



April 12, 2024

Chair Klevorn and members of the House State and Local Government Finance and Policy Committee:

On behalf of the 838 members of the League of Minnesota Cities, we appreciate the opportunity to share written testimony regarding HF 5336 (Gomez). This bill is in response to the Local Tax Advisory Task Force which LMC participated in throughout the interim. We appreciate the attention the committee is giving this topic and that HF 5336 recognizes that the current process for receiving approval to bring these requests to the voters is flawed. However, there are issues with the bill as it is currently drafted that we would like to work on with the author if this bill moves forward.

Problems with current process

The League has long been supportive of some parameters establishing general authority for cities to bring local sales tax proposals to the voters without requiring the passage of a special law. The current process is opaque and changes from year to year. This kind of instability in the current process makes it unclear what proposals are likely to receive legislative approval and which ones are not. In some years cities have unsuccessfully brought forward projects that focus on transportation and road reconstruction only a year after those proposals were accepted, and vice versa. What projects are likely to receive approval changes from year to year and putting parameters around the sales tax special authorization law has not streamlined the process.

Additionally, these special law proposals get wrapped up in large, often controversial, omnibus tax bills that may not become law. Providing a clear, simple, and objective criteria for cities to follow without requiring special law authorization while still requiring voter approval would be a significant improvement to current law. It would allow cities to budget better and provide a clearer picture to voters about the cost of projects.

Project List

Overall HF 5336 creates a much narrower strike zone for the types of projects that would be allowed to go directly to the voters than the task force recommended and creates additional steps in the process for local governments to go through before they bring a project to the ballot. Most notably it does not allow any authority for community centers and it allows a narrower set of parks than the task force recommended. By only allowing parks designated as regional by the Parks and Trails Legacy Plan to be eligible for general authority, this bill sets up a structure that is more restrictive than might be intended, since of the last 17 park local sales tax projects that have gone to the voters, only one would have had general authority under this bill. Just 2.2% of cities outside the seven county metro would have a park eligible under this restriction. The legislature may want to consider an alternative, broader approach that does not exclude such a high percentage of cities outside the seven-county metro.

New Requirements Imposed

Another issue to consider is the additional steps that HF 5335 creates before a city could bring a project to the voters. HF 5335 would require that any project seeking authority must provide letters or resolutions from at least two surrounding bodies saying there is a need for the project. This essentially provides limited veto authority to surrounding jurisdictions that may have much smaller populations than the voters in the jurisdiction that would support the project. HF 5335 also places additional restrictions on the

authorization for athletic complexes and convention centers, creating more steps for cities that may want to consider those projects.

The narrower definitions and additional steps add up to a more complicated process that will be difficult for cities to navigate. It may result in the legislature seeing as many special law authorization bills, since cities that narrowly miss out on just one or two criteria will see themselves as likely to receive approval.

Equalization Aid

The League appreciates the attention that Chair Gomez has brought to issues of equalization in her time on tax committee. Some cities do not have the same kind of property tax capacity as other cities, which is why the League has been a longtime proponent of local government aid as a mechanism to assist cities with higher needs. But as the task force discussed and recommended, there is not a need to have both equalization aid and a narrow list of regionally significant projects. If the list of projects is limited to those that are used and enjoyed by non-residents, that itself is already providing a benefit to surrounding communities.

This is also a path that the legislature has been down before. The legislature created the “Local Government Trust Fund” in 1991. It was paid for with local sales taxes and intended to be used for state aids and property tax relief programs. State aids generally did not increase with this fund in place, because legislators would take any surpluses to pay for other programs. The program was repealed in 1996.

Another potential issue with the equalization aid is that it creates a statewide fund for a local tax. Local sales taxes are generally popular with voters because they have control over what the funds are spent on and they can see the results. That’s why since the 2019 changes to the authorization process 29 out of 33 projects have been approved at the ballot box. Creating a statewide fund undermines the appeal of the dollars being raised locally and staying local. If the legislature wishes to create an equalization component, it would be best if the revenue were shared with surrounding communities rather than statewide.

There are a number of smaller issues that inevitably come up any time a bill this significant is proposed. As the higher level policy choices are discussed we would still like to work with the author on these and other small issues that come up if this bill moves through the process. Thank you for your time and consideration.

Sincerely,



Nathan Jesson
League of Minnesota Cities