MINNESOTA INTER-COUNTY ASSOCIATION

SENT VIA EMAIL

February 08, 2022

Representative Cheryl Youakim, Chair
House Property Tax Division
591 State Office Building
Saint Paul, Minnesota 55155

Chair Youakim and Property Tax Division Members.

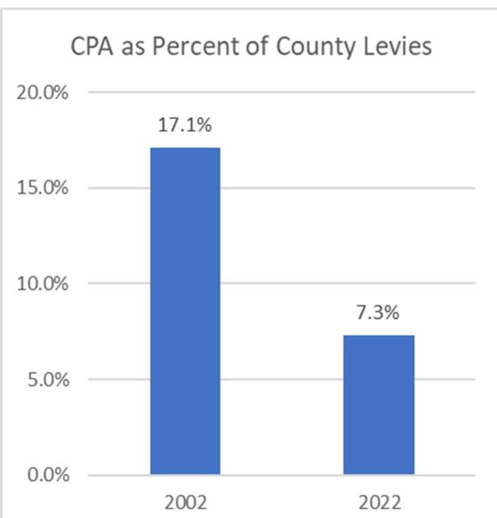
Thank you for the invitation to testify and provide an overview of the Minnesota Inter-County Association's (MICA) 2022 legislative priorities.

MICA is a voluntary association whose members include fifteen of Minnesota's larger and faster growing counties, including four suburban and eleven Greater Minnesota counties that are home to nearly 35 percent of the state's residents.

County governments have long been key partners working with the state to provide essential services that Minnesotans rely upon every day. Throughout the COVID-19 pandemic, counties played a lead role in public health, emergency housing, rental assistance, and distribution of hundreds of millions in federal, state, and local assistance to help businesses, individuals, and communities.

We value that state-county partnership and our 2022 legislative priorities are aimed at strengthening existing programs, addressing emerging challenges, and minimizing property tax burdens while ensuring responsive, effective, and equitable public services.

Property tax revenue is the 2nd largest leg of the 'three-legged stool' that funds state-local services, accounting for nearly 27% of total state and local taxes in 2021. For many Minnesota households, the annual property tax bill is the largest, most visible, and regressive tax liability they pay.



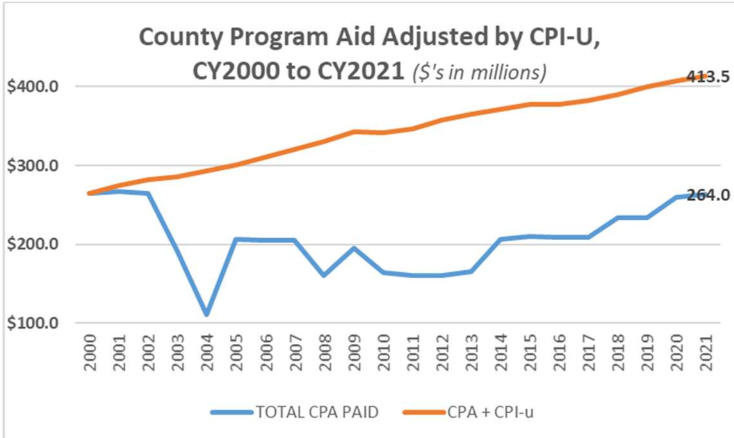
Following is a summary of our legislative recommendations for tax and property tax for 2022.

Increase County Program Aid (CPA)

Total county aid appropriations are at the same level today as they were twenty-years ago in nominal dollars; CPA has fallen from 17.1% to 7.3% of total county levy.

CPA funding is an essential tool for helping offset the costs of underfunded state mandates.

As illustrated below, even with the 2019 appropriations increase, CPA has not kept pace with inflation.



That value decline in CPA over the past twenty years closely parallels a steady increase in dependence on the regressive property tax.

Allow a Refund Exemption for State Sales Tax on Construction Materials (Minn. Stat. §297A.70(2)(b))

In 2013, the legislature reinstated the sales tax exemption for most purchases made by local governments. Local governments paid the sales tax since 1992, when it was used to solve a budget crisis. However, to receive the exemption for construction materials, supplies, and equipment used in infrastructure projects, local entities must follow a cumbersome set of rules that add administrative burden, shift considerable risk on local entities, and increase costs. As a result, most local entities determine it is more cost effective to not pursue the sales tax exemption rather than bid separately for taxable items and then pay to store, insure, and assume liability for damaged and defective materials. The recent passage of the federal Infrastructure Investment and Jobs Act underscores the importance put a full sales tax refund exemption for local projects in place this session.

Exempting Counties from Sales Tax on Road Maintenance Equipment (Minn. Stat. §297B.03)

Townships alone enjoy an exemption from the legally separate sales tax on motor vehicles that applies to the purchase of heavy equipment used for road maintenance and other local operations. Counties should be granted the same exemption for the vehicles they use for highway maintenance and construction.

Increasing Payments-in-Lieu-of-Tax (PILT) payments, Out-of-Home Placement Aid, and other targeted property tax levy relief

Certain counties face unique tax base challenges and levy pressures. For example, payment in lieu of tax aid, or PILT, is an important source of funding for counties and townships in the areas of the state with large portions of their potential tax base being publicly owned land. These state-owned lands are exempt from property tax because they are publicly owned but benefit all Minnesotans by providing recreational opportunities as well as timber for the state's important wood products industry. Other counties experience disproportionately large costs for the non-federal share of out-of-home placements under the Indian Child Welfare Act (ICWA). pr

Maintain Local Control Over Property Tax Valuation and Levy Decisions, Simplify the Property Tax and Enhance Property Tax Transparency

Minnesota's property tax system is extraordinarily complex. It is also the primary revenue source for local governments that counties administer on behalf of the state and all other local governments. Overall, however, administrative challenges range from assessors increasing reporting threats to personal safety when valuing property, to the ever-increasing intricacy involved in determining net tax capacity due to a myriad of class rates, exclusions, exemptions, and preferences. Additional challenges have included the constantly evolving trends in property utilization and taxpayer challenges, such as related to valuation of 'dark stores' and solar installations, and the unplanned demand to reimburse taxpayers resulting from successful challenges to state-assessed utility property valuations. In short, the combination contributes to a tax that is difficult to explain to taxpayers and costly to administer. As the legislature considers property tax law changes, we urge resisting changes that further enhance complexity or deliver tax benefits by shifting property tax burden on to other classes of property.

Again, thank you Chair Youakim and committee members for the opportunity to present our tax and property related priorities.

We look forward to working with you this legislative session.

Best regards,

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