

Local Taxes Advisory Task Force: Meeting Minutes

Date: August 30, 2023

Task Force Attendees:

Board members: Paul Marquart (chair), Lisa Bode, Jenny Max, Suyapa Miranda, Jill Sims, Michael Williams

Agenda

- Welcome
- Team Norms and Introductions
- Setting the Stage on Evaluation Criteria
- Closing

Notes

Welcome (Chair Marquart)

- Thank you to the members for enlisting into this important task force
- The statute provides that we do 3 things:
 1. Determine objective evaluation criteria for:
 - General local sales tax proposals
 - Food and beverage tax proposals
 - Lodging tax proposals seeking accommodations beyond the restrictions of Minnesota Statutes, section 469.190
 2. Identify the appropriate entity to authorize these local sales taxes.
 3. Identify and communicate to the legislature any necessary changes to current law/statute that need to be made.
- The structure of these discussions are outlined over the new few months with us first discussing the first objective of determining the evaluation criteria, and we'll do that by starting out with 6 questions on the agenda today.
 - Sept. 27th will be public testimony - discuss and have reaction to what we've discussed.
 - Next, we'll move to the second goal, identifying what would be the entity to authorize and execute
 - Then we'll go over the special or other legislation that would be required, followed by more public testimony.
 - Finally, we'll come back together and pull it all together for our report.
- Note: Comments from [Member Dalton's Memo](#)

Team norms and introductions (Audel Shokohzadeh)

- Name, organizational affiliation, do you prefer food on a stick or deep-fried goodness?
 - Chair Marquart, Commissioner, Department of Revenue - Corn Dog
 - Member Max, City Administrator for the city of Nisswa - Food on a Stick
 - Member Bode, City of Moorhead - Food on a Stick
 - Member Sims, Hospitality of Minnesota - Food on a Stick

- Member Williams, County Administrator of Stearns County representing the Association of MN Counties - Both, but prefers Ice-cream.
- Member Miranda, Prepare and Prosper - Isn't everything on a stick also deep fried?

Setting the stage on evaluation criteria (Audel Shokohzadeh)

- Today, we'll ask the 6 questions that we've developed to help guide this conversation. We also welcome feedback on these questions.
- Start thinking broadly about general local sales taxes, food and beverage taxes, lodging taxes through setting the stage evaluation criteria.
- Please review the [memo for Dalton](#), as well as the [2004 report from Department of Revenue](#).

Question 1: Imagine we are considering the first ever local tax, what information would you need to evaluate the tax?

- Chair Marquart: Assume you know nothing about local sales tax - if we could create a system, providing the goals, what would we come up with? Doesn't have to be anything existing now.
- Member Williams: To have a good understand why the local governments are asking for the tax. There are different reasons the request is being made.
- Member Bode: Understanding and familiarizing myself with the law, factoring in the regional benefit and regional cost sharing.
 - Showing the regional benefit, because its more than just the local taxpayers that benefit from the facility the tax was funding
 - We also conducted a tax incident analysis so we could document who paid for the facility and so we had the regionality from both perspectives; that made a lot of policy sense.
- Member Simms: What does regional mean? Defining what regional is will be important.
 - Also, the "What, Why, and Who" - what does it fund, why is it funding that, and who is paying for it.
- Member Williams: The law says regional, there are underlying reasons we do this too, the regionality matters. The underlying reason for the Stearns County Jail is property tax relief, we don't want to burden property tax; it's an alternative way to fund and get a better mix of how we fun services.
- Member Max: Evaluation of the request and wanting to ensure a clear understanding of the projects, costs, length of time, to get the full picture. To answer the "Why", why the gap,
 - Ensuring that there's evaluation to ensure transparency and clarity for a tax request.
- Chair Marquart: Want to recognize Chair Gomez who is here, and we have representation from Chair Rest's office, thank you so much for not only initiating this legislation, but for being here.

Question 2: Should what the tax pays for be limited in some way? Are there purposes that shouldn't be allowed to be paid for by local sales taxes?

- Chair Marquart: Where are the guardrails?
- Member Max: I like the current statue language that identifies of rehabilitation of capital projects - vs not using this for general fund operational recurring expenses.
 - Great benefit to specify the categories or types of projects that a community could use it for
 - I think about the success that the counties have had with their transportation authority and thinking of how to equate some of that from a city perspective, to say what can be established for us to use as an avenue to simplify that.
- Member Simms: Agree with Member Max has said, but I also think that to be clear is to be kind
 - Offering clarity, there should be some limitations and/or criteria, but keeping it structured, and there may need to be changes, but staying away from general funds or catch all for funding. Keeping it focused on specific projects.

- Chair Marquart: Does anyone think that it should be open more to general fund or things beyond capital projects?
 - Member Williams: There are states that allow that as a model, not that we should, but I'd be interested in why others do.
 - Chair Marquart: There are states that allow local income taxes.
 - Member Williams: Right, there are state that use other models, that do allow a little more general use of the sales tax, you have to recognize those are different tax systems too
- Member Bode: I found it interesting to read the 2014 report and see that we're still grappling with similar issues, and Dalton's memo was helpful to give the perspective over time.
 - I see with our tax structure, and the other aides and revenues that are provided to Minnesota cities to make sure that there is some level of fairness on multiple levels for all communities in Minnesota.
 - There are basic services to individual jurisdictions that would not be appropriate for a sales tax, given the nature of what a sales tax is and how it affects people of various income levels.
 - Limiting it to specific projects or excluding specific projects, there is still room for regionality and making a case for the individuality.
 - It might look different in a resort town where there are pressures put on their infrastructure that are not put on other more diverse or year-round communities.
 - It's hard to predict what the needs will be over time, and looking at the competition with surrounding jurisdictions, where they go directly to the voters and can put a sales tax on the ballot – it's more simple. But it really does depend on the community. I'm curious about those comparisons.
- Member Max: I want to provide more context to my comments earlier, there is merit to discussing all options, and have all options be available, being they are practical and realistic. If we were to provide guardrails on specific projects, but if someone made a request because if there were some unusual circumstances that they're going through, that would be a great area where we could give a local sales tax as an option. It would mean for a longer process to work through in that case.

Question 3: Are there any criteria related to the local governments other finances that should be evaluation criteria?

- Chair Marquart: Could be local government aid and any other any other revenues that they might have, local government aid or property tax capacity, etc. This seems to be an equalization of some sort.
- Member Williams: Depends on what we allowed the tax to be used for.
- Member Bode: I come back to the regionality aspect of this. Even if a community does have the means to pay for it in other way, there might be some projects, depending on what the project is, that would be more appropriate to have benefit paid regionally.
 - Chair Marquart: When you say paid regionally, are you saying sharing of local sales tax?
 - Member Bode: The sales taxpayers are from the surrounding area and do business in the community. Whether the city could afford it with existing funding, for example a public library that people from surrounding communities would use. So, whether the city could afford it another way, this is an example where it might still be the most appropriate resource for a community; highlighting there might be some projects where this makes sense.
- Member Max: Generally, I'd like to see that there aren't other criteria that would take a community out of having this as an option to access because you just don't know of the specific circumstances. I think we should consider making sure that this is broad; an option across the board.
 - LGA factors in a lot of that for the funds that come, in and the formula that's been developed to equalize some of that component and just letting this be the option for the appropriate opportunities that the city could have to access.

{Member Miranda joined}

Question 4: Should local sales tax be limited to funding projects that have a regional benefit? If so, what does regional benefit mean?

- Chair Marquart: Also, how would we define regional.
- Member Williams: Regional is so different for different communities and that's why we have a hard time with the definition. Regional could mean a little league baseball complex and others it could be a convention centers and athletic complex.
 - Not just buildings and facilities, it could be services that are larger than the community itself, we ought to remember that there's other things that impact when we think about what servings the region.
- Member Max: How do we define regional? Communities are so unique and dissecting. Could we come up with a definition that is objective, fair, and broad enough that could be applied across the state?
- Member Sims: Do any other agencies or departments have a definition of what Regional means? When think about governance and consistencies. Regional is dynamic. Continuity
 - There can even be regions within regions.
 - As a state, are we're using the word regional defined in other spaces, and if there's any continuity we could pull from?
 - And if not, who does? Do other states have examples of that?
- Chair Marquart: Looking at who we have here in the room from Revenue, is there anything we do in our tax laws and aids that somehow have a regional definition?
 - No, we define the metro and Greater Minnesota as it relates to programs that have to be dilled out at certain percentage.
 - We'll have to check and see if there's other uses of that somewhere else by state agencies (like Department of Transportation).
- Member Bode: I don't have a problem with a little bit of ambiguity and a little bit of latitude there, because I think that's the case that we make when we bring something like this to the legislature.
 - Example: Childcare facility in Warren, and they wanted a sales tax to construct that building.
 - Because of the nature of employment, they were not an employment center, but they had people in their community that needed a childcare center in order to work in another community.
 - I am comfortable with a little bit of latitude for communities to make that case for regionality based on their circumstances.
- Member Miranda: Need to define how region is being used.
 - How other state agencies and departments use the word Regionality.
- Chair Marquart: For example, you have a library, and people from outside the city will use the library. There is an additional economic benefit to that city that has the new library. Should some of those increased economic benefits be shared with the other cities that are contributing to the cost of that library?
 - Member Williams: In essence, this is what the St. Cloud regional sales tax did with 6 cities, 5 cities surrounding St Cloud and Saint Cloud all agreed on. We chose what the projects would be, library, airport, transportation, and then agreed on a formula how to redistribute those funds so the smaller communities could use those funds as they needed for their regional definition.
 - Member Sims: Ambiguity - I do think we do need to define what regional means.
 - This is why we are here, there hasn't been clear direction and there are ways to do this.
 - I think there are ways to do it in which you can allow for a little bit of flexibility, but leaving things incredibly open ended, from my perspective, I think that can be really challenging, especially if we're sending it to our legislators.

- I come back to "to be clear is to be kind" we can define regionality but allow some flexibility because there are different types of projects and regional could mean something a little bit different in, in various types of projects or uses.
- Member Bode: Per the sharing regional benefit of a facility, this would be more true if we are using the tax for operating expense.
 - Libraries aren't money makers, and so there will be significant expense, so that would be hard to quantify.
- Audel Shokohzadeh: Are there examples of what is not regional benefit?
 - Member Williams: In St. Cloud, we consult the law, consult what our voters told us, and we would make an informed decision within the spirit of what all of those things told us.
 - For how its structured or how much criteria there should be, we felt we had good guidance and what projects we could and couldn't do with it, we met the spirit of the law.
 - If we were considering improvements to a neighborhood park, for example, we wouldn't use sales tax for that. If it were for a trail that runs through all 5 cities, that would make sense.
- Chair Marquart: Here are some projects, and let me know if you think a sales tax would apply for a regionality benefit:
 - Streets
 - Member Sims: No
 - Member Bode: I did try this; I looked at what other communities were doing and if there were previous sales taxes approved that did allow streets and there isn't enough transportation aid.
 - If there is a fair and even playing field and there are other opportunities, and if we are going to leave transportation out, I would just hope that it would be left out for everybody, so it is the same across the board.
 - Police & Fire Stations: could certainly argue that those visiting would benefit

Question 5: How should burden be considered in a local sales tax? Businesses? Individuals? Regions?

- Chair Marquart: If there's an economic benefit, how's it shared? How do you demonstrate there is a broad base that are paying sales tax towards it?
- Member Sims: Dalton made some great comments in the memo that I agree with.
 - I think a lot of it does fall to businesses as well as individuals, it can be challenging for our business operators and retailers to understand all of the different taxes and programming, and then the challenges that come along with if you operate in multiple locations, like a food truck.
 - I think we should get a better understand from our business members
- Member Williams: I think of the burden on the Individual - administrative is the easiest
 - Administratively I think it's probably the easiest for the local governments, that the state administers.
- Member Bode: Agree with Member Sims, Dalton's comments opened my eyes to the effects on the businesses we tried to be very conscientious about involving our business community in in the early stages of asking our sales tax question, and sharing information as did Department of Revenue, on when the sales tax took effect.
 - But the complications of where things are delivered and how mobile retail impacts makes it more complicated.
 - Are there more tools available to help automate how they manage all of these taxes because no one does business in just one place these days.
- Member Miranda: This leads to more questions for me. These days everything is mobile these days. I would want more education on this.

- Member Max: Most of the comments shared I would also echo; ensuring the stability of the tax, that business have the appropriate information, so they understand how to implement, especially over time
- Member Sims: Could we bring in businesses to better understand their perspective on the implementation side?
 - From the Consumer side, do we have some sort of equity report?
 - Measuring a tax incident of how it hits people by various income level or by geographically.
 - Eric Willette, Head of Tax Research, MN Department of Revenue: In our tax incidents study we do look at local sales taxes as well state sales taxes, but it's from a statewide lens. So, we're not looking at the burden of individual jurisdictions, and varies based on the type of retailers and the number of visitors, etc.
 - I believe the University of Minnesota Extension Service has done incident analysis for perspective or current local sales taxes, where they look at the mix of businesses and what type of things are selling, and they try to estimate how much of that is likely born by the local residents versus being shipped elsewhere or purchased by visitors. We haven't done that at the MN Department of Revenue
 - But we can share with you the incident analysis that we have done and how much of the sales tax is paid by income groupings.
 - Chair Marquart: We can also see if we can find the extension report and share that as well.
- Member Bode: We did a tax incident study with the U of M Extension in preparation for our conversation with voters, and I think it was about \$2.00 a month.
 - Recognition on the fairness of Minnesota by not taxing clothing does make it somewhat fairer for lower income households; food and clothing are not included in those items that are subject to sales tax.

Question 6: Are there any other options besides a local tax for funding?

- Member Max: Is the question should we consider whether or not to identify other revenue stream opportunities that would mean that if you have this other option then a sales tax option would not apply?
 - Chair Marquart: Yes, let's use our imaginations here.
 - Member Max: I would hope that we would limit some of those limiting factors and not have limitations. But open to feedback.
- Member Miranda: I'd like to see more examples of what other options you are considering; what kind of options there has been in the past.
 - Chair Marquart: The Department of Revenue issued a report from 2004 on this topic.
 - There's income tax, some states allow income taxes on a local level to fund certain projects, maybe the state could do more, even though local government aid and county programs are supposed to cover a lot of essential services, public safety, streets, even sewer and water. Maybe we need a new funding stream to cover those which may diminish the need for local governments to go to local sales taxes.
 - Is an income tax prohibited?
 - Gina Amacher, Director of Sales Tax, MN Department of Revenue: Is there an option of using sales tax instead of local taxes increase the state rate and figure out exactly how much money they're currently getting and do it that way instead of having all the businesses collect it all. Making it as simple as possible, maybe have a committee that determines who's got a project, who gets the money, etc. It would take years for the existing to be repealed.
 - Chair Marquart: Figure out what the current effective tax rate would really be today.

- Member Williams: Our request recently was a jail, which is a mandate. Could there be some ways to define when the state should or could provide financing, but at the local level I don't see any more tools that we would have.
 - Chair Marquart: Looking at the 2004 report by the Department of Revenue, property taxes and local government aren't cutting it for a lot of local jurisdictions of funding the projects, and that's why they're looking for other options for revenue.

Closing (Chair Marquart):

- Thank you to the Department of Revenue to support this committee
 - We will pull together what we've discussed, so we can then review and react where we can formulate next steps.
- Other Resources that would be helpful for future meetings?
 - Member Miranda: It would be helpful to look at the institutional memory would help me prepare for these conversations; background and knowledge base would be helpful, if there are any current law and publications we can review.
 - Member Bode: I noted that knowing more about the streamlined sales tax agreement and how that affects businesses, how things mechanically work, would be helpful to the committee.
 - Also, the Wayfair decision and how that provides more equity to cities with smaller retail businesses if they were collecting sales tax.
 - Challenge: The uncertainty of the legislative process and the timing of requests in line with ballot questions.
 - Specifically, construction inflation and rising interest rates. When there is no agreement or there is no tax bill, how challenging that is when some of these projects might be amenities, other have really specific timing, etc.
 - Not sure all of these things can be solved, but the report that comes from these efforts should at least acknowledge these issues in some fashion.
 - Member Sims: Should we see examples of evaluation criteria? When we get into the different taxes, can we have the statues in front of us? And even examples of what didn't pass or were not included.
 - Chair Marquart: Like a list of bill introductions?
 - Member Sims: To follow up with more specifics of what she is looking for.