March 30, 2021

Re: LMC comments on SF 3200 – establishment of affordable housing market value exclusion.

Chair Weber and members of the Senate Property Tax Subcommittee:

On behalf of our 837 member cities across the state, the League of Minnesota Cities appreciates the opportunity to provide comments on SF 3200 (Bakk). 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 SF 3200 as amended reflects the outcome of several conversations with the bill's proponents and seeks to clarify 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 language seeking to ensure that the 20% affordable units remain available to qualified residents if any units are unoccupied. Clarifying points that were not included in the A2 that we would like to see include clarification that the tool is reserved for new construction as intended.

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. 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 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,

Gary N Carlson

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