2024 Municipal Revenues Committee Members

Name	Title	Organization
Allen Graeme	Councilmember	New Brighton
Michelle Basham	Economic Development & Housing Director	Brooklyn Park
Daniel Buchholtz	City Administrator	Spring Lake Park
Amelia Cruver	Finance Director	St. Louis Park
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
Kelly Grinnell	Finance Director	Chanhassen
***Dana Hardie**	City Manager	Victoria
Chris Heineman	City Administrator	Little Canada
Laurie Hokkanen	City Manager	Chanhassen
Mike Huang	Councilmember	Chaska
Steven Huser	Government Relations Representative	Minneapolis
****Beth Johnston**	IGR Representative	League of MN Cities
Tom Lawell	City Administrator	Apple Valley
****Daniel Lightfoot**	IGR Representative	League of MN Cities
Kristi Luger	City Manager	Excelsior
Devin Massopust	City Manager	New Brighton
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
Eric Petersen	IGR Director	St. Paul
Jennifer Rhode	Deputy City Manager	Burnsville
Gillian Rosenquist	Councilmember	Golden Valley
Michael Sable	City Manager	Maplewood
Cara Schulz	Councilmember	Burnsville
Steven Stahmer	City Administrator	Rogers
Katie Topinka	IGR Director	Minneapolis
Christina Volkers	City Administrator	Oakdale
Brad Wiersum	Mayor	Minnetonka
****Owen Wirth**	IGR Representative	League of MN Cities
Nyle Zikmund	City Administrator	Mounds View

*Committee Chair **Guest/Non-City Official

METRO CITIES
Association of Metropolitan Municipalities

August 20, 2024

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

Tuesday, August 27, 2024
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 second 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. Approval of minutes for the July 30, 2024 meeting.
3. Presentations on 2024 Local Sales Tax Bills: ***Nora Pollock, Counsel, MN Senate Taxes Committee and Alex Haigler, Legislative Analyst, House Taxes Committee***
4. Review committee memo. (Patricia Nauman, Executive Director)
5. Discussion of policies and suggested modifications.

   a. Policies with suggested changes.
   b. Policies with no recommended changes at this time.
6. Discuss additional suggestions for policies and any issues for future consideration.
7. Other business
8. Adjourn. (11:30 a.m.)

Future Committee Meetings:
Tuesday, September 24, 2024

Municipal Revenues
Meeting Minutes of July 30, 2024

Present: Dana Hardie, Kris Amundson, Tom Lawell, Steve Stahmer, Inderia Falana, Brad Wiersum, Darin Nelson, Jim Dickinson, Kelly Grinnell, Steve Huser, Mike Huang, LaTonia Green, Nathan Jesson, Lori Economy Scholler, Laurie Hokkanen, Graeme Allen, Loren Olsen, Eric Petersen, Amelia Cruver, Gillian Rosenquist, Katie Topinka, Daniel Buchholtz, Patricia Nauman, Ania McDonnell, Mike Lund, Jennifer Dorn.

Chair Hardie called the meeting to order at 9:07 am.

Chair Hardie reviewed the agenda and members made introductions.

Ms. Nauman reviewed policy committee processes and protocols.

Ms. Nauman provided a legislative update, and staff reviewed policies and specific updates. Regarding MR-3, Mr. Lawell asked if cities need to spend funds every year. Ms. McDonnell said cities have three years, and funds are considered spent if they are committed to a project. Mr. Nelson noted concerns with funds not allowed for administrative costs. On MR-15, Mr. Nelson noted that fire departments are moving to full time staff with additional costs. Ms.Topinka noted similar concerns with MR-3.

Chair Hardie moved to discussion of policy suggestions. Mr. Buchholtz discussed access to broadband, pressures on franchise fees, and maintaining quality of community programming of meetings as concerns. He would like to see a policy addressing community television.

Ms. Nauman stated that staff will look at policies for potential updating.

Mr. Lawell asked about PFAS and costs. Mr. Lund stated that this issue is covered in the General Government committee and will be a topic moving forward. Mr. Lawell would like a spotlight on this issue because of its significant costs.

Mr. Nelson stated he did not have specific language regarding fire relief but noted the importance of local fire relief funds in the future. Discussion.

Mr. Huang stated that allowing public roadways as a utility would provide revenue. Ms. Nauman stated that this issue falls under the Transportation & General Government committee. Mr. Buchholtz added that cable companies have cities at a disadvantage and there is a need to diversify revenue streams. Mr. Huang added with broadband there is the lack of competition.

Discussion followed on legislative discussions on local sales taxes. Ms. Nauman discussed the bills and the equalization aid in the house bill. Mr. Lawell suggested a position on this issue.

Mr. Allen said he did not have policy suggestions but emphasized the importance of state property tax relief programs with many folks struggling with wages and costs. The state programs for seniors and the disabled are helpful if folks know about them. Discussion.

Chair Hardie adjourned the meeting at 10:34 am.

August 20, 2024

TO: **Municipal Revenues Policy Committee**
FROM: **Patricia Nauman, Executive Director**
RE: **August Municipal Revenues Policy Committee Meeting**

The second meeting of the Municipal Revenues Policy Committee is next Tuesday, August 27th at 9:00 a.m. and will be held in-person with a remote option. Legislative policies, some with suggested modifications, are enclosed. ***Nora Pollock, Counsel, MN Senate Taxes Committee, and Alex Haigler, Legislative Analyst, House Taxes Committee*** will present on 2024 legislative proposals regarding local sales taxes.

Policies with suggested changes:

MR-2 Revenue Diversification and Access (*suggested changes by staff)*
MR-4 Reporting and Budget Requirements (*suggested changes by staff)*
MR-15 Public Employees Retirement Association (*suggested changes by staff)*

Policies with no suggested changes at this time:

MR-1 State and Local Fiscal Relationship
MR-3 Restrictions on Local Government Budgets
MR-5 Local Government Aid
MR-6 State Property Tax Relief Programs
MR-7 Property Valuation Limits/Limited Market Value
MR-8 Market Value Homestead Program
MR-9 Metropolitan Fiscal Disparities Program
MR-10 State Property Tax
MR-11 Class Rate Tax System
MR-12 Regional Facility Host Communities
MR-13 Sales Tax on Local Government Purchases
MR-14 City Revenue Stability and Fund Balance
MR-16 State Program Revenue Sources
MR-17 Post Employment Benefits
MR-18 Health Care Insurance Programs
MR-19 State Budget Stability
MR-20 Taxation of Electronic Commerce
MR-21 Payments for Services to Tax Exempt Property
MR-22 Proceeds from Tax Forfeited Property
MR-23 Deputy Registrars
MR-24 Special Assessments

Staff will provide more information next week. We look forward to seeing you!

MR-1 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:

•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.

• 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.

MR-2 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.

~~The 2023 Legislature authorized several local taxes, and also established a temporary moratorium and task force that will examine local sales taxes as a revenue mechanism.~~

Metro Cities ~~continues to~~ supports the ability of a city to impose a local sales tax for public improvements and capital replacement costs, including but not limited to public libraries, parks and trails, community, convention and civic centers, transportation infrastructure, municipal buildings, and public safety facilities, ~~using local processes specified by law but~~ without the need for special legislation. *(Changes suggested by staff).* 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 local government aid ~~aids~~ to cities that have high needs, overburdens and/or low fiscal capacity. *(Change suggested by staff).*

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 flexibility for establishing, amending, or renewing franchise fees and interfere with local public processes and goals for establishing such fees.

MR-3 RESTRICTIONS ON LOCAL GOVERNMENT BUDGETS

Metro Cities 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.

MR-4 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 that is not covered under existing requirements and should balance needs for additional information with the costs of compiling and submitting the information. New requirements enacted in 2022 are expansive and have resulted in significant administrative costs for cities. *(Updates and minor changes suggested by staff in this paragraph and last paragraph of policy).*

Considering the number of 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.~~

MR-5 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 addresses 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.

Metro Cities supported the appropriation increase and updates to the LGA program formula passed by the 2023 Legislature. Many metropolitan cities do not receive LGA. Future reviews of the LGA program should be conducted every five years or earlier and should consider the needs and capacities of cities not receiving aid under the existing LGA program and formula.

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 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.

MR-6 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.

MR-7 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.

MR-8 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 supported 2023 modifications to the homestead market value exclusion program to increase the benefit of the exclusion to qualifying homeowners and will continue to support future periodic modifications for qualifying homeowners. Changes to the homestead market value exclusion should be considered in concert with the impact of the homestead credit refund program.

MR-9 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.

MR-10 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.

MR-11 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.

MR-12 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.

MR-13 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 motor vehicle sales tax (MVST).

MR-14 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.

MR-15 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 supported legislation enacted in 2023 and initiated by the League of Minnesota Cities, to address mental injury and prevention and funding for related costs. Ongoing funding will be needed to continue addressing these challenges.

~~Metro Cities supports efforts by 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 efforts by the League of Minnesota Cities, cities and other stakeholders to identify ways to enhance public safety physical and mental wellness, to gather empirical evidence related to treatability of mental injuries, and to developing tools, best practices, resources and guidance for identifying, preventing and responding to post-traumatic-stress-disorder (PTSD). *(Suggested changes by staff, following legislation enacted in 2023).*

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 for PERA aid that was paid to local units of government to help address increased employer contribution costs.

MR-16 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. For these reasons, Metro Cities opposed the metropolitan sales tax for the purposes of funding housing, that was enacted in 2023.

MR-17 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.

MR-18 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.

MR-19 STATE BUDGET STABILITY

Metro Cities supports a state revenue system that provides for stability, flexibility, and adequacy, reduces volatility in state revenues and improves the long- term balance of state revenues and expenditures. Metro Cities supports a statutory budget reserve minimum 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 supports the principle of representative democracy and opposes including tax and expenditure limits in the state constitution, as well as new constitutional amendments, as these limit flexibility by the Legislature and local governments to respond to unanticipated critical needs, emergencies, or fluctuating economic situations.

Metro Cities 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.

MR-20 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.

MR-21 PAYMENTS FOR SERVICES TO TAX EXEMPT PROPERTY

Metro Cities supports city authority to collect payments from tax exempt property owners to cover 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.

MR-22 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.

MR-23 DEPUTY REGISTRARS

In 2019, state officials elected to replace the MNLARS system with the Vehicle Title and Registration System (VTRS), also known as MNDRIVE. A 2022 Independent Expert Review found that the MNDRIVE system has increased overall reliability and accuracy across the driver and vehicle services ecosystem, but that deputy registrars are still experiencing difficulties that threaten their continued viability. Specifically, the transition to MNDRIVE has meant that more work is being done at service point counters and more staff time is being spent with customers. At the same time, simpler transactions have moved online.

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.

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

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. The perspectives from local deputy registrars should have increased weight in discussions regarding future MNDRIVE system enhancements.

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. Metro Cities further supports sharing revenue from mail-in and online transactions between Driver and Vehicle Services (DVS) and deputy registrars.

MR-24 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.