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Members of the Omnibus Tax Conference Committee,

On behalf of our 833-member cities, thank you for the opportunity to submit comment and positions on various provisions in both the third engrossment of HF2125 and the first unofficial engrossment of HF2125, House and Senate omnibus tax bills.

**Tax Credit Contribution Fund**

*Senate Article 2, section 30 (side-by-side page 24)*

The League appreciates the Senate language that provides the framework for the establishment of the Minnesota Housing Tax Credit Contribution Fund and authorizes a study on the impact that a tax credit would have on stimulating private sector and individual participation in developing and preserving affordable housing. League policy supports the full establishment of a tax credit contribution fund to allow flexibility for cities to create partnerships and leverage resources with private and public entities to meet locally identified housing needs.

**Sales Tax Exemption for Materials in Specific Local Government Facilities**

*House Article 3, section 24 (side-by-side page 30)*

The League supports a general sales tax exemption simplification for construction material purchases for all cities. Although the general law change was not included in either version of the omnibus tax bill, the specific city projects included in the bills illustrate the importance of the exemption to the cost of local projects.

**Historical Society Appropriations**

*House Article 5, section 1/Senate Article 4, Section 3 (side-by-side page 35)*

The League supports Section 1, which would allow a city or town to appropriate money from its general fund to fund a city or town historical society.

**State Assessed Property: House study and Senate Process Changes**

*House Article 5, Section 51/Senate Article 4, section 19-21 (side-by-side page 39)*

The League supports modifications to state law to reduce the financial impact of valuation challenges to state assessed property on local units of government. Although the League does not have a specific position on the House study of state assessed property or the Senate process changes in sections 19, 20 and 21, the House study would be an important step in understanding the magnitude of the issue. The Senate process changes would begin to reduce the uncertainty and impacts of challenges to the valuation of state-assessed property by accelerating the date by which the recommended assessment values for state-assessed property must be certified by the Commissioner of Revenue to the county auditor. The language in these sections would also require the Commissioner of Revenue to provide notice to the county auditor when an administrative appeal for state-assessed property located within the county is filed.

**Abatement of State General Levy for Natural Gas Pipeline Systems**

*Senate Article 4, section 23 (side-by-side page 40)*

The League supports economic development tools for cities and although the League does not have a specific position on Section 23, several member cities are struggling to upgrade their cities to receive natural gas service. Section 23 would provide an abatement from the state general levy for natural gas pipeline systems thereby encouraging deployment of natural gas service.

### **Fire Protection District Authorization**

*Senate Article 4, Sections 24 and 28 (side-by-side page 41)*

The League supports Sections 24 and 28 which would create a general framework to allow local units of government to create multi-jurisdictional fire protection districts. Many cities across the state are challenged to efficiently and adequately provide fire protection services and this framework, which is based on the successful Cloquet Fire Protection District, would allow jurisdictions to realize economies of scale in fire protection services. With elected official participation on the governing board, the League does not find the levy limit requirement necessary.

### **Extension of PERA Employer Pension Aid**

*House Article 6, section 1 (side-by-side page 45)*

The League supports extending this aid payment. The program was established in 1997 and at that time, included a sunset that corresponded with the full funding projections for the PERA General Plan. The House bill would extend this aid to the new full funding date for the plan based on last year's omnibus pension bill.

### **Local Government Aid Appropriation Increase**

*House Article 6, section 14 (side-by-side page 48)*

The League supports the appropriation increase for the LGA program. The LGA appropriation has been frozen for the past two years and funding for the program remains below the level distributed in 2002.

### **Local Sales Tax Process Changes**

*House Article 7, sections 1-4/Senate Article 6, sections 1-4 (side-by-side pages 50-51)*

The League does not have specific positions on House and Senate changes, which modify the requirements and processes cities must follow to secure authority to impose a local sales tax. Based on our revenue diversification policy, the League would share the following concerns with the House and Senate language:

The House bill would:

- Require a city to secure legislative approval prior to conducting a referendum. This change could delay projects to be funded with a sales tax. For example, if the 16 cities that successfully conducted referenda last November would have been required to secure legislative authorization during the 2019 session and then conduct the referendum this November, the earliest they could impose the tax would be April 1, 2020. Under the current process, they could possibly impose the sales tax by October 1, 2019.

The Senate bill:

- Would prohibit a political subdivision under 1,000 population from seeking a local sales tax. This would prevent 497 cities from the option of a local sales tax. In addition, the language would not clearly allow groups of smaller, neighboring cities from jointly seeking a regional local sales tax.
- Would prohibit cities from imposing a sales tax on motor vehicles. In some cities, vehicle dealers are a substantial portion of the retail activity. Currently 12 cities are authorized to impose up to a \$20 excise tax on motor vehicles.
- Requires the ballot question to include specific, detailed information on the sales tax uses in the ballot question and the ballot question must state *by voting yes on this ballot question, you may be voting for a property tax increase*. Although it is possible that a local sales tax will not generate sufficient revenue to repay bond obligations, this statement could be confusing to voters.
- Requires at the termination of the tax that cities remit any tax collections above the previous year's average quarterly collections to the state of Minnesota. If the tax is terminating based on date rather than collections, a city could be remitting local sales taxes to the state rather than using the revenues to pay bonds and then requiring the city to use property taxes to pay remaining debt service.

Both bills:

- Would require cities to make a finding of "clear regional benefit" for the projects to be funded with the sales tax including documentation on the economic benefits to persons and businesses located outside the city. This analysis might be difficult for some projects such as a community center or regional parks where users may not be identifiable as residents.
- Would limit the use of a city sales tax to five capital projects. This limit may need clarification. For example, is a parking ramp adjacent to a civic center one project or two?

**Specific Local Sales Taxes**

*House Article 7, sections 5-30/Senate Article 6, sections 6-34 (side-by-side pages 52-58)*

The League supports a general local sales tax authorization for cities that would permit the imposition of a local tax with council resolution and approval by voters.

**New Taxes and Fees Prohibited**

*Senate Article 6, section 5 (side-by-side pages 52)*

The League does not see the need for Section 5 which would prohibit cities, counties, towns or other taxing authority from increasing or imposing an excise tax on food or containers. Minn. Stat. § 477A.016 clearly and succinctly prohibits local jurisdictions from imposing or increasing taxes on sales or income.

**Repeal of City Three Percent Gambling Tax Authority**

*Senate Article 9, Section 27 (side-by-side page 68)*

The League opposes this loss of a dedicated revenue source. Cities use the proceeds of this tax to cover costs of inspection and administrative costs related to gambling operations. For example, many cities perform annual police department compliance checks and also monitor the lawful gambling organizations for compliance with their local ordinances such as requirements to use revenues within the city. Without this source of revenue, these city inspection and compliance activities would be funded from the property tax.

Sincerely,



Gary Carlson  
League of Minnesota Cities