



March 1, 2021

Representative Greg Davids  
283 State Office Building  
St. Paul, MN 55155

Dear Representative Davids,

On behalf of the 835 members of the League of Minnesota Cities, I am writing to indicate our support for H.F. 1503, your bill that would streamline the process for local units of government to secure the sales tax exemption for materials and supplies used or consumed in and equipment incorporated into the construction, remodeling, expansion, or improvement of fire stations or police stations, including related facilities, owned and operated by a local government. Many of the city-specific exemptions sought in the past several years have covered these types of facilities. Your bill would allow every local government seeking to construct these facilities eligible for the exemption. The League also supports the broader bills to simplify the exemption for all local government construction projects where construction contractors are used.

Under current law (Minn. Stat. § 297A.70) and rule (Minn. Rules 8130.1200), in order for cities, counties, towns and school districts to receive the benefit of the sales tax exemption for building construction, or reconstruction materials, supplies, and equipment used in public buildings and public infrastructure projects, they must follow a very cumbersome set of rules that require local units of government 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.

The current required process to secure the sales tax exemption adds considerable risk and potential cost to the contracting process, and as a result, many cities, counties, towns and school districts choose not to pursue the sales tax exemption at all. According to the MN Department of Revenue analysis, local units of government are foregoing the sales tax exemption which is estimated to increase local public safety project costs by an estimated \$4.38 million in FY2023, the first full year of implementation.

Under H.F. 1503, contractor purchases on behalf of cities and other local units of government for public safety facilities will initially be subject to the sales tax, but a city would now be able to apply to the state for a refund of the sales tax paid after completion of the project. This refund process has been authorized by the legislature in the past for many specific projects. Your general law approach would allow all local units of government constructing public safety facilities to receive the benefit of the exemption while allowing the Department of Revenue to ensure that the sales tax savings are realized only by the exempt local unit of government.

Again, thank you for your support of this important simplification for cities and local governments across the state of Minnesota.

Sincerely,

A handwritten signature in black ink that reads "Gary N. Carlson".

Gary Carlson  
League of Minnesota Cities