2023 Municipal Revenues Committee Members

Name	Title	Organization
Daniel Buchholtz	City Administrator	Spring Lake Park
Casey Casella	Management Analyst	Savage
Jim Dickinson	City Administrator	Andover
Lori Economy-Scholler	Chief Financial Officer	Bloomington
Greg Evansky	Councilmember	Victoria
Inderia Falana	Government Relations Representative	Minneapolis
Ryan Garcia	City Administrator	South St. Paul
LaTonia Green	Finance Director	Brooklyn Park
***Dana Hardie**	City Manager	Victoria
****Alex Hassel**	IGR Representative	League of MN Cities
Chris Heineman	City Administrator	Little Canada
Laurie Hokkanen	City Manager	Chanhassen
Mike Huang	Councilmember	Chaska
Steven Huser	Government Relations Representative	Minneapolis
Tom Lawell	City Administrator	Apple Valley
****Daniel Lightfoot**	IGR Representative	League of MN Cities
Kristi Luger	City Manager	Excelsior
Madeline Mitchell	Senior Budget Analyst	St. Paul
Darin Nelson	Finance Director	Minnetonka
Justin Olsen	Councilmember	Cottage Grove
Loren Olson	Senior Government Relations Representative	Minneapolis
****Hannah Pallmeyer**	Government Affairs Liaison	Metropolitan Council
Cara Schulz	Councilmember	Burnsville
Steven Stahmer	City Administrator	Rogers
Katie Topinka	IGR Director	Minneapolis
Christina Volkers	City Administrator	Oakdale

*Committee Chair
**Guest/Non-City Official

METRO CITIES
Association of Metropolitan Municipalities

July 18, 2023

TO: Municipal Revenues Policy Committee Members
FROM: Dana Hardie, City Manager, City of Victoria
SUBJECT: Meeting Notice and Agenda

Tuesday, July 25, 2023
9:00 am – 11:30 am
Hybrid Meeting: Lake
Superior Room/LMC Building
Or
Join Zoom Meeting

- Thank you for agreeing to be a policy committee member!

Attached are the materials for the first Municipal Revenues Policy Committee meeting. Please take the time to read through the policies in advance of the meeting and come with your ideas and suggestions.

AGENDA

1. Call to order. (Dana Hardie, Chair)
2. Introduction of Committee Chair and Members.
3. Policy Committee Process and Protocols (Patricia Nauman, Executive Director)
4. 2023 Legislative Session Review (Patricia Nauman, Executive Director)
5. Discussion of policies, suggestions, and ideas for new policies.
6. Discuss new issues for future consideration.
7. Other business
8. Adjourn. (11:30 a.m.)

Future Committee Meetings:
Tuesday, August 29, 2023
Tuesday, September 26, 2023

To:	**Metro Cities Policy Committees**
From:	**Patricia Nauman, Executive Director**
Re:	**Policy Development Process and Protocol**

General

Each year, four legislative policy committees meet to recommend Metro Cities' legislative policies. Policies address a comprehensive range of issues of shared significance for metropolitan cities. Policies are then transmitted to the Metro Cities Board of Directors for adoption and forwarded to Metro Cities' membership for final adoption. Policies serve as the foundation for Metro Cities' work at the Legislature, Executive Branch and Metropolitan Council.

Purpose of Legislative Policies

Legislative policies reflect common needs, interests and goals of metropolitan municipalities and are adopted by consensus. General core principles that inform Metro Cities' policies are the need for sufficient local flexibility to address local public needs and services, opposition to state mandates that erode local control, and the need for a strong state and local partnership that recognizes the needs of metropolitan cities and the role they play in ensuring the state's economic and social well-being.

Speakers

Committees often host speakers to provide information on topics of pertinence to a committee and may be suggested by committee members and staff. All speakers must be approved by Metro Cities' Executive Director.

Committee Participation and Voting

Members. Elected or appointed officials and staff of any member city may serve on any committee by indicating interest in email or through the sign-up process provided in advance of the committee process each year.

Members are encouraged to contribute ideas, feedback, and questions during the committee process. All comments and questions should be addressed through the Chair.

City officials and staff may serve on one or more committees but for voting purposes, each city has one vote on policies. Votes are made by acclamation unless a roll call vote is requested.

Guests. Non-members are welcome to attend committees as guests. Non-member attendees may observe meetings and provide general observations but may not vote on policies or raise specific issues for the committee's consideration.

Committee Etiquette

Discussion, feedback, and questions are welcome and should be addressed through the committee chair. Meetings will be held in a hybrid format. Members participating remotely should use the chat or hand raise function to raise a question or comment. Remote participants are asked to name yourself and your city, and to identify yourself when speaking.

July 18, 2023

TO: Municipal Revenues Policy Committee
FROM: Patricia Nauman, Executive Director
RE: July Municipal Revenues Policy Committee

Welcome to all returning and new members of Metro Cities' Municipal Revenues Policy Committee. This memo will provide a legislative session update relating to the association's municipal revenues policies. Specific updates relating to individual policies are enclosed.

The 2023 session was notable for its 71 new members, a 'trifecta', with DFL majorities in the House, Senate and Governor's Office, and the number of consequential bills passed into law.

The February Budget and Economic Forecast projected a $17.5 billion surplus for the state with $12.5 billion of that number projected as 'one time'. 2023 was a budget setting year for the Legislature. Legislators passed all budget omnibus bills and a tax bill, many of which contained various provisions for and relating to cities. In addition, the Legislature passed many other significant bills, including voter restoration, universal school meals, recognition of Juneteenth as a holiday, legalization of adult-use cannabis, duty disability legislation, paid family and medical leave, and others.

The tax bill that is now law includes LGA formula updates and modifications that were the work of Metro Cities, the League of MN Cities, Coalition of Greater MN Cities, and the Association of Small Cities. The four associations worked over two years to study and recommend formula updates, using the framework of the existing formula but with some updated factors to reflect current city needs. The formula changes were considered but not adopted last year, and this year were included in the Governor's budget recommendations for taxes as well as both the House and Senate tax bills.

The Legislature authorized several local option sales taxes, including 14 for metropolitan cities. Local option sales tax (LOST) bills were an item of debate and contention this year. The Senate tax bill included all proposals in its omnibus bill while the House included no proposals, nor did the House Taxes Committee hear LOST bills. The final tax bill, now law, established a local option sales tax task force that will examine local option taxes as a revenue source, with a report due next year.

Tax increment financing changes were passed as part of the tax bill; these changes were the reflection of work conducted by Metro Cities and the LMC over the last several years with the State Auditor's Office.

This year, the Legislature passed two new metropolitan sales taxes, one for transit, and one for housing. These updates are addressed in the transportation and housing policy committees as well. Metro Cities opposed the metropolitan sales tax for housing, based on the association's policies that stipulate statewide objectives such as housing should be funded with state revenues.

Staff will provide additional information on these and other applicable bills and legislative activity next Tuesday.

Municipal Revenue & Taxation

1-A State and Local Fiscal Relationship

A functional state and local fiscal relationship must emphasize adequacy, equitability, sustainability and accountability for public resources and communication among the state, cities, and public. An effective partnership must also emphasize practices that strengthen collaboration and partnership between the state and local units of government.

Services provided by cities are traditionally funded through a combination of property taxes, fees, and state aids. Increasingly, cities are bearing more costs for services that have historically been the responsibility of the state.

Metro Cities supports a state and local fiscal partnership that emphasizes the following:

- **Strong financial stewardship and accountability for public resources that emphasizes efficiencies in service delivery and effective communication among the state, local units of government, and the public.**

- **Reliable and adequate revenue sources including the property tax and local government aids, and dedicated funds to meet specific local needs. Metro Cities opposes diverting dedicated funds or local aids to balance state budgets.**

- **Sufficient revenue sources available to cities that allow cities to address local needs and citizens to receive adequate services at relatively similar levels of taxation, and that maintain local, regional, and state economic vitality and competitiveness.**

- **Full state funding to cover mandates enacted by the state, and flexibility for local governments in implementing state mandates to ensure local costs are minimized.**

- **Local decision-making authority regarding the terms and conditions of employment for local government employees, including compensation, recognition, and benefits.**

- **Adequate and timely notification regarding new legislative programs or modifications to existing programs or policies to allow cities time to plan for implementation and manage any effects on local budgeting processes.**

- **Support for cooperative purchasing arrangements between the state and local units of government. Such arrangements must be structured to be able to address unexpected delays or other challenges in the procurement of goods, so that any disruptions to local government operations and services that may result from such delays are minimized. State officials should seek local feedback in the vetting of product vendors.**

- **The concept of performance measuring, but opposition to using state established measurements to determine the allocation of state aids to local governments or restrict the ability of local governments in establishing local budgets and levies.**

Legislative Update*: The Legislature repealed the local government salary cap as part of the State Government Omnibus Finance bill; Metro Cities supported this repeal. A paid family leave bill that mandates participation by all cities, and is not state funded, also passed this year. The Legislature also passed an earned safe and sick time bill that requires all employers, including cities, to provide one hour of safe/sick time for full and part time employees.*

1-B COVID-19 Pandemic Assistance

Metro Cities supported the distribution of federal funds distributed under the Coronavirus Relief Fund and State and American Rescue Plan Act Local Fiscal Recovery Fund, to assist cities in addressing service needs and expenses related to the COVID-19 pandemic, including certain personnel costs as well as local service and operational improvements and modifications required to ensure public health and safety. Metro Cities will continue to support federal and state funding to assist cities in addressing local needs and costs related to the pandemic.

Metro Cities is monitoring federal rules and requirements for funds and supports clarity in the guidance on the uses of funds and flexibility in eligible uses that allows local officials to address varied needs and challenges resulting from the pandemic.

Metro Cities supports state financial assistance to address the long-term financial effects of the pandemic on local government budgets and revenues, and changes to state laws to allow cities temporary flexibility in the use of unobligated tax increment financing (TIF) increment and unobligated local sales and lodging tax revenues, to address local financial challenges resulting from the pandemic. Metro Cities supported 2021 statutory changes that allow unobligated increment to be used to assist businesses.

Legislative Update*: No applicable updates. Metro Cities continues to monitor guidance and requirements for federal ARPA funds, to trouble shoot on issues, and to distribute updated requirements and other information.*

1-C Revenue Diversification and Access

Metro Cities supports a balanced and diversified revenue system that acknowledges diverse city characteristics, needs and capacities and allows for greater stability in revenues.

Metro Cities continues to support the ability of a city to impose a local option sales tax for public improvements and capital replacement costs using local processes specified by law but without the need for special legislation. Metro Cities supports changes to state laws governing local taxes to include the following:

- **A statutory clarification to allow a referendum to occur at any November election or special election.**

- **A clarification of laws governing separate ballot questions for each proposed local project, or allowing a city to combine projects into a single question, to avoid voter confusion.**

- **A repeal of the prohibition on imposing a local sales tax for one year from the expiration of an existing local sales tax.**

- **Changes to laws on the local sales tax process to allow a city flexibility to modify a ballot question to increase the amount of the collected tax and extend the duration of tax to cover unanticipated cost increases**.

The Legislature should recognize equity considerations involved with local sales taxes and continue to provide aids to cities that have high needs, overburdens and/or low fiscal capacity.

Metro Cities supports a modification to laws governing local lodging taxes to allow cities to impose up to a five percent lodging tax, and the ability of cities to modify the uses of revenues to meet local needs. Metro Cities supports current laws providing for municipal franchise fee authority and opposes statutory changes such as reverse referendum requirements or other constraints that would reduce local authority and flexibility for establishing, amending, or renewing franchise fees and interfere with local public processes and goals for establishing such fees.

Legislative Update*: The omnibus tax bill passed by the Legislature authorized requests by cities for local option sales taxes, including several metropolitan cities. Local option sales taxes were a point of contention between the House and Senate tax committee chairs. The Senate tax bill as it went to conference committee authorized all proposals, while the House tax committee did not hear any local option sales tax bills and authorized no proposals in the House omnibus tax bill. The final bill authorized proposals for local taxes and also established a task force to examine local option taxes as a revenue source. A task force will meet this interim and report to the 2024 Legislature on its findings.*

1-D Restrictions on Local Government Budgets

Metro Cities strongly opposes levy limits, reverse referenda, super majority requirements for levy and valuation freezes, or other restrictions on local government budgeting and taxing processes. Such restrictions undermine local budgeting and taxing processes, planned growth, and the relationship between locally elected officials and their residents by allowing the state to decide the appropriate level of local taxation and services, despite varying local conditions and circumstances.

Legislative Update*: Amendments to impose levy limits were introduced in tax committee discussions but not adopted.*

1-E Budget and Financial Reporting Requirements

State laws require cities to prepare and submit or publish numerous budget and financial reports. These requirements often create significant costs to cities, and some requirements result in duplication. Additional reporting requirements should have a clearly defined statement of public purpose and need not be covered under existing requirements and should balance the need for additional information with the costs of compiling and submitting the information.

Considering the numerous existing reporting requirements, Metro Cities supports reducing the number of mandated reports. Metro Cities supports efforts to consolidate municipal government financial reporting requirements in the Office of the State Auditor, including an electronic submission alternative to any remaining paper filing requirements, and to authorize the use of web publication where newspaper publication is currently required.

While Metro Cities recognizes that enacted statutory requirements to the local truth-in-taxation process enacted in 2022 are intended to enhance citizen involvement in budget processes, the new requirements are significant and will be administratively challenging to produce and disseminate. Existing requirements are expansive and were designed to maximize citizen engagement in budgeting processes. Metro Cities will continue to monitor the new law and its effects on local government processes and budgets.

Legislative Update: *Truth in taxation (TNT) reporting requirements enacted in 2021 were repealed in the 2023 session. The law now requires that the TNT show any change in the levy and is required for counties, cities, and school districts. Website information is also required to be included.*

Reporting requirements require first and second-class cities to provide a list of certain residential buildings without sprinkler access that are 75 feet or more above the lowest level of fire vehicle access.

1-F Local Government Aid (LGA)

The state's prosperity and vitality depend significantly upon the economic strength of the metropolitan region, and cities within the region play critical roles in fostering the economic development, job creation and business expansion that underpin the state's economic health. **Metro Cities supports the city Local Government Aid (LGA) program as a means of ensuring cities remain affordable places to live and work while meeting the public service needs of residents and businesses.**

Metro Cities supports updates to the LGA formula factors and an increase in the program appropriation consistent with recommendations by a work group of city associations. Recommended updates will ensure the LGA program adequately reflects city needs.

To ensure appropriation levels are adequate to meet program objectives, Metro Cities supports increasing the LGA appropriation to address cities' unmet need as defined by the LGA formula as well as increases in the LGA appropriation to account for inflation. By way of reference, the total need identified in the LGA formula for 2023 is estimated at $767.9 million, whereas the current funding is set at $564.3 million, putting the remaining need at $203.5 million.

Metro Cities supports formula-based allocations for increases to the LGA appropriation, and opposes freezes of the LGA appropriation, reductions of LGA for balancing state budget deficits, and diversions of the LGA appropriation to other purposes or entities.
Metro Cities also opposes artificial limits or reductions that single out specific cities, and further opposes using LGA as financial leverage to influence activities and policy decisions at the local level.

Legislative Update: *The final tax bill contains LGA formula updates that were the result of study and recommendation by Metro Cities, the LMC, the CGMC and MAOSC, and an appropriation increase of $80 million. Metro Cities supported the formula updates and appropriation increase. Staff will provide further details at the meeting.*

1-G State Property Tax Relief Programs

Metro Cities supports state funded property tax relief programs paid directly to homestead property taxpayers such as the "circuit breaker" program and enhanced targeting for special circumstances. Metro Cities also supports the renter's credit program. Metro Cities supports an analysis of property tax relief programs to determine their effectiveness and equity in providing property tax relief to individuals and families across the state.

Metro Cities supports efforts by the Minnesota Department of Revenue to expand outreach and notification efforts about state property tax relief programs to homeowners, and notifications to local units of government to support such efforts. Metro Cities also supports legislative modifications to make tax relief payments to taxpayers automatic.

Metro Cities supports the use of the Department of Revenue's Voss database to link income and property values, and the consideration of income relative to property taxes paid in determining eligibility for state property tax relief programs. Updates to the database should occur in a timely manner, with data reviewed periodically to ensure the database's accuracy and usefulness.

Legislative Update: *The final tax bill that is now law expanded certain direct tax relief programs including the targeted tax relief program and homestead credit refund. The renter's credit is converted to an income tax credit. One time increases to the homestead credit refund and renter's credit were also passed as part of the tax bill. Metro Cities supported provisions to expand and increase the state's direct property tax relief programs.*

1-H Property Valuation Limits/Limited Market Value

Metro Cities opposes the use of artificial limits in valuing property at market for taxation purposes since such limitations shift tax burdens to other classes of property and create disparities between properties of equal value.

Legislative Update: *No applicable updates.*

1-I Market Value Homestead Exclusion Program

The Market Value Homestead Exclusion Program (MVHE) provides property tax relief to qualifying homesteads, through reductions in property tax values, which shifts property taxes within jurisdictions. The MVHE replaced a former Market Value Homestead Credit Program, which provided credits on local government tax bills to qualifying properties, with reimbursements provided by the state to local governments.

Metro Cities opposes restoration of the former Market Value Homestead Credit, as reimbursements to local governments were inconsistent, and encourages further study of the exclusion program, with input by city officials, to determine the program's overall efficacy and its effects on local tax bases. Due to the recent rapid increase in home values, Metro Cities supports modifications to the homestead market value exclusion program to increase the benefit of the exclusion to qualifying homeowners. Changes to the homestead market value exclusion should be considered in concert with the impact of the homestead credit refund program.

Legislative Update: *The 2023 tax bill included an increase of the homestead market value exclusion from $413,800 to $517,200.*

1-J Metropolitan Area Fiscal Disparities Program

The Metropolitan Area Fiscal Disparities Program, enacted in 1971, was created for the purposes of:

- providing a way for local governments to share in the resources generated by the growth of the metropolitan area without removing existing resources;
- promoting orderly development of the region by reducing the impact of fiscal considerations on the location of business and infrastructure;
- establishing incentives for all parts of the area to work for the growth of the area as a whole;
- helping communities at various stages of development; and
- encouraging protection of the environment by reducing the impact of fiscal considerations to ensure protection of parks, open space and wetlands.

Metro Cities supports the Fiscal Disparities Program. Metro Cities opposes any diversion from the fiscal disparities pool to fund specific state, regional or local programs, goals or projects as such diversions contradict the purposes of the program.

Legislation that would modify or impact the fiscal disparities program should only be considered within a framework of comprehensive reform efforts of the state's property tax, aids, and credits system. Any proposed legislation that would modify or impact the fiscal disparities program must be evaluated utilizing the criteria of fairness, equity, stability, transparency, and coherence in the treatment of cities and taxpayers across the metropolitan region and must continue to serve the program's intended purposes.

Metro Cities opposes legislation that would allow for capturing and pooling growth in residential tax capacity to fund specific programs or objectives.

Further studies or task forces to consider modifications to the fiscal disparities program must include participation and input from metropolitan local government representatives.

Legislative Update: *No applicable updates.*

1-K Constitutional Tax and Expenditure Limits

Metro Cities strongly opposes including tax and expenditure limits in the state constitution, as it limits flexibility by the Legislature or local governments to respond to unanticipated critical needs, emergencies, or fluctuating economic situations. When services such as education, public safety and health care require increased funding beyond the overall limit, other publicly funded services potentially stand to receive inadequate resources. Constitutional limits result in reduced revenue bases during times of economic downturn and the inability to recover to previous service levels when economic prosperity returns.

Legislative Update: *No applicable updates.*

1-L State Property Tax

The state levies a property tax on commercial/industrial and cabin property. **Since cities' only source of general funds is the property tax, Metro Cities opposes extension of the state property tax to additional classes of property. Metro Cities opposes using the state property tax to fund specific programs or objectives generally funded through state income and sales tax revenue.**

To increase transparency, Metro Cities supports efforts to have the state provide information on the property tax statement regarding the state property tax. Metro Cities opposes exempting specific classes of property under the tax as such exemptions shift the costs of the tax onto other classes of property.

Legislative Update: *No applicable updates.*

1-M Class Rate Tax System

Metro Cities opposes elimination of the class rate tax system or applying future levy increases to market value since this further complicates the property tax system.

Legislative Update: *No applicable updates.*

1-N Regional Facility Host Communities

Municipalities hosting regional facilities such as utilities, landfills or aggregate mining incur costs and effects such as environmental damage or lost economic development opportunities. Communities should be compensated for the effects of facilities that provide benefits to the region and state. **Metro Cities supports efforts to offset the negative effects of these facilities and activities on host communities.** Metro Cities would prefer that municipalities be allowed to collect a host fee that may be adjusted when state decisions affect those fees.

Legislative Update: *A new law requires MN Management and Budget to transfer $27.397 million from the general fund to the metropolitan landfill contingency action trust account to restore that account's balance following transfers made to the general fund in 2003 and 2005.*

1-O Sales Tax on Local Government Purchases

Metro Cities supported the 2013 reinstatement of the sales tax exemption for purchases of goods and services made by cities. This reinstatement does not apply to all local government purchases.

To ensure citizens receive the full benefit of this exemption, the law should treat purchases of all local government units the same, including purchases made by special taxing districts, joint powers entities, or any other agency or instrumentality of local government.

Metro Cities supports simplifying the process on the exemption for construction materials that is complex and cost ineffective or converting the process to a refund program. Metro Cities supported

the law enacted in 2021 that exempts construction materials purchased to construct public safety facilities from state sales tax.

Metro Cities supports granting an extension of the motor vehicle sales tax exemption to all municipal vehicles that are used for general city functions and are provided by governmental entities. Currently, only certain vehicles, including road maintenance vehicles purchased by townships, and municipal fire trucks and police vehicles not registered for use on public roads, are exempt from the MVST.

Legislative Update: *The House tax bill included a temporary provision to address the construction materials sales tax exemption that would have exempted materials from July 2021 to December 2024. The Senate tax bill included several community-specific construction sales tax exemptions in its tax bill but did not address the exemption generally. Addressing the general exemption was not included in the tax bill that became law.*

1-P City Revenue Stability and Fund Balance

Metro Cities opposes state attempts to control or restrict city fund balances, or to use city fund balances as a rationale for reducing state aids or property tax payment delays. These funds are necessary to maintain fiscal viability, meet unexpected or emergency resource needs, purchase capital goods and infrastructure, provide adequate cash flow and maintain high level bond ratings.

Legislative Update: *No applicable updates*.

1-Q Public Employees' Retirement Association (PERA)

Metro Cities supports employees and cities sharing equally in the cost of necessary contribution increases and a sixty percent employer/forty percent employee split for the PERA Police and Fire Plan. Metro Cities also supports state assistance to local governments to cover contribution burdens placed on cities over and above contribution increases required by employees. Cities should receive sufficient notice of increases so that they may take them into account for budgeting purposes.

Metro Cities opposes benefit improvements for active employees or retirees until the financial health of the PERA General Plan and PERA Police and Fire Plan are restored.

Metro Cities supports modifications to help align PERA contributions and costs, and reduce the need for additional contribution increases, including a modification of PERA eligibility guidelines to account for temporary, seasonal, and part-time employment situations, the use of pro-rated service credit and a comprehensive review of exclusions to simplify eligibility guidelines. Further employer contribution rate increases should be avoided until other cost alignment mechanisms are considered.

Metro Cities supports cities and fire relief associations working together to determine the best application of State Fire Aid. Flexibility in the application of aid, where combination departments exist, will ensure that fire services can be provided in the most cost-effective means possible.

Regarding police pension contributions, Metro Cities supports a proactive review of factors contributing to the financial status of police and fire pension plans, to ensure that structural adjustments are considered in conjunction with potential increases in employee and employer contribution rates. Specifically, an area that could be considered is contractual overtime impacts on pension levels.

In recent years, the number of public safety employees seeking duty disability determinations through the Public Employees Retirement Association (PERA) and making workers' compensation claims for line-of-duty injuries has accelerated. The current system for processing and addressing duty disability benefits can be incompatible with the goal of restoring good health and returning employees to work and the fiscal implications of the increasing number of claims are unsustainable for employers and, ultimately, taxpayers.

Metro Cities supports efforts by the League of Minnesota Cities and cities to invest resources into mental and physical injury, education, prevention, and treatment, and to gather empirical evidence related to the treatability of mental health injuries and provide early treatment.

Metro Cities further supports full state funding for the Public Safety Officer Benefit account that reimbursees employers for continued health insurance to police officers and firefighters injured in the line of duty, funding to reimburse local governments for providing paid time off to public safety employees who experience work related trauma and/or are seeking treatment for a mental injury, and funding for trauma training, early intervention, and mental health treatment.

Metro Cities supports removing the sunset of the PERA aid that is paid to local units of government to help address increased employer contribution costs.

Legislative Update: *The omnibus pensions bill passed into law includes one-time funding for PERA plans and a one-time cost of living increase. The full vesting period for PERA was modified to three years, from five years.*

1-R State Program Revenue Sources

Metro Cities opposes any attempt by the state to finance programs of statewide value and significance, that are traditionally funded with state revenues, with local revenue sources such as municipal utilities or property tax mechanisms. Statewide programs serve important state goals and objectives and should be financed through traditional state revenue sources such as the income or sales tax.

Metro Cities further opposes substituting traditionally state funded programs with funding mechanisms that would disparately affect taxpayers in the metropolitan area.

Legislative Update: *A new law establishes a .25 metro sales tax for housing rental assistance in the metropolitan area.*

1-S Post-Employment Benefits

Metro Cities supported statutory changes that allow local governments to establish trusts from which to fund post-employment health and life insurance benefits for public employees, with participation by cities on a strictly voluntary basis, in recognition of differing local needs and circumstances. Cities should retain the ability to determine the level of post-employment benefits to employees.

Legislative Update: *No applicable updates*.

1-T Health Care Insurance Programs

Metro Cities supports legislative efforts to control health insurance costs but opposes actions that undermine local flexibility to manage rising insurance costs. Metro Cities encourages a full examination of the rising costs of health care and the impacts on city employers and employees. **Metro Cities also supports a study of the fiscal impacts to both cities and retirees of pooling retirees separately from active employees.**

Legislative Update: *No applicable updates.*

1-U State Budget Stability

Metro Cities strongly supports a state revenue system that provides for stability, flexibility, and adequacy in the system, reduces the volatility of state revenues and improves the long- term balance of state revenues and expenditures. Metro Cities supports a statutory budget reserve minimum that is adequate to manage risks and fluctuations in the state's tax system and a cash flow reserve account of sufficient size so that the state can avoid short- term borrowing to manage cash flow fluctuations.

Metro Cities also supports an examination of the property tax system and the relationships between state and local tax bases, with an emphasis on state budget cuts and effects on property taxes. State budget deficits must be balanced with statewide sources and must not further reduce funding for property tax relief programs and aids to local governments that result in local governments bearing more responsibility for the costs of services that belong to the state.

Legislative Update: *The Legislature passed a law to require the Office of MN Management and Budget (MMB) to include inflation on expenditures in budget and economic forecasts.*

1-V Taxation of Electronic Commerce

Metro Cities supports efforts to develop a streamlined sales and use tax system to simplify sales and use tax collection and administration by retailers and states. Metro Cities supports policies that encourage remote retailers to collect and remit state sales taxes in states that are complying with the Streamlined Sales and Use Tax Agreement.

Metro Cities opposes legislation that allows accommodation intermediaries such as online travel companies a tax exemption that terminates obligations to pay hotel taxes to state and local governments, or otherwise restricts legal actions by states and localities.
The Legislature in 2011 clarified that these services are subject to state sales tax. Metro Cities supports statutory changes to further clarify that all lodging taxes, whether administered by the state or locally, apply to total charges, including charges for services provided by accommodation intermediaries.

Legislative Update: *No applicable updates.*

1-W Payments for Services to Tax Exempt Property

Metro Cities supports city authority to collect payments from tax exempt property owners to cover the costs of services to those entities, similar to statutory authority for special assessments. Metro Cities opposes legislation that would exempt nonprofit entities from paying user fees and service charges.

Legislative Update: *No applicable updates.*

1-X Proceeds from Tax Forfeited Property

Metro Cities supports changes to state laws governing the proceeds for tax forfeited properties. Currently, counties can recover administrative costs related to a property before other allocations are made, and the law allows for the county to recoup a percentage of assessment costs once administrative costs are allocated. The result is often no allocation or a very low allocation, and usually insufficient level of proceeds available for covering special assessments, unpaid taxes, and fees to cities. State processes addressing tax-forfeited properties can have implications for local land use plans and requirements and can result in unexpected and significant fiscal impacts on local communities. The current process also does not require the repayment of unpaid utility charges or building and development fees.

Metro Cities supports statutory changes that balance repayment of unpaid taxes and assessments, utility charges and other fees and that more equitably allocates the distribution of proceeds between counties and cities.

Legislative Update: *No applicable updates.*

1-Y Vehicle Title and Registration System (VTRS)

Issues associated with the rollout of the state MN Licensing and Registration System (MNLARS) have caused significant unanticipated and ongoing disruptions to services provided by local deputy registrars. Some registrar offices have relied on other local revenues, such as the property tax, to manage normal expenses due to unresolved glitches in the system and a shift from the state to the local level for additional processing time. These challenges have also created a high potential for negative public perceptions on local government services, on an issue over which local governments have no ability to control.
In 2019, state officials elected to replace the MNLARS system with the Vehicle Title and Registration System (VTRS).

Metro Cities supports state funding to compensate local deputy registrars for unanticipated, increased costs associated with implementation of the new system, and the shifting of per-transaction processing burdens that may result from the implementation of VTRS.

As the state works to identify efficiencies in the vehicle registration process and system, policy makers must consider the effects of changes on the financial viability of deputy registrars resulting from decreases in transaction fees collected by local registrars.

Metro Cities supports increases to existing transaction fee levels that are set by state law, to ensure that local deputy registrars can sufficiently function and meet continually evolving local registrar service needs and address any necessary modifications to registrar operations to ensure these services can be provided safely to the public.

Legislative Update: *Chapter 68 includes $6 million from the state's general fund for payments to deputy registrars, with amounts based on the number of transactions. The law also increased filing fees and established a $1 surcharge for deputy registrars. The new law defines full-service providers as those appointed by the Department of Public Safety (DPS) to provide deputy registrar and driver's license* *functions. The new law also requires DPS to produce a report on the financial sustainability of both functions by January 2024.*

1-Z Special Assessments

When property owners challenge special assessments based on application of the special benefit test, some courts have interpreted "benefits received" to mean the one-year increase in property value that is directly attributable to a construction project. There is currently no consistency between state laws and rulings by some courts on the term "benefits received". **Metro Cities supports modifications to state laws governing special assessments for construction projects or other improvements arising from legislative authority to clarify the definition of "benefits received".** The modified definition should more closely align with how special assessments are calculated and recognizes that the benefit of the improvement to a property may be realized over time and not within one year.

Legislative Update: *No applicable updates.*