



March 22, 2023

Dear Chair Lislegard and members of the House Property Tax Division:

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 delete everything author's amendment (A23-0086) to HF 1377 the 2023 House Property Tax Division Report.

Local Government Aid

Article 3 Sections 12 & 14 increases the local government aid appropriation by \$100 million and indexes the appropriation for inflation. We strongly support this provision and view it as an important step in restoring the state-local fiscal partnership in Minnesota. LGA can help cities pay for core services such as public safety, street maintenance and repairs, economic development, and housing. It also helps prevent those costs from being paid entirely by higher property taxes. Indexing Local Government Aid for inflation will also make the formula more responsive to city needs in the future without relying on appropriation increases. Article 3 also includes the LGA formula update recommendations from 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. We strongly support this update as well.

Direct Property Tax Relief

The League generally supports the homestead credit refund and increasing the amounts as proposed in Article 3 Section 2. Although Local Government Aid is a key program to assure cities across the state can adequately provide services to residents and hold down levies, this program assures that the tax burdens do not overly burden individual homeowners and importantly, these programs achieve targeted relief without creating property tax shifts to other types of property. The League is also generally supportive of increasing participation in property tax refunds as Article 4 intends by converting the Renters Credit to an income tax credit. According to analysis from the Department of Revenue, approximately 119,000 renters currently eligible but not claiming a renters credit would receive the proposed income tax credit.

Homestead Market Value Exclusion

The League is supportive of the language in Article 1, Section 8 which increases the Homestead Market Value Exclusion. The language would increase the exclusion for most homesteads. The exclusion would be totally phased out for homes over \$437,100. Given that the exclusion has remained static for over ten years and the recent rapid increase in home values, the League of Minnesota Cities supports modifications to the homestead market value exclusion to increase the benefit of the exclusion to qualifying homeowners.

Local Government Aid Penalty Forgiveness

We appreciate the provisions in Article 3, Sections 23 and 24 that will allow the cities of Morton and Echo to receive the balance of their 2021 LGA and Small Cities Assistance Aid. The League works closely with the Office of the State Auditor each fall to identify and work with cities that have not complied with the financial reporting requirement.

Electric Generation Transition Aid

The League supports Article 3, Section 19 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 face substantial impacts to their property tax bases.

Tax Increment Financing

We support the technical tax increment financing general law changes included in Article 5 of the bill. We want to thank the Office of the State Auditor for facilitating discussions with cities, counties, school districts to address some technical but important ambiguities in state statute. Regarding the tax increment financing policy provisions included in the amendment, we would ask the division to consider whether it may be more appropriate to consider modifying the definition of small city by decreasing the required distance from the nearest Minnesota city with a population over 10,000 from ten to five miles. While the delete everything amendment allows for this change for several specific cities, it may make more sense to consider the broader statewide policy. Economic development districts only comprise about 18% of all TIF districts statewide and they have much shorter durations than other types of TIF districts. While we would not anticipate widespread use of this new authority, it would provide equal treatment for all cities across the state.

Thank you for your consideration,



Nathan Jesson
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League of Minnesota Cities