



June 16, 2021

House Tax Committee Members,

On behalf of the 835 members of the League of Minnesota Cities, we are writing to offer our input as you consider First Special Session, HF9, the omnibus tax bill agreement.

### **Minnesota Housing Tax Credit Contribution Fund**

The League supports the inclusion of language in Art. 1, Sec. 12 which creates the framework for the Minnesota housing tax credit and the language in Art. 1, Sec. 15 which creates the Minnesota housing tax credit contribution fund. Together, the provisions would allow taxpayers to receive a tax credit for contributions to the fund in support affordable housing development in communities across the state. The establishment of this innovative tool and the provision of \$10 million each year of the biennium for the credit will create new opportunities to encourage local businesses and members of the community to invest in affordable housing.

### **Fire Protection Districts**

The League supports the language in Art. 6, Sec. 1 that provides a framework to allow local units of government to jointly provide fire protection or emergency medical service through the establishment of fire protection special taxing districts. Under the provision, two or more political subdivisions are permitted to establish, by resolution of their governing bodies, a special taxing district to provide fire protection or emergency medical services, or both. The framework of the bill requires that the district be governed by a board consisting of representatives of each participating political subdivisions in the proportions set out in the district's establishing resolution. Each representative must be an elected member of their respective political subdivision.

### **4d Housing Class Rate reduction/study**

While the League supports the current 4d Low-Income rental classification, we were concerned about the previous Senate position to reduce the 4d class rate to a flat 0.25 percent due to the resulting property tax shifts to other property including naturally-occurring affordable housing. We also previously shared concern that the original Senate language lacked meaningful guardrails to ensure that the increased property tax savings were passed through as benefits to low-income renters. We appreciate the efforts to further mitigate the property tax shift in the current provision in the bill which would reset and freeze the tier break to \$100,000 for two years beginning in assessment year 2022 (Art. 6, Sect. 7). While the change still would result in a property tax shift, the shift is substantially less than the original Senate position.

The League also strongly believes that any expansion to the program should be informed by the robust and granular study included in First Special Session, HF9 (Art. 6, Sec. 19) to ensure that a balance is struck between meaningful change to the program and the impact on existing property tax bases.

### **Property tax process**

The bill (Art. 6, Sec. 12) includes substantial changes to the information required to be provided by cities of 500 population or larger in the tax hearing and notification process. We understand the intent of these changes to increase taxpayer understanding and involvement in the local budget-setting

process, however we are concerned that the volume of new information that must be produced and shared may overwhelm citizens. Essentially, cities over 500 population will be required to prepare summary budget information similar to the report submitted to the state auditor each January. This could provide substantial administrative burdens on cities, especially smaller less-resourced cities.

In addition, the effective date will require this new information to be produced and included in this fall's property tax hearing process. Given the delay in passing the omnibus tax bill, we would strongly urge a delay in the effective date until taxes payable in 2023 to allow cities and counties additional time to comply with the requirement.

### **Aids and Credits**

The League generally supports the provision (Art. 7, Sec. 3) which would create a one-year (2022) supplemental aid for cities that would offset an LGA reduction a city would otherwise experience in 2022. This one-time, one-year supplemental aid acknowledges the challenges cities have faced during the pandemic, including delayed and delinquent property tax collections, extraordinary costs and challenges of budgeting in a time of uncertainty. The League is also committed to reviewing and updating the current LGA formula to reflect changes in the factors used in the current version of the formula which was last significantly revised in 2013.

Although we do not have a specific policy position on the Homeless Prevention Aid (Art. 7, Sec. 2) and the funding being proposed for distribution to counties to address homelessness issues, homelessness continues to be a pressing issue in many areas of the state and the additional resources provided to counties will assist local efforts.

### **Tax increment financing flexibility**

The League supports the tax increment finance flexibility provisions (Art. 9, Sec. 1, 2, 3 & 4) that provide several temporary and permanent changes to the tax increment financing statutes including:

- temporary flexibility related to the use of unobligated TIF increment by allowing TIF authorities to provide improvements, loans, interest rate subsidies, or assistance in any form to private development consisting of construction or substantial rehabilitation of buildings and ancillary facilities, with certain requirements and restrictions or to make an equity investment that the authority determines is necessary to make construction of the development financially feasible.
- expanding the pooling rules to allow for expenditure of increment on certain housing projects located outside the district including qualifying owner-occupied housing;
- extending the five-year rule to eight years for redevelopment districts certified after December 31, 2017 and before June 30, 2020; and
- providing an extension of the six-year rule based on the extension of the five-year rule.

The League appreciates the inclusion of tax increment financing flexibility (Art. 9, Sec. 5) on a pilot program basis for those cities seeking the flexible use of tax increment financing to support their local housing trust funds. We encourage the future consideration of this flexibility to be applied to any city with a local housing trust fund as another way to support locally identified housing goals.

### **Extension of Historic Structure Tax Credit**

The League supports the inclusion of language in Art. 1, Sec. 10 that extends the Minnesota Historic Structure Tax Credit through fiscal year 2022. Given the importance of the Historic Structure Tax Credit to support investment in historic preservation across the state, we encourage extension beyond one year.

### **Local Sales Taxes**

The League's policies support general diversification of local revenue sources to reduce the pressure on the property tax, including a general authorization for local sales taxes for a defined list of regionally significant projects such as convention and civic centers, libraries, parks, trails and recreational facilities. The specific local requests included in the bill in Article 8 will assist individual communities with financing for projects that have spillover benefits to non-residents.

### **Omitted items**

#### *Public safety facility sales tax exemption*

The League is disappointed that the bill does not include the simplification of the sales tax exemption process for building materials used in local units of government public safety facilities. Both the House and the Senate bills included the provision.

#### *TIF Pooling*

While the League is appreciative of the inclusion of several provisions that would increase flexibility to utilize tax increment financing to address housing, we are disappointed that the House position to increase the percentage a district may elect to use for housing outside the district from ten to 25 percentage points was not included.

#### *State-assessed property value challenges*

Several recent state-assessed property owners have successfully challenged the valuations of their properties. As a result, cities, counties, schools and towns will be required to reimburse past property taxes. In some cases, these reimbursements will be substantial and financially challenging to these local jurisdictions. Although neither the House nor the Senate included provisions in their respective regular session tax bills, we encourage the legislature to include financial assistance to these jurisdictions in the tax bill or another special session bill in order to avoid severe local financial consequences.

Thank you for your consideration of our positions on these provisions in the House and Senate versions of the omnibus tax bill.



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