

Meeting: Local Taxes Advisory Task Force Public Meeting

Date: 11/22/2023

Task Member Attendees: Commissioner Paul Marquart (Chair), Lisa Bode, Pat Dalton, Suyupa Miranda, Jill Sims, Michael Williams

Wilder Research: Heather Britt and Ananya Matewos

Agenda

Task Force Meeting 2:00-3:30pm

- Welcome and check-in (Chair Marquart) **(5 min)**
- Expert Panel Department of Revenue Q&A **(10 min)**
- Work Group Activities **(70 min)**
 - Principles discussion (30 min)
 1. Wilder will present member-proposed principles from the homework
 2. Members will review and vote on principles they would like to keep
 3. Members will propose any new principles
 - High Consensus Determinations (20 min)
 1. Wilder will present member-proposed prompts for local sales and use tax policies that appear to require no further discussion and can move straight to voting.
 2. Members will vote on each of the proposed policies
 3. Identify non-consensus items
 - Whiteboard activity (20 min)
 1. Visualizing the life cycle of local taxes – viewing synthesized model from homework on MIRO board
 2. Members will provide feedback and improvement suggestions

Debrief **(5 min)**

- Follow up with Department of Revenue Panel and Parking Lot
- Adjournment (Chair Marquart)

Notes

Welcome and check-in

- Chair Marquart: Review of LTATF objectives
 - Guidelines to evaluate proposed local taxes before lawmakers discuss and vote on them in legislative committees.
 - What organization or entity should conduct these evaluations.
 - Improving the legislative approval process for creating and revising taxes.

Expert Panel Department of Revenue Q&A

- Department of Revenue staff will be available to answer questions at the beginning and end of each session.
- Members did not have questions at this time.

Principles discussion

- Previous sessions focused on concepts and priorities. Today we will finalize priorities and begin the evaluation of guidelines. During the next session, we will finish the evaluation of guidelines and begin proposed amendments. The following sessions will focus on completing the proposed amendments and recommendations.
- Review of consensus voting using the fist to five approach.
 - Voting did not occur during the meeting
- Concept Definitions presented
 - Access: Local governments are provided clear and consistent guidelines and resources to establish a local sales tax. Individuals and businesses have the information readily available and can easily comply with the different taxes.
 - Autonomy: Voters indicate support of the distinct project-based decisions to impose tax by passing a referendum and demonstrate an element of self-governance. A process where clear conditions exist for cities and counties to act appropriately for a tax that impacts community. There is no need for a legislative process if the established criteria are followed.
 - Benefit: Those paying for the tax are receiving the services and resources from the funded project.
 - Burden: Resulting impact of a decision on an individual, business or municipality: 1.) Cost of compliance of administering the tax (businesses, municipalities, and state agencies); Individuals (are some groups disproportionately paying more of taxes holistically).
 - Equalization: Ensuring consistency in providing for the average amount of services with the average tax rate.
 - Equity: Ensuring consistency in providing for the average amount of services with the average tax rate.
 - Fairness: All local governments should be treated the same.

- Flexibility: Cities and counties have several opportunities to fund a variety of projects that fit fundable criteria from the legislature.
- Modernization: Accounting for and adapting for cities/counties needs in the tax system; placing sunsets on taxes as needs and dynamics change. Ensuring the tax administration and collection process is simple and up-to-date with current technology.
- Regionality: Pertaining to more than the city or county imposing the tax, that funds projects that provide benefits and contributions beyond local residents.
- Simplicity: Reliable timelines and clear guidelines for enacting the tax; ease of comprehension and remittance by businesses.
- Transparency: Taxpayers know what the tax is used for, and how it benefits them. Businesses have the information that allows them to comply easily.
- Proposed principles from members
 - Member Dalton
 - To the extent possible the burden of collecting these taxes should be born by the local governments and not the state or businesses.
 - Member Michaels: Taxes are collected by the state. Local government isn't involved in collecting.
 - Member Dalton: I'm not saying local government should do the collecting, but there is a cost for the business to collect it. The current law says they should be compensated. Businesses are also bearing a burden. A portion of the local taxes should be kept to be redistributed to the business to cover the administrative cost.
 - Chair Marquart: Burden of administration should fall to the state.
 - Member Bode: If I replace the word burden with cost/expense, I'm more comfortable. Businesses are already collecting taxes, there are some efficiencies. It's a shared cost for business between state and local governments.
 - Member Sims: Member Dalton did a great job putting all these principles together. Appreciate the comments from Williams and Bode. I like the adjustments.
 - Voters should 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.
 - Member Dalton: I was focused on transparency.
 - Chair Marquart: This requires a referendum.
 - Member Bode: Is this different than what we have right now, the sales tax questions; total amount of cost to be collected and rate. Assumption is rate (amount of sales tax) is the burden and the benefits are the project.
 - Member Dalton: It is partially what is intended. How to talk about principles without policy? One policy that could come out, how much of tax is paid by voters versus how much is being exported. This may lead to other policies I will suggest that may not be well received.

- Member Bode: It is doable.
- Member Dalton: Some estimate would be helpful for voters to know.
- To provide transparency and fairness, well-defined parameters should be established for imposing and using a general local sales tax that would not require additional legislative input. (Similar to proposal from Williams- see below)
 - Member Sims: I like this one. There should be a project list of what is included (parameters). Don't know if it needs to be called out. Clarity is important for cities/counties.
 - Member Dalton: Project list would provide parameters to include encouraging collaboration on projects. Hard to come up with project list- list of projects that won't need legislature weighing in. There are nuances to work on (hospital, park). Parameters are larger than a project list. Need to get buy-in from surrounding communities.
- To ensure that local sales taxes do not increase inequality between local governments, local sales tax revenues should only be used to fund projects of regional significance. (Similar to proposal from Bode- see below)
 - Member Williams: I also used regional significance.
- To ensure equity, payment of the tax by non-beneficiaries of the funded project should be minimized and/or compensated.
 - Chair Marquart: What do you mean by compensated?
 - Member Dalton: There are small cities/counties that would not be able to fund projects with a sales tax. This won't be a mechanism for them. Find another way (state aid). LGA recognized that road aid only went to cities over a certain population. Representative Gomez talked about low income communities within an area that may impact them disproportionality without them benefiting. How much will a community pay for a conference center they will never use?
 - Member Bode: Non-beneficiaries, means someone that doesn't go to the library, doesn't have to pay for the tax. It won't impact someone with lower income.
 - Member Dalton: There may be a more artful way to say this. Aimed at equity issue between who may use the facility (convention center in Mpls), falls on everyone including low income communities. Guarantee most of those communities are not choosing the convention center. How do we deal with that issue? Libraries are different- low income communities do benefit from library, but do they benefit from a water park? In all of these principles you have to say "to the extent possible". Look at the tax base- needs to be equitable. Neighborhoods/communities that may be adversely impacted.
 - Member Williams: Statement is more about a community that may not benefit but has to pay. This would be difficult to figure out. Could figure out a way to raise revenues.
 - Member Dalton: This may need to be restated. We funded stadiums with local sales tax. One of the requirements is that they have to put money into

disadvantaged youth programs. That's a way to help a community benefit that may never go to the Twins stadium. Difficult to put into practice, but something we should be aware of.

- Member Williams: Makes sense to me. Benefit to economy in general, for everyone. Brings a lot of people into the community. There are other arguments to be made when you talk about non-beneficiaries. Not always direct, someone that uses the facility, but they may benefit by a spin-off job.
- Member Miranda: In general people don't know where their taxes go to. If creating a stadium, there is a sense of belonging and welcoming for those communities, or where there is a sense of ownership for those communities. Dissemination of information to regular person on the street- so they know where their taxes are going to and feel welcomed into these spaces too.
- Chair Marquart: People inside the city/county that levies the sales tax and doesn't benefit. You can look at property taxes the same way- things property taxes pay for that people don't benefit from (police protection). Local sales tax is more specific and more regressive. Do we have to keep our recommendations budget neutral or can we recommend things that will cause the state money (politically viable)?
- Member Bode: When we talk about local taxes, .5 cent or a penny, don't know what other 8.75% that the state collects. Consider burden of state general sales tax too.
- Chair Marquart: Tax payers receipt will be on the website in the New Year. And you can put your income in, and it will tell you exactly where that money goes (higher ed, K-12, and performance measurements).
- Member Bode
 - Local Sales and Use tax uses must provide regional benefit.
 - WR Matewos: Keep this and make sure it is included moving forward
 - Administering local taxes should have reduced administrative burden on businesses.
 - WR Matewos: Covered in Dalton #1.
 - Cities and Counties should have the flexibility and autonomy to pursue sales taxes for regional projects in consultation with their voters subject to qualified projects and maximum tax rates.
 - Chair Marquart: Flexibility and autonomy means not going to the Legislature.
 - Member Bode: Precisely, we could reduce the legislative process and eliminate time spent by developing a framework for typical projects.
 - WR Matewos: Aligns with Dalton #3- revise to include flexibility and autonomy.
 - Member Dalton: Maybe instead of parameters it is framework- that is what we are all looking for.
 - WR Matewos: Will go back to Dalton #3 to revise.
- Member Sims
 - Local Sales and Use tax policies must provide for equity and equalization.
 - Member Dalton: Equity and equalization for who?

- Member Sims: Need to go back and look at definitions. Feel this is already covered. All 3 points have been covered.
 - Local Sales and use tax policies should be simple and transparent.
 - WR Matewos: Covered in previous discussion above.
 - Cities should have autonomy in establishing a local sales use tax through a fair, modern, transparent process.
 - WR Matewos: Modern is different here.
 - Member Sims: Talked through Dalton #3 and framework, it encompasses a lot of things we want to see.
 - Chair Marquart: Is autonomy that they would not need to go to legislature?
 - Member Sims: Yes, that is my hope.
- Member Williams
 - The process should be clear for local governments.
 - Chair Marquart: Matches some we have already seen.
 - Voters in the jurisdiction imposing the tax must approve in a referendum.
 - Chair Marquart: Aligns with Dalton #3.
 - No Legislative approval needed; Legislature should establish the criteria.
 - Member Dalton: Reality is no matter how clear it is, there will always be exceptions. Anything that needs to be an exception needs to go to legislature.
 - Member Williams: Regional significance and reducing burden on small business were missed.
 - WR Matewos: Added to the list.
 - Limit the amount of tax that can be imposed to a certain % (Bode and Dalton)
 - WR Matewos: Covered in previous discussion above.
- Chair Marquart
 - Local Governments are provided clear and consistent guidelines and requirements regarding the local sales tax process and qualifying projects.
 - Chair Marquart: Shouldn't go through legislative approval.
 - Simplicity and transparency should be an important component of the local sales tax system for individuals and businesses.
 - Chair Marquart: Matches Member Sims.
 - Equalization system to help address and recognize the capacity differences of local governments to raise local sales tax revenue.
 - Member Dalton: This is part of my overarching statements.
 - Chair Marquart: Cities that won't have the opportunity, how do we equalize the benefit to them. (See Dalton #5)
 - Member Bode: Assumes local governments that could not raise revenue that have regional significance and can't get it funded.
 - Chair Marquart: City has a regional project, and there are other cities close by that can't benefit, but they can't really do the sales tax- won't be enough to fund the project.

- Member Dalton: Agree with Member Bode. If we can define projects that are truly regional in scope, that address inequity that requires cooperation/buy-in from smaller, surrounding communities. If we are limiting this to regional projects, and how you define them, then we don't have to do compensation. If project list is long and there are things some cities can't do, then we need compensation.
- Chair Marquart: What about smaller counties that don't have the tax base? They may not benefit from other counties, is there some way to compensate?
- Member Dalton: I agree with Chair Marquart. Bigger issue for county than cities if we are looking at regional projects. Counties have been compensated for highways if there is a county sales tax authority that they can't take advantage of because there isn't a retail base.
- Member Williams: Regional significance to equalize, and I'm not sure that is always true. No changes to what is being said, but these are the issues that come out of it.
- Member Dalton: what % is from regional sellers versus bricks and mortar? Amazon?
 - The burden of taxation and administration of the local sales taxes should be remedied for individuals and businesses.
 - Chair Marquart: Vendor allowance.
 - Local Governments must hold referendums for local sales tax approval.
 - Chair Marquart: Covered in previous discussion above.
- WR Britt: We will synthesize and bring these back for voting on Monday.
- WR Matewos: We will use Dalton's recommendation as the baseline.

High Consensus Determinations

- That no changes be made to current law under Minn. Stat. 469.190 regarding imposition and use of local lodging taxes. Any entity looking to use the tax for another purpose would continue to have to seek special legislation.
 - Member Dalton: I would suggest one change to the lodging tax law. This law does not have a de minimis or "safe harbor" measure for occasional lodging rentals. In the age of VRBO and AirBnb I suggest that one be added. My suggestion would be to piggyback on the de minimis for reporting rental income found in current federal income tax law (I believe it exempts rentals for 7 days or less per year)
 - Member Sims: Cities and counties can impose up to 3% lodging tax.
 - Member Williams: I had this on my list too. I agree with it.
 - Chair Marquart: Are we going to vote today or come back?
 - WR Matewos: We will review and vote later.
- That authority to impose a general local sales tax always requires voter approval.
 - Member Dalton: Can counties impose highway taxes without voter approval?
 - Member Williams: Yes
 - Member Dalton: Do we want that to continue?

- Member Williams: I don't have recommended changes to that process. It is transparent with a specific plan on how money will be used with public hearing. Require action by county board, not referendum.
- Member Bode: Does Legislature allow changes in projects without going back to voters?
- Member Dalton: Had cities come to the legislature and ask for extension because the collection wasn't coming in. Tried to include late/early date or a certain dollar amount. Can get an amendment without voter approval, but it did allow for legislature to review and approve.
- Member Bode: I don't want to lose that flexibility.
- That any local sales tax allowed to be imposed without legislative approval have well defined parameters and be limited to counties and cities – other local governments would continue to need special legislation to impose a local sales tax.
 - WR Matewos: Have we seen this in principles?
 - Member Dalton: Not really.
 - Chair Marquart: Have heard without legislative approval from every member.
 - Member Dalton: Not sure if everyone knows how many special local districts exist (special taxing and school districts). It will be difficult to come up with parameters for county/city, to come up with others that work for special local governments, it will get really messy. There are overlapping boundaries for these special taxing and school districts. If we start layering 4-5 local sales taxes on top of each other, we will have a mess.
- Food, beverage, amusement and admissions taxes should be discouraged and require special legislation to be enacted.
 - Member Sims: I like this one. For food/bev there aren't any parameters- not sure we want to do that. We don't want to see food/bev used as a slush fund opportunity. Provide clarity into local sales tax will be better.
 - Member Williams: I suggested food/bev could be treated like general/local and given some parameters. I know areas use it for things related to tourism. I don't know if it should be discouraged. There are local governments that use them for good reason.
 - Member Dalton: Amusement and admission taxes- Minneapolis changed ordinance on entertainment tax. Not just on places that have live music but also trivia contests. Bar (2 hrs a week) collect these taxes and change cash registers. I think they should be discouraged because we don't have consistent definitions for these. If going to allow, need strict parameters on what it applies to. If food truck moves into a new city, local sales tax and food/bev make it more complicated. Not saying we should eliminate what exists, but not encourage further development.
 - Member Williams: Tend to agree on amusement/admissions. Food/bev is used by cities.
 - Member Sims: Will do some research over the weekend. There are 10-11 throughout the state, and they have been used for some good purposes. Shouldn't be used for funding downtown business development, paying debt, and police. Shouldn't do it because it is easy. The bigger concern is more opportunity for mis-use like Member Dalton alluded to.

- No changes to Transportation Sales Tax and Lodging Tax Laws.
 - WR Matewos: Thoughts about transportation?
 - Chair Marquart: Need to think about that more.
- Remove Legislative approval needed for Food & Beverage Tax.
- General Sales Tax
 - Referendum required
 - Must fund capital project(s).
 - Must sunset based upon a given date or debt retirement
 - Must be a project with regional significance.
 - The legislature sets criteria, no need for Legislative approval.
 - No need for approval from any State Agency; Local government follows the law.
 - Chair Marquart: No need for approval from any State Agency. State auditor would look to make sure requirements are met.
 - WR Britt: Let's pin to come back around to accountability.
 - Member Dalton: Had food/bev to fund a renovation of historic movie theater and surrounding area (a couple miles wide). No one to oversee and clarify that is what is not meant for attached area. Oversight is needed.
 - Chair Marquart: All the others look good.
 - Member Williams: Local government's city/county do things routinely that they don't have to ask permission or be audited as they go along. There are ways citizens can stop something a local government is doing. No entity aside from citizens that are making sure we are doing it.
 - Chair Marquart: LGA 1971, now they do occur with legislative approval. If going to take away, there has to be some entity to oversee. Politically it would be difficult to take everything out.
- Qualified local governments seeking sales tax for TBD preapproved uses must pass a resolution of intent and notify the legislature, but may pursue a voter referendum without legislative authorization so long as the total sales tax rate for the jurisdiction does not exceed X%.
- Lodging tax may only be used for statutory purposes (we should walk thru the statute, but essentially it describes marketing).
- Remove the legislature from the process for local autonomy.
- Businesses should be compensated for their additional burden to administrate and comply with local sales taxes.
- Local Governments must hold a referendum for local sales tax approval during a general election on an even-numbered year.

Whiteboard activity

- There wasn't sufficient time for this activity.

Debrief

- Follow up with Department of Revenue Panel and Parking Lot
 - WR Britt: On Monday we will vote on principles and high consensus determinations. We will also look at the local sales tax process.
 - Parking Lot:
 - Can LTATF make recommendations that aren't budget neutral?
 - What is the estimated cost of administration for business and state for local tax administration (vendor allowance)?
 - Request for additional information/transparency for tax payers regarding all the items the various taxes cover
 - What % of sales taxes are collected by brick and mortar versus other entities?
 - Additional data about food/bev taxes and amusement taxes.
 - Additional data regarding AirBnB/VRBO lodging tax.
 - Who is accountable for oversight?
- Adjournment
 - Happy Thanksgiving everyone!
 - Next meeting is Monday, November 27th, 9:30-11:30am