



May 16, 2022

Rep. Marquart, Sen. Nelson and members of the Tax Conference Committee,

On behalf of the 837 members of the League of Minnesota Cities, we appreciate the opportunity to share written testimony regarding the League's positions on provisions contained in the House version (the third engrossment) and the Senate version (the second unofficial engrossment) of HF 3669, the omnibus tax bill.

**Local Government Aid:** The League supports *House Art. 5, Sects 1-9*, which reflect the LGA formula update recommendations of the League of Minnesota Cities, the Coalition of Greater Minnesota Cities, Metro Cities and the Minnesota Association of Small Cities. These changes are the result of months of research on the formula need definition conducted with non-partisan House and Senate staff on the existing formula factors and the newly available fiscal data, decennial Census data and American Community Survey. The last update to the LGA formula occurred in 2013 and the research strongly suggests that the existing formula factors from 2013 are not predicting changing city needs over the past decade.

**Construction sales tax refund:** The League supports *House Art. 3, Sect. 11*, which would provide a sales tax refund process for construction materials purchased by contractors and used in public facilities and public infrastructure. The provision is temporary and is effective retroactively from 7/1/2021 through 12/31/2022. We would urge you to make this provision permanent. The Senate includes an exemption for buildings principally used by school districts. Cities and counties are facing similar pressures due to construction cost increases and rising interest rates. The refund process for all local governments would offset some of these cost increases.

**4d Low-Income Rental Classification expansion:** The League opposes *Senate Art. 4, Sects. 7, 8 and 11*, which would modify the 4d Low-Income Rental Classification less than a year after modifications were made to the program that froze the first-tier valuation threshold indexed to 4a market-rate units to \$100,000 for two assessment years. Our primary concern is the elimination of the first-tier class rate of qualifying 4d units from 0.75 to 0.25 that will result in a property tax shift onto all existing property taxpayers without any guaranty that the additional tax break would result in additional benefit to 4d renters. While we appreciate the local approval requirement, this provision appears to not apply to existing property owners that may only have a portion of their units designated as 4d units in their building that may want to transition more of their existing non-4d units to 4d units given the more favorable property tax break with the class-rate change. We also appreciate the transition aid in *Senate Art. 5, Sect. 7*. However, it is important to note that the aid only partially offsets the impact to the local property tax base, is provided only for two-years and is static without regard to any new 4d-units in existing or new buildings that come online.

**Tax Increment Financing:** We support *House Art. 6, Sects. 1-11 and Senate Art. 8, Sects. 1-4 and 6-11*, which reflect the policy and technical tax increment financing recommendations of a working group initiated by the Office of the State Auditor and included representatives of cities, counties, school districts and TIF experts. These changes will address many technical but important ambiguities in state statute.

**Historic Structure Tax Credit:** The League supports *House Art. 2, Sect. 20/Senate Art. 2, Sect. 25*, which extends the historic structure rehabilitation tax credit. The temporary extension in the House bill or the elimination of the sunset provision of the tax credit in the Senate bill will provide greater certainty to cities and their project developer partners who utilize the credit to overcome barriers to rehabilitate and re-use historic buildings. The continuation of the Minnesota Historic Structure Rehabilitation Tax Credit will support

investment in historic preservation across the state, stimulate job growth, increase local tax bases, and help attract private investment to assist many Minnesota cities that are seeking to revitalize historic structures.

**Electric generation facility decommissioning transition aid:** The League supports *Senate Art. 5, Sect. 5* that would establish a transition aid program for cities that experience the decommissioning of an electric generating power plant. The aid would offset tax increases to other properties and would gradually phase-out. This provision is critical to a handful of our member cities that are experiencing the decommissioning of an electric generating power plant that without this aid, would be facing substantial impacts to their property tax bases.

**Affordable housing aid:** The League strongly supports *House Art 5, Section 17*, the new local affordable housing aid program. The establishment of new flexible state aid of \$8 million annually to cities to address locally identified housing needs will further strengthen the state-local partnership when it comes to affordable and workforce housing efforts and bolster local innovation to address a myriad of housing issues.

**Local Government Aid payment acceleration:** The League supports *House Art. 10, Sect 3*, which would dedicate future state budget surpluses to accelerate the payments of LGA. During budget deficits in the early 1980s, the distribution schedule was shifted to the current backloaded structure where payments are made to cities in July and December. This provision will use future surpluses to accelerate a portion of the July LGA payment to March 15.

**Local Sales Tax Process:** The League supports *House Art. 7, Sect. 3* which would clarify the date on which a local sales tax referendum must be conducted. The existing language in statute specifies only that the election be held at a general election which raises confusion about whether the referendum must be held in conjunction with a city's election or at any November election. "General election" is not defined in Minn. Stat § 297A.99, the statute governing local sales taxes however Minn. Stat. § 200.02 defines general election to mean "an election held at regular intervals on a day determined by law or charter at which the voters of the state or any of its subdivisions choose by ballot public officials or presidential electors."

**Direct Property Tax Relief:** The League supports the changes to the "Targeting property tax refund" in *House Art. 10, Sect. 9/Senate Art. 4, Sect. 20* which would reduce the property tax increase threshold to 10 percent from the current 12 percent and increase the maximum refund to \$2,000 from the current \$1,000. The League also generally supports the changes in *House Art. 8, Sects. 1-22* and *House Art. 10 Sect. 8*, which would increase the renters' refund and the homestead credit refund programs. Although Local Government Aid is a key program to assure cities across the state can adequately provide services to residents, these programs assure that the tax burdens defined by the classification system, changes in market values and city, county and school levy decisions do not overly burden individual taxpayers and importantly, these programs achieve targeted relief without creating property tax shifts to other types of property.

Thank you,



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