



May 3, 2021

Tax Conference Committee Members,

On behalf of the 835 members of the League of Minnesota Cities, we are writing to offer our input as you consider the differences between the second engrossment of HF991 and the first unofficial engrossment of HF991.

Minnesota Housing Tax Credit Contribution Fund

The League supports the Senate position (Art. 2, Sect. 11 and 13) which creates the Minnesota housing tax credit contribution fund that would allow taxpayers to receive a tax credit for contributions to the fund in support affordable housing development in communities across the state. The establishment of this innovative tool and the provision of \$10 million each year of the biennium for the credit will create new opportunities to encourage local businesses and members of the community to invest in affordable housing.

Public safety facility sales tax exemption

The League supports the House (Art. 4, Sect. 5, 6, 7 & 8) and Senate (Art.3, Sect. 4, 5 & 6) positions that would simplify the sales tax exemption process for building materials used in local units of government public safety facilities. The House bill includes the city-specific requests as well as the general law change effective July 1, 2021. The Senate effective date will not cover the specific exemption requests submitted by several cities including Plymouth, Maplewood, Virginia and Buffalo, all of which are retroactive exemptions. In addition, the Minnetonka provision was the extension of an existing exemption previously granted by the legislature.

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.

Fire Protection Districts

The League supports the House (Art. 7, Sect. 27) and Senate (Art. 4, Sect. 1) positions that would provide a framework to allow local units of government to jointly provide fire protection or emergency medical service through the establishment of fire protection special taxing districts. Under the House and Senate positions, two or more political subdivisions are permitted to establish, by resolution of their governing bodies, a special taxing district to provide fire protection or emergency medical services, or both. The framework of the bill requires that the district be governed by a board consisting of representatives of each participating political subdivisions in the proportions set out in the district's establishing resolution. Each representative must be an elected member of their respective political subdivision.

4d Housing Class Rate reduction/study

While the League supports the current 4d Low-Income Rental Classification, we are concerned with the Senate provision (Art. 4, Sect. 5, 6, 7 & 8) property tax shift implications resulting from the expansion proposed in Article 4, Section 8 that reduces the first-tier class rate of qualifying units from 0.75 to 0.25 percent. The class rate reduction will result in a property tax shift onto all existing property taxpayers resulting in a substantial property tax increase for homeowners and businesses in certain communities. We appreciate the local approval process outlined in Art. 4, Sect. 6 for newly classified properties, but the guardrails in the bill do not go far enough to ensure that a deeper property tax break for property owners also results in additional benefit to renters.

The League strongly believes that any expansion to the program should be informed by the robust and granular study included in the House bill (Art. 13, Sect. 24) to ensure that a balance is struck between meaningful change to the program and the impact on existing property tax bases.

Property tax process

The House bill (Art. 7, Sect. 21, 22, 23 & 24) includes 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.

Aids and Credits

Without an LGA appropriation increase in the House bill (Art. 8, Sect 2), the special LGA distributions for the cities of Floodwood, Staples and Warren (Art. 8, Sect. 1) 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.

The League generally supports the Senate position (Art. 4, Sect. 21) which would create a one-year (2022) supplemental aid for cities that would offset an LGA reduction a city would otherwise experience in 2022. This one-time, one-year supplemental aid acknowledges the challenges cities have faced during the pandemic, including delayed and delinquent property tax collections, extraordinary costs and challenges of budgeting in a time of uncertainty. The League is also committed to reviewing and updating the current LGA formula to reflect changes in the factors used in the current version of the formula which was last significantly revised in 2013.

Although we do not have a specific policy position on the House Homeless Prevention Aid (Art. 8, Sect. 4) 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.

Senate Study of affordable housing tax assistance

The League appreciates the Senate position (Art. 5, Sect. 8) to review the utilization of tax increment financing to support locally identified housing goals. While we stand ready to assist with providing the committee with analysis of the positive impacts that tax increment financing and local housing trust funds have had in supporting housing development, we support, at minimum, providing greater flexibility for cities to continue utilizing tax increment financing as a proven tool to support housing needs. Tax increment financing flexibility to address housing needs is crucial, even if it is permitted on a pilot program basis for those cities seeking the flexible use of tax increment financing to support their local housing trust funds.

House Tax increment financing flexibility

The League supports the House provisions (Art. 10, Sect. 1, 2, 3 & 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 the 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 the House tax bill that modify the Homestead Credit Refund (Art. 13, Sect. 7) and the Renters' Refund (Art. 13, Sect. 8) programs. The House changes 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.

Local Sales 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 included in both the House (Art. 9) and Senate (Art. 8) bills will assist individual communities with financing for projects that have spillover benefits to non-residents.

Prohibition of local excise taxes and fees

The League opposes the Senate provision (Art. 3, Sect 12) that expands the current prohibition on new or increased local taxes on sales or income to specifically prohibit local excise taxes and fees related to the manufacture, distribution, wholesale, or retail sale of food, based on volume of product sold, product sales value, or the type of product manufactured, distributed, or sold as well as excise taxes or fees on containers including bottles, cans, bags, or other packaging made from plastic, aluminum, glass, paper, cardboard or other material. We appreciate the language that has been added that clarifies that the prohibition does not apply to reasonable license fees. However, the League opposes the added restriction on local fees.

Thank you for your consideration of our positions on these provisions in the House and Senate versions of the omnibus tax bill.



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