LMC LEAGUE of MINNESOTA CITIES

April 26, 2023

Chair Rest and members of the Senate Tax Committee:

On behalf of the 838 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 A2 delete everything author's amendment to SF 1811, the 2023 Senate omnibus tax bill. While we are supportive of numerous provisions in the bill, this letter outlines only areas of concern.

Local Government Aid
We appreciate the recognition in the Senate bill that LGA is currently underfunded, but we feel the proposed increase does not meet the moment given how much inflation has eroded the buying power of LGA and new mandates being placed on cities. On top of that, this year the legislature is considering numerous changes that will increase costs for local governments. Cities understand our role in the process and that the state sets some policy priorities, but that's also why it's essential that the legislature make sure that local government aid is adequately funded. And yet over the last 20 years the state-local fiscal partnership has eroded. State general fund spending on LGA declined from 4.1% to 2.1% since 2002. We strongly believe that the senate should consider a larger increase than is proposed in this bill.

Construction Sales Tax Exemption
While the delete everything amendment does include numerous individual exemptions for construction projects, it does not include a general exemption. Even if a general exemption were enacted on a temporary basis it would have the benefit of treating projects equally across the state. This is especially helpful for communities that may not have the resources to move a project through the legislative process.

Direct Property Tax Relief
The League is disappointed with the lack of inclusion of increases to the homestead credit refund or renters credit. These are important methods of providing direct property tax relief without shifting taxes onto other properties.

4d Classification Rate
The League has concerns with a flat 0.25% classification rate for all 4d property, as proposed in Article 3 Section 21. At a time when residential valuations are rising faster than any other property type, creating new shifts will put a strain on homeowners in jurisdictions with larger amounts of 4d property. Additionally, in 2021 the legislature passed a property tax break for 4d property that has yet to impact 4d property taxes. That change reset the class break from $174,000 to $100,000, where it had been originally set in 2013. 4d properties will benefit from that law change for the first time this May. That change addressed the concerns that was raised at the time, that inflation had eroded the benefit that the second tier rate was intended to provide.

Sincerely,

Nathan Jesson

Nathan Jesson
Intergovernmental Relations Representative