



May 9, 2022

Chair Nelson and members of the Senate 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 the Senate's delete-all amendment to HF3669, sch3669a-1, the 2022 Senate omnibus tax bill.

**Historic Structure Tax Credit:** Article 2, Section 24 repeals the existing sunset on the historic structure rehabilitation tax credit. The League strongly supports the elimination of the sunset provision of the tax credit to provide greater certainty to cities and their project developer partners who utilize the credit to overcome barriers to rehabilitate and re-use historic buildings.

**4d Low-Income Rental Classification expansion:** Article 4, Sections 7, 8 and 11 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.

**Affordable housing market value exclusion:** Article 4, Sections 9 and 14 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.

**Targeting property tax refund:** The League supports the changes in Article 4, Section 20 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:** The League supports the inclusion of language in Article 5, 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 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:** The League appreciates the provisions in Article 5, 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 if the cities fulfill the financial reporting requirements with the Office of the State Auditor. 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.

**Public Finance provisions:** The League does not have a specific position on extending the duration limits for certificates of indebtedness and capital notes however these changes would add flexibility to financing of items with a useful life in excess of the current ten-year limit. State law continues to require that the term of the debt cannot exceed the useful life of the item.

**Local Sales Taxes:** The League does not have specific positions on the individual local sales taxes included in the amendment but based on concerns raised by cities with multiple projects, the clarification on the structure of the ballot question contained in Article 7, Section 1 should address potential voter confusion. The League also appreciates the inclusion of Article 7, Section 25 which acknowledges the unique challenges created by rising construction costs due to labor costs and supply chain disruption and allows cities to adjust their proposals prior to conducting a referendum. However, some of the projects have experienced increases in excess of ten percent and in addition, the provision does not allow for an increase in the duration of a sales tax to collect the larger amount that may be needed.

**Tax Increment Financing clarifications:** We support the policy and technical tax increment financing provisions included in Article 8 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.

**Not included:**

**Local Government Aid update:** We urge the committee to include SF3971, Sen. Klein’s Local Government Aid formula update. 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.

**Construction sales tax refund:** We urge the committee to include SF216, Sen. Rarick’s bill to simplify the sales tax refund process for construction materials purchased by contractors and used in public facilities and public infrastructure. This year, the importance of streamlining the exemption process is perhaps more important than ever with dramatic increases in construction costs resulting from labor shortages and supply chain disruptions.

**Local Sales Tax Process:** We suggest the committee include, at minimum, the clarification on the local sales tax referendum date contained in Sen. Rest’s bill, SF3191. The change would clarify that a referendum on a local sales tax could be held on “the first Tuesday after the first Monday in November” which would replace the existing and somewhat ambiguous existing “at a general election” reference.

Thank you,



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