MUNICIPAL LEGISLATIVE COMMISSION

2013 Legislative Program

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SUMMARY OF 2013 LEGISLATIVE PRIORITIES

I. Promote accountability and transparency in the State/local fiscal relationship

A. Support policies that help promote a more equitable property tax burden as a percentage of income.

B. Support directing property tax relief to individuals through the circuit breaker.

C. Support policies that help simplify the property tax system.

D. Oppose reinstating the Market Value Homestead Credit (MVHC) program.

E. Support principles in LGA reform that promote equity, simplicity and neutrality.

F. Support increased transparency in the State's "Fiscal Disparities" program.

G. Oppose fiscal limitations on local units of government.

II. Invest in job retention and growth

A. Support providing DEED with the tools and incentives necessary to attract and retain businesses.

B. Support highway and transit projects that promote economic development and growth.

C. Support flexibility in Tax Increment Financing (TIF) policies.

D. Reduce the corporate income tax rate so Minnesota is no longer in the top 10 states nationally.

III. Support local government policies that promote fairness and equity

A. Mitigate the financial impact of surface water regulations.

B. Oppose mandates relating to expenditure-type reporting.

2013 LEGISLATIVE INITIATIVES

The Municipal Legislative Commission (MLC) has identified the following issue areas as priorities for the 2013 Legislative Session:

I. Promote accountability and transparency in the State & local fiscal relationship;

II. Invest in job retention and growth; and

III. Support local government policies that promote fairness and equity.

I. Promote Accountability and Transparency in the State & Local Fiscal Relationship

A. Support policies that help promote a more equitable property tax burden as a percentage of income

The Department of Revenue publishes a report called the "Residential Homestead Property Tax Burden Report," using data obtained from the "Voss Database." The purpose of this report is to look at property tax fairness throughout the state by matching homeowners' property taxes paid with their actual incomes (includes county, school and city property tax burdens).

In its 2011 report (based on 2008 data), the findings show that the property tax burden is greater in the Metro Area compared to Greater Minnesota. In fact, the study reports a median property tax burden (after PTR) of 3.2% of income for the Metro region, and 2.3% of income for Greater Minnesota.

The MLC asks the Legislature to support policies that promote a more equitable property tax burden for suburban homeowners, as identified in the Voss Database Report.

B. Support directing property tax relief to individuals through the circuit breaker

The property tax refund (PTR) program ("circuit breaker") provides property tax relief to individuals based on their income and ability to pay. In 2011, the PTR program was enhanced to help offset the fiscal implications of eliminating the Market Value Homestead Credit (MVHC), a property tax credit based on home value. Our communities prefer the PTR program because it directs relief to the individuals who need it most, regardless of where they live.

MLC requests the Legislature continue utilizing the circuit breaker program as the preferred system to help reduce the property tax burden on homeowners.

C. Support policies that help simplify the property tax system.

In 2010, the Legislature established a Property Tax Working Group to examine the many facets of Minnesota's property tax system and develop recommendations on how to make the system more simple, understandable, transparent, accountable and efficient.

The working group held 20 meetings over the last two years and established the following guiding principles:

1. defend the purpose of the property tax system;
2. base property taxes on full estimated market value;
3. base property taxes on property attributes, not ownership or occupancy;
4. defend broad-based goals from narrow interests;
5. consider more transparent alternatives;
6. provide sunsets to prompt review;
7. require value or intention statements on new legislation;
8. make simplicity and transparency a priority; and
9. require local impact notes for any property tax changes.

The Property Tax Working Group will report their recommendations to the Legislature on February 1, 2013. The MLC supports the guiding principles of the working group, and requests the Legislature support policies that will help simplify (not further complicate) the State's property tax system.

D. Oppose reinstating the Market Value Homestead Credit (MVHC) program

The original MVHC program was a credit funded by the State to qualifying homeowners. Cities provided the credit to taxpayers with the expectation of being reimbursed by the State. However, when the State had a budget deficit, MVHC funding would be cut to some cities (MLC cities have only received full reimbursement for the credit <u>twice</u> since the program's implementation).

In 2011, the Legislature eliminated the MVHC program and replaced it with a homestead market value **<u>exclusion</u>**. With this new program, a portion of a home's value is excluded from taxation (thus it is funded by residential and commercial property owners within that home's jurisdiction – not the State).

MLC supports the stability to our budgets provided by the exclusion, not the market value homestead credit. Our members ask the Legislature to oppose reinstating the MVHC program in 2013.

However, there are areas where a legislative fix is needed in order to mitigate some of the challenges of going from a credit to an exclusion, including:

1. <u>Levy limits for EDAs and HRAs</u>
   A number of levy restrictions based on market value related to specific functions, such as economic development authorities, housing and redevelopment authorities and port authorities, may inadvertently experience a reduction in their levy authority due to the exclusion. The MLC requests that levy limits based on market value, including those impacting economic development authorities, housing and redevelopment authorities and port authorities, be computed on market value of the jurisdiction <u>before</u> the homestead market value exclusion.

2. <u>Housing Districts/TIF Districts</u>
   The TIF statute, Minn. Stat. § 469.177, does not address tax base changes resulting from the homestead market value exclusion. As a result, the current value of a district will be reduced by the exclusion but the original net tax capacity will not be adjusted and consequently, increment available to the district will decline. The MLC requests that Minn. Stat. § 469.177 be revised to provide for an adjustment to the original net tax capacity calculation to reflect the exclusion.

The technical changes referenced above were addressed in last year's vetoed Omnibus Tax Bills (Article 7 of H.F. 2337, and Article 12 of H.F. 247). The MLC encourages lawmakers to revisit these articles and pass a technical corrections bill to mitigate these issues.

E. Support principles in LGA reform that promote equity, simplicity and neutrality

MLC cities do not receive LGA. However, our members support the program as long as it's clear to our taxpayers where the money is going and why it is being directed there. We recommend the following principles be adhered to when changes to LGA are proposed:

1. **Equitable –** an effective LGA formula should provide similar amounts of aid to similarly situated cities (minimize mechanisms such as "grandfathers" and minimum/maximum aid amounts).
2. **Neutral –** the LGA program should not encourage cities to spend more than it would otherwise need to for basic services. LGA should be based on factors outside of the individual city's control.
3. **Simple and Understandable –** attempting to address every unique and special problem with each of the 855 cities in Minnesota causes the LGA formula to be too complex. Factors used to determine aid should have general support and understanding from cities and their citizens.
4. **Ability to Provide Adequate Revenue –** an effective formula should grow with general city costs, stay relatively stable, and should be based on factors for which we have accurate information and whose values do not wildly fluctuate from year to year.

Furthermore, the MLC supports methods to reduce the property tax burden that are outside of the LGA program. In addition to the PTR program, increasing school aids, county aids, or reducing the Statewide tax on C/I and seasonal properties would all help relieve the property tax burden on our residents.

F. Support increased transparency in the State's "Fiscal Disparities" program

The State authorized the Department of Revenue to commission a third-party study of the Metropolitan Area "Fiscal Disparities" Program. The program was enacted in 1971 to reduce discrepancies in tax-base wealth between taxing units within the metro.

At the time of the study's release, one of the common issues raised amongst our members was the lack of understanding about the fiscal disparities program within the business community. Therefore, the MLC recommends that steps are taken to help improve the transparency of the fiscal disparities program, such as:

- Revising the name of the program to accurately reflect its purpose (which is redistributing tax base, not sharing revenue); or
- Displaying the metro area-wide tax rate in addition to the local tax rate on a business's property tax statement.

G. Oppose Fiscal Limitations on Local Units of Government

Our cities' residents and property owners provide nearly all the revenue for city services through property taxes and fees – no MLC cities receive LGA. Imposing artificial caps, such as levy limits and property tax freezes, removes the autonomy needed for city officials to make decisions in the best interests of their fellow citizens.

The MLC opposes state limitations on local decision making that inhibit cities' ability to plan with financial confidence. We ask the Legislature to not impose restrictions to our budget decisions by imposing levy limits or property tax freezes.

II. Invest in Job Retention and Growth

Compared to the rest of the nation, Minneapolis-St. Paul and the surrounding suburbs rank at the top when it comes to the percentage of college educated adults active in the workforce, as well as the number of Fortune 500 headquarters per capita. We are also one of the few metropolitan regions in the U.S. that is home to our state's capitol and its major research university. Thus, the State needs to invest/support regional growth in the Twin Cities metropolitan area and surrounding suburbs.

MLC cities specifically are critical job producers for the region. Combined, we are among the biggest job producing areas in the state with over half a million employees (compared to Minneapolis/St. Paul with a combined total of 456,798 employees)[1]. Furthermore, many of our cities have seen net employment growth between the years 2000-2010. In fact, five of the top 10 cities with net employment growth of over 1,000 are MLC members.

Our members believe the State can play a critical role in keeping and growing jobs by making key investments, and by supporting and partnering with cities. A jobs focus will help cities promote a healthy business environment, which will keep and grow jobs here rather than having companies move to a more competitive state.

A. Support providing DEED with the tools and incentives necessary to attract and retain businesses.

The MLC supports authorizing DEED to use specific tools to attract businesses without always having to go to the Legislature for approval. These include the use of tax incentives in order to attract jobs to our local communities, sales tax exemptions or rebates on construction materials and capital equipment, and funding the Minnesota Investment Fund (MIF). Doing so would not only help expedite the process, but also reduce barriers to local job creation.

B. Support highway and transit projects that promote economic development and growth.

The MLC continues to support transportation investments to replace deficient bridges, maintain regional and state highways, and advance public transit. In addition, our members support the Transportation Economic Development Program (TED), a collaboration between DEED and MnDOT which prioritizes and funds highway capacity and safety improvements which will result in significant job growth and economic development.

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[1] The Metropolitan Council, *Metro Stats: Employment in the Twin Cities Region, 2000-2010,* September 2011, < http://stats.metc.state.mn.us/stats/pdf/Employment_MS2010.pdf>

During the 2011 Special Session, language was passed creating a Trunk Highway Economic Development Account (MN Statute 161.04, subd. 6). The Commissioner of Transportation was authorized to transfer up to $20 million from the Trunk Highway Fund into this account toward the TED program.

The MLC supports this account and encourages the Legislature to continue annually allocating MnDOT funds toward the TED program.

C. Support flexibility in Tax Increment Financing (TIF) policies.

TIF remains one of the most viable tools available to fund community reinvestment efforts. Further restrictions of TIF would render the tool less effective and will almost certainly curtail local efforts to support job creation, housing, redevelopment and remediation. In light of the recent economic and development downturns, cities need greater flexibility to use the tool effectively to support the economic viability of their business and residential communities. The 2010 Jobs bill provided flexibility in the tax increment laws, recognizing that this is an important tool for stimulating development and creating jobs.

So as to not further complicate this process, the MLC requests the Legislature not enact future TIF law restrictions during the next legislative session.

D. Reduce the corporate income tax rate so Minnesota is no longer in the top 10 states nationally.

Minnesota has the 3rd highest corporate income tax rate in the nation, putting us at a disadvantage nationally in attracting new business development. However, for the businesses that have committed to building in Minnesota, there are multiple credits and deductions available (i.e. the Research & Development Credit) that made the effective tax rate much lower than what is being marketed. A phased-in lower corporate income tax rate would improve our marketability nationally and better reflect the effective tax rate businesses in Minnesota actually pay.

The MLC supports a tax reform package that includes a corporate income tax rate reduction so our State no longer ranks in the top 10 nationally of highest corporate income tax rates.

III. Support Local Government Policies that Promote Fairness and Equity

MLC cities want to partner with the State to provide the best services for its constituents. However, State mandated programs can interfere with a city's ability to make the best fiscal decisions for its community. Mandates can lead to either a reduction in basic services or an increase in taxes and service charges in order to meet the requirements outlined by the State.

The MLC asks the Legislature to thoughtfully consider existing mandates and their efficacy, and make the appropriate reductions or repeals where possible. We further ask that unfunded mandates be avoided altogether. Should new mandates on local units of government be proposed, we ask that legislators consider providing cities with the greatest amount of flexibility available in order to reduce implementation costs.

A. Mitigate the financial impact of surface water regulations

The MN Pollution Control Agency distributed a memo to cities regulated under the Municipal Separate Storm Sewer Systems (MS4) stormwater permit, requiring an inventory of stormwater ponds, wetlands and other water bodies impacted by the collection, treatment and conveyance of stormwater. The impact of a detailed pond-by-pond survey and inventory could prove to be very expensive for cities. Furthermore, this project would create a significant administrative burden for the MPCA who already are behind in reviewing documents related to the stormwater permit program.

MLC supports the goal of monitoring the performance of stormwater ponds for water quality purposes, but the economic impact of this goal needs to be greatly considered.

B. Oppose mandates relating to expenditure-type reporting

NAIOP, the Commercial Real Estate Development Association sponsored legislation last year that would require counties and cities to publish their budgets sorted by "expenditure-type" (i.e. employee costs divided by wages, health care, pensions and Social Security; supplies; purchased services; capital items; and transfers to other funds). Failing to comply would have resulted in the withholding of State aids.

The MLC appreciates the intent of more transparency between local government and taxpayers, but we are concerned with the additional city resources it would take to compile this information by object code (as it is not standard practice). A pilot project or providing past audited financial statements online as an alternative would help alleviate some of these concerns.

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