Local Taxes Advisory Task Force

Work Session

November 27th, 2023

AMHERST H.
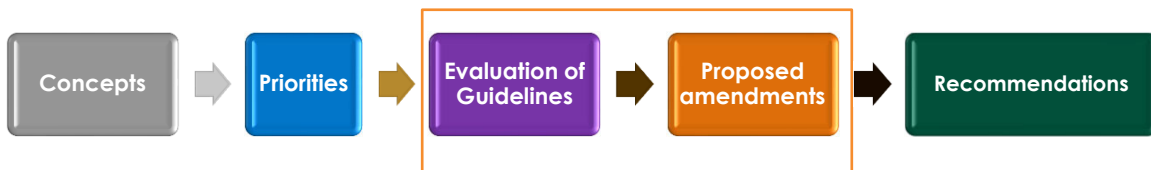**WILDER**
FOUNDATION
Here for good.

Wilder Research.

Tasks Today

- Review overall progress
- Finish low-hanging fruit discussion
- Vote on synthesized principles
- Launch local tax life cycle diagram review
  - Review the combined local tax process (from each task force member) with the combined identified tensions.
  - Offer a review and critique of each part of the process, including a review of the current authority and accountability for that part of the process and discussion/clarification where there are tensions in each part of the process.
  - Recommend changes in the PROCESS or the STATUTE/LAW for each part of the process as it's reviewed.

Previous Accomplishments

Concepts → Priorities → Evaluation of Guidelines → Proposed amendments → Recommendations

Current Progress & Next Session

Concepts → Priorities → Evaluation of Guidelines → Proposed amendments → Recommendations

Final Sessions Moving Toward Full Draft of Report

Concepts → Priorities → **Evaluation of Guidelines** → **Proposed amendments** → **Recommendations**

Consensus Using Fist to Five Approach

The Fist to Five Voting Method

On the count of 1-2-3, everyone simultaneously raises a fist with 0, 1, 2, 3, 4 or 5 fingers extended to express how you feel about the decision.

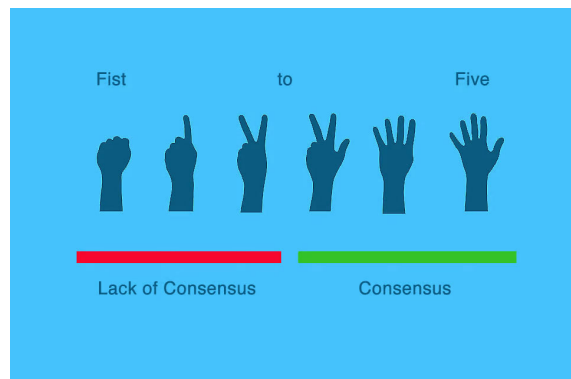No way. I don't support this decision and I am vetoing.

I have strong reservations but will support the decision and will not veto.

I am uncomfortable with the decision but can live with it.

This decision is okay with me.

I support this decision.

I strongly support this decision.

Fist — to — Five

Lack of Consensus | Consensus

3

Low Hanging Fruit: Continued Discussion

Low-Hanging Fruit (General Approval on 11/22)

- No changes should be made to the current law under Minn. Stat. 469.190 regarding the 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. (GENERAL AGREEMENT ON 11/22)

  - Suggest addition of one change to the lodging tax law that reinforces safe harbor for occasional lodging rentals but parallels payment of lodging taxes by entities that have to report rental income (as currently required for the federal income tax law for VRBO and AirBNB).

- The authority to impose a general local sales tax always requires voter approval. Changes needed to approved local sales taxes related to extensions due to economic changes can be made without additional voter approval (recommend: referendums should include the 'later of this date or amount' or 'earlier of this date or amount' depending on local needs). (GENERAL AGREEMENT ON 11/22, CONNECTED TO ** ON SUBSEQUENT SLIDE)

Low-Hanging Fruit (General Approval on 11/22)

- Local sales taxes are allowed to be imposed without legislative approval (assuming and conditional on them having well defined parameters) and are limited only to COUNTIES and CITIES. Other local governments will need to continue to have special legislation to approve a sales tax – in other words, special districts, townships, and any other local government entity outside of a CITY or COUNTY is NOT ALLOWED to impose a local sales tax without legislative approval. (GENERAL AGREEMENT ON 11/22)

- Food, beverage, amusement, and admissions taxes should be discouraged and require special legislation to be enacted. Parameters for use of food & beverage taxes should be put into place for the legislature to use for approval. (GENERAL AGREEMENT ON 11/22)
  - This does not eliminate current taxes of these types but seeks to severely restrict these types of taxes in the future.

Low-Hanging Fruit (General Approval on 11/22)

- **General local sales taxes should require a referendum, must fund capital project(s), must be sunset based upon a given date or debt retirement, must be a project with regional significance, and require no Legislative approval, only meeting Legislative criteria. (GENERAL AGREEMENT ON 11/22)

Low-Hanging Fruit STILL TO DISCUSS

- 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%. (GENERAL ALIGNMENT WITH PREVIOUS, EXCEPT RED)

- 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.

Low-Hanging Fruit STILL TO DISCUSS

- 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. (GENERAL ALIGNMENT WITH PREVIOUS, EXCEPT RED)

Low Hanging Fruit: Questions

- Question: Do we want the ability of counties to be able to implement transportation sales tax to continue?
    - Are there restrictions or parameters that we want to add?
- Question: What oversight exists for food & beverage taxes currently? What oversight should exist?
- Question: Is there an agency that should be evaluating compliance with requirements about local taxes? Is this the State Auditor? Is this like TIF and audits are included as part of local government review?

Synthesized & Original Principles

Principle #1

To the extent possible, the cost of administering (including future enforcement of) local taxes should be borne by the local governments and not individuals, the state, or businesses.

- Suggested by Dalton
- Suggested by Bode
- Suggested by Williams

Principle #2

Voters in the jurisdiction imposing the tax must approve in a referendum. Prior to referendums, 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.

- Suggested by Dalton
- Suggested by Williams
- Suggested by Marquart

Principle #3

Cities and Counties should have the flexibility and autonomy to pursue sales taxes for regional projects in consultation with their voters. Cities and Counties should not have to go to the Legislature for such pursuits.

- Suggested by Bode
- Suggested by Dalton
- Suggested by Williams

Principle #4

To ensure that local sales taxes do not increase inequality between local governments, local sales tax revenues should <u>only</u> be used to fund projects of regional significance.

- Suggested by Bode
- Suggested by Dalton
- Suggested by Williams

Principle #5

Transparent and fair parameters around qualified projects and maximum tax rates must be in place. These parameters and the process must be simple and transparent.

- Suggested by Bode
- Suggested by Dalton
- Suggested by Williams
- Suggested by Marquart

Principle #6

To ensure equity, payment of the tax by non-beneficiaries of the funded project should be minimized and/or compensated. An equalization system to help address and recognize the capacity differences of local governments to raise local sales tax revenue must be in place.

- Suggested by Dalton
- Suggested by Marquart

Principle #7

Implementation of a local sales tax by Cities or Counties should be done so through a modern process.

- Suggested by Sims

Policy Considerations for Discussion

- Voters should know how much of the taxes are paid for by the voters in the community versus how much is being exported.

- We need to work on some sort of project list to provide clarity. This may be a parameter, not a policy. Also may include cooperation on projects. Need to develop a set of things that can happen without the legislature weighing in. May need to do something that measures regionality. Could require buy-in from surrounding communities.

- Some neighborhoods/communities may be adversely impacted by projects that they may not benefit from.

- Some small cities or counties may not be able to fund things through local sales tax. What is the mechanism for those entities to garner revenue?

Principles – Dalton (Blue means it shows up in overall principles)

1. To the extent possible the cost of administering (including future enforcement) local taxes should be born by the local governments and not the state or businesses.

2. Prior to referendums, 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.

3. 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. (See Williams)

4. 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. (See Bode)

5. To ensure equity, payment of the tax by non-beneficiaries of the funded project should be minimized and/or compensated.

Principles – Bode (Blue means it shows up in overall principles)

1. Local Sales and Use tax uses must provide regional benefit.

2. Administering local taxes should have reduced administrative burden on businesses. (See Dalton 1)

3. 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.
   1. This means not going to the Legislature
   2. Need to meet required projects – a, b, c, d
   3. Possibly can't define universe of projects, but sure could reduce the legislative process and eliminate time spent by developing a framework for typical projects
   4. Well defined framework – include duration, projects, maximum tax levels

Principles – Sims (Blue means it shows up in overall principles)

1. Local Sales and Use tax policies must provide for equity and equalization.
2. Local Sales and use tax policies should be simple and transparent.
3. Cities should have autonomy in establishing a local sales an use tax through a fair, modern, transparent process.

Principles – Williams (Blue means it shows up in overall principles)

1. The process should be clear for local governments.
2. Voters in the jurisdiction imposing the tax must approve in a referendum.
3. No Legislative approval needed; Legislature should establish the criteria.
4. Limit the amount of tax that can be imposed to a certain %.
5. Regional significance
6. Reduce burden on businesses

Principles - Marquart

1. Local Governments are provided clear and consistent guidelines and requirements regarding the local sales tax process and qualifying projects.

2. Simplicity and transparency should be an important component of the local sales tax system for individuals and businesses.

3. Equalization system to help address and recognize the capacity differences of local governments to raise local sales tax revenue.

4. The burden of taxation and administration of the local sales taxes should be remedied for individuals and businesses.

5. Local Governments must hold referendums for local sales tax approval.

Definitions & Importance

Average Scores of Importance

	Individual	Business	City	County	State Agency	Legislature
Equity	2.6	2.6	2	2	2.4	2.8
Equalization	1.6	2.2	2.2	2.2	2.2	2.8
Regionality	1.4	1.4	1.8	1.8	1.8	3
Flexibility	1.2	1.2	3	3	2.175	1.2
Autonomy	1.8	1.4	2.8	2.8	1.8	1.6
Benefit	2.6	2.2	2.8	2.8	1.8	2.6
Burden	3	3	2.2	2.2	2.6	2.6
Simplicity	1.8	3	2	2	2.8	2.6
Modernization	1.4	2.6	1.8	1.8	2.2	1.8
Access	1.4	1.4	2.6	2.6	2	2.4
Transparency	3	2.6	2.8	2.8	3	3

Access

- ***Local governments are provided clear and consistent guidelines and resources to establish a sales tax. Individuals and businesses have the information readily available so they know about and can easily comply with the different taxes.***

Autonomy

- *Voters are in support of the distinct project-based decisions to impose tax, voter referendum should be a requirement, 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 their community. There is no need for legislative process as long as they have followed the criteria we have established.*

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, two parts:*
  - *Cost of compliance of administering the tax (businesses, municipalities, and state agencies)*
  - *Individuals (are some groups disproportionately paying their more share 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 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 process in which we are administering and collecting taxes is up to date with current technology and processes, also simple.*

Regionality

- *Pertaining to more than the city or county imposing the tax, that funds projects that provide benefits and contributions for 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.*