



Meeting: Local Taxes Advisory Task Force Public Meeting

Date: 11/8/2023

Time: 2:00 p.m. – 4:00 p.m.

Location: Hybrid meeting in Stassen Building and via Teams

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

Wilder Research: Ananya Matewos

Agenda

Part I: Task Force Public Meeting

- Welcome and check-in (Chair Marquart)
- Overview of public testimony process (Wilder Research)
- Public Testimony (Chair Marquart)

Part II: Task Force Workgroup Session

- Work Group Activities (WR)
 - Synthesis discussion
 - Including building definitional consensus around remaining key terms
 - Construct 1-2 principles
 - Review report outline and structure and provide feedback
 - Next steps
 - Vote on final meeting format and schedule
 - Homework assignment: Visualizing the life cycle of local taxes
- Adjournment (Chair Marquart)

Notes

Welcome and Introductions

- Task force will then look at remaining terms.

Overview of Process for Public Testimony

- Seven testifiers, each will get 5 minutes

Public Testimony

Some testifiers 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.

- Representative Dave Baker, Assistant Minority Leader, Willmar (Virtual)
 - Baker is reporting as a business owner, not as a Representative. Started using the lodging tax (specifically used for marketing) in Spicer, Minnesota, as part of the Convention & Visitor Bureaus. Lodging tax allows small communities to host events like the Governor’s fishing opener. Fully supports this important tax, does not want to see any changes, and it should only be used for marketing purposes. It’s a well written specialty tax, and it is working extremely well.
 - Chair Marquart- thanked Baker you for championing the hospitality sector.
 - Baker thanked the Chair for supporting the industry as they had worked together on first bill to help restaurants on public waters.
- Mayor Dave Kleis, St. Cloud (Virtual)
 - Has been Mayor of St. Cloud for 18 years in St. Cloud. Received a regional sales tax for St. Cloud and area cities. Has worked with Administrator (and LTATF Task Force member) Michael Williams for a number of years to get local sales tax. It is challenging for a regional center like St. Cloud to fund projects. There are 71,000 people in St. Cloud, and during the daytime there are more than 180,000 people. They would have to use property tax (and unfair burden) if this local sales tax wasn’t available for transportation and facilities. He supports and advocates for local sales tax. They have a large hospital (CentraCare), a state university, and a technical college. Local sales tax has been the only way to fund some of the projects in the past. We have proposed referendums during presidential elections, which have a larger voter turnout. Had planned to bring a project this year, but didn’t due to the moratorium. Disappointed there is a moratorium, would have introduced a project earlier if they had known. Observed that a number of referendums on ballots were passed this year. Familiar with history of local sales tax. Worked with Governor Dayton and Mayor RT Rybak who co-chaired a group for local government aid (LGA). A lot of the conversation was on sales tax and history in Minnesota. The Minnesota Miracle was designed to offset the property tax that had gotten high. Created to be a temporary tax, 1968, in 70’s increases became temporary. In 1991, the State was having a budget challenge and Governor Carlson offset the costs of property tax. Use of local sales tax helps spread out cost for folks that are using the infrastructure. I support using this for roads- it’s hard to use property tax. Income tax goes back to the state. Local sales tax allows us to make the determinations locally. Not all are discretionary amenities—example of police/public safety facility. Recommends legislature set standards, remove legislator review/approval so it would be more equitable and less political. Local sales tax should have a referendum (determined locally), funding threshold, require regional use, and every city/county has the same parameters. As a former legislator, doesn’t understand why a legislator from another area should approve someone else’s request.

- City Council Member Brad DeVos, St. Peter (Virtual)
 - Agrees with Mayor Kleis. Voted in for another 4 years last night. Legislature is hesitant and has a moratorium on local sales tax proposals. Built new fire station for 10 million. The current process of requesting sales tax through legislature led to a 2-year delay, which increased construction costs due to inflation and supply chain issues. The project would have been done faster and at a cheaper cost if there hadn't been a 2-year delay in getting approval from legislature. Only 70% of property in area is taxable as most are non-profit business, and that cost would have gone to homeowners. Sales tax allows us to spread out to college students and larger employers. Need to take the burden off our property taxpayers. Funding would need to be used in 2 years—not able to bank and move forward. Grateful for LGA, but don't know if it's going to increase or remain flat. If it's flat we often have to increase property tax. Why should a legislator from another area be able to weigh in? Allow local sales tax. Require vote to provide local control, and allow projects to move forward more quickly.
- Joe Henry, Lake of the Woods Tourism (In Person)
 - Executive Director of Lake of the Woods Tourism and on Board of Directors for Hospitality Minnesota. Been part of Lake of the Woods tourism for 12 years. There is a 3% lodging tax on an established geographical area. Lodging tax is meant for marketing and promoting and is critical to over 100 organizations in Minnesota. If they start to use the tax for something else, it won't be nearly as attractive in the future. Don't change statute 469.190. Lake of the Woods is on the Canadian border and the majority of visitors travel more than 5 hours to get there. If there wasn't funding for marketing and education, they wouldn't have the tourism. There are 4,000 people, not one stop light, and over 60 lodging facilities. They can have over 10,000 people over a weekend during winter. Tourism fuels the rest of the economy in the region. There is a 5-7 times trickle down affect to the local economy (halo effect). Tourism is an economic driver for any county/city. Marketing and education drives visitors to the area by providing a picture of what it's about. People that move to area will have visited 2-3 times before. It's not just a destination, it's a community. Lodging tax works, don't let others impose on the intended use.
- Tim Zunker, Minnesota Association of Convention and Visitor Bureaus (Written Testimony)
 - Protect local lodging taxes for the use in which they were intended. In Minnesota, there is a partnership between local convention and visitor bureaus and local lodging facilities. The Legislature granted local communities the opportunity to adopt a local lodging tax of 3%, without the need to first seek approval from the Legislature. Money spent on marketing and promotion helps attract visitors to communities and those investments drive local economy and support local businesses. Do not divert lodging tax dollars away from promotion to support local infrastructure projects. Statute 469.190 specifically indicates that 95% of funds generated by lodging tax must be used for marketing and promotion purposes. Tourism has an average daily sales impact of \$43 million which is calculated by sales at Minnesota hospitality and tourism businesses. According to a 2017 study, tourism spending saves each Minnesota household \$625 per year in taxes. Finally, tourism accounted for 9.5% of private-sector employment and \$5.9 billion in wages in 2022.
- Fred Nicely, Council on State Taxation (Written Testimony)
 - The Council on State Taxation (COST) is a nonprofit trade association with over 500 multistate corporations engaged in interstate and international business. COST's objective is to preserve

and promote equitable and nondiscriminatory state and local taxation of multijurisdictional business entities. Focus of this testimony is on improving the administration of Minnesota's local sales tax. Features critical to improvements include the following:

- Centralized administration of local taxes - vital for efficiency and should be an option for all taxpayers.
- Centralized posting of local taxes/fees - local tax ordinances should be posted on a centralized website, and any changes should be posted with reasonable notice.
- Uniform tax base - all local taxes should derive their authority from a single state statute, ensuring uniformity.
- Reasonable tax reporting requirements - should not be overly burdensome, and extraneous information should be avoided.
- Fair administration - with equivalent statute of limitations, interest rates, and reasonable due dates.
- Jurisdictional boundaries – need to be clearly identifiable, such as zip codes, make compliance easier.
- Administrable taxes and fees – need to have reasonable collection and remittance requirements and allow taxpayers time to adapt to changes.
- Modernized filing and payment system – systems should be able to accommodate electronic payments and efficiently disperse local taxes.

Work Group Activities

- Key Term Definitions
 - Benefit
 - WR Matewos: The previous definition- the people who pay the tax, benefit from the project funded by the tax. It does not make sense to use the term in the definition. A revised definition- Those who use the project are the ones paying for the project.
 - Member Max: Maybe it should be receiving services instead of benefit?
 - Member Williams: Not sure if this applies to county. Made sense to have the word benefit in the definition instead of receiving services.
 - Member Sims: Could we add the word resource? Thinking about the jail, maybe a service/resource?
 - Member Williams: I agree.
 - WR Matewos: Revised definition- The ones paying for the project receive the services and resources from the project.
 - Member Dalton: It helps with public safety projects.
 - Chair Marquart: Directly or indirectly benefit- like the jail.
 - WR Matewos: If we are looking at the benefit- it's the outcome of paying for something?
 - Chair Marquart: It doesn't matter who is paying for it.
 - WR Matewos: Revised definition- The services and resources received from the project?
 - Member Dalton: That is the benefit, but then there is equity.
 - WR Matewos: When you create the principles you can bring these ideas together.

- Approved Definition: The services and resources received from the project.
- Equalization
 - Member Dalton: For equalization and equity there is a different definition for the local government versus the individuals or taxpayers. We may need to have two definitions for each of those words. I can't come up with one that fits for local government and individuals.
 - Member Sims: Similar to Member Dalton, equity could fall on individual and equalization on local government.
 - Chair Marquart: Equalization goes back to communities providing the same services at the same cost. Need to have outsider come in and make that happen. LGA, CPA, school finance, to try and level things- and the State comes in to level it off. It means the local entities where equity is more the individual.
 - Member Dalton: Equalization to fund local services. Individual- equalization means it doesn't increase and don't make the taxes more regressive.
 - Chair Marquart: The two words are intertwined and subtly different. When Legislature talks about equalization, it is the equal ability of local governments to provide the same services with the same tax.
 - Member Max: I agree with the initial thoughts from the equalization perspective- the initial thought related to local government unit and consistent ability for them to impose a tax. What is consistency to have that option available?
 - Member Dalton: I agree on the differences between equalization and equity. Equity for local government is equal opportunity to impose tax and play under same rules. Different from funding opportunities.
 - Member Max: I can see that.
 - Member Sims: We can wrap those three points into one for equalization- focus on local. I think we are agreeing.
 - Chair Marquart: For equalization- there is a .5% tax, one community get \$1 million and another gets \$500,000. So, State would put in another \$500,000 to get \$1 million.
 - Member Dalton: A per unit basis.
 - WR Matewos: Revised definition from local government perspective- The equal ability to fund government services. Equal ability for government to provide same services for the same tax burden?
 - Chair Marquart: Is there a definition of equalization?
 - Eric Willette (DOR): There is one implied in LGA. If there aren't caps, the ability to raise the average amount of spending with an average tax rate.
 - Chair Marquart: The LGA formula is to help with equalization.
 - Member Dalton: LGA was an attempt to provide equalization within property taxes and local sales taxes weren't an issue at that point.
 - Member Bode: It's not a determination if these regional projects are subject to equalization. We still need to figure that out. Maybe it's too much in one bite?
 - Chair Marquart: That's a great point.

- WR Matewos: Revised definition- ability to raise the average amount of spending with the average tax rate.
- Member Dalton: It's the average amount of services not spending.
- Willette: An overburden.
- WR Matewos: Revised definition- the ability to raise money for the average amount of services.
- Willette: Confirmed.
- Member Max: I'm struggling with that one. I'm not connecting this with what I was seeing in the notes.
- WR Matewos: Add more terms- consistency? Revised definition- the ability to consistently raise the average amount of services with the average tax rate.
- Member Sims: We need to make sure we are including process.
- Member Dalton: A consistent process to raise money for the average amount of services with the average tax rate.
- Member Sims: It should be consistent based on the groups we have heard from. Consistent, not subject to change
- WR Matewos: Revised definition- access to a consistent process to raise money for the average amount of services with the average tax rate.
- Member Bode: Equalization is more of a global term.
- Member Williams: I have nothing to add.
- Member Bode: Process should be part of equity rather than equalization. Maybe equity or something completely different.
- Member Dalton: The process question is about the mechanization.
- Chair Marquart: I'm not sure if we are talking about process or making sure it's the average amount of services.
- WR Matewos: Revised definition- ensuring consistency in the ability to raise money for the average amount of services with the average tax rate.
- Member Bode: Ensuring consistency in providing for the average amount of services with the average tax rate.
- Approved definition: Ensuring consistency in providing for the average amount of services with the average tax rate.
- Equity
 - WR Matewos: Proposed definition- addressing imbalances between different people or groups.
 - Chair Marquart: Burden on taxpayers and how it impacts people or groups. Socio-economic terms, there are differences between homeowners, business, and non-home owners. Sales tax instead of property tax. Yesterday was enlightening for this tax force. In Rochester, a number of local sales taxes and referendums were up. A \$205M for next 20 years (sales tax) and \$100M for 10 years (property tax). The property tax failed and most of city/county passed the local sales tax. Most referendums on property tax fail. It says something about the overall system we have right now. The county has approved \$80M for a jail (sales tax passed 97/3). If given a choice as a voter and property tax

owner, and the community has already approved it, it's an easy decision. Sales tax is more regressive than property tax. It's falling on folks differently. Equity is the biggest one for me.

- Member Dalton: I think this is a term we may need two definitions for. Individual- who actually pays the tax, making total tax system look regressive. Or are we making more regressive or slightly less regressive. Tax is regressive. For local governments- do they have access, or only have access if you can afford to pay for lobbyists. Everyone has access under a set of rules, and everyone knows what those rules are.
- Member Williams: I agree with the discussion about equity and how it creates burden for different people. Access- it's fairness rather than equity. All local governments should have access and be treated the same.
- Chair Marquart: Access to Legislature, or is it the ability to have the economic tax base to have a local sales tax?
- Member Williams: I'm thinking access to a process. When we defined equalization we covered that.
- Member Max: I'm trying to put guardrails on- ensuring the burden to the taxpayer doesn't go too far in one direction. Trying to create structure that keeps within a certain framework to maintain equity so there isn't an imbalance in the tax system.
- Member Dalton: This is where we bring in the issue of balancing benefits with burden. It may be a more regressive tax, but if a certain socioeconomic group benefits, maybe it balances out because they are also the group paying for it.
- Chair Marquart: Should we specify burden as "tax burden"? Replace "between stakeholder groups" with "of stakeholder groups" or "among stakeholder groups"?
- Approved definition for equity- balancing benefits with tax burden among different stakeholder groups.

Fairness

- WR Matewos: Do we need a definition for fairness? Let's go back to access.
- Member Bode: if you added providing clear and consistent guidelines to establish tax, that would address the fairness issue.
- WR Matewos: Revised definition of access- providing clear and consistent guidelines and resources to establish a tax for all. Individuals and businesses have the information readily available so they know about them and can easily comply with the different taxes. Do we need easy to understand?
- Member Dalton: The government would like that
- Chair Marquart: Clear and consistent implies that.
- Member Dalton: All local governments are provided clear and consistent guidelines and resources to establish a sales tax. No special tax, no local school districts with local taxes. Do we want to limit this to counties and cities? Equity and administration will get even harder if you let local governments do that.
- Chair: Are you suggesting the TF decide this now?

- Member Bode: Is this beyond our scope?
- Chair: Let's just put local governments for now, and then define what "local government" is later.
- Member Sims: Say city and counties
- Member Dalton: Right now they are the only ones. Lodging doesn't apply.
- WR Matewos: What about towns?
- Chair Marquart: Let's put local government which includes towns.
- Approved definition: Local governments are provided clear and consistent guidelines and resources to establish a sales tax. Individuals and business have the information readily available so they know about and can easily comply with the different taxes.
- Review Report Outline
 - WR Matewos walked group through the report outline.
- Meeting times/homework
 - WR Matewos: We will be sending a homework assignment
 - Task force members will complete activities on the [Miro board](#). Local Sales Tax Life Cycle: add what needs to create an ideal process pre and post approval. Examine the tension points along this process for different stakeholders (why they exist and how they can be addressed).
 - Co-construct 5-10 principles.
 - Report outline: gather feedback regarding the structure and where each member wants to contribute. There will be a separate section for special taxes (food/lodging)
 - Audel Shokohzadeh will send additional meetings dates/times.
- Adjournment
 - Chair Marquart: thank you to all that provided public testimony and to the task force members.