

May 17, 2022

House Tax Chair Representative Paul Marquart
Senate Tax Chair Senator Carla Nelson
HF3669 Conference Committee Members

Minnesota's cities, counties, towns, school districts, non-profits, municipal utilities, labor, contractor, and local project partners strongly support legislative action in 2022 to enact an **overdue simplification of 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.

We are thankful that proposals to enact this refund exemption have had bi-partisan authorship and support for many years. We thank Governor Walz for again recommending this change as part of his supplemental budget recommendations, and Chair Marquart and the House of Representatives for including the refund exemption, for a temporary 18-month period, in HF3669, the House Omnibus Tax Bill (*Article 3, sections 9, 11-15*). The Senate Tax Bill (HF3669-1st Unofficial Engrossment) extends a refund exemption to school districts only, beginning for purchases after June 30, 2024.

Background

Local governments began paying sales tax in 1992, when it was used to solve a state budget crisis. In 2013, the legislature reinstated the sales tax exemption for most purchases made by local governments. 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.



Now, 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. Unfortunately, in the absence of a refund exemption for all local projects, 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.

There is a broad awareness of the need for increased investment in wastewater treatment facilities, roads and bridges, elementary schools, public transit, broadband, and related infrastructure. Those projects will create jobs, enhance equity, and promote resiliency. We encourage that the sales tax exemption for construction materials be streamlined in 2022 to eliminate administrative burdens, save local entities millions of dollars annually, and ensure infrastructure dollars are spent on infrastructure.

- 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
- 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





In addition to the support of statewide, regional, labor, and industry associations, this legislation is also supported by the following entities whose project specific refund exemptions requests would be fulfilled by general law change.



American Water Works Association
MinnesotaSection



Metropolitan Airports Commission
St. Paul Regional Water Services
American Water Works Association Minnesota Section
Rock Ridge Public Schools