

Meeting: Local Taxes Advisory Task Force Public Meeting

Date: 12/06/2023

Task Member Attendees: Commissioner Paul Marquart (Chair), Members Lisa Bode, Pat Dalton, Jenny Max, Suyapa Miranda, 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 **(15 min)**
- Work Group Activities **(60 min)**
 - Continue Discussion: High Consensus Determinations (20 min)
 1. Wilder will continue to present member-proposed prompts for local sales and use tax policies that appear to require no further discussion and can move toward voting
 2. Identify non-consensus items
 - Whiteboard activity (40 min)
 1. Visualizing the life cycle of local taxes – viewing synthesized model from homework on MIRO board
 - Members will provide feedback and improvement suggestions
 - Finalize criteria required for relevant stages
 - Finalize authority/entity structure at each stage
 - Finalize recommendations overall

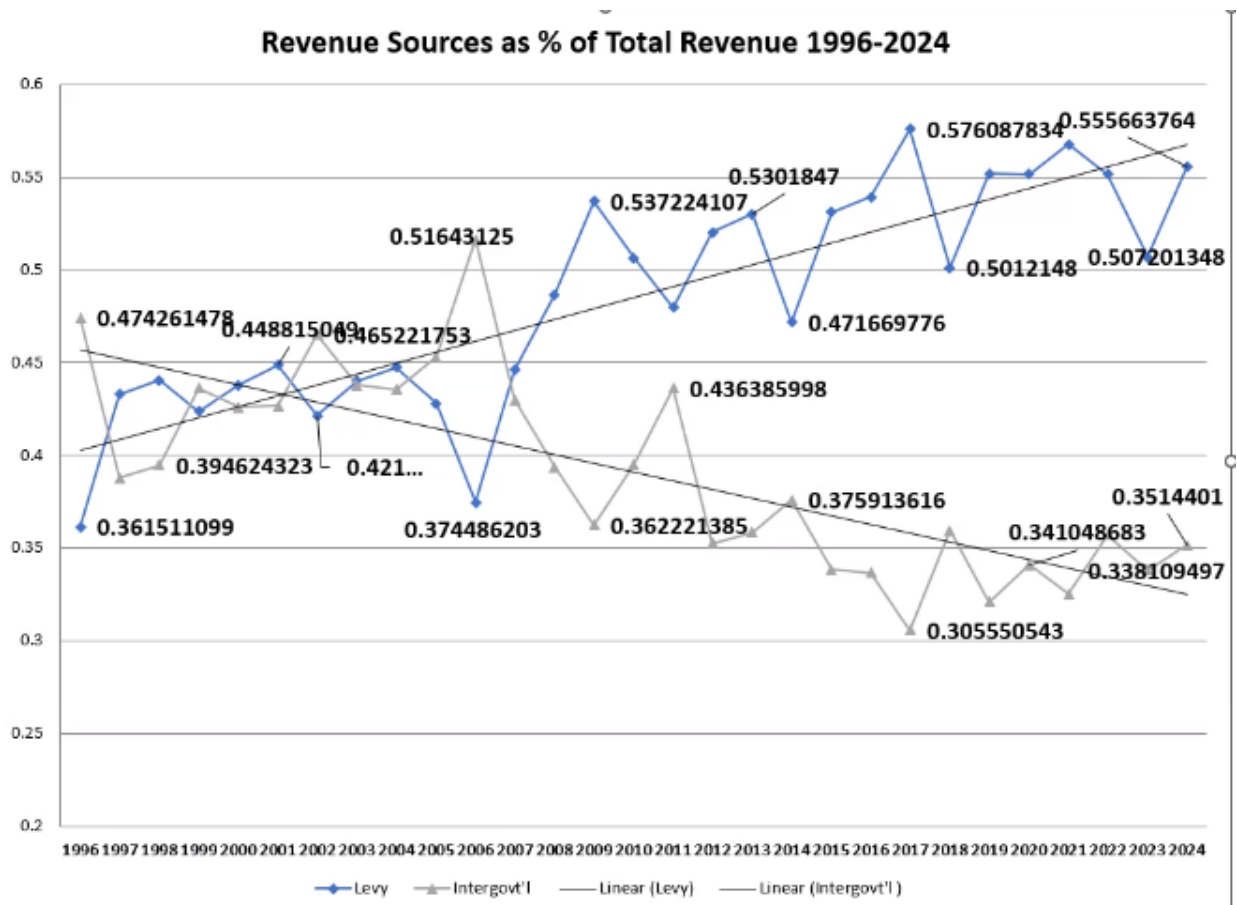
Debrief **(10 min)**

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

Notes

Expert Panel Department of Revenue Q&A

- Appendix Resources: <https://www.revenue.state.mn.us/sites/default/files/2023-12/2023-12-06-agenda-and-resources.pdf>
- Department of Revenue Eric Willette: *See Appendix Resource link above: Appendix A.* Local sales taxes have increased faster than state.
- Member Max: What is contributing to the local increase?
- Department of Revenue Willette : 20 years ago, there were 12-15 local sales taxes, and we now have over 100. Single biggest change was with the authorization for all counties to implement 1/2 cent sales tax for transportation.
- Member Williams: Shared a graph he uses every year. This shows Stearns County. You can see the trend and how it reflects what was shared by Eric. There is a need to find ways to fund local governments.



- Chair Marquart: What were the other revenues?
- Member Williams: Funding to Human Services and County, it's a large mix of revenues. All inter-governmental revenues coming into county, includes transportation as well.

- Member Dalton: In the 90's there was an inflation factor as well.
- Department of Revenue Willette: Taxpayer Receipt Statutory Language. *See Appendix Resource link above: Appendix B.* Tax payer can go to Minnesota Management and Budget (MMB) website and see how much their household pays in taxes, what they are contributing to and what they are getting back. *See Appendix Resource link above: Appendix C.* Property Tax Base and Sales Tax Base Comparison broken down by Cities and Counties. The first 3 lines are the property tax. It is higher in metro cities than greater Minnesota. There is a lot of variation amongst these groups. There are outliers that are very different than the averages. Estimated Sales Tax Base per capita- these weren't as far apart as expected between metro and greater Minnesota. There is huge variation across cities. The 0.5% Sales Tax Revenues per capita are estimates. For county there is less difference than city, because the townships don't show up in the city data. Tax base is a lot closer amongst the counties than the cities. This information is useful when considering equalization and criteria for qualifying for local sales tax. This is a starting point, and we can slice the data and provide different groupings if it would be helpful.
- Member Dalton: Do we have the same within group variations in county as cities?
- Department of Revenue Willette: Yes, there are some differences, \$8,700-\$36,000 hard to measure if they don't have a local sales tax. For county it has the transportation sales tax, so there is less estimating.
- Department of Revenue Josh Slierman: Still gathering info about all special local taxes throughout the state. You will be receiving information that we have so far soon.

Work Group Activities

- WR Ananya Matewos: Reminder that we will be using the Fist to Five voting approach. We have the definitions available and the seven principles that have been approved. Member Miranda asked if we should change "should" to "musts" in the principles.

High Consensus Determinations

- 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.)
 - Member Bode: Should there be a maximum amount?
 - Member Dalton: Either a .5% or 1%, and there should be a maximum
 - Chair Marquart: Without knowing what the criteria is, apprehensive to say they don't have to go to the Legislature. Not sure we are ready to vote on that yet.
 - Member Max: Agree with comments, does it increase competition between cities and counties if there is a maximum and who gets their first?
 - Chair Marquart: Biggest criteria is allowable projects and we should put down what projects are prohibited.

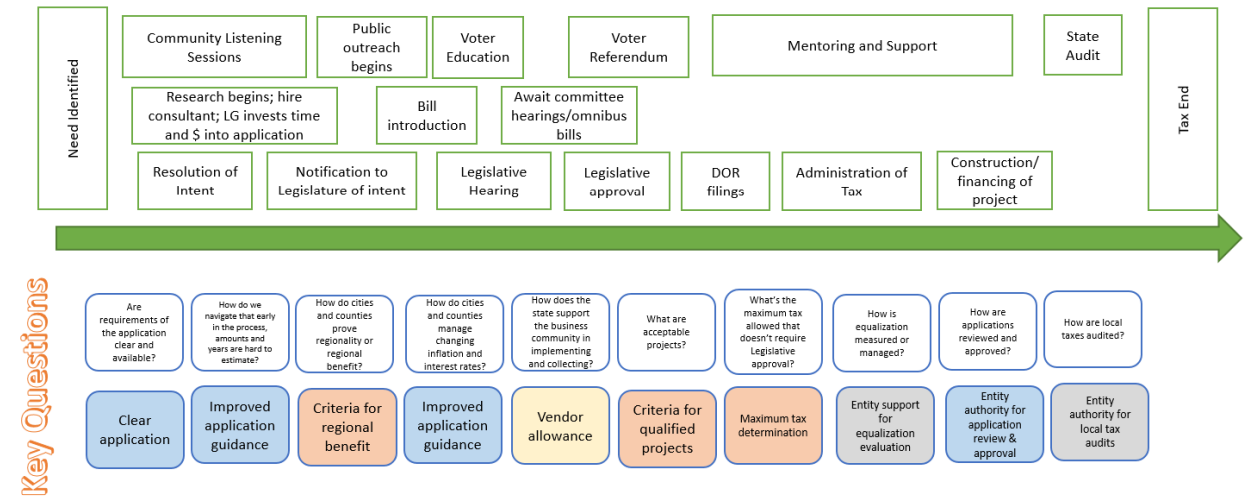
- Member Dalton: If we manage to put in criteria, I think we still need them to pass a resolution. They still need to report to someone, the State Auditor or Secretary of State, maybe not the Legislature.
- Member Bode: It's not low hanging fruit.
- Member Dalton: No local government should pass a sales tax, with the exception with the existing county sales tax. That is something we could vote on. All local sales tax moving forward must have voter approval.
- Member Bode: Question to Member Dalton- I think with the extraordinary circumstances the last years, there were modifications made to existing sales taxes made that didn't have to go back for voter approval. Would we have to go back to the Legislature?
- Member Dalton: Approval from legislature or voter approval.
- Member Williams: I want clarity what we mean for transportation sales tax. Counties did this for 5 years at a time. I suggested leaving the transportation sales tax as is- but there wasn't agreement on that.
- Member Dalton: I was a non-partisan researcher when this law passed. It was passed through transportation, it wasn't a tax initiative. Not sure tax policy implications were discussed. Any tax except those imposed under this statute have to seek voter approval, which I think is something you would probably be in favor of. Or any going forward have to have voter approval, including these. Not sure how transportation committee would feel about that, but if it's a past policy principle, don't know why it should be different from other local sales tax.
- Chair Marquart: Did they have to set a time limit?
- Member Dalton: No time limit
- Chair Marquart: So you are saying some counties gave a time limit?
- Member Williams: Yes, definitely.
- Chair Marquart: Let's set this aside for now. And offer a recommendation for those later.
- Member Williams: I appreciate this may not have been scrutinized, but it did pass the Legislature. There were good reasons for doing it, there wasn't enough state funding to counties, roads were falling apart, and this was a way to repair our transportation system and it's working.
- Lodging tax may only be used for statutory purposes (we should walk thru the statute, but essentially it describes marketing). 469.190
 - Chair Marquart: Sims was in favor of this one.
 - Member Williams: It was in testimony too.
 - Approved: Future lodging tax may only be used for statutory purposes (469.190) and capped at 3%.
- Businesses should be compensated for their additional burden to administrate and comply with local sales taxes.
 - Member Dalton: Could do like Streamline and provide a Certified Service Provider (CSP) that does the service for you which is different than a vendor allowance. You could scale the cost and start with smallest business to larger.

- Member Bode: We should leave this to experts to determine approach. The explanation was helpful from Department of Revenue staff on the streamlined sales tax. There have been changes over time, and the cost for doing it for instate providers would be a different model, but maybe the bullet point should be that there should be recognition of the burden on businesses to administrate and comply. Compensation may not be the right term, it is limiting, and maybe not as sophisticated as the solution is going to be.
- Member Williams: Along the lines of what I was thinking. Agree with this recommendation, but shouldn't pay someone for an inefficient process and should make it as easy as possible for everyone. Recommend putting some system in place that makes it better for vendor and state.
- Member Max: Yes, agree with Williams. What is the broader implication to local and state? We have heard about impact to business and make sure it is efficient for all parties impacted.
- Chair Marquart: Maybe recognize burden of business. We tend to agree on, alleviating unnecessary burden, but we do need to make it more efficient too. Need some more work on this one.
- Local Governments must hold a referendum for local sales tax approval during a general election on an even-numbered year.
 - Member Dalton: Want to avoid them having election in February when no one knows there is an election.
 - Chair Marquart: have them on the even number of year, you are increasing the availability. In some cases you can't wait 2 years. If we are taking the Legislature out of it, then it is easier every 2 years- more predictability.
 - Member Dalton: Just during the general election, or a general election and an even numbered year. Knowing some cities have their elections on odd numbered years.
 - Member Max: Some cities have odd number election years. Important for consistency in their schedule. The challenges that we have heard about with cost/inflation, the 2 year delay can be significant. Supportive of having the first Tuesday after the first Monday.
 - Member Williams: Agree with Member Max. Helps with flexibility if they can do it in a November election.
 - Chair Marquart: We need to define general election.
 - Member Dalton: If you want to give everyone the chance to do it every year. First Tuesday after the First Monday in November. There is something that allows a general election to be delayed. It's a time when they expect there to be an election compared to one in February.
 - Member Miranda: How are these different?
 - Chair Marquart: It's always in November, but it can be when you have a special election.
 - Member Dalton: Cities have a charter- required to only have general elections on even number years. Their city election is on the opposite year from the general election. Townships have a different general election- it's not really a general election it is a meeting 2nd Tuesday of March.
 - Chair Marquart: Can you have an odd year election if there is nothing else on there? I would lean towards letting them do it on odd year.

- Approved: Local governments must hold a referendum for local sales tax approval on a general election ballot or at an election held on the first Tuesday after the first Monday in November.

Local Taxes Life Cycle

Local Taxes Life Cycle



- **Criteria for regional benefit**
 - MN Statute 297A.99
 - Member Dalton: They never have projects listed in statute
 - Department of Revenue Staff member: In 2021, in subdivision 2, at the end paragraph D. it doesn't define regional. It says capital project or project- modeled on projects included in omnibus bill that year.
 - Member Dalton: Couldn't take to the voters more than 5 projects at a time, and you couldn't lump a bunch together and say it was one project.
 - Chair Marquart: It doesn't get to regional.
 - Member Dalton: You couldn't say parks and trails, had to be one park, one trail.
 - Chair Marquart: Do you want to define it more or list potential projects that qualify or not qualify?
 - Member Dalton: if this is going to work, we take some of the burden, or political infighting off local sales taxes, we need to list specific projects. Regional may be defined differently for a sports complex, library, or trail. Aquatics center might, but individual swimming pool might not.

- Chair Marquart: Ok, let's not define what regional is, but what projects could qualify as local sales tax.
- Criteria for qualified projects
 - Member Williams: Thinking about counties, anything a county does will be defined as regional. My county is a region in itself, I think most counties would think that. We tend in this conversation we tend to speak about city projects, and county projects are quite different.
 - Chair Marquart: County jail, qualifies if you have more than one county on a jail?
 - Member Bode: I think we just have to list a bunch of projects that have been funded by Legislature, and that we know people are proposing. County will be different than city.
 - Member Dalton: I have a list. Court mandates a county jail, that qualifies because it's a state mandate. It's not regional if it hasn't been mandated by the court. Sports complexes, aquatic Centers, libraries, trails, community centers, larger parks have been approved. Those are the ones that were cogent regional arguments.
 - Member Bode: I spoke with a parks director- there is a regional designation for parks by state, an objective criteria, that is an easy one. State mandate may not apply just to county, it could be city as well.
 - Member Williams: Has a sales tax been used for hospitals, clinics?
 - Member Dalton: Cook County Hospital, good example of regional project.
 - Member Bode: We should not limit to state-mandated for county, may want to leave it open.
 - Member Max: Consider public safety (ambulance service/EMS).
 - Member Dalton: That opens up to operating costs vs. the capital projects. If you're going for ambulance, the problem isn't paying for the ambulance, but paying the employees.
 - Member Max: Facilities and resources should be a topic of conversation.
 - Chair Marquart: Prohibited projects? For me it's street and sewer/water structure. It's not the plant, but the streets/roadways. There are other ways to fund that like the PFA. If regional facility I can see that as an option.
 - Member Dalton: There is a sewer district in Albert Lea that has a local sales tax. The money goes to the rock creek watershed project to do general watershed projects. Hard to differentiate between local city system and bigger ones. If we can get to a list that is a small list that we agree to and define, we are better off than trying to be all inclusive.
 - Member Williams: Tend to agree with it, not saying if it's not on the list they can't come and get special legislative approval. Surprised to see sewer and water, obviously the uses are paying as an enterprise. Commissioner, are you referring to local streets? St. Cloud area sales tax goes to transportation projects, they are done on major thoroughfare.
 - Chair Marquart: I was thinking of all streets- there are other ways to pave roads.
 - Member Bode: Funding available for roads is not enough. We had to apply 9 times to get federal share of that. Hearing from local government officials on this issue.
 - Chair Marquart: Comes back to the fairness issue- who can do it and who can't.
 - Member Miranda: I like the list, it's robust.

- Member Dalton: This is the all inclusive list, we may need to pair it down, may have trouble figuring out regionality for each of these projects. I tended to be exhaustive than limited. Interested in how statute defines regional park. I don't think local parks should be funded this way.
- Member Max: We all brainstormed now. Let's all think about it and come back to how it aligns with regionality. Come up with our priorities.
- Chair Marquart: That is exactly right, this is the important part. Next will be to define what is regional and is not related to those.
- Chair Marquart: if they don't have to go to the Legislature it will take out a lot of steps.
- Member Dalton: We can think about geographically: another sports complex within 30-min drive of the center. Demonstrate you have support from surrounding community to build.
- Member Bode: For our library, I got a list from library where card holders were living, and it was easy for me. Don't know what would have been the threshold, but there are some things that are quantifiable.
- WR Matewos: We still need to look at maximum tax determination, entity support for equalization evaluation, entity authority for application review and approval, entity authority for local tax audits, vendor allowance
- WR Britt: We will send out information for you to reflect on before next week's meeting.

Debrief

- Adjournment (Chair Marquart)
 - Thank you to Members and Department of Revenue staff.
 - The next meeting is Tuesday, December 12th, 1:00pm-4:00pm
- Parking Lot:
 - Recommendation to review principles and change "should" to "must".
 - Provide state park definition of regionality.