

Municipal Revenues Policy Committee Roster

<u>First Name</u>	<u>Last Name</u>	<u>Title</u>	<u>Organization</u>
Chris	Heineman	City Administrator	Little Canada
Michael	Sable	Assistant City Manager	Maplewood
Chris	Hetland	Assistant City Manager	Cottage Grove
Vince	Workman	Councilmember	Burnsville
Melanie	Mesko Lee	City Manager	Burnsville
Sarah	Brown	Debt Manager	St. Paul
Kristi	Luger	City Manager	Excelsior
Brooke	Bordson	Sr. Project Coordinator	Met Council
Richard	Paul	Councilmember	Blaine
Dana	Hardie	City Manager	Victoria
Nyle	Zikmund	City Administrator	Mounds View
Justin	Miller	City Administrator	Lakeville
Lisa	Herbert	Finance Director	Rogers
Darin	Nelson	Finance Director	Minnetonka
Lori	Economy-Scholler	Chief Financial Officer	Bloomington
Loren	Olson	Government Relations Representative	Minneapolis
Candy	Peterson	Councilmember	North St. Paul
Christian	Taylor	Policy Associate	St. Paul
Jim	Dickinson	City Administrator	Andover
Alysen	Nesse	Government Relations Representative	Minneapolis
Tom	Lawell	City Administrator	Apple Valley
Fatima	Moore	Government Relations Representative	Minneapolis
Amanda	Novak	Councilmember	Elko New Market
LaTonia	Green	Finance Director	Brooklyn Park

July 14, 2020

TO: Municipal Revenues Policy Committee Members
FROM: Patrick Trudgeon, Committee Chair and City Manager, City of Roseville
SUBJECT: Meeting Notice and Agenda

Tuesday, July 21, 2020
9:00 a.m. – 11:30 a.m.
ZOOM ON-LINE MEETING
(Instructions Enclosed)

◆ 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. (Patrick Trudgeon, Chair)
2. Introduction of Committee.
3. Policy Committee Process and Protocols (Patricia Nauman, Executive Director)
4. 2020 Legislative Session Review (Patricia Nauman)
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:

Monday, August 18

Monday, September 22

Metro Cities Policy Committee Zoom Meeting Etiquette

Login/Call In

We ask that you login to the meetings by computer if possible and only call in if absolutely necessary. If you are calling in, please make sure to use a high-quality phone and line due to call quality and connectivity.

Meeting Protocol

Please be sure to mute your microphone, unless you are speaking, to help minimize background noise. If you can, wear a headset or use AirPods to improve audio quality and minimize background noise and echoes.

Please make sure to type in your first and last name/organization when logging into the Zoom meeting, this will then appear in your gallery slide. This will also help us identify who is in attendance.

We ask that before speaking to please identify yourself with your first and last name, this will help discern who is addressing the committee.

Questions and Discussion

We welcome questions and discussions throughout the meeting. Please use the chat function to be recognized for a question or discussion.

Topic: Municipal Revenues Policy Committee

Time: Jul 21, 2020 09:00 AM Central Time (US and Canada)

Join Zoom Meeting

<https://zoom.us/j/95829982350?pwd=aU1UZVJrdk9oS3d5U0ZYbVMxWXFYZz09>

Meeting ID: 958 2998 2350

Password: 544977

One tap mobile

+13017158592,,95829982350#,,,,0#,,544977# US (Germantown)

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Dial by your location

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+1 669 900 9128 US (San Jose)

Meeting ID: 958 2998 2350

Password: 544977

Find your local number: <https://zoom.us/u/acAeNPjdTS>

TO: Metro Cities Policy Committee Members
FROM: Patricia Nauman, Executive Director
RE: Policy Development Process and General Protocols

Welcome to Metro Cities' 2020 policy committees! Your participation is important and appreciated. Please note that all 2020 committees will be conducted remotely, through Zoom.

This memo provides information on processes and protocols for committee participation, chairs, voting procedures, speakers, and participation by non- members.

General.

Each summer, four separate policy committees meet to review, discuss, debate and recommend policies. Recommended policies are forwarded to the Metro Cities Board of Directors. The Board of Directors adopts policies in October and forwards adopted policies to the association's membership for adoption at the Policy Adoption Meeting in November. Adopted policies serve as the foundation for Metro Cities' work at the Legislature, Executive Branch and Metropolitan Council.

Speakers.

Committees often host speakers to provide information and expertise on topics pertinent to the work of the committee, with speakers sometimes suggested by committee members as well as staff. Speakers must be approved by the Executive Director.

Subcommittees/Task Forces.

Policy committees sometimes form subcommittees to consider issues in greater detail, with any recommendations forwarded to the full committee. At other times, the Board establishes specific work groups or task forces to conduct more in-depth consideration on policy topics.

Committee Participation and Voting

Members. Elected or appointed officials and staff of any member city may serve on any committees by indicating interest in writing (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. However, for voting purposes, each city has one vote on policies and other committee business. Votes are made by acclamation unless a roll call vote is requested.

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

July 14, 2020

TO: Municipal Revenues Policy Committee Members
FROM: Patricia Nauman, Executive Director
RE: July 21, 2020 Policy Committee Memo

Welcome to all returning and new members of the Municipal Revenues Policy Committee. We look forward to working with you this year.

The legislative session began with a state budget surplus of \$1.4 billion (February Budget and Economic Forecast) and discussions by the Legislature on how to address the surplus. The COVID-19 pandemic and resulting swift slowing down of the economy resulted in the preparation of an interim state budget forecast in May. The interim forecast predicts a state budget deficit of \$2.4 billion. The state currently has a budget reserve of \$2.3 billion.

The state received a direct distribution of \$1.8 billion in federal CARES Act funds for COVID-19 expenses earlier this year and the Legislature subsequently passed bills to distribute a portion of the state's share of the funds to local governments, with bills proposed by Senator Julie Rosen and Representative Paul Marquart. Bills proposed to distribute \$841.4 million to local governments. Appropriations in the bills were identical, but language in the bills differed, and no agreement was reached. In late June, through the Legislative Advisory Commission process, the state distributed \$841.4 million to local governments; \$350 million of this funding is for distribution to cities. Metro Cities supported this funding and worked with legislators and state officials as a formula and appropriation level were considered. Metro Cities is working now with state officials and other local government organizations to ensure cities have adequate information and clarity on allowable expenses. I will provide more information at the meeting.

The Legislature did not pass an omnibus tax bill this year. During the regular session, bills were considered to authorize several local option taxes and modifications to lodging taxes, but the Legislature did not pass these bills. Local option sales taxes have recently received a higher level of scrutiny by legislators as more proposals are introduced. More information is included under the applicable Metro Cities' policy.

Several bills were proposed this year to modify Local Government Aid (LGA); none of the bills passed the Legislature. See Metro Cities' LGA policy for additional details.

Metro Cities supported legislation that was included in the House omnibus tax bill to provide temporary flexibility for un-obligated tax increment financing (TIF) and local tax revenues, to assist cities during the COVID-19 pandemic. Many cities are anticipating significant challenges for local revenues and tax bases as a result of the pandemic.

Feedback provided by committee members indicates interest by members in a discussion of COVID-19 related impacts on local revenues and tax bases, and potential fiscal relief to address these issues.

All committee meetings will be conducted remotely. I look forward to seeing you next week!

1-A State and Local Fiscal Relationship

A strong, functional state and local fiscal relationship must emphasize adequacy, equitability, sustainability and accountability for public resources and effective 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 strong state and local fiscal partnership that emphasizes the following:

- **Strong financial stewardship and accountability for public resources that emphasizes maximizing efficiencies in service delivery and effective communication between the state and local units of government and the public.**
- **Reliable, stable and adequate revenue sources including the property tax and local government aids, and dedicated funds to meet specific local government needs. Metro Cities opposes diverting dedicated funds or local aids for the purpose of balancing 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 with regard to the terms and conditions of employment for local government employees, including compensation, recognition, and benefit decisions.**
- **Adequate and timely notification regarding new legislative programs or modifications to existing state programs or policies to allow cities sufficient time to plan for implementation and to 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.** In June, the state distributed \$841.4 million in federal CARES Act money to local governments for COVID-19 expenses, through the Legislative Advisory Commission process. The Legislature passed bills appropriating \$841.4 million but a final agreement on the content of the bills was not reached. Cities are eligible to receive \$350 million of the distribution.*

A bill was introduced by Rep. Marquart proposed to re-establish the Council on Local Results and Innovation to evaluate the set of local performance measures and standards. No action was taken on the legislation.

Bills to remove and modify the local government salary cap have been considered over the last biennium but have not passed the Legislature. Metro Cities supports a removal of the cap.

1-B Revenue Diversification and Access

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

Metro Cities will monitor the effects of 2019 laws that modified statutory requirements for local option sales taxes. **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 determined by law but without the need for special legislation. Metro Cities supports having local sales tax referendums conducted at a general or special election.**

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 state laws governing local lodging taxes to allow cities to impose up to a five percent local 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.** Several bills to establish or modify local option sales taxes and lodging taxes were considered during the 2020 regular session but did not pass the Legislature. A bill to place a moratorium on imposing local sales taxes and to establish a group that would include state as well as local representatives to address local tax criteria was introduced but no action*

was taken on the bill. Staff will provide additional information at the meeting.

1-C 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. *No applicable legislative updates.*

1-D 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 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.

Legislative Update. *No applicable legislative updates.*

1-E Local Government Aid (LGA)

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 basic public service needs of residents and businesses.

Metro Cities' policies recognize that the state's prosperity and vitality depend significantly upon the economic strength of the metropolitan region, and that 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 supported 2013 statutory modifications to the LGA program to better address the needs of cities across the state and of metropolitan cities in their support of the state's economic growth. Metro Cities continues to support a formula-based LGA program that recognizes variances in city characteristics and capacities and emphasizes stability in the distribution of aids. While the 2013 modifications improved LGA formula factors to better

recognize city needs and capacities, the distribution of aid continues to be geographically disparate and unstable for some cities.

Metro Cities supports further examination of the LGA formula to ensure that metropolitan city needs are adequately addressed in the LGA formula, and opportunities for input by metropolitan city officials as program modifications are considered.

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 2020 is estimated at \$807.7million, whereas the current funding is set at \$560.3 million, putting the remaining need at \$247.4 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 particular activities and policy decisions at the local level.

***Legislative Update.** Several bills were introduced during this year regarding local government aid, but no action was taken on bills. These included a bill requiring the cities of Minneapolis and Saint Paul to reserve a portion of their LGA for public safety, a bill adding an inflation adjustment for aids beginning in 2022 and thereafter and a bill to reduce LGA for cities that reduce net lane miles from one year to the next. Under current law, local government aid will be increased by \$4 million.*

1-F 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 the state’s 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 and data reviewed periodically to ensure the database’s

accuracy and usefulness.

Legislative Update. *No applicable legislative updates.*

1-G 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 legislative updates.*

1-H Market Value Homestead Exclusion Program (MVHE)

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.

Legislative Update. *No applicable legislative updates.*

1-I 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 legislative updates.

1-J Constitutional Tax and Expenditure Limits

Metro Cities strongly opposes including tax and expenditure limits in the state constitution, as such limits eliminate 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 legislative updates.

1-K 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.**

In the interest of increasing 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 legislative updates.*

1-L 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 legislative updates.*

1-M 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 to accommodate the effects of facilities that provide benefits to the region and state. **Metro Cities supports legislative 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. *No applicable legislative updates.*

1-N 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 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. *Bills to simplify the process for local governments to access the sales tax exemption for construction materials continue to be considered, but no action has been taken by the Legislature. In addition, bills that would provide a sales tax exemption for specific local*

projects and facilities were considered during the regular session; some specific projects are included in a proposed bonding/tax bill in the current special session. Metro Cities supports legislation to simplify the process for the construction sales tax exemption.

1-O City Revenue Stability and Fund Balance

Metro Cities opposes state attempts to control or restrict city fund balances. 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 legislative updates.*

1-P 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 any additional contribution burdens placed on cities over and above contribution increases required by employees. Cities should receive sufficient notice of these 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 State Fire 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.

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. *Legislation to extend the PERA aid that is paid to local units of government has been considered but has not passed the Legislature.*

1-Q 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. *No applicable legislative updates.*

1-R 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 that cities have differing local needs and circumstances. Cities should also retain the ability to determine the level of post-employment benefits to be provided to employees.

Legislative Update. *No applicable legislative updates.*

1-S 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 legislative updates.*

1-T 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 February budget forecast anticipated a \$1.5 billion budget surplus for the state; an interim May forecast prepared following the onset of the COVID-19 pandemic, anticipates a \$2.4 billion budget deficit. The state has a budget reserve of \$2.3 billion (this number under current law scheduled to be \$1.8 billion in 2022 due to a \$491 million draw on the reserve that passed the Legislature in 2019). The state is not required to use the reserve for budget balancing, but must use the reserve before state appropriations can be unallotted.*

1-U 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.** Legislation to clarify the treatment of purchases from accommodation intermediaries was introduced and included in the House omnibus tax bill but has not become law.*

1-V 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 legislative updates.*

1-W 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.

Legislative Update. *No applicable legislative updates.*

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.

1-X 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). **As transition to the new system occurs, Metro Cities continues to support state funding to compensate local deputy registrars for any unanticipated costs associated with implementation 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 a consideration of 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.

Legislative Update. *Early in the regular session, a bill making changes to vehicle registration fee calculations was considered. Statutory modifications to allow extended timelines for licenses and renewals were enacted as a response to the COVID-19 pandemic. Registrar offices also closed for a period of time as a response to the pandemic.*

1-Y 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 legislative updates.