



May 9th, 2022

MN Small Cities Comments on HF 3669 – Omnibus Tax Bill

Dear Chair Nelson and Senate Tax Members,

The Minnesota Association of Small Cities (MAOSC) appreciates the opportunity to voice our comments on HF3669; this year's omnibus tax bill. We appreciate the addition of the aid penalty forgiveness sections in Article 5 that would return withheld payments to cities that faced administrative challenges in reporting their need in a timely fashion.

MN Small Cities is, however, disappointed to see the absence of a formula or funding increase in **local government aid** (LGA). The aid provided to cities has not kept up with the rising costs of public services and inflation. Furthermore, the effects of the pandemic have only exacerbated these costs, making things especially challenging to small cities and to their local businesses. Legislation was introduced in the House this year that would have finally returned cities to LGA levels of 2002, from a percentage perspective.

Under the current formula, approximately **90 cities will see a decrease in the aid they receive**, crucially affecting their ability to provide ongoing constituent services. For small cities particularly, LGA makes up a significant portion of their budgets, going primarily for essential services such as police officer compensation, public safety, funding public departments, and transportation. Updating the aging formula would more accurately reflect our cities' financial requests and avoid the risk of unequal distribution of funds.

It is also disappointing to see the omission of any language related to sales tax exemptions for municipal construction projects. Paying sales taxes on construction costs for public projects simply raises the costs on our small communities that typically do not have adequate resources, especially during a time of increased inflation when our communities are already seeing rising costs.

MN Small Cities advocates on behalf of Minnesota's 700+ cities with populations of 5,000 or less, and aims to give them access to the resources they need. We hope you share our sentiments in supporting the much needed local government aid changes, and respectfully request that the legislation introduced this session include these changes.

Cap O'Rourke
Executive Director
MN Small Cities