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# Local Taxes Advisory Task Force

Report to the Legislature

02/02/2024

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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	<ul style="list-style-type: none"> <li>• First state sales tax (3%) enacted</li> </ul>
1971	<ul style="list-style-type: none"> <li>• Omnibus bill (Minnesota Miracle) enacted</li> <li>• Sales tax increases to 4%</li> <li>• First Local Government Aid (LGA) program established</li> <li>• General prohibition against local sales taxes enacted</li> </ul>
1981	<ul style="list-style-type: none"> <li>• State sales tax increases to 5%</li> </ul>
1983	<ul style="list-style-type: none"> <li>• State sales tax increases to 6%</li> </ul>
1991	<ul style="list-style-type: none"> <li>• State sales tax increases to 6.5%</li> </ul>
1997	<ul style="list-style-type: none"> <li>• First statutory provisions enacted regarding local governments seeking special legislation to impose a local sales tax</li> </ul>
2004	<ul style="list-style-type: none"> <li>• Minnesota Department of Revenue submits a report to the Minnesota Legislature on local sales and use taxes</li> </ul>
2008	<ul style="list-style-type: none"> <li>• State sales tax rate increase to 6.875%</li> <li>• Local units of government are prohibited from expending revenues to advertise or promote local sales tax ballot questions</li> <li>• The Legislature creates authority for metropolitan area counties to impose a transportation sales tax of 0.25% to fund metropolitan area joint powers entity</li> </ul>

Year	Milestones
2011	<ul style="list-style-type: none"> <li>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</li> </ul>
2013	<ul style="list-style-type: none"> <li>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</li> </ul>
2019	<ul style="list-style-type: none"> <li>The Legislature makes numerous changes to the local sales tax process, including: <ul style="list-style-type: none"> <li>Reversal of the approval process for local sales taxes again, requiring they receive a law change prior to seeking voter approval</li> <li>A January 31 deadline to send their detailed proposal and resolution to the House and Senate tax chairs</li> <li>Requirement that only up to five projects be included in a local sales tax request, and that the five projects be voted on separately</li> <li>Prohibit cities from including a motor vehicle excise tax as part of any future local sales tax request</li> <li>Expanding the 0.5% county transportation sales tax to include metropolitan area counties.</li> </ul> </li> </ul>
2021	<ul style="list-style-type: none"> <li>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.</li> </ul>
2023	<ul style="list-style-type: none"> <li>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.</li> </ul>

**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 <sup>^</sup>
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.

<sup>^</sup> 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	<p>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.</p> <p>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:</p> <ol style="list-style-type: none"> <li>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. <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul> </li> <li>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.</li> <li>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.</li> </ol>

Project Categories	Project Definitions and Demonstration of Regionality
Regional community center	<p>A minimum 10,000-square-foot 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.</p> <p>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:</p> <ol style="list-style-type: none"> <li>1. 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. <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul> </li> <li>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.</li> <li>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.</li> </ol>
Convention center	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-foot for exhibit and meeting spaces.
Airport	Regional by function and use.
Park	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).
Trail	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).

Project Categories	Project Definitions and Demonstration of Regionality
Criminal justice facilities	<p>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.</p> <p><b>Correctional Facility Criteria</b></p> <p>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.</p> <p>To meet the criteria, the facility must be fully licensed, and counties will provide one of the following:</p> <ul style="list-style-type: none"> <li>• Official communications from DOC inspectors with analysis of the building</li> <li>• Joint Power Agreement or other official documentation with at least one other county demonstrating the facility will serve public safety functions for the region</li> </ul> <p><b>District Court Office Criteria</b></p> <p>An existing facility that is at least 30 years old and requires capital improvements.</p> <p>To meet the criteria, counties and courts will provide the age of the facility.</p> <p>Additional considerations include:</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• District court capital improvements should be done in conjunction with correctional facility capital improvements</li> </ul> <p><b>Law Enforcement Center Criteria</b></p> <p>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.</p> <p>To meet the criteria, counties must present:</p> <ul style="list-style-type: none"> <li>• Formal documentation demonstrating agreements with other communities that the functions will meet the needs of multiple government entities</li> </ul>

**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

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# 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:

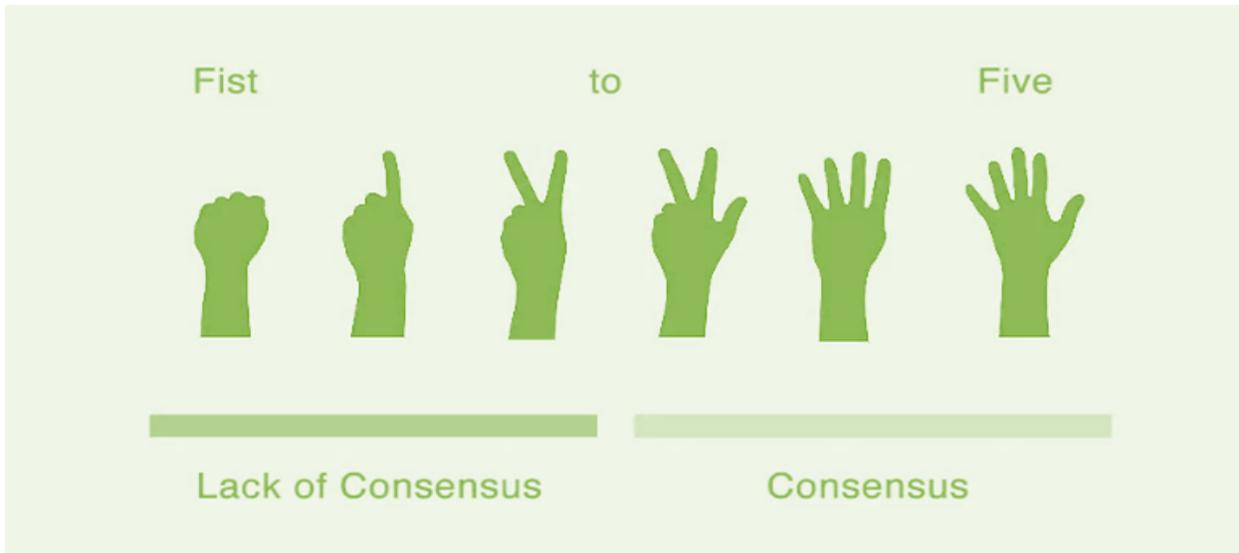
1. Concepts
2. Priorities
3. Evaluation of guidelines
4. Proposed amendments
5. Recommendations

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

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**

Tax Type	2000		2020	
	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>