

February 15, 2021

Members of the Minnesota Legislature,

As the legislature sets a FY 2022-23 biennial state budget, you will be determining how best to invest limited resources to respond to COVID pandemic and revitalize local economies across the state. Minnesota's cities, counties, towns, school districts, and non-profits make similar decisions and the investments we make in critical public infrastructure—like wastewater treatment facilities, roads and bridges, elementary schools, and public safety facilities—supports needed jobs and economic stimulus. Unfortunately, these projects are often made more expensive because local entities find themselves paying sales taxes on the construction materials incorporated into projects. We encourage you to streamline the sales tax exemption for construction materials in 2021 to eliminate administrative burdens and save local entities millions of dollars.

In 2013, the legislature reinstated the sales tax exemption for most purchases made by local governments. Local governments paid the sales tax since 1992 when it was used to solve a budget crisis. However, to receive the exemption for construction materials, supplies, and equipment used in infrastructure projects, local entities must follow a cumbersome set of rules that add administrative burden, shift considerable risk on local entities, and increase costs. As a result, most local entities determine it is more cost effective to not pursue the sales tax exemption.

The Department of Revenue established rules to ensure that the sales tax exemption is realized only by the exempt entity. They require local governments to separately bid labor and materials, designate the contractor as a legal purchasing agent on behalf of the local unit of government, and assume the liability for damages caused by defective materials or delivery delays.

HF768 (Swedzinski)/SF216 (Rarick) would streamline the process for local entities to access the sales tax exemption. Contractor purchases on behalf of local entities will be subject to the sales tax, but a local entity



will be able to apply to the state for a refund of the sales taxes paid. This will allow local entities to use traditional contracting process, avoiding the added expense and administrative burden of breaking up construction contracts and assuming liability for materials.

A streamlined sales tax exemption will maximize local resources used to upgrade critical infrastructure, benefiting residents in every corner of Minnesota and apply evenly to all types of local construction projects. We thank you for your continued support and attention to this important issue.

Sincerely

League of Minnesota Cities

Association of Minnesota Counties

Minnesota School Boards Association

Minnesota Council of Nonprofits

Minnesota Association of Townships

Associated General Contractors of Mn

Minnesota Inter-County Association

Coalition of Greater Minnesota Cities

Association of Metro Municipalities

Minnesota Municipal Utilities Association

Minnesota Transportation Alliance

Municipal Legislative Commission

Minnesota Rural Counties

Minnesota County Engineers Association

Hennepin County

Ramsey County

