Chair Youakim and Members of the House Property Tax Division:

On the hearing of multiple tax increment financing (TIF) exceptions and lodging tax proposals, We Make Minnesota is writing to express our concerns about the use of local option revenue sources in Minnesota. Although our coalition does not currently oppose the use of these fiscal tools in any specific instance, we feel that local option funding proposals are an important indicator of our state's many unmet public investment needs. We wish to call the committee's attention to the haphazard and potentially inequitable investment patterns that these funding mechanisms may reinforce, and to encourage the committee to consider the needs of all Minnesota communities in the future, when making policy decisions that will affect general fund revenues and local government aid (LGA) policies that redistribute revenues across the state.

For local officials, generating funds for long-term investment is an admirable response to community needs in the realms of housing, infrastructure, and local development. But not all localities have equal opportunities to access or create such funds. In addition to the requisite economic position, local option revenues depend on administrative will and capabilities that do not exist in all jurisdictions. For example, underfunded rural communities receiving substantial tourist traffic may well benefit from lodging taxes, but this is not an option in areas without a substantial tourism industry. This does not make them any less in need of public investment, or their residents any less deserving of the basic building blocks of a safe and prosperous community. We should promote fiscal policies that uphold the values of the Minnesota Miracle and benefit all Minnesotans.

Rationing public investment by each community's ability to pay also means that the state will forego many worthwhile investments, and invest unevenly in communities across the state. For instance, the lack of affordable housing throughout Greater Minnesota has been cited as a major limiter on economic growth.[1] In the 2022-23 biennium, the state allocated just $126 million, or about 0.25 percent of total general fund spending, to housing finance. Similarly, in 2020, only $116 million or 6 percent of the state's bonding bill went to housing infrastructure. In the absence of adequate state investment, TIF has become a prominent tool in the creation of affordable housing, with 34 percent of TIF districts designated for housing in 2020. This is a problem for communities that, for various reasons, struggle or fail to create adequate funding through TIF. We hope that the Property Tax Division will remember that the current system is failing many communities when considering any changes affecting either general fund revenues or local government aid this session.

Speaking more specifically to the issue of TIF, there are a number of equity concerns that we hope the committee will bear in mind. TIF is founded on the notion that public revenue can be borrowed and paid back from the growth resulting from private development. But recent research by the Lincoln Institute of Land Policy suggests that TIF is most prominent in areas already seeing rapid economic growth, and that TIF districts may siphon revenue from other tax jurisdictions, such as school districts.[2] This research suggests that, rather than incentivizing new investment, TIF simply lowers developer costs at the public's expense. TIF may also accelerate gentrification, harming residents who become priced out. So, to the extent that Minnesota relies on TIF to develop underserved areas, it is likely not reaching communities that need it most. There are better tools at our state's disposal and we hope you will support them however possible.

Sincerely,

Eric H Bernstein

Eric Harris Bernstein
Policy Director, We Make MN

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[1] "Officials say a shortage of housing, not jobs, is crimping economic development in Greater Minnesota," MinnPost, Nov. 23, 2021.

[2] "TIF produces uneven results for economic development and needs reform," Lincoln Institute of Land Policy. Sep. 11, 2018.