LMC LEAGUE of MINNESOTA CITIES

May 3, 2022

Chair Weber and members of the Senate Property Tax Committee,

On behalf of the 837 members of the League of Minnesota Cities, we appreciate the opportunity to share written testimony regarding the League's positions on provisions contained in SF 3706 as amended by the A-1 delete-all amendment, the 2022 Senate Property Tax Division Report.

Affordable housing market value exclusion: Article 1, Sections 4 and 8 establishes a new affordable housing program that would provide a 50 percent market value exclusion on the entirety of a multifamily property if 20 percent of new units are made available to households at 60 percent of the greater of state or area median income. While we appreciate the bill's attempt to create a new local housing tool for city consideration that cities could opt-into, we remain concerned with the expansion of property value exclusions and class-rate reductions that erode local property tax bases. We are also concerned at the lack of scalability of this tool and its inability to be tailored to the needs of a specific project. Lastly, the language in the current draft does not reflect clarifying amendments added to the original bill in the house that addressed technical questions raised by cities.

4d Low-Income Rental Classification expansion: Article 1, Sections 6, 7 and 10 include modifications to the 4d Low-Income Rental Classification less than a year after modifications were made to the program that froze the first-tier valuation threshold indexed to 4a market-rate units to $100,000 for two assessment years. Our primary concern is Article 1, Section 10, which eliminates the first-tier class rate of qualifying 4d units from 0.75 to 0.25 that will result in a property tax shift onto all existing property taxpayers without any guaranty that the additional tax break would result in additional benefit to 4d renters. While we appreciate the local approval provision in Article 1, Section 6, this provision appears to not apply to existing property owners that may only have a portion of their units designated as 4d units in their building that may want to transition more of their existing non-4d units to 4d units given the more favorable property tax break with the class-rate change. We also appreciate the transition aid in Article 2, Section 7. However, it is important to note that the aid provided is only for two-years and is static without regard to any new 4d-units in existing or new buildings that come online.

Targeting property tax refund: We support the changes in Article 1, Section 19 that would increase the state-paid property tax targeting program beginning in 2023 by reducing the qualifying increase threshold from 12 percent to 10 percent and increasing the refund maximum from $1,000 to $2,000.

Electric generation facility decommissioning transition aid: We support the inclusion of language in Article 2, Section 5 that would establish a transition aid program for cities that experience the decommissioning of an electric generating power plant. The aid would offset tax

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increases to other properties and would gradually phase-out. This provision is critical to a handful of our member cities that are experiencing the decommissioning of an electric generating power plant that without this aid, would be facing substantial impacts to their property tax bases.

Local Government Aid Penalty Forgiveness: We appreciate the provisions in Article 2, Sections 8 – 12 that will allow the cities of Roosevelt, Bena, Boy River, Echo, and Morton to receive the balance of their 2021 LGA and Small Cities Assistance Aid. The League works closely with the Office of the State Auditor each fall to identify and work with cities that have not complied with the financial reporting requirement.

Tax Increment Financing clarifications: We support the policy and technical tax increment financing provisions included in Article 3 of the bill. We want to thank the Office of the State Auditor for facilitating discussions with cities, counties, school districts and TIF experts earlier this year to address some technical but important ambiguities in state statute.

Local Government Aid update: We are disappointed the bill does not include any update to the city LGA formula. The current formula is based on data that is now nearly ten years old and the analysis of the current system conducted with the assistance non-partisan legislative staff strongly suggests that the formula factors should be updated to reflect new fiscal and demographic information available from the US Decennial Census and the American Community Survey.

Thank you,

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