

Meeting: Local Taxes Advisory Task Force Public Meeting

Date: September 27, 2023

Task Force Attendees: Commissioner Paul Marquart (Chair), Members Lisa Bode, Pat Dalton, Jenny Max, Jill Sims, Michael Williams

Agenda

- Welcome and Introductions (Chair Marquart)
 - Name and affiliation
- Overview of Process for Public Testimony (Chair Marquart)
- Public Testimony
- Adjournment (Chair Marquart)

Welcome and Introductions

- Task Force members shared their name and affiliation
- This is the first of three meetings devoted to public testimony. The next public testimony meeting is November 8 and then December 20 (after the draft report is provided).
- Task Force key objectives include:
 1. Look at objective, evaluative criteria of sales tax, beverage, and lodging tax.
 2. Who is the entity to have authority to guide how local governments qualify under criteria
 3. What is the best process
 4. Provide recommendations for changes in law that would meet these three objectives.

Overview of Process for Public Testimony

- There is a list of testifiers. If someone is not on the list, and there is time, they will be invited to testify at the end. Individuals not on the list will be invited to testify.
- Each speaker has 5 minutes. Chair Marquart will indicate when 15 seconds are left.
- This meeting is focused on public testimony, Task Force members will not be able to ask questions.

Public Testimony

Some testifiers provided a written copy of their remarks ahead of this meeting and others gave testimony only by letter. For copies of all written testimony received, go to <https://www.revenue.state.mn.us/local-taxes-advisory-task-force> and select the **Testimony** link for this meeting.

- **Senator Ann Rest (MN 43), Senate Tax Committee Chair**

There is confusion about terms used and about local governments coming to the Legislature to ask for authority before/after a local referendum. In Minnesota, we have not found the proper place for local sales tax in our system. Selling point for localities is that it is a shared tax burden as visitors to locality are the ones paying. Need to consider a vendor allowance, which is not a violation of Streamline [Streamlined Sales and Use Tax agreement]. Large cities and small cities have different needs and different ways to achieve them through local taxes. A moratorium is needed on new local sales tax projects. Out of 35 approved, only 7 will be on the 2023 ballot.

- **Representative Aisha Gomez (MN 62A), House Tax Committee Chair**

Local Taxes have been a long lasting problem that has accelerated over the last decade. Need to look at the issue from a statewide perspective, despite all of us having our own local, community perspectives. Minnesota is lucky compared to other states because we have a balanced tax system—a mix of individual income, corporate, sales, and property tax at state level. Looking at this mix is important to crafting a long-term, sustainable revenue system that is fair and equitable to meet community needs. Regarding revenue, certain communities have advantages that others do not have. Children's proximity to wealth and a healthy tax base should not determine quality of public services they receive. Minnesota has a history of equalization. All people deserve access to public goods, even if there isn't a big retail center in their community. Allowing certain cities to have access to tax tools that other communities do not reinforce inequities. There are distinctions between progressive and regressive tax. Need to rely on more progressive ways and look at issue holistically. Think about how to stay true to state history of equalization. Local sales tax is not just for communities that have retail, can hire lobbyist, and function in political environment. Leaving this to the Legislature politicizes the process, which creates politically easy answers but bad policy. It should not be the Legislature that decides this. Clarity, criteria, and guidelines are needed.

- **Mary O'Connor, Citizen**

Taxes should be fair and simple. Sales and use taxes are neither (e.g., have different rates, exemptions). Suggests revised property taxes. Property taxes should be the only source.

- **Whitney Afonso, Associate Professor of Public Administration and Government, University of North Carolina**

Has previously published research on local taxes in numerous peer-reviewed articles and book chapters. Provided an overview of how to evaluate a tax to see if it is a "good" tax including: is this tax efficient; does it change people's behavior; is the tax equitable; who does it benefit; how do we assess the ability to pay? People want to pay the same share of the tax, or for wealthy to pay more, and sales tax is neither. Taxes should be predictable, stable, transparent, and fair. Exporting burden to others outside of

the area makes local sales tax appealing. People cross-borders to shop in order to avoid higher tax rate, thereby incentivizing where people shop. Jurisdictions with lots of retail centers, highways, and infrastructure are early adopters of sales tax. Conducted a study at the county level. Suburban communities have the lowest capacity for local sales revenue but high property taxes. Consider what is included in the tax base and who decides. In most states, residents have to pass a referendum that is levied for a period of time. North Carolina is at the forefront of local tax policies. They have a central fund where counties contribute, and funding is distributed based on need.

- **Representative Steve Elkins (MN 50B)**

City-level taxes are inherently inequitable and regressive, but are attractive to residents because it transfers some of the cost-burden to visitors to generate tax revenue. Provided examples of cities chasing sales tax dollars and distorting land use in negative ways: competition between cities; big box retail using TIF funds, tax abatements and other incentives to play cities against each other then moving once those benefits are exhausted; car dealerships that affect zoning strategy, and are located next to LRT. Recommends using sales tax as a state-level source and distribute local sales tax if you collect at regional or country level (not zoning). If approved, local sales tax should be temporary, non-expandable, and non-renewable with a hiatus between requests.

- **Mark Haveman, Executive Director, Minnesota Center for Fiscal Excellence**

Has serious reservations of state equalization efforts. Questions confidence in the Minnesota Miracle moving forward. Recommends Task Force allow cities to impose a city sales tax that can be used for any purpose. General Purpose Aid has been stagnant, in stiff competition with state's own service delivery, and often first on the chopping block. Worries about Local Government Aid's (LGA) ability to reduce burdens rather than ensuring services orientation. Modifications to the LGA formula will be needed to measure local capacity. E-commerce taxes can be a great equalizer by eroding benefits of large retail. Equity concerns about tax bases are real and important. Don't discount the equity and land use concerns, but the status quo is not immune to these concerns. Don't insert Legislature into local funding. Measurement of local capacity and need would be distorted by local sales tax.

- **Nathan Jesson, Intergovernmental Relations Representative, League of Minnesota Cities**

Highlighted legislative history with changes in 2011, changes in 2013, reversal of 2011 changes in 2019, and in 2021 a definition of capital projects. Local sales tax proposals have tried to play by the rules of this changing legislation, but it has been difficult for cities to make decisions because of these changes. Voter autonomy balanced with tax equalization. LGA legislation can prioritize equalization by providing assistance to cities rather than restricting ability to raise revenue. The best governments are going to have more than one source of revenue. Property taxes are not popular among voters, but sales taxes are. Paid in one lump sum (property) vs. piece by piece (sales). Think about broader implications about how government should be funded and if it can be funded effectively through only one mechanism.

- **Matt Hilgart, Government Relations Manager and Policy Analyst, Association of Minnesota Counties**

Expressed concern regarding escalating requests to the Legislature paired with an increasing need of communities and residents. Requests greater accessibility, flexibility, and autonomy. Local sales taxes are used by cities and counties alike to fund critical projects. Minnesota has been late to the sales tax

game and should be more creative with how to achieve equalization. An honest assessment of need, benefit, and impact is needed. People have been weary of sales tax due to concerns of regressivity. However, its use has not proven disastrous as it elicits public input and with limitations in place it is unlikely to be a money grab. Questions regional and equalization. At a certain point, this is an imperfect structure, but we also have imperfect solutions.

- **Beth Kadoun, Vice President -Tax and Fiscal Policy, Minnesota Chamber of Commerce**

From the business community and administrative perspective, sales tax administration is a cost for businesses, and they don't receive a vendor allowance. About half of other states have a vendor allowance to offset the cost. Smaller businesses have an increased cost, which adds complexity and competition that is problematic. Tax differences affect local communities and businesses differently based on where they are located. Recommendation to continue voter approval and regional significance to make sure projects do not compete with businesses located in the same area, and place a cap on rate increases. Sunsets should continue. The Department of Revenue gets an allocation of sales tax by keeping a piece of local government collections. Option to have a little state aid and give local authority or substantial local government aid and limits on local/regional sales taxes.

- **Mathew Massman, Executive Director, Minnesota Inter-County Association**

Task Force should consider the history adequacy of revenues and how that has influenced the growth of local sales tax. It is not about the best process for local sales tax revenue, but discussing the context within the broader system with adequate revenues for all counties to provide services. Traditional sources are property tax (has gone up from 1% to 4%) and state aid. These sources have not kept pace with local needs and local sales tax has increased. An equalized system is needed with adequate revenues for basic services for all local governments. Potentially, counties could have authority in base law to support work that is often for the state. Local sales tax should be used for local roads, bridges, public safety, justice centers, jails.

- **Patricia Nauman, Executive Director, Metro Cities, Association of Metropolitan Municipalities**

Supports the ability of cities to diversify their revenues and a system that acknowledges the balance between services and tax types. Stability in revenue is needed. It's the Legislature's responsibility to determine local tax requirements and Association supports the existing statute. Many cities do not receive LGA, but Association supports it strongly along with formula updates that recognize specific city needs and revenue opportunities. Cities that have sought local tax in past years have abided by laws and sought to abide by regional view.

- **Bruce Nustad, President, Minnesota Retailers Association**

A vendor allowance should be provided to retailers to reduce administrative burden and encourage full participation. Examine local sales tax in the broader context. It should be part of a mixed system of funding. Consumers experience a compounding effect; gave example of recent metro sales tax October 1 and then additional taxes starting in July 2024. In addition, consumers are mobile and have flexibility to cross borders to make purchase. There is a competitive landscape and potential consequences. Consider what a robust and transparent system should look like and how it fosters engagement with citizens and local chambers, associations, and organizations. Include local community input to ensure

needs align with the desires of the community and businesses. Finally, complete a local inventory of taxes being paid by consumers to get the full picture.

- **Bradley Peterson, Executive Director, Coalition of Greater Minnesota Cities; Shareholder Attorney, Flaherty & Hood**

Legislature should be taken out of the process. Lack of funding from the state has caused cities to raise local sales tax. Since 2019 the Legislature has tied itself in knots on this issue. Street funding was an acceptable use at one time, then not at another. There has been an ambiguous definition of "capital project" over time. Cities should be the ones to authorize based on shared definitions and criteria, propose referendum, and impose local taxes. This will allow cities to solve important challenges and provide quality to residents and communities.

- **Todd Peterson, Community Development Coordinator, City of Roseau**

Letter available on website – see **Testimony** link for this meeting.

- **David Chanski, City Administrator, City of Breezy Point**

Letter available on website – see **Testimony** link for this meeting.

Adjournment

- October 11 meeting will be rescheduled to October 17.
- Written testimony from the public can be submitted at any time.
- Williams: Appreciates testimony, it is helpful, particularly hearing perspective from tax chairs.
- Marquart: Thank you to the interpreters.