



Members of the Local Taxes Advisory Task Force,

I am writing to provide comment on the future of local sales taxes in Minnesota. For the most part, Cities such as Breezy Point have only one significant funding option available to them, property taxes. And like most cities, the City of Breezy Point is very cognizant of its property taxes.

However, Breezy Point is not an isolated community. Over 40% of our market value is comprised of seasonal properties (many of which are used as short-term rentals at least part-time), and our primary industry is tourism. What does this mean? It means our community of some 2,800 primary residents welcomes tens of thousands of visitors every single year. This impacts how we as an organization operate. The City must employ a police force larger than may otherwise be necessary to adequately provide public safety services to our community as it swells to 3 times its normal population during the summer months. Our visitors result in the use of our infrastructure at a higher rate than would otherwise occur. The City has had to enact short-term rental licensing to help managing our ever growing number of short-term rentals, and the City licenses over 650 golf carts each year, the vast majority of which are related to seasonal or tourism related use. In short, a significant portion of the services provided by the City support our visitors but are funded by our residents.

While Breezy Point has always been a resort community, our city is the fastest growing community in Crow Wing County, experiencing over 180% population growth since the year 2000 and 12% population growth in just the last 5 years. With this growth comes additional demands for service and the provision of public amenities for our residents. However, our tourism economy is also growing, which also comes with additional demands for service and additional wear on our infrastructure. The only way to fund additional services, maintain our infrastructure, and provide quality public amenities is to either increase property taxes or find other sources of revenue.

Unfortunately, the State of Minnesota significantly restricts communities' ability to establish other sources of revenue. Fees for services for things such public facility usage, permit administration, and golf cart and short-term rental licensing are not true revenue generating sources as they barely cover the City's expenses to administer them. Grants are not a reliable revenue source as they are typically project based and often not made available to communities like Breezy Point that are regularly considered too wealthy, too white, and too small. Therefore, additional expenditures must be paid for through property taxes, resulting in the majority often paying for services that benefit the minority.

For a community like Breezy Point, a local sales tax is the only significant way the city can benefit from those who do not pay taxes in our community but use a significant portion of our services. While the City does not currently have a local sales tax in place, a tax was in the early stages of consideration...until the State removed that option (at least temporarily). For some time, there has been a call for the construction of a community center and expansion of our parks system as most amenities in Breezy Point are for the primary use of tourists. The City's sewer plant will need to be expanded in the next 5 years (most sewer usage comes from resort or seasonal properties), and the City is in the beginning stages of developing a capital improvement plan to maintain our infrastructure that will likely cost hundreds of thousands of dollars each year to implement. And as the community continues to grow, the need for additional staff, equipment, and professional services also continues to grow. Without something like a local sales tax, all of these costs will be born solely by our property tax payers.

So, to the questions that this task force has been assigned to answer. What should local sales taxes be allowed to fund? How should they be approved? What should the requirements of approval be?

First, the use of local sales taxes should be as broad as possible, including the augmentation of general fund expenditures. States across the nation allow (and even encourage) the implementation of local sales taxes to fund local government operations. Having worked in such a state myself, residents actually prefer local sales taxes as they get to choose how and where to spend their money (and how much tax to pay as a result). They do not have as much freedom in choosing how much property tax to pay. Additionally, for communities that have significant portions of their services used by non-residents, the provision of services to non-residents is not born solely by property tax payers.

As to how should local sales taxes be approved, there should be limited State involvement. I believe it is reasonable for the State to set a maximum local sales tax rate and for a local tax to be approved by a community's residents through ballot referendum. However, it is not appropriate for legislators who may have never even visited a community to decide whether that community may enact a sales tax or whether such a sales tax should fund a specific project. This is already the case for local lodging taxes where a community can tax no more than 3% and such a tax need only be adopted by ordinance.

Finally, the Task Force has discussed such things as a regional impact test or LGA considerations as conditions of approval. Both of these considerations are inappropriate. Why should a sales tax that only applies within the corporate boundaries of a community and is used to fund operations or projects within that community be required to benefit those outside of that community? A city's LGA allotment shouldn't be a consideration either. In communities such as Breezy Point where LGA is not received, the taxpayers bear the burden of additional expenditures, and the lack of LGA should not be a sign that the community can pay for whatever it wants. Likewise, communities that rely on LGA (especially ones that provide services to significant amounts of non-residents) should be encouraged to consider a local sales tax and be allowed to use such tax revenue to augment general operating costs as a way to provide relief to taxpayers.

In summary, local sales taxes are an important asset to local governments, and any amendment to current legislation should include the removal of legislative approval for and removal of restrictions on the use of local sales tax revenue.

Thank you for considering my comments, and thank you for service to the the people and communities of Minnesota.

Respectfully,



David C. Chanski
City Administrator
City of Breezy Point



September 27, 2023

Commissioner Marquart and members of the Local Taxes Advisory Task Force:

On behalf of the 838 members of the League of Minnesota Cities, we appreciate the opportunity to share written testimony regarding the League's thoughts on potential general evaluation criteria for these local taxes.

Current Law

For the task force to best determine what projects should be allowable for local sales taxes, it would be helpful to consider what the legislature has defined as allowable projects. Most recently in 2021 the legislature defined what types of proposals qualify as "capital projects" for purposes of a local sales tax for the first time. That definition remains in law in 297a.99 subd. 2, as:

- (1) a single building or structure including associated infrastructure needed to safely access or use the building or structure;
- (2) improvements within a single park or named recreation area; or
- (3) a contiguous trail.

In addition to this definition for local sales tax proposals that require voter approval, in 2013 the legislature modified the allowable uses for county transportation sales taxes, which do not require special law authorizations or voter approval. The definitions of allowable county transportation projects are:

- (1) payment of the capital cost of a specific transportation project or improvement
- (2) payment of the costs, which may include both capital and operating costs, of a specific transit project or improvement;
- (3) payment of the capital costs of a safe routes to school program under section [174.40](#)
- (4) payment of transit operating costs; or
- (5) payment of the capital cost of constructing buildings and other facilities for maintaining transportation or transit projects or improvements.

Current law also requires that projects provide a "regional benefit" though it does not define how that is measured. As the task force has already discussed it would be difficult to put in a regional test without subjectivity and what constitutes "regional benefit" would likely vary significantly in different parts of the state. Whatever conclusions the task force comes to, it should be kept in mind that these are the criteria that cities and counties have gone through when approving local sales taxes in recent years.

Voter autonomy balanced with tax equalization

The task force has begun to discuss how best to balance tax equalization between different communities with voter autonomy at the local level. However, local sales taxes are not the only area that the legislature can have an impact on tax equalization at the local level. Historically Local Government Aid and the

Fiscal Disparities programs for the metro and iron range have been how the state has addressed these issues. Those programs have the benefit of providing or sharing state and local assistance. Were a new law to be passed to restrict certain jurisdictions from imposing local sales taxes it would be a departure from that focus. If the legislature wishes to address tax equalization issues it should consider providing assistance to jurisdictions in need, rather than preventing certain jurisdictions from going to the voters to decide whether or not to raise taxes for infrastructure projects.

It's also important to note that the equalization issues between local governments on this issue have changed substantially since the 2004 local sales tax study that was provided to the task force. Since that time a much greater share of retail purchases are happening with e-commerce. The US Census Bureau reports that 15% of all retail commerce sales were e-commerce in 2022, up from less than 6% in 2013. Importantly, the 2018 *South Dakota v Wayfair* US Supreme Court case allowed states to collect sales tax on purchases made from out-of-state sellers even if the seller does not have a physical presence in the state. These changes have resulted in a greater capacity for more cities to raise revenue with local sales taxes compared to the last time the legislature examined this issue.

Over the last several years we've also learned that local sales tax referendums are popular with the voters. The 2019 law changes were designed to separate out projects and more clearly state the cost of each individual question. Some thought that this would lead to more projects being rejected. However, voters have said yes to local sales tax projects at a high rate. Since the 2019 changes, 19 of 22 city projects have been approved by voters at the ballot box.

Revenue Sources

Another issue that the task force should consider is whether it makes sense to limit cities ability to raise revenue to just one primary source. The property tax is not based on the ability to pay and taxpayers can experience sticker shock when they see their property tax statement. This is an issue even when there are factors outside the city levy that may be driving an increase in the amount they pay. This makes taxpayers and city officials very sensitive to any increase in property taxes, regardless of the essential needs their city may be facing. Accordingly, many other states have allowed sales taxes to supplement the property tax with another revenue source. According to the US Census Bureau, in 2021 the national average percentage of own source tax revenue for local governments coming from a source other than the property tax was 27%. In Minnesota in 2022 that number was just 9%, according to data from the State Auditor.

We look forward to the discussion the task force will have on this issue and appreciate its deep dive into the questions that come up when considering any changes. The League of Minnesota Cities is happy to be a resource to provide any information or historical background to the task force as the conversation continues.

Sincerely,



Nathan Jesson
Intergovernmental Relations Representative



Local Taxes Advisory Task Force MN Inter-County Association (MICA) Testimony

Matt Massman, Executive Director
September 26, 2023



Limited Local Revenue Options

Traditional sources = property tax and state aid

Trends in increased use of local sales tax reflect those limited revenue sources.

- **Sales tax – as percentage of total revenues – from 1% to 4% of total revenues (2000 to present)**

Local sales tax trends – and rising property tax revenues – parallel a period of diminished intergovernmental aid, and the elimination of the indexing.

2023 Legislature and Governor – major strides to restore state financial support.



County Program Aid Formula

“Non-Schools” Local Revenue + State Aid

Relatively stable revenue shares, **1991 – 2000**

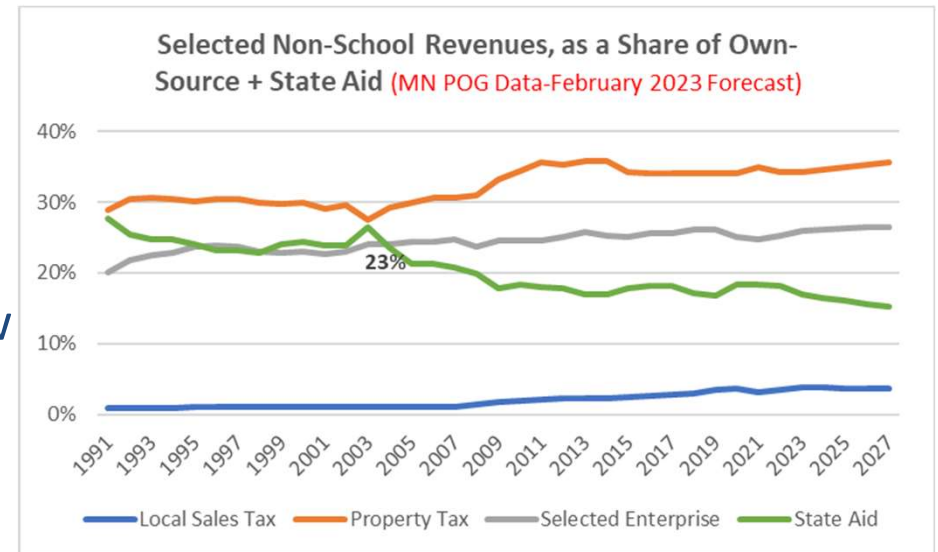
2004, indexing removed from LGA/CPA

2008, previous major transportation funding

2002 forward – state aids did not keep pace with rising costs, property tax and sales tax grew as a share of total revenues

2023 – major legislative investments in state-local fiscal partnership (*charts will need to be updated*)

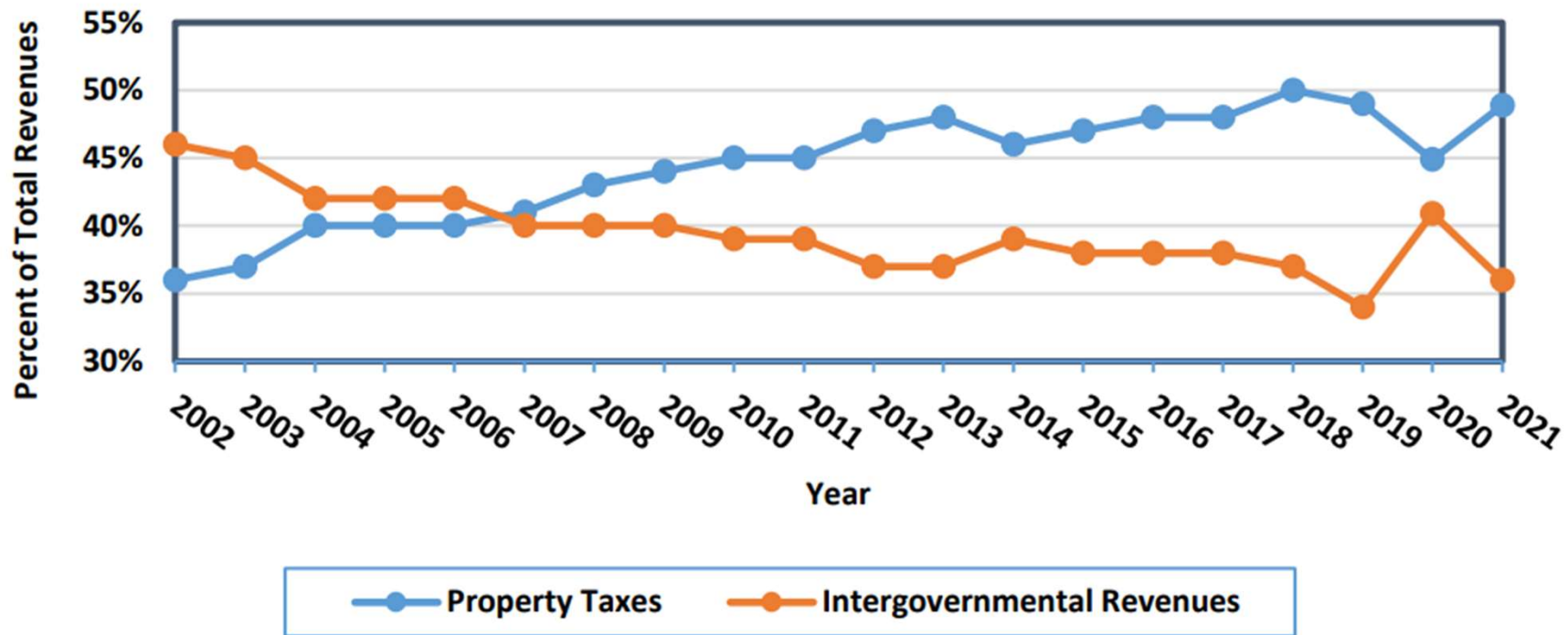
2023 forward – retain value of state aids over time





Counties Only - Similar Trends

County Property Taxes and Intergovernmental Revenues as a Percent of Total Revenues, 2002 - 2021





County Uses - Local Sales Tax

Primarily for:

- *local roads and bridges*
- *Public safety, justice centers, jails*

**General statutory authority, local control,
not as substitute for state funding**



September 25, 2023

Dear Members, Local Sales Taxes Advisory Task Force:

Thank you for the opportunity to provide testimony to the Local Sales Taxes Advisory Task Force, as you consider statutes on local sales taxes and make recommendations to the 2024 Legislature.

The Association of Metropolitan Municipalities (Metro Cities) represents the collective interests of cities in the seven-county metropolitan region, at the Legislature, Executive Branch, and Metropolitan Council. The association's legislative policies cover issues of significance to metropolitan cities and include funding and policy in the areas of transportation, housing, economic development, state aids, local decision-making authority, revenue diversification, and regional fees and policies.

With respect to local sales taxes, Metro Cities' policies support the ability of cities to diversify their revenues and a revenue system that acknowledges diverse city characteristics, needs and capacities, and allows for greater stability in revenues. As the metropolitan region grows and evolves, local city needs for services and infrastructure shift and change. Many cities are addressing significant needs for infrastructure and community services to serve their local communities and the metropolitan region.

Metro Cities supports the ability of a city to impose a local sales tax for public improvements and capital replacement costs using processes and requirements specified by existing statutes, and without the need for special legislation. State laws covering local sales taxes have been modified in recent years, and several cities in the metropolitan area have sought and received statutory authority to impose a local sales tax under specified statutory criteria.

Thank you for your consideration of Metro Cities' comments. I am happy to provide further information.

Sincerely,

A handwritten signature in blue ink that reads "Patricia Nauman".

Patricia Nauman
Executive Director

Taxes should not be so complicated. They should be fair and simple. But sales and use taxes are neither. They are regressive. They have many exemptions for different goods and services. They have several tax rates for different governments. Businesses have to collect and remit sales and use taxes so they need to understand exemptions and tax rates. This is a large burden for them.

Property taxes are a better local tax and could be increased to replace sales and use taxes. But they need to be made more fair by eliminating exclusions and credits. Class rates should be the same for all properties. Property taxes should be based solely on market value.

Advise the Legislature to end local sales and use taxes and replace them with revised property taxes.

Thank you,
Mary O'Connor



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Equal Opportunity Provider and
Employer

September 21, 2023

Commissioner Marquart and Task Force Members:

Thank you for your work on this Task Force and the opportunity to provide public comment on the use of local sales tax as it relates to our community. In the fall of 2022, the City of Roseau embarked on a planning process for the construction of a Wellness Center to meet the health and recreational needs of our growing community. Early in the process our stakeholder committee identified a local sales tax as a key financing tool in the feasibility of such a large community project. The rationale for looking into a local sales tax is that it provides the project a broader base of participation in our overall funding mechanism. The City of Roseau is a small community by Minnesota standards, with a population of 2,755; however, our community supports an area population of roughly 7,000 who work, shop, recreate and attend school in our community daily. It becomes increasingly difficult for a small community to support this overburden solely with its property tax levy. Historically, only regional centers with regional malls and concentrated retail establishments have been fortunate enough to reap the financial benefits of a local sales tax for regional amenities. Most smaller communities, like Roseau, did not have the Main Street retail might to make a local sales tax effective. However, the Wayfair decision and the growth of online shopping served to open the sales tax world to many more of Minnesota's cities, not just the big regional centers. Our community could now capture our own local sales revenue to invest in Roseau rather than always transporting all those dollars to projects in other communities, often hours away and out of state. I believe this newfound opportunity is why the legislature is seeing an influx of local sales tax requests from smaller communities seeking to serve their own regional populations. Defining "regional" will be one of the greatest challenges for this task force. One might question Roseau being a regional center based on our size, but we serve a rural population far greater than our city limits population with services such as parks and recreation, fire protection, streets, ice arena, library, and community center. While state assistance and aids assist in funding these items, those aids do not completely equalize the burden placed on incorporated cities by adjacent rural residents that generally enjoy very low property tax rates by comparison. Utilizing a local sales tax to fund broader community facilities and assets helps shrink the funding disparity between urban and rural users.

Beyond helping spread the tax burden to the full user community, a local sales tax is important for quality of place amenities. In most cases, cities have a difficult time even funding its very basic services through the property tax levy. A local sales tax provides an opportunity to fund locally identified priority projects that could not otherwise be funded, such as our proposed Wellness Center. A local sales tax affords local communities with an opportunity to address local priority issues and projects that are not priorities of the state or federal government funding programs.

Differing sales tax rates across Minnesota create issues for retailers and customers, and reforms to simplify the process at the retailer end should be investigated and implemented; however, any efforts to eliminate a local sales tax option for communities should be carefully considered. Many important local projects depend on this resource. As is the case with Roseau's Wellness Center. The project is currently stalled due to the local sales tax moratorium and very likely dead if a local sales tax is not a viable option for our community going forward. These projects are important to all of Minnesota's communities and Minnesota overall.

Sincerely,

Todd Peterson
Roseau Community Development Coordinator