**May 31, 2018**

Each year, as we approach the end of the legislative session, comparisons are made between successfully landing a plane and the successful completion of the session. Is the runway too short, is the runway too long? Are the three co-pilots who speak different languages able to communicate? Is there too much turbulence or a smooth glide path? The end of the 2018 Session appeared to more like an impending meteor – with last week’s veto by Governor Dayton of both the Federal Conformity/Tax Bill and the Omnibus Supplemental Budget, the meteor made a direct hit on virtually every Minnesotan.

This year, the Minnesota Legislature began facing turbulence prior to taking off in mid-February. Constitutional challenges to the Governor’s 2017 veto of the Legislature’s budget, the uncertainty of an agreement to re-instate their budget, questions around the ability of the Senate President to serve as both a Senator and as the Lt. Governor. The tone of the 2018 Session was harsh from the very beginning. The compressed schedule, a result of hosting the Super Bowl, and what started to look like a limited agenda of supplemental spending, tax conformity and a bonding bill quickly turned partisan.

Governor Dayton’s decision to not run for a third term in 2018, allowed him the freedom to focus on his legacy and the ability to address issues with less concern about the need to get anything done. With the Senate off the ballot in 2018, their focus was less on politics and more on policy. The members of the House needed to measure many of their decisions with an eye towards the November elections.

Many of the issues we tracked on behalf of the Minnesota Association of Convention and Visitors Bureaus we tied to either the 900 plus page Supplemental Budget Bill or the Tax Bill. Ultimately both bills were vetoed. In fact, the Governor vetoed two tax bills in the end of the legislative session. The final bills did not represent an agreement with the Dayton Administration.  While both proposals received bipartisan support, there were too many provisions included in the bills which the Governor found offensive. The initial Tax Bill included the following provisions of concern the MACVB:

* St. Cloud –
  + .5% increase, after a general election referendum, to the local food and beverage tax.  The funding was authorized to support improvements to the Municipal Athletic Center.
  + 1% increase, after a general election referendum, to the local lodging tax, raising the overall tax to 3%.  The funds were only available to support the marketing and promotion of the Municipal Athletic Center.  The funds were not authorized for the improvement, maintenance or operation of the Municipal Athletic Center.
* St. Paul –
  + Based upon the support of local lodging businesses, the Tax Bill increased the St. Paul Lodging tax by 1%, raising the overall rate to 4%. The funds were authorized for the marketing and support of the St Paul Convention and Visitors efforts.
* Language to address ownership and tax status of certain resorts.

The initial Tax bill did not include any of the following provisions:

* Ely Veterans Lodge lodging tax avoidance.
* Minneapolis Lodging Tax – language allowing the city tax cap to be exceeded was not included in the bill.
* Intermediaries – no provisions were included.

The Second Tax Bill provided minor changes from the initial bill and included the provisions on St. Cloud, St. Paul and the resort ownership clarifications. However, the second Tax Bill did include language allowing the city of Minneapolis to increase their current lodging tax back to 3%. While the city had been hoping for language eliminating the overall cap, the legislature was only willing to raise the limit to a point where the 3% could be implemented. If other sales taxes are increased in Minneapolis, the city will once again need to reduce the local lodging tax.

In addition to appropriating funds, the Supplemental Budget Bill included several policy provisions. The bill did not include any changes to the Labor Day School Start. The Governor did sign the Bonding Bill which provided more than $1.5 billion in spending on construction projects across the state. The following tourism related projects were included in the bill.

* $8 million appropriation for an expansion of the National Eagle Center in Wabasha and related riverfront redevelopment work.
* $5 million to tear down the existing parking ramp at RiverCentre in St. Paul. Visit St. Paul, the city of St. Paul and the Minnesota Wild had requested over $50 million to fund both demolition and a portion of the cost of reconstruction.
* $1 million appropriation for repairs and restoration of the Stone Arch Bridge in Minneapolis. The city and the Minnesota Department of Transportation had requested $13 million for the work.

At this point, it appears no special session will be called to try and redo any of the legislative work from 2018. The state’s biennial budget was set by the 2017 Legislature and the vetoed bills are not necessary for the state to continue their normal operations. The Governor and Senate Majority Leader did leave open the opportunity for a special session after the November election. The session would likely be limited to passing a bill providing for federal tax conformity and simplifying the process for filing tax returns in the spring of 2019.

Much of the attention now turns to the November election. Minnesota continues to maintain a purple hue. Currently it seems the state will be ground zero in one of our two U.S. Senate elections, four of our eight congressional races, the open Governor’s seat and a battle to switch to DFL control both the Minnesota House and Senate. Currently, it’s impossible to speculate on the outcome of the fall elections.

* **Federal Elections –**

DFL Senator Amy Klobuchar should cruise to an easy re-election this fall. She continues to be ranked as the most popular elected official in the State of Minnesota. In addition to Klobuchar, the resignation of DFL Senator Al Franken puts his former seat on the ballot in 2018. Former Lt. Governor Tina Smith was appointed to the seat until the November election. Smith lacks name recognition outside of the Twin Cities but is racing to build the resources necessary to defend her appointed seat. Her opponent, GOP State Senator Karin Housley, has strong name recognition and support in northern Minnesota where President Trump did exceedingly well in 2016. Given the timing of the election, most consider this an open seat in 2018.

GOP Congressmen Erik Paulsen (3rd Congressional District) and Jason Lewis (2nd Congressional District) are in seats heavily targeted by the DCCC. The Second District race will be a re-match of 2016. In the Third District, Rep. Paulsen faces a candidate with the ability to self-finance and a well-known family name. Dean Phillips his opponent is the former CEO of the family business, Phillips Distilling Company. It would not be surprising to see one or both seats flip in 2018.

In Minnesota’s First District, Congressman Tim Walz is running for Governor. Walz just narrowly defeated his opponent in 2016. This is a seat which continues to trend towards the GOP and is certainly a potential pick-up opportunity in 2018. In the Eighth District, Congressman Rick Nolan is retiring. This traditional DFL stronghold has continued to trend towards the GOP in recent years. A growing internal DFL rift between environmentalists and labor could deliver this seat to the GOP in November. The DFL candidate won’t be named until the primary in mid-August while the GOP has recruited a strong candidate in Pete Stauber.

* **Constitutional Offices -**

Two-term DFL Governor, Mark Dayton is retiring this November. The open seat has drawn substantial attention. The leading candidates appear to be DFL Congressman Tim Walz and former GOP Governor and Presidential Candidate, Tim Pawlenty. Both parties hold their endorsing conventions the first weekend in June. Walz appears to be leading in the race for the DFL endorsement, while Pawlenty a late entrant in the race is headed straight to the GOP Primary in August. Pawlenty, who announced his run in late March, raised over $1 million in campaign cash in just over three weeks after his announcement. Following Pawlenty’s announcement, the RGA made a substantial commitment towards the November General Election.

The GOP appears likely to endorse Jeff Johnson their 2014 candidate for Governor setting up an expensive and likely contentious August Primary. The DFL could also face an August Primary if State Auditor Rebecca Otto or State Representative and Former DFL House Majority Leader Erin Murphy are endorsed. While both candidates have pledged to abide by the endorsement process, Congressman Tim Walz has pledged to enter the Primary if he is not endorsed at the DFL Convention.

* **The Legislature –**

In 2018, the entire Minnesota House of Representatives will appear on the ballot. Currently, the GOP maintain a 76-56 seat advantage with both a traditional GOP and DFL seat vacant until the November election. The GOP vacancy is the result of House Majority Leader Joyce Peppin’s recently announced retirement. Control of the MN House will likely be determined by the GOP’s ability to maintain seats in suburban districts. The House GOP currently holds a substantial fundraising advantage over the House DFL.

Balance of the Minnesota Senate will also be determined in the fall after Sen. Michelle Fischbach, Republican, President of the Senate announced her decision to accept the Constitutional reality she must serve as Lt. Governor. Her ascension to Lt. Governor was the result of DFL Governor Dayton appointing former Lt. Governor Tina Smith to the open U.S. Senate seat. It was also announced in addition to serving as the LT. Governor in the Dayton Administration, she will also be running as Lt. Governor on the Pawlenty ticket.

We will continue to provide updates throughout the summer and as we head into the fall elections and prepare for the 2019 Legislative Session.