consistently report to the CGMC that the most significant barrier they face in addressing the 40,0000 child care slot deficit is the lack of access to capital. Even further, providers in Greater Minnesota explain that it is difficult to generate enough revenue to cover both the operational expenses of a child care center and pay for the capital expense of opening a new center. As a result, it is extremely challenging, if not impossible, for providers or communities to access private financing. In fact, in the past ten years, most new child care centers built in Greater Minnesota have resulted from access to capital being provided by the federal, state, or local government, combined with community financial support from local businesses and residents.

The CGMC believes the Greater Minnesota Child Care Facilities Grant can be critical in building the facilities we need to address the 40,000-slot shortfall. Unfortunately, while the program was created in 2020, no funding has been appropriated for the program thus far. While the program has yet to be funded, we have seen the impact of facilities funding as a result of past grants from the DEED child care grant program, so we know this will be an effective tool.

The CGMC will continue to advocate for programs—such as the DEED and MIF grants and the facilities program—with a proven track record of stabilizing and growing the number of child care slots in Greater Minnesota. Furthermore, the push for state investments that make capital accessible for child care providers and communities to build the facilities needed to spur growth in the industry will remain a top CGMC priority.

Housing

Employers struggle to attract workers due to lack of housing options

Communities throughout Greater Minnesota are home to businesses that provide good, livable wages and are currently looking to hire. In fact, the latest data from DEED shows more than 40% of all job openings are from employers in Greater Minnesota. However, employers frequently run into a common roadblock when hiring new employees—there is nowhere for the employees to live. Most Minnesotans want to work within a short commute from their homes, and Greater Minnesota's stagnant housing market is causing many potential employees to pass up job opportunities and preventing struggling companies from growing.

The main problem is availability—Greater Minnesota communities simply do not have enough housing stock to accommodate workers and their families.

In Greater Minnesota, a typical worker—a new teacher or nurse, a factory worker, or a small business owner—earns too much money to qualify for most income-based housing programs. However, these same workers do not make enough to afford to build a new home in a community that does not have available market-rate housing. Even further, if they can afford to build a new house, the home's appraised value is typically lower than the construction cost, so they cannot access the financing necessary to build.

Simply put, the housing market in Greater Minnesota is broken

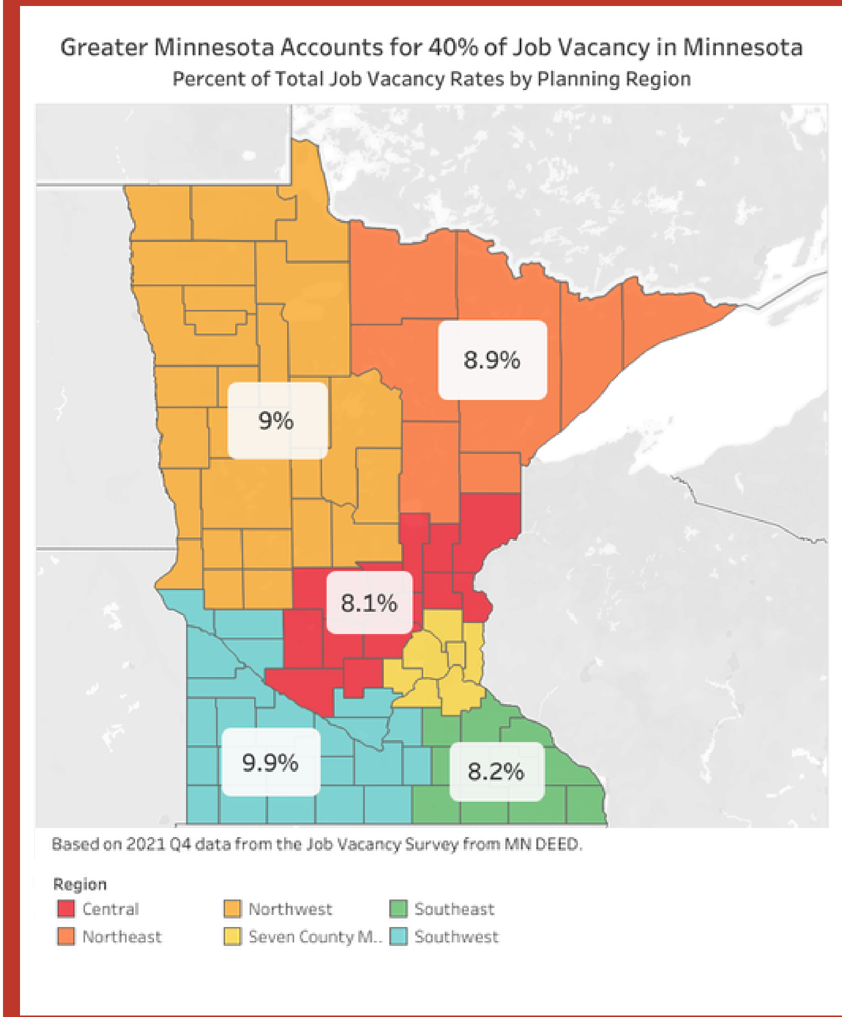
Many communities have been trying to encourage more housing development, but it continues to be a struggle. Due to issues such as perceived risk, an aversion to raising rents, the lack of comparable properties, or the rising costs of labor, materials, and financing, investors and developers cannot put together financing packages that ensure the needed housing stock gets built.

In recent years, the CGMC and GMNP have advanced legislative solutions to incentivize the development of new housing by reducing some initial construction costs. The CGMC and GMNP have and will continue to support legislation that promotes workforce housing grants, tax credits, and grants for public infrastructure needs that help reduce the cost of new housing development.

Workforce
State investment in job skills training pays off

The fact that more than 40% of job vacancies are located in Greater Minnesota indicates that our businesses are healthy, and our employers are looking to invest in their community. However, it also highlights the challenge that employers often have in finding workers whose skills align with their needs. With Greater Minnesota's unemployment rate around 2.4%, coupled with a housing and childcare shortage, it can be extremely difficult for employers in Greater Minnesota to find the workers they need.

The CGMC and GMNP 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 the training costs incurred in hiring new employees. Through JTIP, an employer can receive funding to help train employees by implementing the best methods 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 $2.1 million in grants to train an estimated 564 workers in Greater Minnesota. Examples of recent grants include:

- **Austin:** awarded $162,000 for Nu-Tek Biosciences a manufacturer of plant-based protein ingredients which opened August 2022
- **Becker:** awarded $35,350 for Structural Tower Services to improve cellular network connectivity
- **Albert Lea:** awarded $200,000 for Vortex Cold Storage for Safe Quality Food Certified storage facility
- **Detroit Lakes:** awarded $190,000 for Lakeshirts for wholesale garment and accessory supply
- **Dawson:** awarded $200,000 for PURIS Proteins for manufacturing of agricultural products for pea protein

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.

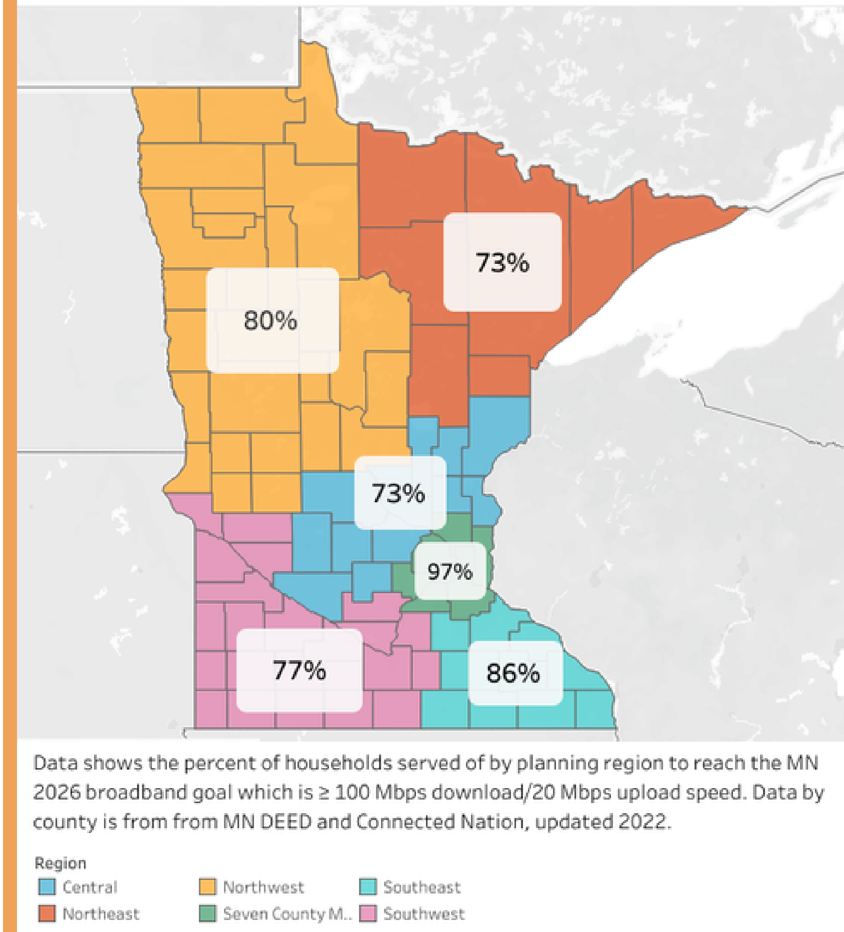
Broadband

Broadband is vital to a community's quality of life, education, economic opportunities, health care, and agricultural productivity. Yet access to reliable, high-quality broadband in Greater Minnesota continues to fall behind the metro area in both access and speed.

By 2026, the state has a goal of all households having access to internet speeds of 100 megabits per second (Mbps) download and 20 Mbps upload. Currently, 98% of the seven-county metro properties meet that goal. But in Greater Minnesota, only 77% of households have internet service that meets the 2026 goal. What's hidden in these numbers is that Greater Minnesota counties range from a 99% achievement rate to less than 25%. In contrast, all counties in the metro area have at least 92% of households accessing 100 by 20 broadband.

In recent years, some progress has been made to connect more communities and households. After aggressive advocacy by the CGMC and GMNP, the Legislature created the Border-to-Border Broadband Development Grant program in 2014. This program provides a 50% match to communities, co-ops, nonprofits, or private providers who wish to expand high-quality broadband service in "unserved" (no broadband service) or "underserved" (poor service) areas.

Broadband access by planning region: average percent of households served



Data shows the percent of households served of by planning region to reach the MN 2026 broadband goal which is ≥ 100 Mbps download/20 Mbps upload speed. Data by county is from from MN DEED and Connected Nation, updated 2022.

Since its creation, the program has received over $200 million in state funding, including $95 million available for the 2022-2023 grant round.

Despite progress, broadband access still limited in rural areas

The CGMC and GMNP have advocated for all rural areas to have access to world-class broadband and believe the state's focus must be on how to address broadband access for underserved communities and properties effectively. When a city lacks quality high-speed service, the entire region suffers.

Unfortunately, state policies do not currently align with this goal. In 2017, a provision was enacted that allows incumbent providers (typically large corporations) to challenge whether a grant can be awarded to a new provider. This challenging process discourages competition and gives excessive power to existing providers who have thus far failed to provide adequate service.

Moreover, large internet providers have often sought to direct grant funds to sparsely populated areas to discourage funds from potentially spurring competition within their service territories (which would encourage upgrades and slow progress). As a result, the state must undo the policy that creates disincentives for telecom companies to improve service in cities and commercial centers, in addition to continued funding for the Border-to-Border grant program.

BDPI Grant Program

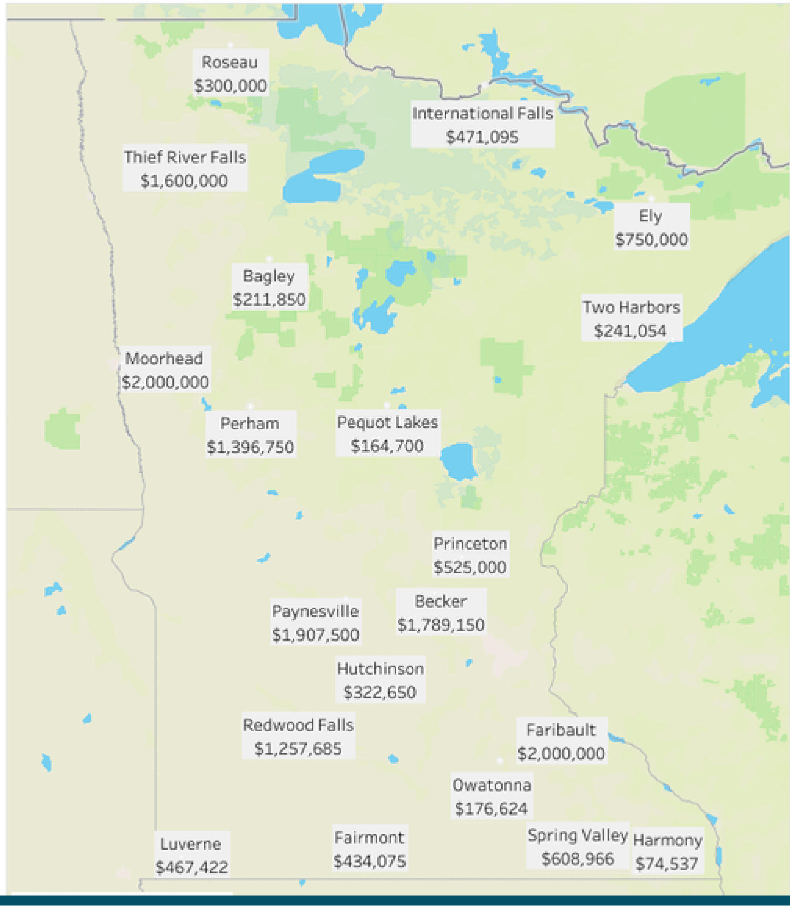
Grants help cities pay for public infrastructure needed for private business growth

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. The program funds grants to cities and counties in Greater Minnesota that cover up to 50% of the capital costs for the public infrastructure necessary to facilitate private business growth.

BDPI has made a significant impact by helping cities deal with a fundamental challenge in economic development. Imagine a scenario where a home-grown business wants to expand in the Greater Minnesota city where it was founded, but executing that expansion would require the city to construct expensive public infrastructure upgrades, such as new sewer lines or a frontage road. BDPI provides grants to help cities make those projects possible.

These investments have real-world impacts. For example, the City of Perham was awarded a nearly $1.4 million BDPI grant to help expand its industrial park to facilitate the expansion of Tuffy's Pet Foods. This expansion not only created jobs but also kept a third-generation family business thriving in the community where it began.

Recent BDPI Grants Across the State



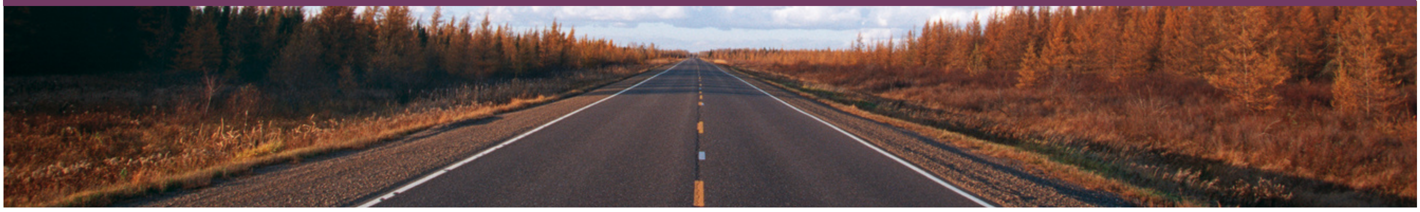
If you have ever purchased a Bushel Boy tomato (Owatonna) from the grocery store or enjoyed a beverage from Castle Danger Brewing (Two Harbors), you have benefitted from the impact of this program. Both companies were able to expand their operations as a result of investments made by cities using BDPI grants.

BDPI is depleted

BDPI is funded primarily through state general obligation bonds, and the program relies on the Legislature's ability to regularly pass bonding bills for this vital work to continue. Because the Legislature has failed to pass a bonding bill during the 2021-22 biennium, the BDPI program's funds are nearly depleted.

Since 2017, the Legislature has invested more than $35 million into the program: $25.2 million in bonding and $10.7 in general funds. However, as of August 2022, the program does not have the funds to keep pace with projects around the state, meaning crucial economic development projects could be left waiting.

TRANSPORTATION



A robust, multi-modal transportation system is essential for Minnesota's economy to compete on a national and global scale. Despite being the 22nd largest U.S. state by population, Minnesota's road system is the fifth largest in the country. That system of roads is the backbone of Greater Minnesota's economy and is what connects our communities safely to one another.

Minnesota cities need more help than they are currently getting to maintain aging infrastructure in the face of rapidly increasing costs and limited or no support from the state.

The CGMC supports a comprehensive, balanced transportation funding system capable of both supporting the existing road system and making new investments that help Minnesota's economy thrive and ensure that families return home safely each night. This section provides a broad overview of transportation funding in Minnesota, highlighting a few specific issues that profoundly impact city governments and the quality of life in Greater Minnesota.

Overview of Minnesota's transportation funding structure

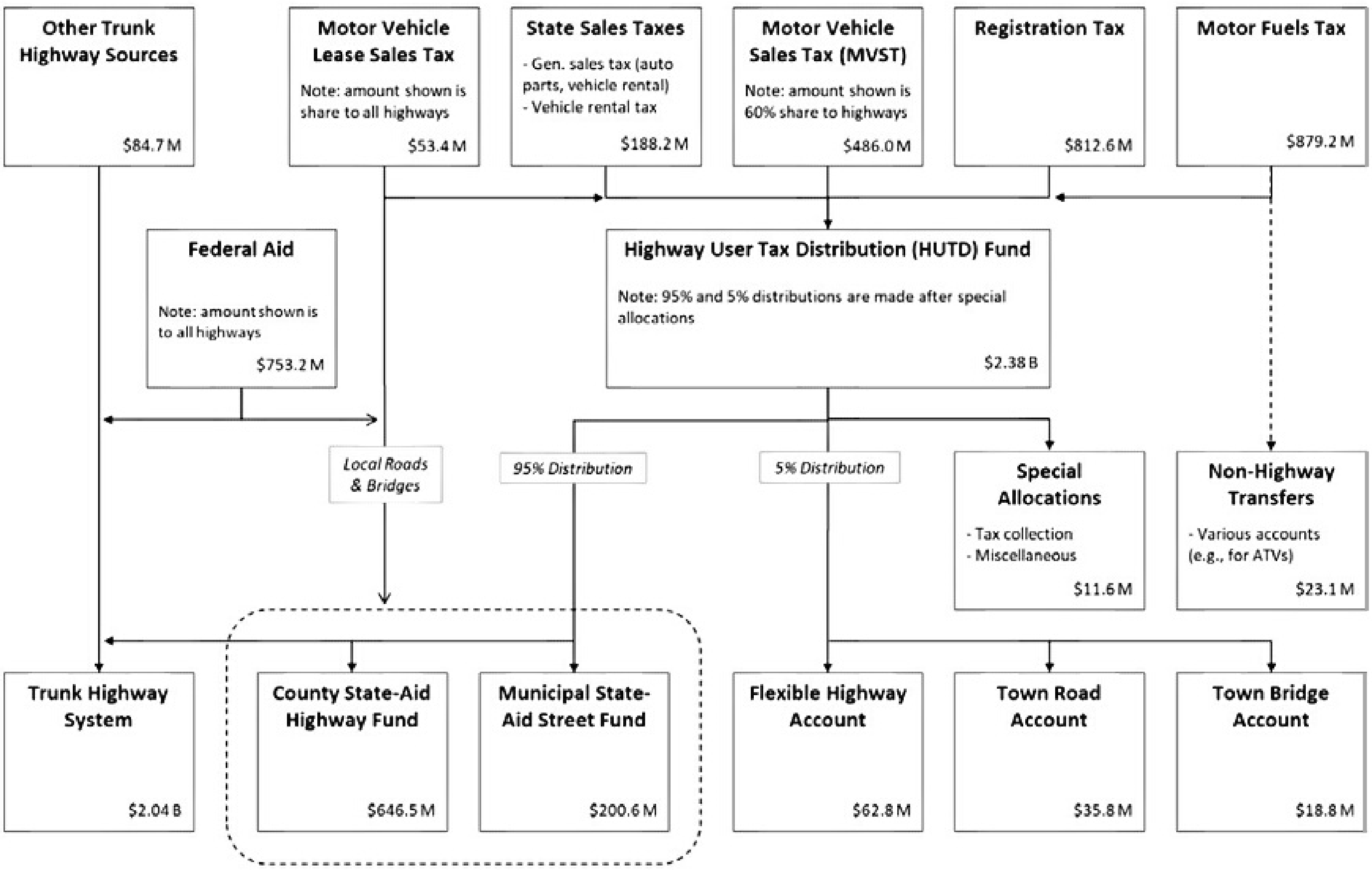
The basic framework of Minnesota's transportation funding system is established in our state's constitution, which provides for:

1. Creating a system of state, county, and municipal roads
2. Creating a fund dedicated "solely for highway purposes" and dedicating certain funding sources such as the gas tax and sales tax on the purchase of motor vehicles
3. Allocating revenues among the state, counties, and cities with populations greater than 5,000
4. Authorizing the Legislature to issue trunk highway bonds for road construction

Gas tax, tab fees, and motor vehicle sales provide most state transportation revenues

Under this constitutional structure, fuel taxes, registration fees (frequently called "tab fees"), and transportation-related sales taxes provide the vast majority of state highway funding, which flows through a formula that allocates funds to various purposes, as reflected in the flow chart on the following page.

How Minnesota Transportation Funding Flows

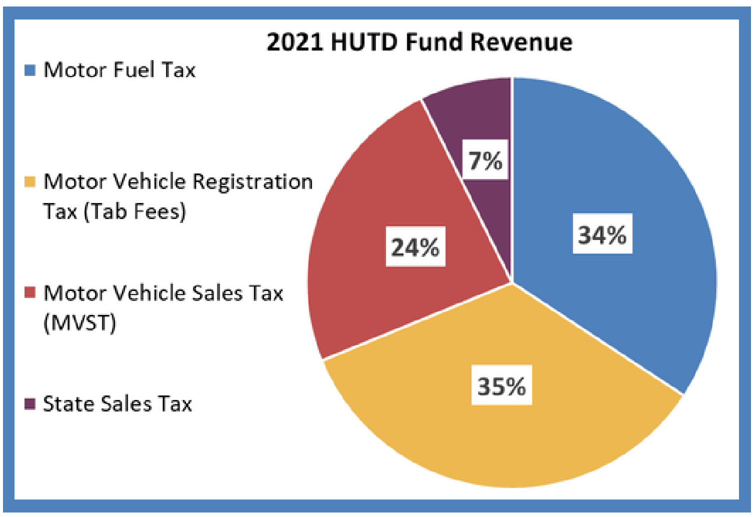


Notes: *Amounts are for fiscal year 2020. "Local roads and bridges" category includes $179.3 million in federal aid and $43.9 million from motor vehicle lease sales tax revenue. HUTD funds include $4.5 million from fees and investments. The chart does not show (1) $303.1 million in fiscal year 2020 spending from bond proceeds for both state and local roads, (2) onetime general fund appropriations, (3) MVST and motor vehicle lease sales tax revenue allocated to transit, (4) some investment income, and (5) some federal funds for traffic safety and enforcement. Motor fuels tax revenue goes to the highway user tax distribution fund and "nonhighway transfers" shares are then transferred to other accounts.*
Source: *House Research Report on Highway Finance, January 2021, house.leg.state.mn.us/hrd/pubs/hwyfin.pdf*

Gas tax is still the workhorse of Minnesota's road funding, but its impact has waned

The motor fuels tax, or "gas tax," is one of the most significant sources of transportation revenues in Minnesota, raising 34% of the $2.47 billion in revenue that was deposited in Minnesota's Highway User Tax Distribution Fund (HUTD) from all sources.

However, as cars and trucks have become more fuel efficient, drivers are traveling more miles and filling up their tanks less often. Gas tax revenues have been declining; from 2019 to 2021, the gas tax revenue has declined by $92 million. 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.



The gas tax is applied on a per gallon basis, and the amounts are fixed by the Legislature. While several states have responded to these pressures by increasing the gas tax to keep up with changes in the marketplace, Minnesota has not increased its gas tax in 14 years. Prior to that, the most recent increase took place in 1988. Because of this, the impact of the gas tax has declined significantly due to inflation.

City street funding

When it comes to city street funding, size matters

A portion of the constitutionally dedicated transportation funding from the gas tax and other sources is allocated to cities. However, only 150 of Minnesota's 854 cities receive dedicated state aid for local roads.

Why? The division is written directly into Minnesota's Constitution: cities with populations greater than 5,000 receive street aid funding from the state, and those under 5,000 do not. For smaller cities, the Constitution envisions that they rely on counties to construct and maintain the major roads in town, but other local projects must rely on property taxpayers or special assessments. While it may have been logical for smaller cities to lean on others for street needs when this system was created in 1920, cities smaller than 5,000 have grown in sophistication over the past 100 years, and needs continue to mount without sufficient resources to keep pace. It wasn't until 2015 that the Legislature created a program specifically to help smaller cities, but the program has only been sporadically and inadequately funded.

For cities larger than 5,000, the resources received from the state are often inadequate to keep pace with mounting infrastructure needs, and the funds are often consumed by cost participation in county or state projects.

Smaller cities are continually left behind

Established in 2015, the Small Cities Assistance Program addresses the fundamental inequity that smaller cities receive no funding support from the state, providing funding for the construction and maintenance of roadways in cities with a population of less than 5,000. The creation of this program was an essential step forward, but small cities continue to be left behind by the Legislature's failure to fund the program consistently or sufficiently.

Because the program does not have a dedicated funding source, it is dependent on a one-time general fund appropriation by the Legislature. While the program typically receives vocal, bipartisan support, that support has only resulted in funding during four of the eight fiscal years the program has existed.

Full funding levels over the program's history are reflected in the table below.

Small Cities Assistance Program Funding

Fiscal Year	2016	2017	2018	2019	2020	2021	2022	2023
Total Aid	$12.5M	$0	$8M	$8M	$0	$0	$18M	$0

When reading those statewide appropriation numbers, it is important to keep two things in mind: (1) that each of these appropriations is divided among more than 700 cities; and (2) these dollars make a significant impact on small communities, but because of inconsistent funding, they cannot reliably program these dollars into their capital improvement plans, which limits the effectiveness of the funds.

Allocating ongoing funding for smaller cities is a win-win and will remain one of the CGMC's top priorities until it is accomplished. Dedicated funding not only provides cities with a source of dollars to keep up with infrastructure needs but being able to rely on those dollars year to year allows cities to plan for and make the best use of state resources.

Municipal State Aid (MSA) for cities greater than 5,000 in population

Cities with populations greater than 5,000 receive Municipal State Aid (MSA) funding for some of their city streets. The Minnesota Constitution limits eligibility for MSA dollars to up to 20% of the streets in these cities, meaning the rest are funded by special assessments and local property taxpayers.

In 2022, total funding for MSA is $226.2 million, allocated to 150 cities—84 of which are in the Twin Cities metropolitan area and 66 of which are in Greater Minnesota. Minnesota Statute § 162.13 sets out a two-part formula for allocating the dollars:

- 50% is divided proportionally based on population, compared to the total for all MSA-eligible cities
- 50% is proportional based on "city construction needs"

The "city construction needs" calculation is not a precise calculation of total costs in each city but is designed to enable comparison across all eligible cities. These calculations are reviewed by a screening board made up of city engineers.

Additional, sustainable funding for the MSA program is one of the primary reasons the CGMC supports increasing transportation-related funding sources like fuel and registration taxes.

Funding highway safety and expansion projects

Corridors of Commerce

There are infamous long-awaited infrastructure projects in nearly every corner of the state. Addressing these problems can often cost tens of millions of dollars—significantly more than local governments can come up with on their own.

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

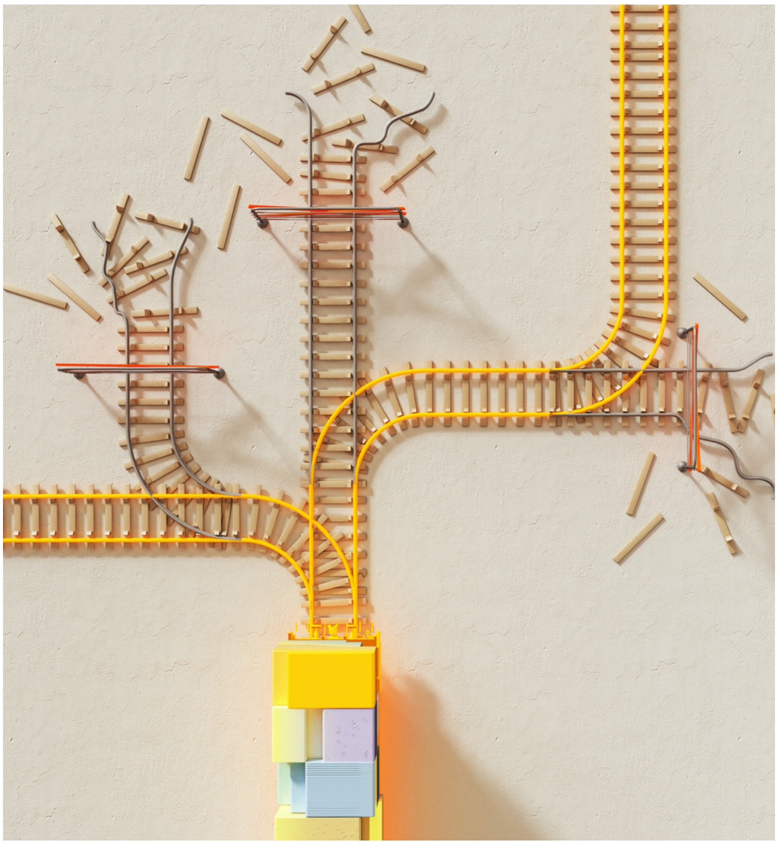
However, in 2017 the Legislature put new project selection criteria in place, under which MnDOT created a new scoring process. These changes were made to increase transparency and objectivity in the program, but they have had unintended consequences. Namely, the more rigid project selection criteria have led to fewer projects funded, less geographic balance, and non-shovel-ready projects scoring higher than ones ready to be constructed.

MnDOT has significant concerns about administering the program in its current form, and many transportation advocates are unhappy with the selection criteria. Still, Minnesota needs a program like this to address vital needs across the entire state, but the Corridors of Commerce program warrants a significant overhaul to restore its effectiveness.

The Legislature recently appropriated $250 million in additional funding to the program through the 2021 transportation bill, and MnDOT issued a call for project recommendations on August 1, 2022. However, the underlying scoring process remains flawed after attempts to modify the program during the 2022 legislative session came up short. The CGMC supports modifying the program's selection process and criteria to ensure better geographic balance and program effectiveness early in the 2023 legislative session so that the changes to the program are in effect for the current project selection round and beyond.

Local Road Improvement Program/Local Bridge Replacement Program

The Local Road Improvement Program and Local Bridge Replacement and Rehabilitation Program are competitive grant programs formed to help local governments pay for the construction and reconstruction of local roads and bridges. The programs are primarily funded by state general obligation bonds. In recent years, the CGMC has supported allocating at least $100 million in bonding to each program for each biennium. However, these dollars must be equitably distributed across the state to be the most effective.

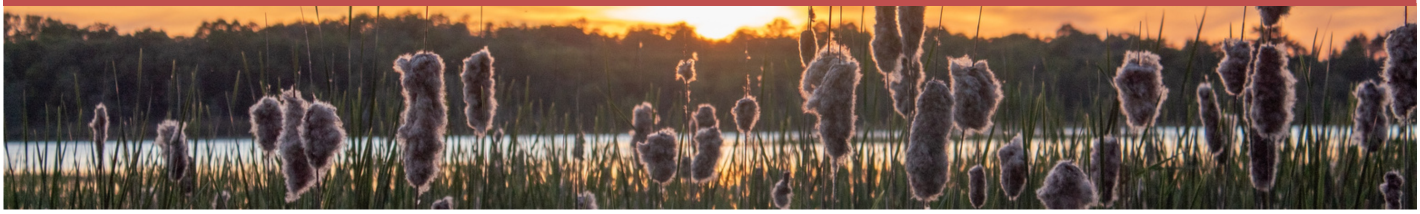


MnDOT administers the programs with input from an advisory panel comprised of local government organizations and engineers. Dollars awarded through this process are typically distributed equitably throughout both Greater Minnesota and the metro area. Still, the recent past provides cautionary tales where earmarks have dominated major allocations to the program. For example, in 2017 and 2018, the Legislature adopted two bonding bills. The bills combined 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 the earmarked projects were located in the metro area. The CGMC supports this program but insists on maintaining geographic balance.

Transportation Economic Development (TED) Program

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

ENVIRONMENT



Cities are responsible for ensuring that residents and businesses have safe, clean water to drink and that wastewater is properly treated before it reaches our state's rivers, streams and lakes. City officials take pride in their role as stewards of Minnesota's waters, but many worry that taking care of those waters is becoming prohibitively expensive for their communities.

The CGMC believes that Minnesota's environmental policies and regulations must prioritize human health and the environment while respecting community and economic development and other important local priorities and practices.

Cities play essential role in protecting Minnesota's waters

Most of us give little thought to what happens when we flush the toilet—our city governments deal with this unpleasant business so we don't have to! Almost all CGMC members, either individually or through joint ventures with other cities, operate wastewater treatment facilities that remove bacteria, contaminants and pollutants from the sewage that comes from our homes and businesses and then discharge cleaner water.

To operate a wastewater treatment facility, a city must obtain a permit, known as an National Pollutant Discharge Elimination System (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. Limits are based on water-quality standards that have been adopted by the MPCA and approved by the U.S. Environmental Protection Agency (EPA).

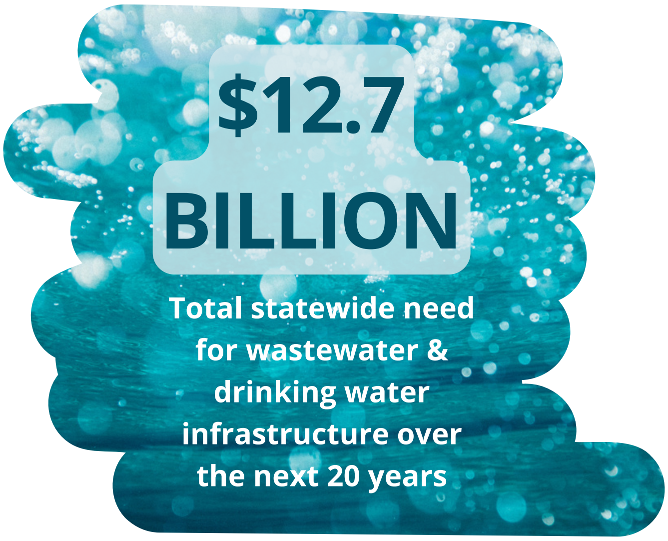
Regulatory system puts outsized burden on cities

Point vs. Non-Point Sources of Pollution	
Point	**Non-Point**
Pollution that comes from a single point, such as a pipe	Pollution resoluting from many diffuse sources, cause by runoff of precipitation over or through the ground
Wastewater facilities, factories, concentrated animal feeding operations	Municipal stormwater systems, construction-related runoff, agricultural discharge and run-off
Regulated under federal Clean Water Act	Not regulated under Clean Water Act; states have limited ability to regulate

Over the last 20 years, Minnesota has made significant progress in improving water quality, due largely to the efforts of wastewater treatment facilities, which are regulated as "point" sources. There is still room for improvement, but the biggest opportunity—and the biggest challenge—lies in decreasing pollution from "non-point" sources.

A challenge cities face is that state and federal agencies do not have authority to regulate and set discharge limits on nonpoint sources. As a result, when a new contaminant emerges or additional limits must be set on a known pollutant, municipal wastewater treatment facilities bear the brunt of cleanup even though they generally do not create that pollutant and often represent a small fraction of the total pollution. Minnesota's regulatory framework must address non-point sources as well the sources of emerging contaminants to truly protect our waters.

Greater Minnesota cities face expensive upgrades



Minnesota faces staggering water infrastructure costs of at least $5.3 billion for wastewater and $7.4 billion for drinking water for a total of $12.7 billion over the next 20 years, according to state agencies. Part of the cost stems from aging systems: many of our state's wastewater facilities, drinking water systems and sewer lines are nearing the end of their life span and need to be upgraded or replaced.

The other significant cost driver is the growing number of regulatory initiatives from the MPCA and EPA, including new or amended standards for phosphorus, chloride, mercury, sulfate in wild rice waters, and more. In addition, the MPCA continues to monitor for additional pollutants, which can result in more regulatory changes and expensive upgrades.

Metro-area cities have a financial advantage over Greater Minnesota cities when paying for their water systems because the Metropolitan Council centralizes most of the wastewater services, offering enormous economies of scale. Although some Greater Minnesota cities can combine efforts, few are able to approach the same size and scale. This means the infrastructure and operational costs are spread over a much smaller rate base in Greater Minnesota. It costs millions (and often tens of millions) to upgrade or replace a facility—and that price tag does not include ongoing operation and maintenance costs.

Bonding bill must include significant investment in water infrastructure

Over the last several years, many lawmakers have recognized that the state's investment in water infrastructure must increase significantly to keep pace with growing needs. The most recent bonding bill, which passed in 2020, included $125 million for three critical water infrastructure grant and low-interest loan programs administered through the Public Facilities Authority (PFA):

- Point Source Implementation Grant Program
- Water Infrastructure Fund
- State matching funds for U.S. EPA Capitalization Grants

These funding programs are vital to Greater Minnesota cities, many of which could not afford to make necessary infrastructure upgrades without help from the state.

Two prime examples of recent grant and loan recipients are Two Harbors (population 3,511) and Babbitt (population 1,454). The cities were able to fund wastewater facility upgrades that cost $33.4 million and $17.8 million, respectively, through grants and loans administered through the Public Facilities Authority. If Two Harbors and Babbitt had been forced pay for the projects without state assistance, the increase in rates charged to local businesses and residents would have been astronomical.

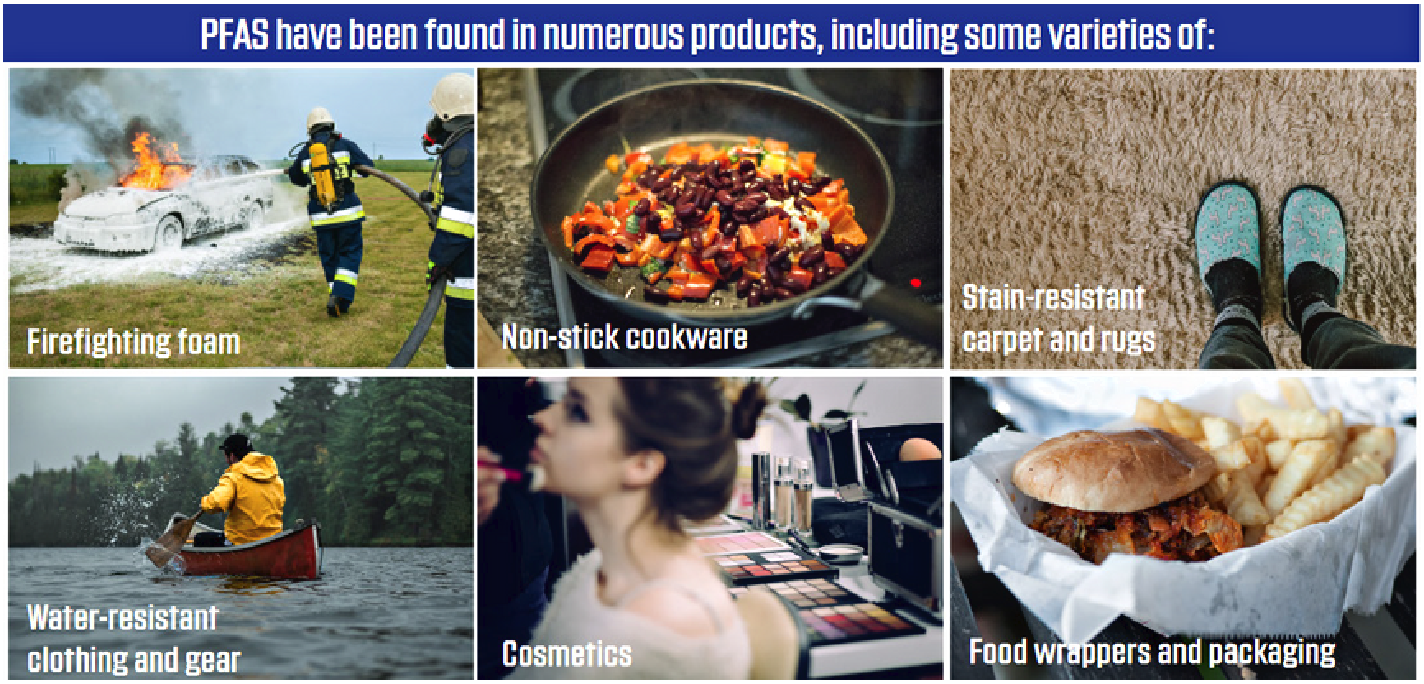
Failure to pass a bonding bill imperils projects

The need for significant state investment in these grant and loan programs has continued to grow unabated and has been exacerbated by rising inflation. The CGMC worked with a coalition of labor unions, contractors, and an environmental group to introduce legislation seeking $299 million in bonding for these programs and an additional $75 million ongoing appropriation so that every clean water project that is ready to move forward is not held back due to lack of funds. Nonetheless, the Legislature has failed to pass a bonding bill this year despite a budget surplus and growing needs. Failing to adopt a bonding bill will increase the cost of critical infrastructure projects and put Minnesota's waters at risk.

PFAS pollution: Cities don't create PFAS, but they want to be a part of the solution

Per- and polyfluoroalkyl substances (PFAS) are a class of synthetic chemicals that are highly persistent, pervasive and bioaccumulative. There are thousands of variations of PFAS; they have been found everywhere in the world and in more than 99% of the global population. Due to their stable nature and persistence, PFAS are sometimes referred to as "forever chemicals."

PFAS exposure is linked to a host of health problems, and the presence of these chemicals in drinking water is causing significant concern. Regulatory and legislative actions aimed at protecting water are being considered at the state and federal levels. When those efforts are aimed at municipal wastewater treatment facilities, it is problematic because there is no effective way to remove PFAS from wastewater.



Municipal wastewater treatment facilities are not sources of PFAS; they do not produce or manufacture PFAS, nor do they use PFAS in treating wastewater. However, as receivers of PFAS through outside sources, cities want to get ahead of this problem by focusing on prevention and they need the state's help to do so.

In 2021, the CGMC partnered with the League of Minnesota Cities and other stakeholders to pass the Municipal Source Reduction initiative that will develop source reduction tools for our communities. Looking ahead, the CGMC hopes to partner with the Legislature and agencies to fund and implement monitoring and source reduction solutions.

Find and replace all residential lead service lines

There is a looming public health crisis lurking beneath sidewalks and roads across the state: the presence of lead water lines and fixtures. An estimated 100,000 – 260,000 lead lines currently deliver drinking water into Minnesota homes. Old lead pipes and fixtures may be leaching lead into drinking water across the state, and the Center for Disease Control (CDC) and the American Academy of Pediatrics both acknowledge there is no safe level of lead exposure for children.

The federal Environmental Protection Agency (EPA) has set a deadline of October 2024 for all cities throughout the country to document and inventory the lead lines within their borders. Although federal resources help cover the mapping and replacement costs, those resources are limited and are not enough to meet the estimated cost. The CGMC urges legislators to step forward and assist our cities and citizens with lead pipe inventory and replacement costs.

Attack chloride pollution at the source

More than 100 Minnesota cities may be facing chloride limits in their wastewater permits. However, since there is currently no feasible method for removing chloride at a wastewater facility, most cities will need a variance from these requirements.

Even if a variance is granted, a city will still need to take efforts to reduce chloride. Some cities may be required to install central water softening, while others may be able to address the issue by working with citizens to remove and/or upgrade their home water softening equipment.

As more communities work to prevent chloride from reaching our water streams, legislative assistance is needed for grants to help cities with the removal or upgrade of home water softeners.

Build infrastructure to address extreme weather events

Severe weather events are causing extreme rain and flooding that can overwhelm aging sewers systems, cause wastewater releases, and erode riverbanks and endanger public and private property. Many cities lack the stormwater infrastructure needed to handle intense rains.

City budgets are tight and current Public Facilities Authority programs are not designed to fully meet the needs of Greater Minnesota communities to build out this infrastructure. Legislators should support additional funding in a bonding bill to help cities develop and pay for the infrastructure necessary to address extreme rain and weather events.

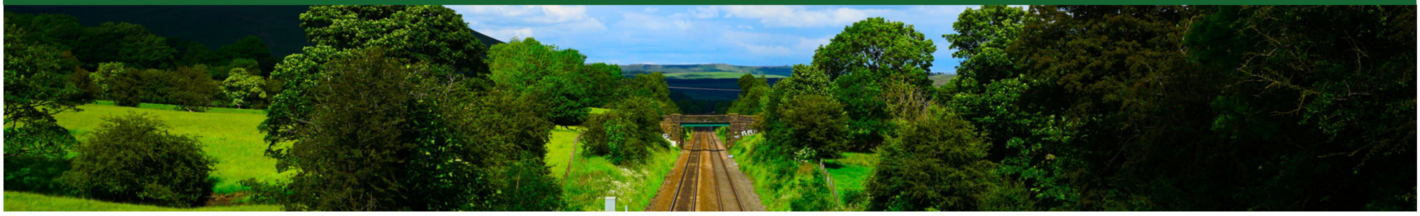
Fund innovative solutions to water pollution

With mounting infrastructure costs and emerging contaminants, it is apparent that we cannot spend our way out of all of Minnesota's water quality issues. Yet our current regulatory practices do not examine whether state and local governments are spending their limited financial resources on the most effective solutions.

Any plan for moving forward must look to collaborative and innovative approaches that incorporate reductions by all sources. To rethink how we address water quality issues, it is necessary bring stakeholders together and design more individualized approaches.

To develop more innovative, individualized approaches will likely require more funding, but if successful, the investments will pay off as we achieve better results for less money in the long run. In recent years, it has been proposed that local governments pay more in fees to help underwrite such innovation. Yet as discussed above, cities are often tasked with solving water quality problems they did not create. The CGMC urges legislators to put more general fund money toward developing water quality solutions while putting in place accountability measures to ensure such work happens.

ANNEXATION & LAND USE



The COVID-19 pandemic has clarified Minnesota's priorities for growth—protect open spaces, the environment and taxpayer resources. These priorities make sense. We all support 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 protects Minnesota's resources

CITIES & TOWNSHIPS

Different forms of government.

Different purposes.

Urban/Suburban	Rural
Residential (houses, townhomes, and apartments)	Rural residential (mostly houses on large plots of land)
Commercial businesses	Agriculture and natural resource-based industries
Manufacturing and industry	Open spaces
Services that promote livability (police, fire, libraries)	Limited services
Water, wastewater, and stormwater facilities	Septic systems and wells

When population, commercial or industrial growth occurs, it should happen in cities, which are designed to address the complex infrastructure needs that accompany growth. Annexation is the process used to facilitate that growth by bringing 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.

ANNEXATION METHODS

Automatic annexation (a.k.a annexation by ordinance): Accomplished without an expensive hearing under specific circumstances, such as a landowner request.

Negotiated agreement: The city and township negotiate an orderly annexation agreement.

Contested-case: If a city and township are unable to reach a negotiated agreement, an administrative law judge decides based on statutory criteria.

Keep 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 infrastructure costs through annexation

As mentioned in the previous "Environment" section, Minnesota is facing a water infrastructure crisis, with billions of dollars needed to upgrade and replace wastewater and drinking water facilities and systems throughout the state. To keep 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.

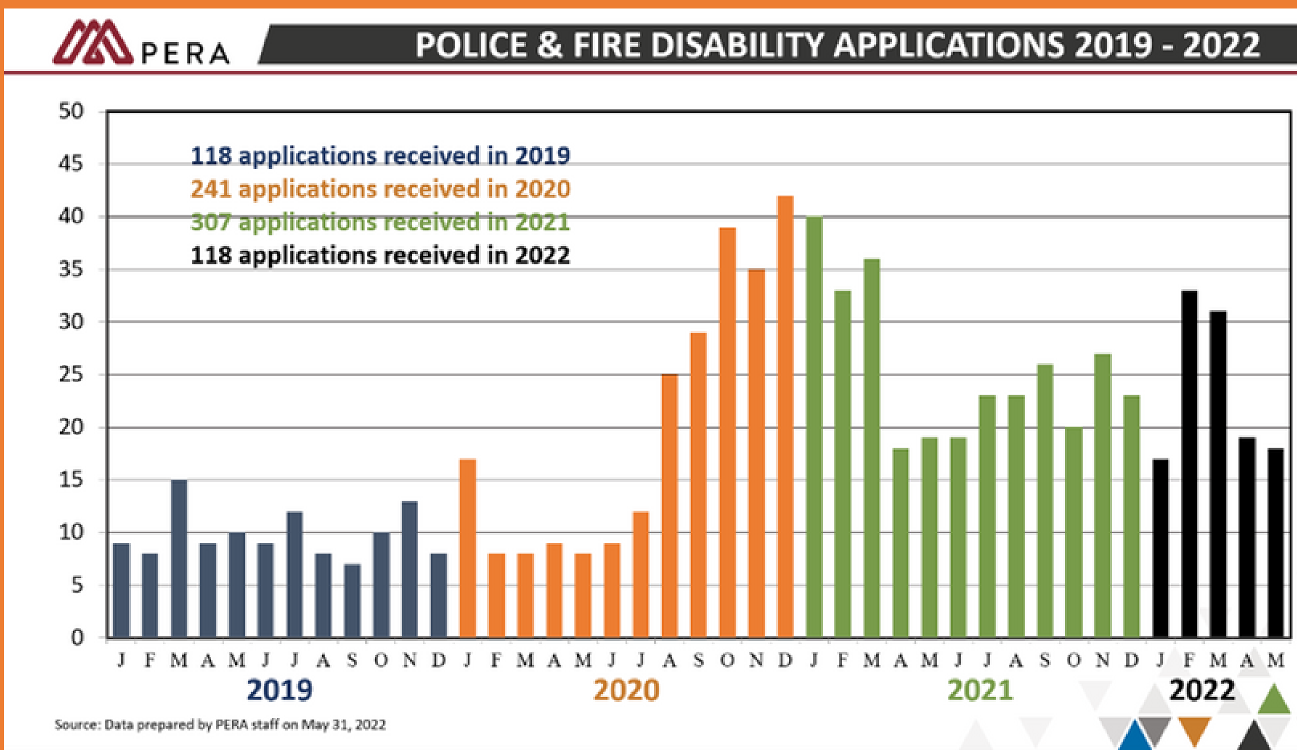
One community, not competing interests

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.

PUBLIC SAFETY OFFICER BENEFIT

Escalation in Duty Disability claims threatens city budgets and increases property taxes

Earlier retirements, including claims for duty disability, have skyrocketed among law enforcement officers and firefighters in the past couple of years. State law requires public employers to provide and contribute to health care coverage for employees who are designated as duty disabled and their dependents until age 65.



This benefit is available to public safety employees when they are deemed duty disabled by the Public Employee Retirement Association (PERA). "Duty disabled" means the employee has a medical condition that is the direct result of an injury incurred during or a disease arising from the performance of inherently dangerous duties specific to their position.

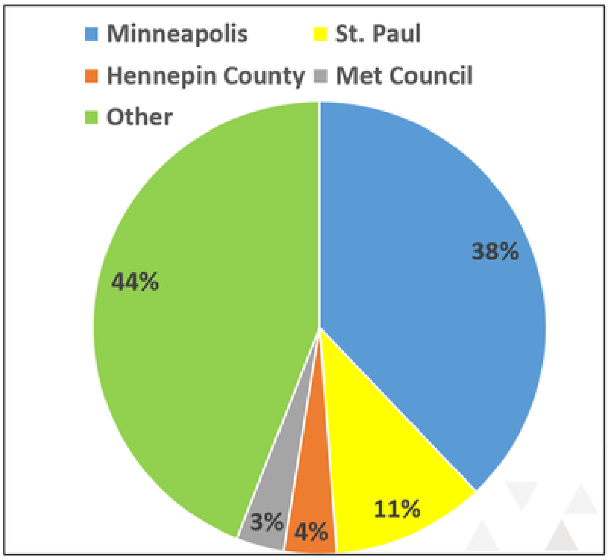
While it is imperative that public safety employees who experience health complications as a result of their service are taken care of, the dramatic increase in claims in the past five years, the significant rate at which PERA approves claims, and the resulting costs for local governments all demand increased attention from state policymakers.

Not just a Minneapolis issue

While police staffing issues in Minneapolis since the murder of George Floyd and subsequent civil unrest have received the most attention, it would be a mistake to believe that this is just a "Minneapolis issue." As the graph on the right shows, 62% of applications come from non-Minneapolis-related public employers.

In Greater Minnesota, we have seen a significant uptick in applications in cities and counties of all sizes. These applications, when successful, put considerable strain on local governments that are obligated to continue health insurance benefits for the employee and their dependents. The increasing number of these claims, their cost, and the limited ability for local governments to challenge the employee's actual eligibility for these benefits is becoming a significant policy concern for leaders in Greater Minnesota.

Applications by Employer



Source: *Data from PERA staff, data from August 17, 2020, to May 27, 2022.*

Projected total cost paid over twenty years for one claim

Health Insurance Coverage Type	Average City Premium Contribution 2022	Projected Average City Premium Contribution 2042	Average Total Cost Paid Towards Premiums Over 20 Years
Single	$740/mo	$1,337/mo	**$254,647**
Single + Dependent	$1,600/mo	$2,900/mo	**$550,589**

**Data based on 2022 CGMC Greater Minnesota Compensation Survey. Projection based on 3% annual increase due to inflation.*

State promises to pay costs have fallen short

The state fund created to support public employers to continue to pay for these benefits is not adequately funded. Currently, the state funds the program at $1.3 million annually. This amount is not enough to cover the number of claims the state receives. In 2021, only 21% of the claim request amounts were reimbursed, meaning that there were $5.1 million in claims from public employers that were not funded.

Additionally, the law is written so that reimbursements to cities are pro-rated based on the amount available and the number of eligible applicants. This policy has sharply decreased the amount cities receive, creating a significant financial burden on cities that is increasing every year. While there are likely many reforms to the system that could be explored, cities cannot wait for the many stakeholders to come to consensus on meaningful changes. **In the near term, it is imperative that full funding for these duty disability claims be included in the next state budget.**