Association of Minnesota Counties

April 26, 2023

Dear Chair Rest, Lead Weber, and Members of the Senate Tax Committee:

On behalf of the Association of Minnesota Counties (AMC), an organization representing all of Minnesota's 87 counties, I write to submit feedback on the recently released Senate omnibus tax bill (SF 1811). Please find a condensed list of provisions counties have concerns or suggestions with below. We have also included an accompanied list provisions we are supportive of. We thank the Chair, committee members, and staff for their diligent work and look forward to working with you in the days and weeks ahead!

AMC is hopeful to have ongoing conversations regarding the following provisions:

- **County Program Aid (CPA):** While we are clear in our support for the Senate's inclusion of $40m/year increase in CPA, we also point out the turbulent last two decades of local government aid programs. The unpredictable relationship between the state and its local government partners have led to a diminished purchasing power of CPA in terms of levy and budget relief. It should also be noted that included elsewhere in Senate proposals are new mandates (family leave, probation, social services, to name a few) that would cost county partners significant dollars and diminish the generous amount of aid included in this bill. As such, we hope to work with the Chair and future conferees to identify opportunities to increase the amount included for this most critical program. County Program Aid remains counties' most flexible and important aid program that provides direct property tax relief to every single Minnesota property taxpayer. We firmly believe that comprehensive property tax relief is not possible without a significant investment in this important program.
- **New tax shifts/exclusions**: Counties appreciate the Chair's tempered approach to introducing new tax rate reductions, exemptions, or exclusions that—as the Chair put it early in session—provide an "insufficient tax base to fund necessary operations." AMC would respectfully call attention to three provisions in this bill that would change, alter, or eliminate property taxes for certain groups: proposals surrounding 4d class rate reductions, a new energy storage exemption, as well as an expansion of the disabled veterans market value exclusion. AMC offers the following suggestions on these proposals:
    - **Suggestion regarding 4d(1) proposal (Article 3: Sections 19-21)**: <u>REMOVE</u> county mandated report/study on 4d tax rate reduction benefits and <u>INSERT</u> language requiring "any benefits gained must be used to offset rent (rent reduction) or property improvements." This will further align the new benefit with intended outcomes—based on author and advocate conversations—and reduce the need for a bureaucratic report that will produce questionable findings and usefulness.
    - **Suggestion regarding energy storage systems exemption proposal (Article 3: Sections 5-6):** If legislators find solid policy merits to incent these developments, AMC suggests looking towards a property tax/income-related tax credit in place of a tax exemption which only serves to shift a tax burden on to other businesses and residents. That said, we do appreciate the targeted approach in this particular proposal that limits the exemption to a certain sized producer and only applies the exemption to facilities that fall outside an "energy community."

  - **Suggestion regarding Disabled Veterans Market Value Exclusion expansion (Article 3, Section 22):** If transferring the disabled veteran market value exclusion over to a tax refund or credit-type program is not feasible, we would suggest a small, but targeted tax base assistance aid for county tax bases disproportionately impacted by the exclusion—which continues to grow substantially each tax year. Language could be inserted to require counties to directly apply new state assistance toward levy reduction and no programmatic spending. ***Note:*** The Disabled Veterans Market Value Exclusion has grown from $1.1 billion worth of property tax value excluded statewide to $4.3 billion worth of value excluded as of 2022.

- **Election Funding (Article 13, Sections 1-2):** Senator Rest's inclusion of a historic, unprecedented state commitment to funding local election-related costs (and mandates) should be applauded. AMC hopes to continue to work with the author, Secretary of State, and county auditors to make sure the new program is administrable and still able to provide meaningful cost reimbursements that can be realized by levy relief while also holding true to the author's clear goal of having a strong system of accountability and transparency.

- **Public Safety Aid: (Article 4, Section 20):** While AMC agrees with legislators and the Governor about the need to invest in public safety, we also have concerns about the ability for one-time funds to be used to address our most pressing and ongoing need: hiring more deputies/officers. While this aid is a welcome recognition of the costs borne by local entities for a statewide benefit, we have ideas on how to structure this aid more equitably for its intended benefit. At minimum, as Senator Weber pointed out in committee, AMC would request that this provision require cities who use county public safety resources to use their new aid to reimburse their respective county for those service costs.

AMC supports and is grateful for the inclusion of the following provisions:

- **County Program Aid (CPA) Investments** (Senator Klein; Article 4, Section 12): CPA serves as counties' most important general aid program that provides relief to *all* Minnesota property taxpayers. It should be noted that accounting for inflation, this program is still over $150m less than its original 2002 appropriation. In addition, the State of Minnesota is spending roughly half of what it has on local government aids (cities and counties) compared to general revenue fund expenditures two decades ago. CPA is not only important for property tax relief but also assists counties in implementing a wide array of underfunded or unfunded state mandates.

- **PILT Rate Modifications** (Senator Hauschild; Article 4, Section 13): PILT is a critical resource for counties with large amounts of state-owned land. We appreciate the Senate's efforts to addressing regional inadequacies and increasing the acre rates for county and commissioner-owned/administered lands, but hope to elevate these rates further as conference committee commences.

- **New Election Funding Program** (Senator Rest; Article 12, Sections 1-2)

- **An array of Property Tax Relief-focused provisions, including:**
  - **Homestead exclusion expansion** (Senator Weber; Article 3, Section 23)
  - **Targeted Property Tax Refund expansion** (Senator Klein; Article 3, Section 29)
  - **Senior Property Tax Deferral expansion** (Senator Klein; Article 3, Sections 30-33)

- **SCORE/SWMT Tax Dedication** (Senator Dibble; Article 13, Section 5): Counties appreciate Senator Dibble's work to recognize that Solid Waste Management Tax proceeds should be redirected towards recycling and solid waste management activities. While this proposal does immediately start that revenue shift, it does include a sizable transfer of 15%. We applaud the Senate for this meaningful action.
- **SWCD Funding** (Senator Klein; Article 4, Section 15)
- **Ability for counties to set a tax delinquency rate less than the state's rate** (Senator Putnam; Article 3, Sections 26-27)
- **Solar Assessment Changes** (Senator Weber; Article 3, Section 2) AMC appreciates Senator Weber's work related to clarifying the property tax classification for properties with more than one solar energy system that produces more than 1 MW.
- **Senator Rest's inclusion of Beltrami, Jackson, Rice, Stearns, Winona, Cook, and Lake of the Woods counties local options sales tax provisions (**Article 9 and 10).

In summary, we thank members for their attention to these issues and look forward to further collaboration in the weeks ahead.

Sincerely,

Matt Hilgart
Government Relations Manager
Association of Minnesota Counties