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May 16, 2022

Representative Paul Marquart, Chair
House Taxes Committee
597 State Office Building
75 Dr. Martin Luther King, Jr. Blvd.
Saint Paul, MN 55155

Senator Carla Nelson, Chair
Senate Taxes Committee
3235 Minnesota Senate Building
95 University Avenue W.
Saint Paul, MN 55155

Dear Chair Marquart, Chair Nelson, and Tax Conference Committee Members:

The Minnesota Inter-County Association (MICA) represents fifteen of Minnesota's larger and faster growing counties, including four suburban and 11 Greater MN counties.

Local property tax is the second largest tax Minnesotans pay to fund the mix of state and local functions they rely on each day. For counties, property tax and intergovernmental aid make up well over 90 percent of total county revenues. However, over the past twenty years, property tax has increased from about 36% to 45% of total revenues, because intergovernmental aid meant to fund the costs of state mandates has not kept pace with inflation. Those trends, combined with rapidly rising market values for residential properties, are now exacerbating property tax concerns.

As you work to resolve HF3669 differences, we urge you include property tax relief provisions in the final agreement. In particular, we respectfully urge:

- **Refund of State Sales Tax on Purchase of Construction Materials by Local Governments**—Simplification of this exemption would allow a refund of all sales tax paid on construction materials, which is fairer than a project-by-project approach and keeps local funds focused on local infrastructure needs. A broad coalition of local government, non-profit, contracting partners, and labor support this change. We appreciate that both the Governor, House, and Senate have put forward proposals, and urge a permanent refund exemption for all local projects for all construction materials purchases.
- **Increased County Program Aid (CPA)** – CPA has not kept pace with inflation and is at the same level today as it was twenty years ago. We appreciate that the *House Article 5, Section 10* increases CPA by \$13.0 million annually beginning in 2023. Annual CPA appropriations would be well-over \$100 million higher today if they had kept pace with inflation and population growth. We encourage a larger CPA increase and one that is commensurate with any LGA increase.

- **Increased Payment-in-Lieu-of-Taxes (PILT)** payments from \$2 to \$3 per acre the payment amounts for other natural resource lands. We also support indexing future per acre amounts to inflation and setting a floor on allowable changes in appraised values for PILT purposes (*House Article 5, Section 11-13*). This change achieves the statutory purpose of ensuring PILT address areas with a disproportionate share of tax-exempt natural resource lands.
- **Redirecting Solid Waste Management Tax (SWMT) to Increased SCORE Grants** – The SWMT was established to help divert trash from landfills by promoting waste reduction, reuse, and recycling. Less than 20% of SWMT revenues go to counties in SCORE grants for that work, even though counties are solely accountable for meeting state mandated recycling goals. We support redirecting the 30% of SWMT revenue that is currently deposited into the General Fund to SCORE grants and thank the House for *House Article 10, section 13*, redirecting 3% to increased SCORE grants.
- **Expanding the Senior Property Tax Deferral** – by increasing the income eligibility threshold and reducing the time a person 65 years of age or older must have lived in their current home to qualify (*House Article 4, Sections 30-33; Senate, Article 4, Sections 21-24*).
- **Increased ‘Additional’ Homeowner Property Tax Refund** – by reducing, from 12% to 10%, the year-to-year increase that qualifies for partial refunding and increasing the maximum refund from \$1000 to \$2000 (*House Article 10, Section 9; Senate Article 4, Section 20*).
- **Homestead Market Value Exclusion Expansion** – This statewide relief for homeowners has not been adjusted to reflect growth in home values since it was created. It provides property tax relief for low and moderately valued homes. We appreciate that both the House and Senate have included adjustments to the exclusion that will, in the near-term, help moderate property tax levels for most homeowners (*House Article 4, Section 23; Senate Article 4, Section 13*).

In addition, we also appreciate and support new initiatives that will support county and partner efforts to respond to growing and unmet needs, including:

- **Soil and Water Conservation District Aid** (*House Article 5, Section 14*)
- **Local Affordable Housing Aid** (*House Article 5, Section 17*).
- **Interest Rate Relief–Delinquent Taxes** (*House Article 4, Section 27-28; Senate Article 4, Section 18-19*).
- **One-time additional Rental Assistance Funding** (*House Article 10, section 32*).

While our Association does not have a formal position on renter and homeowner property tax refund programs, we also recognize and support that those programs, along with local aids and credits, are an essential component of property tax mitigation efforts.

If the conference committee provides one-time funding to counties for additional pandemic business and community relief grants (\$50 million in *House Article 10, section 32*), we recommend a higher administrative cost be allowed. Most counties indicate this work would need to be performed a third-party provider. Further, we suggest broad flexibility for counties to distribute the grant funds similar to past pandemic relief and recovery grants.

Finally, we caution the conference commit from adopting or expanding property tax class rate, exclusions, or exemptions aimed at providing relief or incentives to certain categories of property. Providing relief to narrow categories of property owners shifts property tax levy on to other classes of property, such as homeowners, renters, and businesses. Specific proposals of concern include a further reduced 4d low-income housing class rate and creation of a new affordable housing exclusion, and exclusions. MICA supports the policy objectives of these programs but suggests direct state funding be considered to achieve these policy goals.

Thank you Chairs Marquart, Nelson, Youakim, Weber, and all conference committee members for your leadership and expertise on these important property tax issues.

Sincerely,



Matt Massman, *Executive Director*
Minnesota Inter-County Association
651-222-8737 (office)
763-458-1681 (cell)