



March 10, 2021

Re: Concerns with HF 1157 – Class 4d property tax rate modification

Dear Chair Youakim and members of the House Property Tax Division:

The League of Minnesota Cities appreciates the opportunity to provide comments on HF 1157. While we appreciate efforts of the bill author, we have concerns that a reduction of the class-rate of 4d properties will have unintended consequences for cities and their residents.

Cities support the current Low-Income Rental Classification Program commonly referred to as 4d as a tool to provide affordable housing opportunities. Under current law, the class-rate for 4d property is 0.75 percent on the first-tier value and 0.25 percent of the value exceeding the first-tier amount for each qualifying unit. HF 1157 eliminates the 0.75 first-tier class rate and sets the 4d class-rate for all existing and future qualifying properties to 0.25 percent.

The class-rate change will result in a reduction in local Net Tax Capacity and in many cities across the state will shift and increase property taxes on the existing property tax base during a time when many residents and small businesses are concerned about making payments. The property tax shift will be further exacerbated as additional properties seek the more favorable tax reduction, which is not captured in any modeling. Moreover, there are no additional affordability or preservation requirements in the bill to ensure that landlords who receive the additional tax break will translate those savings into deeper affordability or property improvements.

Prior to changing the 4d class-rate to the lowest property tax class rate in Minnesota, the League of Minnesota Cities recommends a comprehensive study to address the impact on local property taxes in each political subdivision. It is especially important to understand the impact on the property tax base more granularly as the state and cities continue our response to the COVID-19 pandemic and consider measures to protect local economies.

Thank you for your consideration.

Sincerely,

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

Daniel Lightfoot
Intergovernmental Relations Representative
League of Minnesota Cities