



April 18, 2023

Chair Gomez and members of the House Committee on Taxes:

On behalf of the 838 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 (A23-0111) to HF 1938, the 2023 House omnibus tax bill.

Local Government Aid

Article 4 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 4 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. We strongly support this update as well.

Construction Sales Tax Refund

In Article 5, section 12, we strongly support the provision that would provide a sales tax refund process for construction materials purchased by contractors and used in public facilities and public infrastructure. The provision is temporary and is effective retroactively from July 1, 2021 through December 31, 2024. Providing a statewide refund for these purchases would treat qualifying entities across the state equally, without an advantage for specific projects that are brought before the legislature. We would urge you to make provision permanent if possible.

Direct Property Tax Relief

The League generally supports the homestead credit refund and increasing the amounts as proposed in Article 4 Section 2. This program assures that the tax burdens do not overly burden individual homeowners and achieves 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 7 intends by converting the Renters Credit to an income tax credit. The League also supports Article 4, Sections 25-26 which would provide one time property tax relief at a time of inflation and rising property tax residential valuations.

Homestead Market Value Exclusion

The League is supportive of the language in Article 3, Section 15 which increases the Homestead Market Value Exclusion. The language would increase the exclusion for most homesteads. Given that the exclusion has remained static for over ten years and the rapid increase in home values, LMC supports modifications to this exclusion to increase its benefit to qualifying homeowners.

Affordable Housing Aid

The League supports the inclusion of local affordable housing aid in Article 4, Section 22 of the bill. The establishment of new flexible state aid of \$13.7 million annually to cities to address locally identified housing needs will further strengthen the state-local partnership when it comes to affordable and workforce housing efforts and bolster local innovation to address housing issues.

Workforce and Affordable Homeownership Development Program

The League supports the provision in Article 12, Section 26 that provides an additional \$25 million in both FY 2024 and 2025 and \$7.5 million ongoing annually for the workforce and affordable homeownership development account to support the existing Workforce and Affordable Homeownership Development Program. Additional funding for this important program will mean the development and rehabilitation of more critical workforce housing units needed to support local economic growth.

Local Government Aid Penalty Forgiveness

We appreciate the provisions in Article 4, Sections 27 and 28 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 4, Section 19 that would establish a transition aid program for cities that experience the decommissioning of an electric generating power plant. This provision is critical to a handful of cities that are experiencing the decommissioning of an electric generating power plant.

Tax Increment Financing

We support the technical tax increment financing general law changes included in Article 8 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. We would recommend 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. The amendment allows for this change for several specific cities, but it may make more sense to consider the broader statewide policy.

Historic Structure Rehabilitation Credit

We are disappointed at the lack of inclusion of reinstating the Historic Structure Rehabilitation Credit. Reviving the Historic Structure Tax Credit would support investment in historic preservation across the state, stimulate job growth, increase local tax bases, and help attract private investment to assist Minnesota cities.

Sincerely,



Nathan Jesson
Intergovernmental Relations Representative



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