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

July 23, 2024

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

Tuesday, July 30, 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 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. Policy Committee Memo Review (Patricia Nauman, Executive Director)
5. 2024 Legislative Session Review (Patricia Nauman, Executive Director)
6. Discussion of policies, suggestions, and ideas for new policies.
7. Discuss new issues for future consideration.
8. Other business
9. Adjourn. (11:30 a.m.)

Future Committee Meetings:
Tuesday, August 27, 2024
Tuesday, September 24, 2024

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

General

Welcome to Metro Cities' policy development process. Each year, four legislative policy committees meet to recommend Metro Cities' legislative policies. 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 the work of the 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 23, 2024

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 includes an overall legislative update relating to this committee's policies. Specific updates that relate to individual policies are enclosed.

The 2024 session was notable for the number of bills affecting local decision making, and for a procedurally chaotic finish to the session, including the passage of an unprecedently massive omnibus policy, taxes and appropriations bill that passed just before the Legislature's final adjournment.

The February Budget and Economic Forecast projected a far lower budget surplus than last year's forecasted $17.5 billion surplus, and also predicted a structural imbalance for future years. This was not a budget setting year for the Legislature, and budget targets set by the Governor and legislative leaders this year were relatively modest. The focus for many legislators this year was on policy bills. This was a traditional bonding year for the Legislature, but no capital appropriations bill was passed by the Legislature this year.

In the area of taxes, the House and Senate Taxes Committees considered bills relating to local sales tax laws, tax increment financing, adding inflation for local government aid, and exemptions from the construction materials sales tax for specific local projects. The Taxes Conference Committee had an in-depth discussion on the issue of local sales taxes and language in the tax bills. The focus, and legislation on this topic, followed a task force that met during last year's session interim, to make recommendations on local sales taxes. A copy of that report is attached.

The large omnibus bill that passed at the end of the session contained very few tax provisions, and none that were city related.

The Office of the State Auditor had initiated legislation to create a Local Government Oversight Task Force, focused on auditing, fiscal and accounting issues and requirements. Although that legislation was not considered, the State Auditor is convening a group this interim to discuss these issues. Metro Cities recommended a city finance director for this group, at the request of Auditor Blaha, and will monitor the group's discussions.

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

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:

• 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.

• 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

Several bills were introduced and/or considered this year that bear on the relationship between the state and local units of government. Staff will provide more details at the meeting.

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 support the ability of a city to impose a local 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 flexibility for establishing, amending, or renewing franchise fees and interfere with local public processes and goals for establishing such fees.

Legislative Update

Language in both the House and Senate tax bills modified local sales tax laws. Both bills repealed the two-year legislative moratorium enacted in 2023 and allowed cities to impose local sales taxes for projects meeting certain criteria, without special legislation. The bills differed in the definition of an eligible project, with the Senate bill allowing for a broader range of projects. The Senate bill was largely consistent with recommendations by a recent Local Sales Taxes Advisory Task Force.

Staff will provide more detail on the bills. The Taxes conference committee discussed the issue of local sales taxes at length, but the final tax bill, which was eventually included in the massive omnibus policy and appropriations bill, contained no changes to local sales tax laws. Under current law, the moratorium will remain in effect until 2025.

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.

Legislative Update:

A bill requiring metropolitan cities over 10,000 in population receiving local affordable housing aid (LAHA) to maintain locally funded housing expenditures at a level not less than the average level of expenditures for the three preceding fiscal years was considered but did not pass.

Legislation passed that requires cities receiving local affordable housing aid to supplement, not supplant, locally funded housing expenditures, by using funds to create new or to expand existing housing programs. To comply, a city must certify its compliance in the first year by reporting to Minnesota Housing the city's local housing expenditures for the two prior fiscal years. Every year after, a city must report on locally funded housing expenditures for the prior fiscal year. If a city reduces one of its locally funded housing expenditures, the city must detail the expenditure, the amount of the reduction, and the reason for the reduction.

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.

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.

Legislative Update

No applicable legislation.

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.

Legislative Update

Legislation to index Local Government Aid to inflation was heard in the Senate Taxes Committee but not included in the Senate tax bill. The bill was not heard in the House committee.

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.

Legislative Update

Legislation to convert the targeted property tax refund program to an income tax credit was heard in the Senate Taxes Committee. The bill was not included in either the House or Senate omnibus tax bills.

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.

Legislative Update

Legislation was introduced that would have changed how property is valued by averaging the previous five years of value rather than the current year. This legislation did not pass.

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.

Legislative Update

No applicable legislation.

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.

Legislative Update

No applicable legislation.

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.

Legislative Update

No applicable legislation.

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.

Legislative Update

No applicable legislation.

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.

Legislative Update

No applicable legislation.

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 MVST.

<u>Legislative Update</u>

Individual local bills exempting specific projects from the construction sales tax exemption were included in the Senate omnibus tax bill. No bills were in the final large omnibus bill.

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.

<u>Legislative Update</u>

No applicable legislation.

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 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

No applicable legislation.

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.

Legislative Update

No applicable legislation.

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.

Legislative Update

No applicable legislation.

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.

Legislative Update

No applicable legislation.

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.

Legislative Update

No applicable legislation.

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.

Legislative Update

Legislation was included in the House tax bill to stipulate that a lodging tax applies to the share that accommodation intermediaries (such as online travel companies) retain from a booking. The bill was not included in the final omnibus bill/agreement.

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.

Legislative Update

No applicable legislation.

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.

Legislative Update

Legislation was passed in response to the Tyler v. Hennepin County Supreme Court decision. This legislation requires the creation of a new process for individuals to receive excess proceeds from a sale of property after it is forfeited and is sold. Staff will provide more detail at the meeting.

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.

Legislative Update:

Article 3, Section 128, in Chapter 127 directs the Dept. of Public Safety to conduct a study on an open bidding process for driver's license agent and deputy registrar offices. The study must evaluate and analyze the appointment process for replacing a deputy registrar or driver's license agent when an office closes. The study must include: a proposal to establish a competitive bidding process, required legislative changes to implement the process, an analysis of how the process would interact with existing rules, the effect of the process on service outcomes, financial sustainability, and needed financial assistance for deputy registrars, feedback from existing deputy registrars, and more. The study must be completed and reported to the legislature by February 1, 2025.

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.

Legislative Update

No applicable legislation.

Local Taxes Advisory Task Force

Report to the Legislature

02/02/2024

Minnesota Department of Revenue
Commissioner's Office
600 Robert Street North
St. Paul, MN 55101
(651) 556-3000
revenue@state.mn.us
revenue.state.mn.us

As requested by Minnesota Statute 3.197: This report cost approximately $289,016.07 to prepare, including staff time, printing, and mailing expenses.

Upon request, this material will be made available in an alternative format such as large print, Braille, or audio recording. Printed on recycled paper.

Contents

Executive summary ... 1

Task Force recommendations ... 1

Additional considerations ... 3

Introduction ... 4

Local Taxes Advisory Task Force expectations ... 5

Local Taxes Advisory Task Force members ... 6

Public member selection ... 6

Broader perspectives ... 6

Supporting groups for the Task Force ... 7

Development of principles ... 7

Impact of taxes on stakeholder groups ... 10

Individuals ... 10

Small business owners ... 10

Local city and county government ... 10

State agencies and offices ... 10

The Legislature ... 11

General local sales and use taxes ... 12

Current policy ... 12

Task Force recommendations: General local sales and use taxes ... 13

Local lodging taxes ... 18

Current policy ... 18

Task Force recommendations: Local lodging taxes ... 18

Local food, beverage, and entertainment taxes ... 19

Current policy ... 19

Task Force recommendations: Local food, beverage, and entertainment taxes 19
Local transportation taxes 20
Current policy 20
Task Force recommendations: Local transportation taxes 20
Additional considerations 21
References 22
Appendix A: Task Force process 23
Public meetings 23
Public input 24
Task Force meeting approach 24
Appendix B: Task Force agreements and definitions 26
Conceptual agreements 26
Key terms and definitions 26
Appendix C: A brief history of state and local fiscal relationship in Minnesota 28
Current funding mechanisms for local government 29
Local tax revenue in Minnesota 29
Streamlined Sales Tax 31
Appendix D: Themes from public testimony and comment 32
Local authority over tax process 32
Equalization considerations 32
Burdens from local taxes 32
Other Appendices 33
Letters from Task Force Members 33
Website to Local Advisory Task Force: 36

February 2, 2024

Dear Committee Chairs:

Thank you for the opportunity to chair the Local Taxes Advisory Task Force. It was my privilege to work with such excellent task force members and Minnesota Department of Revenue staff to explore how cities and counties use local taxes to fund projects and provide important recommendations to improve the process.

Over the course of 15 public meetings, three testimony opportunities, and a public comment period, the task force engaged in thoughtful dialogue and debate. We developed a set of recommendations that:

- Centers on local voter control
- Acknowledges the vital role of, and the burdens, on small businesses
- Provides a greater level of flexibility for cities and counties
- Streamlines the process of approval for legislators

Three crucial areas in this report require further attention: equalization, taxpayer burden, and general elections.

Equalization: Some communities cannot diversify their revenue through local sales taxes due to a lack of retail space, visitors, and other factors. This could increase disparity among cities and counties in the ability to provide important services to residents. After a lot of valuable dialogue, the task force identified several potential recommendations for legislators to consider further.

Taxpayer burden: Since sales taxes are regressive, the task force recommends legislators pay special attention to the burden and inequity sales taxes can cause for some income groups compared to others.

General elections: Local voter control through a referendum is vital for final approval of a local general sales tax. A specific definition of “general election” will clarify expectations for cities, counties, and voters on when to hold referendums. Ballot language should also be uniform to ensure voters have clear and consistent information. To promote higher voter turnout and greater participation, the task force recommends referendums occur on the traditional fall Election Day—the first Tuesday after the first Monday of November. While not a task force recommendation, I encourage legislators to consider having the ballot also include at least one elected official position.

Finally, I want to share my deep gratitude for the other task force members and Wilder Research, who adjusted busy schedules to go above and beyond. Their time, patience, and dedicated efforts were key factors in creating a report with solid and actionable recommendations. We look forward to more conversations about local taxes and working with legislators on this important topic.

Sincerely,

Paul Marquart
Commissioner
Minnesota Department of Revenue

Executive Summary

Authorized by Minnesota Laws 2023, Chapter 64, article 10, section 51, the Local Taxes Advisory Task Force (Task Force) was established to examine the role of local taxes as a funding mechanism for local governments and to determine:

- Objective evaluation criteria for general local sales tax proposals, food and beverage tax proposals, and lodging tax proposals seeking accommodations beyond restrictions already outlined in Minnesota Statute 469.190
- The appropriate entity or entities to evaluate local tax proposals based on the established criteria and the appropriate process for enacting special laws authorizing new or changing existing general and special local taxes
- Any necessary changes to current law to accommodate the determinations made by the Task Force

Key Principles Guiding Recommendations

Task Force members identified a set of seven core principles to guide the development of evaluation criteria. These principles are detailed in the Local Taxes Advisory Task Force legislative report. The Task Force encourages any future recommendations from the Minnesota Legislature or future Task Force groups to adhere to the same set of principles. It also encourages the Legislature to consider these principles when considering special legislation for individual communities.

Task Force Recommendations

See the main report for additional details about each recommendation.

General Local Sales and Use Taxes

Recommendation 1: General local sales and use tax funding should be limited to capital projects that serve a regional population, provide economic development benefits and opportunities, or draw individuals to the region. In addition, access fees for residents and non-residents should be equal. Each project requires a demonstration of regionality.

Recommendation 2: Cities and counties do not need legislative approval to seek a local sales tax to fund the projects listed in Table 4 on Page 13. A county or city must submit documentation to the Minnesota Office of the State Auditor to ensure that the required demonstration of regionality is met for each project. Other recommendations for all general local sales taxes included in this report must also be met.

If legislators determine all general local sales and use tax proposals must be approved by the Legislature, the Task Force recommends legislators use the provided recommendations to evaluate the regional benefit of each proposal, giving special attention to projects that depart from the listed recommendation.

Recommendation 3: If proposed capital projects are not regional, the Legislature must consider equalization broadly as part of state aid and other tax bases.

Recommendation 4: The Office of the State Auditor should be the office that ensures proposed general local sales and use taxes do not need legislative approval, and it should coordinate with Revenue on the review, administration, and audit aspects of the general local sales and use tax process.

Recommendation 5: The cost of the project, plus all associated financing costs, must total up to a maximum dollar amount or up to a maximum 30-year collection period, whichever comes first.

Recommendation 6: The approval process and timeline must meet the needs of the State Auditor and provide cities and counties the ability to meet legislative deadlines if needed.

Recommendation 7: All general local sales taxes, excluding county transportation sales and use taxes, must be approved by the voters only at a general or special election on the first Tuesday after the first Monday in November. Ballot language should meet the uniform requirements outlined in this report.

Recommendation 8: A reasonable amount of funds should be set aside from city and county general local sales and use tax collections to defray administration costs of Revenue, the State Auditor, and small business filers.

Recommendation 9: General local sales and use taxes imposed by a city or county must be limited to 1% in total for each government entity. For counties, the 1% limit is inclusive of county transportation sales and use tax.

Local Lodging Taxes

Recommendation 10: Before seeking legislative approval for a lodging tax outside of M.S. 469.190, a local government must provide notice to all businesses subject to administering the tax and hold a public hearing.

Recommendation 11: There are no recommended changes to the current law under M.S. 469.190 regarding the imposition and use of local lodging taxes. Any entity looking to use the tax for another purpose would seek special legislation and legislative approval.

Local Food, Beverage, and Entertainment Taxes

Recommendation 12: Before seeking legislative approval for a food, beverage, or entertainment tax, a local government must provide notice to all businesses subject to administering the tax and hold a public hearing.

Recommendation 13: Food, beverage, and entertainment taxes require legislative approval.

Recommendation 14: The Legislature must examine (perhaps through a future task force) the definitions of and parameters for use of food, beverage, and entertainment taxes as well as any appropriate limits and guidance for their use.

Local Transportation Taxes

Recommendation 15: There are no recommended changes to the current local transportation tax process.

Additional Considerations

The Task Force encourages the Legislature to consider future convened groups to advance questions and conversations important to the role of local taxes in funding local government needs on behalf of Minnesota communities.

The following areas require further conversation and consideration:

- Guidance for special districts and jurisdictions that want to use a general local sales and use tax
- The layering of multiple taxes in a region that impacts individual taxpayers and small businesses and consideration of alternate revenue sources
- Consultation on local sales taxes with Tribal governments and methods to continue relationship-building

Introduction

The 2023 tax bill created a Local Taxes Advisory Task Force to consider how city and county governments use local taxes—including sales, food and beverage, and lodging—and then provide recommendations for improving policies and practices around local sales tax use to legislators.

While there are many types of taxes, the bulk of Minnesota's tax revenue is paid by "the big three"—individual income tax, property tax, and sales tax. Historically, Minnesota has relied heavily on property taxes to fund projects, and until the state sales tax was introduced in 1967, property taxes accounted for the majority of Minnesota tax revenue (Minnesota Department of Revenue, 2004).

In 1967, Minnesota became the second-to-last state to adopt a state sales tax (3%), to offset the "rapidly rising" and "increasingly unpopular" local property taxes (Minnesota Department of Revenue, 2004, p. 1). Four years later in 1971, the sales tax increased to 4%.

Table 1 shows a timeline and brief overview of local sales and use tax policy milestones in Minnesota.

Table 1. Minnesota Sales And Use Tax History Milestones, Year 1967-Present

Year	Milestones
1967	• First state sales tax (3%) enacted
1971	• Omnibus bill (Minnesota Miracle) enacted • Sales tax increases to 4% • First Local Government Aid (LGA) program established • General prohibition against local sales taxes enacted
1981	• State sales tax increases to 5%
1983	• State sales tax increases to 6%
1991	• State sales tax increases to 6.5%
1997	• First statutory provisions enacted regarding local governments seeking special legislation to impose a local sales tax
2004	• Minnesota Department of Revenue submits a report to the Minnesota Legislature on local sales and use taxes
2008	• State sales tax rate increase to 6.875% • Local units of government are prohibited from expending revenues to advertise or promote local sales tax ballot questions • The Legislature creates authority for metropolitan area counites to impose a transportation sales tax of 0.25% to fund metropolitan area joint powers entity

Year	Milestones
2011	• The Legislature reverses the approval process for local sales taxes, requiring that local governments receive approval from the voters prior to seeking a law change
2013	• The Legislature creates authority for Greater Minnesota to impose a county transportation sales tax up to 0.5% upon passage of a resolution to fund specified transportation projects
2019	• The Legislature makes numerous changes to the local sales tax process, including: – Reversal of the approval process for local sales taxes again, requiring they receive a law change prior to seeking voter approval – A January 31 deadline to send their detailed proposal and resolution to the House and Senate tax chairs – Requirement that only up to five projects be included in a local sales tax request, and that the five projects be voted on separately – Prohibit cities from including a motor vehicle excise tax as part of any future local sales tax request – Expanding the 0.5% county transportation sales tax to include metropolitan area counties.
2021	• The Legislature defines “capital project” for local sales tax projects in state statute for the first time. The definition covers single building or structure, including associated infrastructure needed to safely access or use the building or structure; improvements within a single park or named recreation area; or a contiguous trail.
2023	• Legislature passes a tax bill that includes a two-year moratorium on new local sales taxes and the establishment of the Local Taxes Advisory Task Force.

Local Taxes Advisory Task Force Expectations

The Task Force was authorized by Minnesota Laws 2023, Chapter 64, article 10, section 51. The Task Force responsibilities included:

Examine the role of local taxes as a funding mechanism for local governments and determine:

- Objective evaluation criteria for
  - General local sales tax proposals
  - Food and beverage tax proposals
  - Lodging tax proposals seeking accommodations beyond the restrictions of M.S. 469.190
- Appropriate entity or entities to evaluate local tax proposals based on the established criteria
- Appropriate process for enacting special laws authorizing new or changing existing general and special local taxes
- Necessary changes to current law to accommodate the determinations made by the Task Force

The Task Force must reach decisions as a group with an agreed-upon consensus process made during public meetings and associated work. Task Force meeting processes are detailed in Appendix A.

Local Taxes Advisory Task Force Members

Task Force membership included the commissioner of Revenue, four public members appointed by the commissioner, and one member each from the League of Minnesota Cities and the Association of Minnesota Counties.

- Revenue Commissioner Paul Marquart chaired the Task Force meetings
- Public members included:
    - Lisa Bode, Governmental Affairs Director, city of Moorhead
    - Pat Dalton, retired Legislative Analyst, Minnesota House Research Department
    - Suyapa Miranda, Executive Director, Prepare + Prosper
    - Jill Sims, Director of Government Affairs, Hospitality Minnesota
- The League of Minnesota Cities appointed Jenny Max, Nisswa City Administrator and current League president
- The Association of Minnesota Counties appointed Michael Williams, Stearns County Administrator

Public Member Selection

Revenue posted the four public member positions on the Minnesota Secretary of State's website on June 16, 2023. Revenue promoted the open seats and encouraged applications through the department's social media platforms. Eleven people applied for the four seats.

On July 7, 2023, Revenue began a review of applications to identify public members who represented geographic regions across Minnesota, presented diverse ideas, and had expertise on the topic of local sales taxes in Minnesota. Revenue announced the public members on August 9, 2023.

Broader Perspectives

Task Force members brought perspectives from local and county government and their historical knowledge of local taxes, low- and moderate-income households, the hospitality industry, and tax administration. Four members live in Greater Minnesota and three reside in the seven-county metro area.

The Task Force's small size meant some important perspectives were missing on the task force, including those from:

- Tribal governments
- Black, Indigenous, and People of Color (BIPOC) communities
- Businesses that collect local sales taxes
- Tax professionals supporting businesses as they navigate various local sales tax obligations

To support inclusion of these and other perspectives as well as to capture additional feedback, the Task Force provided three opportunities for public testimony and a public comment period. The feedback gathered through public testimony, public comments on the draft report, and the Task Force's broad experiences and geographic representation were all important to the development of the final set of recommendations.

Supporting Groups for the Task Force

Revenue ensured that staff with subject matter expertise were available to provide the Task Force with insights on historical background, administrative considerations, and legislative processes for local and special taxes. Revenue staff represented two divisions within the agency: Tax Research and Sales and Use Tax, which included Policy Services and the Local Government Services Unit. They met weekly to prepare, plan, and gather resources to support Task Force discussions.

Revenue hired Wilder Research to facilitate meetings and the recommendation development process, record meeting minutes, and draft the legislative report. As a result, the Task Force was able to:

- Fully participate in discussions
- Remain neutral and independent
- Ensure the final report fully and accurately reflected the Task Force's recommendations

Development of Principles

Task Force members developed and agreed on seven core principles to guide the evaluation of local tax policies and related recommendations (Table 2). The principles are not ranked in a particular order and should be considered in their totality.

Table 2. Principles With Consensus

Number	Principle
1	Cities and counties should have the flexibility and autonomy to pursue sales taxes for criteria-based regional projects in consultation with their voters, without going to the Legislature.
2	Voters in the jurisdiction imposing the tax must approve the local sales tax in a referendum. Voters must be provided with information on the burden and benefits of all proposed taxes and projects so they can make informed decisions on whether to impose a local sales tax.
3	To ensure that local sales taxes do not increase inequality among local governments, local sales tax revenues should only be used to fund projects of regional significance.

Number	Principle
4	To the extent possible, the cost of administering local taxes should be borne by the local governments imposing the taxes, and not individuals, the state, or businesses.
5	To ensure fairness, all cities and counties should have access to uniform, modern, and transparent parameters regarding sales tax authorization and criteria for projects.
6	To ensure equity, local sales tax policies should recognize, and remedy to the extent possible, disparate burdens on socio-economic groups.
7	Local sales tax policies should recognize cities and counties have differences in capacities to raise revenue and potential overburdens in providing services.

Based on the guiding principles, the Task Force made a set of decisions that included:

- Adjustments in current evaluation criteria for local taxes
- The entities to hold authority across the tax process
- The process of enacting a local tax from start to finish
- Recommendations across each category of taxes (for some types of local taxes, the Task Force recommended that current policies remain in place)

After developing the guiding principles, the Task Force reviewed and compared relevant statutes (using a table provided by Revenue's Local Government Services Unit) as a starting point to consider each local tax type (Table 3).

Table 3. Statute Comparison

Requirements	Minnesota Statute 297A.99 (Local Sales Taxes)	Minnesota Statute 297A.993 (County Transportation Sales and Use)	Minnesota Statute 469.190 (Local Lodging)	Minnesota Statute 469.190 *	Special Taxes **
Resolution	Yes	Yes	Yes	Yes	No
Project plan	Yes	Yes	No	No	No
Sunset date	Yes	Yes	No	No	No
Funding cap	Yes	Yes	No	No	No
Rate cap	No	0.50%	3%	No	No
Projects	Up to 5	Transportation	95% for Tourism and Convention Center	Projects Vary	No Requirements
Legislative approval	Yes	No	No	Yes	Yes
Referendum	Yes	No	No	No	No^
File with Secretary of State	Yes	No	No	Yes	Yes
Revenue Department Administration	Required	Required	No	No	No

Source: Minnesota Department of Revenue's Local Government Services Unit.
* Applies to lodging taxes above 3% or changes to how revenues are spent.
** Admissions, Entertainment, Food and Beverage, Liquor, and other special taxes.
^ Referendum is not required unless otherwise specified.

Impact of Taxes on Stakeholder Groups

The Task Force considered changes to the current tax policy structure focused on the impacts on specific stakeholder groups, namely individuals, small businesses, local cities and counties, state agencies and offices, and the Legislature.

Individuals

In a review of local taxes, there are always burdens to consider for individuals who pay property taxes, state and federal income taxes, state sales taxes, and a variety of local taxes.

While some projects are of significant benefit to the economy by providing jobs and an influx of visitors, and others can be of significant benefit to low-income communities (such as community centers and libraries), Task Force members raised concerns that new policies could disproportionately burden low-income communities by asking low-income communities to pay a higher share of taxes for facilities they may not be able to access.

Small Business Owners

Even as more revenue is needed in local communities, the responsibility to collect and administer local sales and use taxes can result in additional burdens for small business owners. Businesses need support to manage the administrative work more efficiently. The Task Force discussed potential solutions such as simplifying the local tax structure, providing a vendor collection allowance or a Certified Service Provider budget, and other approaches aligning with Streamlined Sales Tax. However, many of these solutions require an additional cost.

Local City and County Governments

Local government entities face tensions on the need to secure additional revenue for capital projects that provide government services to local communities. The Task Force discussed the timing burden for legislative approval for projects, delays related to the COVID-19 pandemic and inflation that have increased project costs, and other considerations of the legislative process. Additionally, the Task Force considered inequities between local government entities where the retail base is not sufficient to raise revenue from sales taxes.

State Agencies and Offices

State agencies implementing and authorizing the taxes, such as Revenue and the State Auditor, also face unique burdens. A proliferation of many local taxes has increased the volume and complexity of the administrative work required to track, collect, notify, monitor, and report on local sales taxes.

The Legislature

The burdens faced by the Legislature with local tax policies centers on an increasing number of requests from city and county governments. Each request is unique to the needs of a local community, making consistent legislative evaluation of local tax requests a challenge.

The following sections summarize current policy and Task Force recommendations in four areas: general local sales and use taxes; local lodging taxes; local food, beverage, and entertainment taxes; and local transportation taxes.

General Local Sales and Use Taxes

Current Policy

General local sales and use taxes apply to the sale of qualifying goods and services, where the revenues are used for capital projects. Revenue administers all general local sales and use taxes. To impose a general local sales and use tax, city and county governments must receive authorization from the Legislature by completing these steps:

1. **The city or county must pass a resolution that includes:**
   a) A proposed tax rate.
   b) A detailed description of up to five projects to be funded with the tax. A capital project includes:
      i. A single building or structure, including associated infrastructure needed to safely access or use the building or structure.
      ii. Improvements within a single park or named recreation area.
      iii. A contiguous trail.
   c) Documentation of how each project will provide an economic benefit to residents, businesses, and visitors from outside the jurisdiction.
   d) Amount of revenue to be raised for each project and the estimated time needed to raise funds.
   e) Total amount of revenue to be raised for all projects.
   f) Estimated length of time the tax will be in effect if all proposed projects are approved.

2. **The city or county must submit the approved resolution and supporting documents to the Senate and House Taxes Committee chairs by January 31.**
   a) The bills will be reviewed, and testimonies will be heard in the House and Senate Taxes Committees. If passed, the bill will be considered for inclusion into an omnibus tax bill.

3. **The city or county must pass a referendum to impose the tax.**
   a) Hold a vote at a general election within two years of legislative approval.
      i. Each project must be a separate question for approval.
      ii. Voters must approve by a majority vote. If a project is not approved by the voters, the revenue and expiration date must be adjusted.
   b) City and county governments cannot spend money to advertise or promote the proposed tax. They may publicize information included in the resolution.

4. **If approved, the city or county will create and pass an ordinance imposing the tax.**
   a) File a certificate of approval and a copy of the ordinance with the Secretary of State.
   b) Once filed, the local entity must notify Revenue in writing, at least 90 days in advance of the start of a new local tax.

Task Force Recommendations: General Local Sales and Use Taxes

Recommendation 1: General local sales and use tax funding should be limited to capital projects that serve a regional population, provide economic development benefits and opportunities, or draw individuals to the region. In addition, access fees for residents and non-residents should be equal. Each project requires a demonstration of regionality.

Recommendation 2: Cities and counties do not need legislative approval to seek a local sales tax to fund the projects listed in Table 4. A county or city must submit documentation to the State Auditor to ensure that the required demonstration of regionality is met for each project. Other recommendations for all general local sales taxes included in this report must also be met.

Proposed general local sales and use tax that do not meet these criteria should go to the Legislature for approval.

If legislators determine all general local sales and use tax proposals must be approved by the Legislature, the Task Force recommends legislators use the provided recommendations to evaluate the regional benefit of each proposal, giving special attention to projects that depart from the listed recommendation.

Table 4. List of Project Categories That Do Not Require Legislative Approval

Project Categories	Project Definitions and Demonstration of Regionality
Library	A library that is part of a regional public library system as designated by the regional library board. (See M.S. 134.20.)
Regional sports complex	A defined area of sports pavilions, stadiums, gymnasiums, swimming pools, or similar facilities where members of the public engage in physical exercise, participate in athletic competitions, witness sporting events, and host regional tournaments. A public hearing for residents and nonresidents must be held. A city or county must also meet the requirements of one of these three options: 1. An analysis of the surrounding region demonstrates that there is no similar athletic complex open to nonresidents at the same cost as residents within a 15-mile radius. • The Task Force encourages legislators to consider if there should be a different radius for rural parts of the state compared to major population centers. • Another consideration is to use population size or class of city as a marker to determine square footage requirements, with larger regional population requiring facilities with more square footage. 2. Letter or resolutions from at least two surrounding local governments that affirmatively acknowledge that there is a local or regional need for the proposed capital project. 3. A shared sales tax model with surrounding local governments, with revenue generated contributing to a major capital project and some aspect of revenue sharing for smaller projects that meet local needs.

<table>
<tr><th>Project Categories</th><th>Project Definitions and Demonstration of Regionality</th></tr>
<tr><td>Regional community center</td><td> A minimum 10,000-square-feet structure expressly designed and constructed for the purposes of recreational, cultural, educational, or public group activities, or for civic engagement or social support, serving both residents and nonresidents of the community.
A public hearing for residents and nonresidents must be held. A city or county must also meet the requirements of one of these three options:

An analysis of the surrounding region demonstrates that there is no community center open to nonresidents at the same cost as residents within a 15-mile radius.

The Task Force encourages legislators to consider if there should be a different radius for rural parts of the state compared to major population centers.
Another consideration is to use population size or class of city as a marker to determine square footage requirements, with larger regional population requiring facilities with more square footage.

Letter or resolutions from at least two surrounding local governments that affirmatively acknowledge that there is a local or regional need for the proposed capital project.
A shared sales tax model with surrounding local governments, with revenue generated contributing to a major capital project and some aspect of revenue sharing for smaller projects that meet local needs.
</td></tr>
<tr><td>Convention center</td><td>Structure expressly designed and constructed for the purposes of presenting conventions, public meetings, and exhibitions and includes parking facilities that serve the center. The convention center must have a minimum of 50,000-square-feet for exhibit and meeting spaces.</td></tr>
<tr><td>Airport</td><td>Regional by function and use.</td></tr>
<tr><td>Park</td><td>Meets three of the five criteria to be considered a regional park under the Parks and Trails Legacy Plan (Minnesota Department of Natural Resources, 2011).</td></tr>
<tr><td>Trail</td><td>Meets three of the five criteria to be considered a regional trail under the Parks and Trails Legacy Plan (Minnesota Department of Natural Resources, 2011).</td></tr>
</table>

Project Categories	Project Definitions and Demonstration of Regionality
Criminal justice facilities	Many criminal justice facilities are multi-function. The Task Force focused on three core capital projects: correctional facilities, district court offices, and law enforcement centers. The Task Force recommends capital projects and improvements for criminal justice facilities be done in conjunction with one another. **Correctional Facility Criteria** The Department of Corrections (DOC) recommends the need for planning for long-term public safety needs, the facility is over 30 years old and needs updates, or the facility (or planned facility) is a joint county project between at least two counties. To meet the criteria, the facility must be fully licensed, and counties will provide one of the following: • Official communications from DOC inspectors with analysis of the building • Joint Power Agreement or other official documentation with at least one other county demonstrating the facility will serve public safety functions for the region **District Court Office Criteria** An existing facility that is at least 30 years old and requires capital improvements. To meet the criteria, counties and courts will provide the age of the facility. Additional considerations include: • State courts and counties should develop an evaluation method similar to the DOC and correctional facilities to better understand capital improvement needs for a court • District court capital improvements should be done in conjunction with correctional facility capital improvements **Law Enforcement Center Criteria** Capital projects for a facility that serves multiple communities and provides public safety functions, including emergency 911 and dispatch functions, training facilities, court security and support, emergency operations, evidence and record retention, and other public safety services. To meet the criteria, counties must present: • Formal documentation demonstrating agreements with other communities that the functions will meet the needs of multiple government entities

Recommendation 3: If proposed capital projects are not regional, the Legislature must consider equalization broadly as part of state aid or other tax bases. Some options the Legislature might consider for equalization include:

- Contribute a portion of general local sales and use taxes at a percentage determined by legislators to:
    - A statewide fund to make grants to jurisdictions that do not have the retail mix to maximize a general local sales and use tax.
    - A county-wide fund, which the county would award grants from the fund to those jurisdictions that do not have a retail mix to maximize a general local sales and use tax.
- Require a city or county government to add a local property tax minimum effort of 1% of their net tax capacity. The amount raised from this property tax would be subtracted from the total project cost to get the final net local sales tax amount to be levied.
- Have the state bonding process account for general local sales and use tax, giving priority to a local city or county that does not have a general local sales and use tax.
- Have formulas for Local Government Aid and County Program Aid account for a city's or county's local sales tax base in distributing these state aid programs.

Recommendation 4: The State Auditor should be the office that ensures proposed general local sales and use taxes meet the demonstration of regionality in Table 4 and do not need legislative approval. The State Auditor should coordinate with Revenue on the review, administration, and audit aspects of the general local sales and use tax process.

The State Auditor should:

- Review and confirm that requests for local general sales and use tax meet the necessary criteria and do not require legislative approval
- Audit city and county governments to ensure funds are allocated and spent appropriately

Revenue will administer the taxes, which includes the following tasks:

- Notify the public and registered businesses of a new tax
- Update systems and information, including rate and boundary files, Streamlined Sales Tax Governing Board, sales tax tools, website, and other materials
- Administer local taxes:
    - Process returns and payments submitted by businesses
    - Calculate and send payments to local governments
    - Provide tools and support to businesses collecting sales taxes
    - Audit businesses with in-state and out-of-state presence
    - Handle appeals and tax court cases
    - Offer training, educational opportunities, and answer tax questions

Recommendation 5: The cost of the project, plus all associated financing costs, must total up to a maximum dollar amount or up to a maximum 30-year collection period, whichever comes first.

Recommendation 6: The approval process and timeline must meet the needs of the State Auditor and provide cities and counties the ability to meet legislative deadlines if needed.

- November 15 (of the prior year): Deadline for local jurisdiction to pass a resolution

- November 30 (of the prior year): Deadline for local jurisdiction to submit paperwork to State Auditor
- January 10: Deadline for State Auditor to verify local project meets criteria and respond to local government with confirmation; if the project does not meet the criteria, then the local government can still submit to the Legislature based on the January 31 deadline.

Recommendation 7: All general local sales taxes, excluding county transportation sales and use taxes, must be approved by the voters only at a general or a special election on the first Tuesday after the first Monday in November. Ballot language should meet the following uniform requirements:

- A general local sales tax should not be used for a capital project that is already under construction outside of costs incurred from planning and architecture
- Each capital project requires its own separate referendum vote
- Ballot language should be limited to the following components:
  - Description of the capital project, and if appropriate, acknowledge any state mandate for a government service
  - That the city or county is seeking authorization from voters to impose the sales tax
  - Cost of the project
  - Start date and maximum project cost that can be generated for a period lasting no longer than 30 years
  - Local sales tax rate for the capital project
  - The following specific language: "By voting 'Yes' you are voting to [increase, extend a general local sales tax that would otherwise expire, implement a new] local sales tax at X%."

Recommendation 8: A reasonable amount of funds should be set aside from city and county general local sales and use tax collections to defray administration costs of Revenue, the State Auditor, and small business filers.

Recommendation 9: General local sales and use taxes imposed by a city or county must be limited to 1% in total for each government entity. For counties, the 1% limit is inclusive of county transportation sales and use tax.

Local Lodging Taxes

Current Policy

Under M.S. 469.190, cities, towns, or a county board acting on behalf of an unorganized territory may impose a local lodging tax of up to 3%. Ninety-five percent of the gross proceeds are to be used to fund a local convention or tourism bureau for the purpose of marketing and promoting the city or town. Local entities can administer their own lodging tax or request Revenue to administer.

Local lodging taxes apply to lodging and related services and follow the same tax base as the general Minnesota state sales and use tax rules.

Task Force Recommendations: Local Lodging Taxes

Recommendation 10: Before seeking legislative approval for a lodging tax outside of M.S. 469.190, a local government must provide notice to all businesses subject to administering the tax and hold a public hearing.

Recommendation 11: There are no recommended changes to the current law under M.S 469.190 regarding the imposition and use of local lodging taxes. Any entity looking to use the tax for another purpose would seek special legislation and legislative approval.

Local Food, Beverage, And Entertainment Taxes

Current Policy

For admissions, entertainment, food and beverage, liquor, and other special local taxes, there is no specific law associated to special local taxes, but it will require legislative approval under M.S. 645.021. Only the special legislation dictates how revenues are spent, what the rate needs to be, how much revenue can be generated, and whether there is a sunset date. Definitions of “food,” “beverage,” or “entertainment” is often established by city ordinance and may differ among jurisdictions and from general state and local tax statutes.

Task Force Recommendations: Local Food, Beverage, and Entertainment Taxes

Recommendation 12: Before seeking legislative approval for a food, beverage, or entertainment tax, a local government must provide notice to all businesses subject to administering the tax and hold a public hearing.

Recommendation 13: Food, beverage, and entertainment taxes require legislative approval.

Recommendation 14: The Legislature must examine (perhaps through a future task force) the definitions of and parameters for use of food, beverage, and entertainment taxes as well as any appropriate limits and guidance for their use.

Local Transportation Taxes

Current Policy

Any county may impose a local sales and use tax of up to 0.5% and a $20 vehicle excise tax on commercial sales of motor vehicles to fund a transportation or transit project. These funds can also be used to fund transit operating costs and safe routes to school programs. Revenue administers all local transportation sales and use taxes.

To impose a local transportation tax, the political subdivision must complete these steps:

1. Publish advanced notification of a public hearing to discuss potential transportation projects

2. Pass a resolution that includes:

    - Reference to M.S. 297A.993
    - Proposed tax rate up to 0.5%
    - $20 vehicle excise tax (if applicable)
    - Intended use of the revenue (project plan)
    - Amount of revenue to be raised
    - Anticipated expiration date
    - Intent to have the Revenue administer the new tax
    - Reference to governing statute M.S. 297A.99, subd. 4 and 6-13

Task Force Recommendations: Local Transportation Taxes

Recommendation 15: There are no recommended changes to the current local transportation tax process.

Additional Considerations

The Task Force encourages the Legislature to consider future convened groups to advance questions and conversations important to the role of local taxes in funding local government needs on behalf of Minnesota communities.

The following areas require further conversation and consideration:

- Special districts and jurisdictions and their need to consider tax revenue and guidance
- The layering of multiple taxes in a region that individual taxpayers and small businesses navigate and alternate revenue sources
- Consultation on local sales taxes with tribal governments and methods to continue relationship-building

References

Dalton, P. (2020). *The Local Government Aid (LGA) Program: A history.* Minnesota House Research Department. https://www.house.mn.gov/hrd/pubs/lgahist.pdf

Dyson, D. (2019). *Capital investment and state bonding.* Minnesota House Research Department. https://www.house.mn.gov/hrd/pubs/stbonding.pdf

League of Minnesota Cities. (2023). *Local Government Aid 101: Overview of the local government aid program.* https://www.lmc.org/resources/lga-101/

Minnesota Department of Natural Resources. (2011). *Parks and trails legacy plan: Parks and trails of state and regional significance, a 25-year long-range plan for Minnesota.* https://www.legacy.mn.gov/sites/default/files/resources/parks_trails_legacy_plan_0.pdf

Minnesota Department of Revenue. (2004). *Minnesota's local sales and use taxes: Report to the 2004 Minnesota Legislature.* https://www.revenue.state.mn.us/sites/default/files/2011-11/research_reports_content_local_sales_tax_study.pdf

Minnesota Department of Revenue. (2021). *2021 Minnesota tax incidence study: An analysis of Minnesota's household and business taxes.* https://www.revenue.state.mn.us/sites/default/files/2023-12/2021-tax-incidence-study-post-pub-revisions-v2.pdf

Minnesota Department of Revenue. (2023a). *Local Taxes Advisory Task Force.* https://www.revenue.state.mn.us/local-taxes-advisory-task-force

Minnesota Department of Revenue. (2023b). *Tax law changes: 2023 legislative session.* https://www.revenue.state.mn.us/tax-law-changes

Thorson, G. R., & Anderson, J. L. (2006). The Minnesota Miracle abandoned? Changes in Minnesota school funding, 2001-2007. *Rural Minnesota Journal*, 27-43. https://www.ruralmn.org/wp-content/uploads/2011/03/The-Minnesota-Miracle-Abandoned.pdf

Appendix A: Task Force Process

Public Meetings

Each public meeting moved the Task Force closer to understanding stakeholders involved in the life cycle of the local tax process, the impacts on those stakeholders, and potential recommendations. Guided discussions during meetings enabled deeper understanding of different stakeholders' experiences related to current and future tax policy (for example, what is the experience of businesses administering taxes or how do communities with smaller retail bases generate necessary flexible revenue?) Public meeting dates, as well as public testimony dates, are identified in Table A1.

Table A1. Public Meeting Dates of the Task Force

Public meeting dates	Session type
August 16, 2023	Task Force meeting and work session
August 30, 2023	Task Force meeting and work session
September 13, 2023	Task Force meeting and work session
September 27, 2023	Public testimony
October 17, 2023	Task Force meeting and work session
November 1, 2023	Task Force Meeting and work session
November 8, 2023	Public testimony
November 22, 2023	Task Force meeting and work session
November 27, 2023	Task Force meeting and work session
December 6, 2023	Task Force meeting and work session
December 12, 2023	Task Force meeting and work session
December 20, 2023	Public testimony

Public meeting dates	Session type
January 3, 2024	Task Force meeting and work session
January 11, 2024	Task Force meeting and work session
January 25, 2024	Task Force meeting and work session

Public Input

The Task Force dedicated three meetings to public testimony and a public comment period was held January 10-17, 2024.

Task Force Meeting Approach

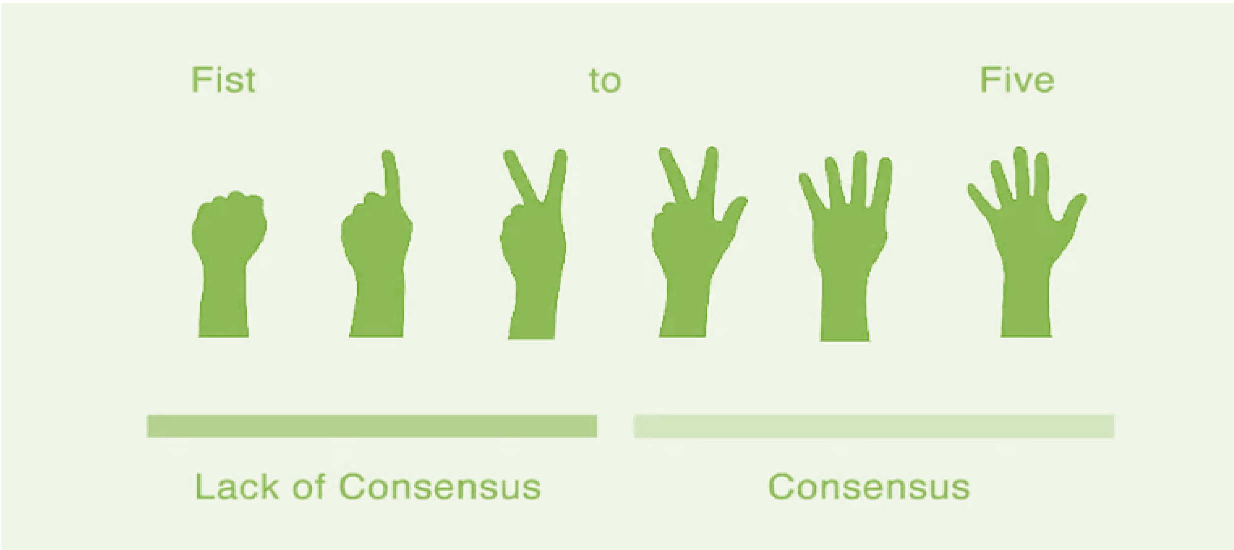
Throughout its process, the Task Force met up to four times per month from August 2023 to January 2024. Each meeting lasted between 1.5 to 4 hours. Commissioner Paul Marquart chaired the meetings and called upon members to speak in turn. Wilder Research provided facilitation of activities designed to prompt discussion of topics required of the Task Force to meet legislative objectives. Progress was tracked using this set of milestones:

1. Concepts
2. Priorities
3. Evaluation of guidelines
4. Proposed amendments
5. Recommendations

There were three public testimony opportunities offered to the public to submit either written or five-minute verbal presentations on topics related to the Task Force's charge. For the sake of fairness and time, Task Force members did not have follow-up discussion or the opportunity to ask questions of the testifiers. A public comment period was available January 10-17. Where possible, the report includes public testimony and comment that either reflects the Task Force's decisions or offers alternative positions for more consideration. Broader themes from public testimony and the comment period are included in Appendix D.

Between each of the public meetings, Wilder Research assigned homework that asked members to continue to develop ideas, processes, and definitions. Wilder compiled and presented homework assignments to help with decision-making.

Wilder proposed that consensus of the group majority (as per the statutory guidelines of the Task Force) be determined using a simple fist-to-five method where members raise their fingers on one hand to a number between one and five. Numbers indicating three and higher from the majority of the group indicated consensus to move forward on a decision. If majority presented a rating of two or lower, then that decision would not have consensus to move forward. In occasions where one or two members were in direct opposition to the group, those members were offered an opportunity to provide a dissenting opinion in a follow-up letter (included in Other Appendices).



Note. The image was adapted from T2informatik. (n.d.). What is fist to five? https://t2informatik.de/en/smartpedia/fist-to-five/

Appendix B: Task Force Agreements and Definitions

Conceptual Agreements

Early meetings focused on developing consensus on key terms and their definitions. In turn, these terms and definitions provided a foundation to evaluate important concepts and processes as they related to local taxes in Minnesota. The terms listed in Table B1 reflect the range of concepts the Task Force discussed on the meaning and application of each term used in their evaluation of local taxes.

Key Terms and Definitions

Table B1. Definitions of Key Terms

Term	Task Force Definition
Access	City and county governments have clear and consistent guidelines to pursue local sales taxes as a revenue stream. Individuals and businesses have information readily available to make decisions on the merit of local sales tax proposals and to understand expectations and comply with local sales taxes.
Autonomy	Through a voter referendum, voters are the final decision-makers to impose a local sales tax to fund a capital project. Cities and counties can use local sales taxes to generate revenue for capital projects needed to provide government services to a region.
Benefit	Individuals in the region paying a tax have access to the government services and resources from the revenues generated by the local sales tax.
Burden	For businesses, state agencies, and city and county governments, the collection, monitoring, auditing, and administration are a burden. For individuals, burden is the inequity some groups pay in sales taxes compared to others.
Equalization	Ensuring consistency in providing the average amount of government services with the average tax rate.
Equity	Balancing benefits with the tax burden among different stakeholder groups.

Term	Task Force Definition
Fairness	All city and county governments should be treated the same when pursuing a local sales tax.
Flexibility	Cities and counties should have several options available to fund a variety of capital projects.
Modernization	Updating and streamlining the tax system to ensure administering and collecting taxes is simple and clear.
Regionality	Capital projects and government services provides a benefit and draw to the region.
Simplicity	Reliable timelines and clear guidelines for enacting the tax; ease of comprehension and remittance by businesses.
Transparency	Taxpayers know what the tax will fund and the benefits they will receive. Businesses have the information that allows them to comply easily.

Several terms were difficult for Task Force members to define, including regionality, equity, and equalization. The challenge in reaching consensus on these terms came from an appreciation for the various stakeholder perspectives and experiences with these terms. Eventually, the Task Force reached consensus on the definitions in the table.

Appendix C: A Brief History of State and Local Fiscal Relationship in Minnesota

The Minnesota Miracle, Local Government Aid, and a Move Toward Centralized Funding

In 1971, the Legislature passed an omnibus tax bill, later called the Minnesota Miracle (Thorson & Anderson, 2006). A major impetus for this tax bill was to shift funding for education away from local property taxes to a more equitable state-funded system because districts that had a wealthier tax base had more dollars for education (Thorson & Anderson, 2006). Property taxes began to decrease and the state saw increases in income tax rates as well as the newly founded state sales tax (increasing from 3% to 4%).

The Minnesota Miracle's focus on state funding included a prohibition of new or increased local taxes, stating that "new local sales taxes were limited to those specifically authorized by state legislation" (Minnesota Department of Revenue, 2004, p. 1). Five cities—Minneapolis, Bloomington, Duluth, St. Paul, and Rochester—had already adopted local sales taxes before the prohibition took effect. However, other communities were required to go through the new authorization process to enact their own local sales taxes and many areas needed to rely solely on local property taxes.

Because increasing property taxes creates additional burden on residents of small towns and cities, additional funding mechanisms were needed. In addition, 1971 legislation saw the establishment of the first Local Government Aid (LGA) program (League of Minnesota Cities, 2023). The LGA program is state aid to cities (and initially counties) who have an unmet financial need. Calculating the amount of funding that each city receives includes a "complex formula that compares a city's expenditure need to its ability to pay…this difference, or gap, is the city's unmet need" (League of Minnesota Cities, 2023).

In the 1980s, LGA "became primarily a city program" and "county LGA was finally eliminated in 1991" (Dalton, 2020). While counties were removed from LGA, aid was still distributed to counties under various different program until 2004 when they were consolidated into one program, County Program Aid (CPA).

The Need for More Revenue to Fund Local Projects

In the 1990s, continued pressure for other revenue options created more requests to have legislation that would authorize new local sales taxes (Minnesota Department of Revenue, 2004, p. 1), allowing smaller cities and towns to generate revenue beyond the local property tax.

In the 2004 legislative report on this same topic, Revenue illustrated that local governments are far more reliant on local property taxes than on local sales and use taxes, compared to other states. For example, in fiscal year 2000, local property taxes accounted for 94% of all local tax revenue in Minnesota, versus 72% across all other states. Local sales and use tax accounted for 3% of local tax revenue in Minnesota, compared to 17% in other states (Table C1; Minnesota Department of Revenue, 2004, p. 2).

Table C1. Local Tax Revenue Comparison for Fiscal Years 2000 and 2020, by Tax Type

	2000		2020	
Tax Type	**Minnesota**	**All States**	**Minnesota**	**All States**
Property	94.2%	71.6%	90.7%	72.2%
Sales and Use	2.8%	17.2%	5.9%	17.3%
Income	0.0%	5.1%	0.0%	4.9%
Corporate Franchise	0.0%	1.1%	0.0%	1.1%
Motor Vehicle Sales	0.1%	0.4%	0.16%	0.3%
Other taxes	2.9%	4.6%	3.3%	4.2%

Source. State of Minnesota. Department of Revenue. February 2004. Minnesota's Local Sales and Use Taxes: A report to the 2004 Minnesota Legislature. Page 2, Table 2.

By 2020, property taxes accounted for 90% of all local tax revenue and local sales and use accounted for nearly 6%.

Current Funding Mechanisms for Local Government

Changes in local tax policies, especially the proportions of property and sales taxes as well as the amount of local government aid, highlight the importance of striking the right balance to fund local projects, particularly in thinking about equitable taxation of residents in a given area. The next sections outline current funding mechanisms for local government in Minnesota.

Local Tax Revenue in Minnesota

Generally, Minnesota city and county governments have the following revenue sources to fund capital projects and services:

- Local property tax
- Local sales and use taxes (most require legislative authorization):
  - General
  - Transportation
  - Lodging
  - Food and beverage
  - Other special taxes

- State Government Aid
- Federal Government Aid
- Bonding

Note: The bonding process involves legislative agreement on capital projects to fund with the proceeds Minnesota receives from issuing bonds to investors. General Obligation (G.O.) bonds require use "for a public purpose, authorized in the constitution, specified in law, and mature in not more than 20 years" (Dyson, 2019, p. 2).

As cities and counties rely on local property taxes for revenue, this can cause increases in property tax to meet the needs of a community, especially as state aid changes. While both property taxes and sales taxes are regressive, the Revenue's 2021 tax incidence study found sales taxes to be more regressive, due in part to property tax refunds. With a regressive tax, a person earning less income is paying a higher proportion of their income toward the tax than someone who earns more income.

In addition, sales taxes affect businesses and consumers differently depending on geography. In a presentation to the Task Force in September 2023, Revenue experts discussed how the price of products differs based on local sales tax rates. Using Revenue's Sales Tax Calculator, researchers give examples using the cost of Post-It Notes and an iPhone by region (Table C2; Table C3).

Table C2. Cost of Post-It Notes by Region (January 2024)

Location	Price	State Tax	County Tax	City Tax	Other Tax	Metro Area Taxes**	Tax Amount	Total
Duluth	$5.39	6.875%	0.50%	1.5%			$0.48	$5.87
Minneapolis	$5.39	6.875%	0.15%	0.5%	0.5%*	1.0%	$0.49	$5.88
Anoka County	$5.39	6.875%	0.25%	--	--	1.0%	$0.44	$5.83
Morris	$5.39	6.875%	-	-	-	-	$0.37	$5.76

* Hennepin County transit tax
** Metro Area Sales Tax for Housing (0.25%) and Metro Area Transportation Sales Tax (0.75%)

Table C3. Cost of an iPhone by Region (January 2024)

Location	Price	State Tax	County Tax	City Tax	Other Tax	Metro Area Taxes**	Tax Amount	Total
Duluth	$799.99	6.875%	0.50%	1.5%			$71.00	$870.99
Minneapolis	$799.99	6.875%	0.15%	0.5%	0.5%*	1.0%	$72.00	$871.99
Anoka County	$799.99	6.875%	0.25%	--	--	1.0%	$65.00	$864.99
Morris	$799.99	6.875%	-	-	-	-	$55.00	$854.99

* Hennepin County transit tax
** Metro Area Sales Tax for Housing (0.25%) and Metro Area Transportation Sales Tax (0.75%)

Streamlined Sales Tax

Streamlined Sales Tax (SST) is a shared effort by state and local governments and the business community to simplify and modernize state sales and use tax administration. SST is designed to be a uniform system to reduce the burden of tax compliance and work for all sellers and all types of commerce.

The focus and goals are of SST are:

- **Simplification:** Creating a simpler system for administering the various state and local taxes
- **Uniformity:** At least make processes uniform if they cannot be made simple
- **Removing burdens:** Leverage the use of technology to ease the retailer's tax collection and reporting
- **State sovereignty:** Balance the interests of a state's sovereignty with the interests of simplicity and uniformity

Appendix D: Themes from Public Testimony and Comment

Public testimony and comment provided valuable context on local tax issues and is summarized here. These themes do not necessarily reflect the final decisions and recommendations of the Task Force.

Local Authority Over Tax Process

- Cities and counties should be allowed to authorize and impose sales taxes, based on shared definitions and criteria and voter referendum, to meet revenue needs for capital projects.
- Appropriate projects for a local sales tax should include municipality buildings, roads, bridges, operations for community facilities, public utility infrastructures, and more.
- End the legislative moratorium on local taxes.
- The Legislature should not be primarily involved in approving local funding.
- Due to escalating requests to the Legislature, paired with an increasing need of communities and residents, having a local tax system that affords greater accessibility, flexibility, and autonomy for local governments would be helpful.
- Sales taxes, although regressive, can be a workable solution to an imperfect tax structure, provided there is public input and clear limitations.
- Cities and counties need stable sources of revenue, among which include local taxes.
- Local general sales and use tax should be temporary, non-expandable, and non-renewable with a pause between requests.
- Local general sales and use taxes should be indexed to inflation.

Equalization Considerations

- Local Government Aid formula may need adjustment to be able to cover the needs of local governments more equally.
- Questions of regionality and equalization need to be resolved. Public input indicated a critique of regionality as criteria for all projects, particularly related to public safety.
- Examine local sales tax in the broader context. It should be part of a mixed system of funding. Consider newly proposed local sales taxes holistically stacked with all other taxes.

Burdens From Local Taxes

- Small business sales are increasingly multi-jurisdictional and need more support and resources as they play a key role in the collection of sales taxes. This support could be through vendor allowances or access to certified service providers.
- Taxes should be fair and simple, and sales taxes are not because they have different rates and exemptions, and therefore, burdensome to administer.
- Increasing taxes and sales taxes broadly create a high cost burden for individuals. Public comment and testimony suggested that the Legislature should evaluate increased state spending and reducing costs instead of continuing to raise taxes of all types.

Other Appendices

Letters from Task Force Members

January 26, 2024

Commissioner Marquart:

I sincerely thank you for appointing me as a public member of the Local Sales Tax Task Force. I appreciate the thoughtful, knowledgeable Task Force membership that provided me other points of view and insights on local taxes, as well as the skilled facilitation of Wilder Research and the depth of knowledge of the Department of Revenue staff.

As a Minnesota resident and taxpayer, I believe the recommendations the Task Force are providing to the Legislature will make an imperfect system better and fairer. The City I live in and work for, Moorhead, is a Border City recognized by the Minnesota Legislature as having disparate economic impacts due to its proximity to North Dakota, a state with very different tax policies than Minnesota. Sales tax is certainly a public policy that demonstrates Minnesota/North Dakota differences. No state legislative authorization is required to pursue a local sales tax in North Dakota, only voter approval.

Fargo and West Fargo sales taxes fund many government services, including:

- Infrastructure
- Flood Control (71-year term)
- Economic Development (non-specific)
- Public Safety

Minnesota takes a much more conservative approach to sales taxes than North Dakota, yet Moorhead's retail base is much smaller than our adjacent ND border cities. The Fargo/Moorhead Metropolitan area is 250,000 people. Moorhead is growing but is less than 20% of the metro population.

Sales tax is a new tool for our city, and it is a funding mechanism our City Council pursued only after due consideration. The sales tax funds a Community Center/Library to replace a 60-year-old library facility that is in substandard condition. The process to gain legislative authorization was arduous, challenged by the pandemic in one year and failure to pass a tax bill in another. I am very hopeful that the Legislature will act on the Task Force's recommendations to simplify and standardize the local sales tax process for communities and residents across the state of Minnesota.

Sincerely,

Lisa J. Bode
Governmental Affairs Director
City of Moorhead

January 25, 2024

To: Commissioner Marquart, other members of the Local Sales tax Advisory Task Force, and member of the Legislature

From: Pat Dalton, public task force member

First, I would like to say what a pleasure it was working with the other members of this task force. Although we brought various perspectives to this topic, I believe we managed to make a number of useful recommendations to the legislature regarding the authorization of general local sales taxes in the future. I would also like to commend the facilitators from the Wilder Foundation, particularly Ananya Matewos, for keeping the group on task and moving forward.

Because of time restraints the taskforce focused on the general local sales taxes and spent little time on the other special taxes (lodging, food and beverage, and entertainment). Therefore, our recommendations on these taxes were rather limited. I would like to personally suggest two specific areas that the legislature should consider for future action:

- Adding a de minimis for imposition of local lodging taxes. With the rise of AirBnB and similar services a number of private persons renting out a room, or their cabin on an occasional basis are subject to these taxes but may not be collecting and remitting them. Local lodging taxes should have a de minimis, similar to the state general sales tax, to clarify that someone in the business of renting private property for several weeks a year is subject to the tax but someone who rents it to a friend for a long weekend is not.
- Defining the tax base for food and beverage and entertainment taxes. Although food and beverage, and entertainment taxes are imposed under special legislation, the actual activities that these taxes apply to is often set by individual city ordinance and may raise compliance issues. A standard tax base for these taxes should be developed. In particular entertainment taxes should be applied by facility type rather than by an occasional activity. I know one bar in Minneapolis who must charge the city entertainment tax for 2 hours per week when they hold their trivia night.

Finally, I want to state that I generally believe that local sales taxes are a poor way to finance local services. Income taxes and sales taxes are most efficiently and fairly collected at the state level rather than the local level. However public services are often delivered most efficiently at the local level. In an ideal world it makes more sense to have a higher state sales tax with a portion of revenues going to a more robust system of state aid to all local governments. However, given the political realities, ensuring that all local sales taxes be used exclusively for regional facilities that are accessible to both residents and nonresidents equally may be the best compromise. Although this report has suggested objective measures of regionality for a few selected capital projects the legislature needs to continue work on developing consistent measures of regionality.

January 25, 2024

To: Commissioner Marquart and Members of the Minnesota Legislature:

Thank you for the opportunity to submit a letter to accompany the Local Taxes Advisory Task Force Final Report.

The process the Local Taxes Advisory Task Force (Task Force) embarked on over the past five months was robust, thorough, and educational. I would like to thank The Wilder Foundation for its support, providing the Task Force with a clear framework and fostering thoughtful dialogue from an essential third-party perspective.

The word “tax,” in and of itself, can evoke a strong emotional reaction. As we know, different types of tax can have different impacts to a community, whether local, regional, or statewide. It is essential for anyone tasked with the work of governing, from either an elected or appointed officials’ perspective, to consider how to balance the needs of providing for any paying for the essential and demanded services to its residents, businesses and visitors. Considering the impact of all three tax types – property, sales and income – is key to finding the right solutions that best meet the needs of any community.

The Task Force’s Report provides many thoughtful recommendations for the Legislature to consider. The Report outlines a clear and transparent process by which a city or county can impose a local sales tax without requiring a special law. The recommendations identify and define specific projects of a regional nature that would allow a request to go directly to the voters and includes establishing a maximum local sales tax rate allowed for cities and counties.

The Task Force also held three different opportunities for public testimony. One item of particular importance that came out of the public testimony was in regards to the challenges businesses face with the collection and administration of sales taxes. Additional research is needed to identify ways to provide support to businesses in this regard, as described in the Report.

I respectfully ask the Tax Chairs to strongly advocate for the recommendations included in this Report during the 2024 Legislative session, and to lift the local sales tax moratorium for the 2025 Legislative session. The moratorium made sense when the Legislature was looking to modify the authorization process, but once the Legislature decides how to best do that, the moratorium will have served its purpose.

Lastly, I would like to express my gratitude to the members of the Task Force, who each provided their unique perspectives and shared ideas in a professional and reflective way. It was a pleasure working with you.

Sincerely,

Jenny Max, Nisswa City Administrator
& President, League of Minnesota Cities

Website to Local Advisory Task Force

https://www.revenue.state.mn.us/local-taxes-advisory-task-force