

February 15, 2023

Chair Gomez and House Tax Committee Members:

Minnesota’s cities, counties, towns, school districts, non-profits, municipal utilities, labor, contractor, and local project partners **strongly support HF1603 authored by Representative Matt Norris to simplify the process by which local governments and non-profits receive the sales tax exemption on construction material purchases.**

The current challenging process increases the cost of local construction projects, and local property taxes, by roughly \$70 million each year.

Funding from the federal Infrastructure Investment and Jobs Act (IIJA) – along with state bond authorizations, local funding contributions, and other federal funding sources – provide a historic opportunity to fix and modernize poor and unsafe public infrastructure. The increased investment in wastewater treatment facilities, roads and bridges, elementary schools, public transit, broadband, and related infrastructure, will create jobs, enhance equity, and promote resiliency.

Unfortunately, these projects will cost more in Minnesota because local entities must allocate project funds to pay state sales tax on the construction materials incorporated into projects. As a result, a portion of the increased infrastructure investment leveraged by the IIJA will, in effect, simply circle back as state tax revenues, rather than being spent in the classroom, on more lane miles of road construction, or to moderate property taxes.

We encourage that the sales tax exemption for construction materials be streamlined in 2023 to eliminate administrative burdens and save local entities millions of dollars annually.

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 rather than bid separately for taxable items and then pay to store, insure, and assume liability for damaged and defective materials.

This refund exemption has historically received bi-partisan support and **HF1603 is co-sponsored by Representatives Swedzinski, Coulter, Davids, and Youakim. Further, Governor Walz and Lt. Governor Flanagan have once again recommended a broad-based refund exemption that covers all local projects** for a three-and-one-half year period.

Our coalition will work with all legislators to achieve passage of permanent, general law change in 2023. Doing so 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.

- Minnesota Inter-County Association
- League of Minnesota Cities
- Association of Minnesota Counties
- Minnesota School Boards Association
- Minnesota Association of Townships
- Minnesota Council of Nonprofits
- Associated General Contractors of Minnesota
- LIUNA Minnesota and North Dakota
- International Union of Operating Engineers - Local 49
- North Central States Regional Council of Carpenters
- 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
- Metropolitan Airports Commission
- Hennepin County
- Ramsey County

