



April 6, 2021

Chair Marquart and members of the House Tax Committee,

On behalf of the 835 members of the League of Minnesota Cities, we appreciate the opportunity to provide comments on the provisions included in the A21-0146 amendment to HF991.

Sales Taxes

The League supports the important step that Article 4, Section 5 represents to simplify the process by which local units of government can secure the sales tax exemption on construction materials used in a public safety facility when a contractor is used in a project. We will continue to work with legislators to secure this streamlined exemption process for all local government facilities and infrastructure including roads, water and wastewater treatment, storm sewer, and other important local facilities and infrastructure.

Property tax process

Article 7, Sections 18 to 21 include substantial changes to the current tax hearing and notification requirements. We understand the intent of these changes to increase taxpayer understanding and involvement in the local budget-setting process, however we are concerned with the additional hearing requirements and the volume of new information that must be produced and shared. 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.

The language further modifies the truth-in-taxation process by establishing an annual meeting date--the first Wednesday following the first Monday in December--to allow the public to provide input on proposed property tax levies for counties, cities with a population of at least 500, and school districts. The jurisdiction would be required to allow the public to participate in person or remotely. Counties must begin their meetings at 6:00 p.m., cities at 7:00 p.m., and school districts at 8:00 p.m. Each jurisdiction would be required to broadcast the meeting virtually and provide a method for public input both in-person and remotely. Transparency is important but we have concerns with the additional burden this would place on cities across the state.

Fire protection districts

The League supports Article 7, Sections 22 and 24 which allows local units of government to establish fire protection or emergency medical service districts. With changing demographics, the need for more specialization and challenges of attracting and retaining sufficient staff to protect our citizens, the League of Minnesota Cities recognizes that some regions of the state could sustain or improve public safety protection services if these districts were authorized. The League supports authority for local units of government to establish fire protection or emergency medical service

districts provided that 1) participation in a district is a local decision, and 2) public safety taxing districts must be governed by elected officials representing the participating entities.

Aids and Credits

Without an LGA appropriation increase in Article 8, Section 2, the special LGA distributions for the cities of Floodwood, Staples and Warren would essentially be borne by all other LGA recipient cities. The modest increase in the overall appropriation will ensure that other cities will continue to receive the LGA amount they currently expect.

Although we do not have a specific policy position on Article 8, Section 4, the Homelessness prevention aid 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.

Local 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 that are included in the bill will assist individual communities with financing for projects that have spillover benefits to non-residents.

4d Property tax study

The League supports the provision in Article 13, Section 24 that includes a League-supported study of the 4d low-income rental classification that would analyze the impact of expanding the program by reducing the first-tier classification rate of 4d property. Cities across the state have expressed concern that the proposal to reduce the class rate for 4d property would result in large shifts in property taxes to other homes and businesses against the backdrop of a changing property tax landscape due to the pandemic. The study would provide information to better inform the legislature as changes are considered to the 4d low-income rental classification. The information in the study would address not only the impact of the class rate change for existing 4d properties but would also look at the impact of additional enrollment of property into the 4d class. The League strongly believes that any change to the 4d class rate should be informed by a robust and granular study. The League has no official position on the Article 1, Section 6 two-year freeze in the market value breakpoint for 4d property but appreciates the effort to mitigate the impacts of the shift on property taxes.

Tax increment financing flexibility

The League supports the provisions in Article 10, Sections 1 to 4 that provide several temporary and permanent changes to the tax increment financing statutes including:

- temporary flexibility related to the use of unencumbered TIF increment by allowing TIF authorities to transfer unobligated increment to the municipality's general fund or directly to a business that was impacted by COVID-19.
- expanding the pooling rules to allow for expenditure of increment on certain housing projects located outside the district including qualifying owner-occupied housing;
- the ability for cities to transfer increments to an affordable housing trust fund;
- increasing percentage a district may elect to use for housing outside the district from ten to 25 percentage points;

- extending the five-year rule to ten years for redevelopment districts certified after December 31, 2017; and
- providing a corresponding extension of the six-year rule.

Homestead Credit Refund/Renters' Refund

The League generally supports the provisions in Article 13, Sections 7 and 8 that modify the Homestead Credit Refund and the Renters' Refund programs. The amendment would increase the homestead credit and renters' refund property tax relief programs by increasing the maximum credit by \$250 throughout most income levels and would increase the renters' refund by reducing the individual's co-pay percentage.

Thank you for the opportunity to share our reactions to the provisions included in the A21-0146 amendment. We will be on the hearing meeting call to address any questions committee members may have.

Sincerely,



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