2023 CGMC Policy Positions: Property Taxes, LGA and State Government Finance

1. **Local Government Aid Formula**

   Periodically, the LGA formula is reviewed for possible revision. The CGMC believes that any revisions to the LGA formula should to the greatest extent possible:

   - Reduce property tax rate disparities among Minnesota cities
   - Be based on a city's tax base and need
   - Utilize most up to date demographic and financial data for state and local governments
   - Provide for equitable access to essential city services across the state
   - Include no separate pots based on geographic location or population
   - Reduce yearly fluctuations in aid
   - Be intuitive and rational

   CGMC opposes artificial, non-formula limits on aid for individual cities or group of cities. Additionally, the CGMC opposes using LGA as a tool to coerce or influence cities on policy decisions that the Legislature does not agree with.

2. **Local Government Aid funding**

   The long-term annual funding goal by state policymakers should be the amount necessary to fully fund the needs identified by the current LGA formula ($767,911,364 under current data). In addition, the governor and legislature should implement the annual inflation and population growth adjustment to the LGA appropriation.
   Furthermore, property tax relief should favor LGA above other property tax relief programs.

3. **Protecting Local Government Budgets**

   CGMC supports protecting local government budgets from large unforeseen state funding cuts. The legislature should reform the unallotment statute so that it serves the limited purpose of addressing unforeseen budget deficits that arise when the legislature is not in session.

4. **State Budget**

   CGMC supports measures that will preserve Minnesota's long-term fiscal stability and create transparency in state budgeting. This includes:

   - A balanced budget with limited reliance on one-time money, limited payment shifts, long-term balance and use of both spending reductions and revenue increases in times of deficits
   - Maintain the budget reserve at the recommended percentage of the biennial general fund revenue as recommended by Minnesota Management and Budget based on their assessment of volatility in Minnesota's revenue system.

- Protecting the budget reserve from being used for anything other than emergency spending in response to budget deficits
- Inclusion of inflation in the November and February spending forecasts so the cost of government is accurately reflected

5. Local Option Sales Tax

The CGMC supports Local Option Sales Tax (LOST) as an option for cities to diversify their revenue streams to fund public improvements and capital replacement projects. The CGMC supports:

- Modifying state law so that LOST proposals do not require the approval of special legislation by the Legislature or the Governor.
- Legislation allowing cities to enact or continue a LOST by a public referendum at either a general or special election.
- Modifying state law to ensure that LOST is an appropriate funding mechanism for all city owned assets including parks, roads, buildings, and other city capital infrastructure.
- Urging the legislature to ensure that any LOST criteria applied by the Legislature is fair, consistent, fiscally responsible, and allows as much flexibility to cities as possible.
- Allowing local governments flexibility to modify the ballot question (amount collected and duration) to cover unanticipated project cost increases up until the time of the election

- Further, the CGMC opposes: Proposals to offset LGA or other local revenue streams by a local option sales tax approved and imposed by a city.

5. Homeowner's Homestead Credit Refund

CGMC opposes changes to the Homeowner's Homestead Credit Refund that would increase the cost of the program into future years.

6. State Commercial Industrial Property Tax

The state commercial / industrial property tax should continue to collect enough revenues to meet state obligations.

7. Levy Limits

Levy limits should not be reinstated in any form.

8. Unfunded Mandates

CGMC supports reviewing and modifying or repealing existing unfunded mandates in collaboration with the League of Minnesota Cities. No additional mandates should be

enacted unless the legislature or agency imposing the requirements provides a permanent stable revenue source for the mandate.

9. Constitutional Amendments

The CGMC supports increasing the votes needed to place an amendment to the Minnesota State Constitution on the ballot to at least 60% of each legislative body.

10. Local Government Sales Tax Exemption

CGMC supports initiatives to further clarify and reduce cities' state sales tax burden. This includes making the construction materials sales tax exemption administratively convenient for cities and their vendors, treating purchases by all types of local governments the same and excluding from sales tax those purchases that would otherwise be subject to the Motor Vehicle Sales Tax (city vehicles and other vehicle related purchases). The 2021 legislature extended the sales tax refund process to contractor purchases of construction materials and equipment for public safety facilities owned by local units of government; however, the exemption should apply to all local units of government construction projects and should be an exemption rather than a refund process.

11. Local Impact Fees

CGMC supports legislative authorization for cities to impose local impact fees on new development to ensure that the costs of both on-site and off-site public infrastructure that support the new development are shared by all the beneficiaries of public infrastructure investments.

12. "Dark Store" Tax Valuation

CGMC opposes valuation methods for "big box" stores that unfairly use loopholes in the taxable appraisal processes to make comparable property valuations between their stores and "functionally obsolete" properties, driving down the assessment for commercial properties. The CGMC supports legislative efforts to clarify state assessment law as it relates to application of dark store theory, including consistency in valuations that are assumed between broadly defined "big box" stores.

13. Municipal Liquor Stores

CGMC opposes efforts to restrict local control of municipal liquor stores and liquor licensing authority. Municipal liquor stores play a key role in city finances, have safeguards in place to protect taxpayers, and serve as a liquor control tool for local communities.

14. Duty Disability Fund

Duty Disability applications to the Public Employee Retirement Association (PERA) from public safety officers have been increasing dramatically over the past several years. Because of cities' statutory obligation to continue to pay health care costs for employees who are granted a duty disability determination, the actual and potential costs to local governments are skyrocketing. While cities may apply to the Department of Public Safety's Public Safety Officer Benefit Account for reimbursement of health care costs, this fund is significantly underfunded and only covers a small fraction of the total cost to local governments.

As duty disability applications have accelerated in the past several years, public employers are rightfully concerned about the ongoing costs incurred at the local level by a state-mandated benefit. The CGMC supports full funding of the Public Safety Officer Benefit Account, and an administrative policy reform package to ensure proper benefit continuance.

The CGMC supports modifying Minnesota Statute 299A.465 to:

- Fully fund the annual costs to public employers via reimbursement
- Ensure to the extent practical that the Public Safety Officer Benefit Account has adequate funding going forward to guarantee annual requests by public employers are fully funded
- Allow for reimbursement of salary/benefit costs to the public employer for duty disability application approval/denial greater than 60 days.

The CGMC supports modifying Minnesota Statute 353.031 to:

- Require that the executive director contract with a licensed physician specializing in the injury claimed to review all medical reports relevant to a duty disability application
- Require that the executive director require an independent medical examination by a licensed physician specializing in the injury claimed in a duty disability application
- Allow the public employer who is the subject of the claim to review the application and supporting medical documentation
- Allow the public employer to respond to the application and supporting medical information with its own evidence and information, which must be considered by PERA when making its determination
- Require that the executive director require an annual written report providing continuance of the disability claimed, with a mandatory annual report back to the public employer.