



April 1, 2022

**Re: LMC comments on HF 3588 – establishment of affordable housing market value exclusion.**

Chair Marquart and members of the House Taxes Committee:

On behalf of our 837 member cities across the state, the League of Minnesota Cities appreciates the opportunity to provide comments on HF 3588 (Vang). Cities continue to be concerned about the lack of affordable housing opportunities across the housing spectrum and are innovating at the local level through policy and limited resources to address local housing needs. We appreciate the bill's attempt to provide an additional tool for city consideration that cities could opt-into and utilize to support new mixed-income multi-family developments by providing a 50 percent reduction in taxable market value for qualifying new developments.

The current language in HF 3588, the 1<sup>st</sup> Engrossment, reflects the outcome of several conversations with the bill's proponents and the bill author and clarifies some technical questions raised by cities. We appreciate the clarification that cities need only to post notice once during the approval process prior to voting to participate in the program, which is consistent with other areas of statute as well as the ability to post the information on the city's website. We also appreciate the clarification that 60 percent of area median income (AMI) is the affordability threshold as opposed to the greater of area or state median income, which could have resulted in challenges where state median income is far higher than area median income giving property owners an overly generous amount of assistance for little affordability. Lastly, we appreciate the inclusion of language seeking to ensure that the 20% affordable units remain available to qualified residents if any units are unoccupied. Clarifying points that are still not included in the bill that we would like to see includes clarification that the tool is reserved for new construction as intended, which is still unclear since construction of a property could also mean a redevelopment or rehabilitation.

While HF 3588 creates a new tool at the local level that could be beneficial in certain cases to cities that choose to utilize it, cities remain concerned with the expansion of property value exclusions and property tax class-rate reductions that continue to erode local property tax bases by shifting property taxes onto a city's existing tax base. We are also concerned that a 50% market value exclusion on an entire property for 20% of new units to be made available to households at 60% AMI may be an overly generous level of assistance in some cases. The parameters of the bill as written are more generous than the current [4d Low-Income Rental Classification](#), which provides a 40% tax rate reduction on just the qualifying units if property owners agree to keep 20% or more of their rental units affordable at or below 60% AMI. Lastly, we find that the most beneficial tools at the local level to address housing availability and affordability can be tailored to the needs of a specific project and allow for scaling assistance for varying degrees of affordability. Limiting the exclusion to 50% for units at 60% AMI is a rigid approach and we believe more cities would be interested in utilizing this tool if there was an ability to scale the assistance and achieve different levels of affordability.

We look forward to continuing to work with the bill author and proponents on the bill as it progresses.

Sincerely,

A handwritten signature in black ink that reads "Gary N. Carlson".

Gary Carlson  
Intergovernmental Relations Director  
League of Minnesota Cities

A handwritten signature in black ink that reads "Daniel Lightfoot".

Daniel Lightfoot  
Intergovernmental Relations Representative  
League of Minnesota Cities