






CAMBRIDGE

Minnesota's Opportunity CommunitySM

Local Option Sale Tax Task Force Input

December 20, 2023

Cambridge Experience with Local Option Sales Tax

-  Approved by Cambridge voters by referendum in Nov 2018 and special legislation approved in 2019 (62% of voters in favor)
-  Critical funding source for projects of regional significance that doesn't create an undue property tax burden on the residents of Cambridge
- 

Projects Authorized	New Cambridge Public Library
	Updates to Sandquist Park
	Cambridge-Isanti Bike/Walk Trail Connections
	Five Road Projects of Regional Significance



What have we completed so far?

- Cambridge Public Library was completed and opened in 2020
- This project not only achieved the goal of providing updated library space but also was a great redevelopment project as an old nursing home was recycled into a beautiful new library
- The library was completed within the \$8,000,000 authorized for sales tax funding.

What have we completed so far?

- The first of five street projects were completed in 2020. The updates to 16th Avenue, a significant transportation link, was completed within the \$2,700,000 authorized for sales tax funding.



Before Project



After Project

What have we completed so far?

- Sandquist Park updates were completed in 2022 including addition of softball field, two baseball fields, multi-purpose field and parking lot.
- Sandquist Park updates were authorized for sales tax funding of \$750,000 but actually cost \$1,080,000. Additional City funds of \$330,000 were necessary to complete planned work.



What is in process?



Cambridge is currently working on the 2nd road project with MNDOT. MNDOT is planning to improve Trunk Highway 95 through downtown Cambridge. Based on initial estimates, \$1.2M of local option sales tax funding was authorized for the City's share of this project. This inclusion was based on an estimated cost of \$3.16 Million. Current estimates project the City's share of this to be \$4.95 Million. This presents a problem for Cambridge as we work to close the funding gap.



Cambridge is also working on the plans to connect the Cambridge-Isanti Bike Trail from where it currently ends outside of City limits to Cambridge City Park on the Rum River. It is expected the \$1.2 M authorized local option sales tax funding will not be enough to complete the project as initially intended.



The other three authorized road projects are to be completed in future years. Based on construction cost inflation, we expect funding gaps to complete these projects as well.




What are barriers to completing remainder of authorized projects?

- Construction cost inflation will make it difficult to complete projects as initially planned, and impossible to do without increased burden on the local tax base.
- Inflexibility in the Local Option Sales Tax Laws do not allow cost savings on one project to be applied to other approved projects.

The City of Cambridge asks you to be part of the solution:

- Please consider a recommendation in the upcoming legislative session that would allow indexing for inflation of amounts previously approved by State legislation and voters.
- Additionally, please consider changes to allow reallocation of authorized amounts among existing approved projects would be helpful in managing volatile economic conditions.



Recommendations to LOST Task Force

12/20/23

Rep Steve Elkins (50B)

Primary Recommendations

If cities are to be allowed routine statutory access to Local Option Sales taxes, this authority should be subject to the following limitations to reduce the incentives that cities will have to engage in fiscal zoning to chase sales tax revenues:

- The projects to be financed by LOSTs should be truly regional in nature, as demonstrated by a survey of facility users establishing that at least [a third] of the users reside outside the city. The model for this process should be the one used to qualify a park for inclusion in the Metropolitan Council's Regional Park System. (This process requires [annual user surveys](#).)
- The LOSTs should be temporary, until the regional projects that they finance are completed. Extensions and expansions should not be permitted.
- Once a LOST has expired, cities should have to wait a decade before requesting another one.
- Cities with LOSTs should not be allowed to use financial incentives (TIF, Tax Abatements, etc.) to attract new retail to their city.

Other Suggestions

Move to monthly or quarterly property tax payments.

Homeowners with mortgages generally make monthly property tax payments into escrow accounts held by their lender, who then makes the semiannual property taxes payments on behalf of the homeowner from that escrow account. Lenders pay little or no interest on the balance in the escrow accounts. Why not move to monthly property tax payments to:

- Spread out the property tax payments over twelve payments instead of two to reduce taxpayer sticker shock
- Ease the cash flow of Cities, Counties and School districts by disbursing funds to them monthly.

One of the reasons why the sales tax seems appealing to taxpayers is that we pay it spread out among many very small chunks. A monthly property tax bill would be much less likely to induce sticker shock.

The County staffs that administer the current semi-annual property tax collections are acclimated to the current system and think it works just fine. Cities, Counties and school boards have similarly adapted to budgeting for only two payments per year. Receiving monthly infusions of cash would ease their cash flow; however, they have all adapted to only being paid twice a year.

Allow for a Land Value Tax (or Split Value Taxation)

Taxing land value only, or at least taxing land at a higher class rate than structures, has been shown to discourage land speculation and lead to more efficient land use patterns. We should at least

allow cities to experiment with this concept to spur the redevelopment of blighted property districts.

Minnesota already provides separate assessment value estimates for land and structures (though our assessors don't put much effort into estimating land values accurately because that information is not currently used in the calculation of property taxes bills).

20 December 2023

TO: Local Advisory Task Force (Minnesota)

FROM: Michael A. Pagano, Dean Emeritus, College of Urban Planning and Public Affairs, University of Illinois Chicago

Re Prepared Statement for the Local Advisory Task Force's consideration

Good afternoon, members of the task force:

I am Michael Pagano, Dean Emeritus of the College of Urban Planning and Public Affairs at the University of Illinois Chicago. I am also the founding director of the Government Finance Research Center at UIC. I retired last year after 42 years in higher education and after writing 31 annual reports for the National League of Cities called City Fiscal Conditions. The testimony I present today is a synopsis of an article I published in Government Finance Review, which I submit with this statement for your consideration.

The premise of the article is that city governments are --or should be -- cognizant of the fiscal and spatial implications of their policy decisions which are designed to promote economic growth and development. The administration of tax systems influences the way we think about and promote our underlying economy and, just as important, where such development occurs within the city's limits. I refer to this as the 'spatialization' of revenue structures, meaning that governments' tax structures and investment decisions, such as infrastructure, can influence a city's spatial development. A city whose revenue system is highly dependent on the property tax, for example, can optimize its property-tax revenues if it promotes programs that increase property values. Likewise, a city that is highly dependent on the sales tax can optimize sales-tax revenues if it promotes programs or invests in infrastructure that increase the volume of retail sales. The point of my article is to note that both of those tax sources are intimately connected to specific places within a city.

As the graphics in my article suggest (also a powerpoint frame), cities that are highly dependent on the property tax are incentivized to invest in areas of the city that will grow property tax receipts. Those areas include the city's central core and city investments in, say, infrastructure will enhance downtown property values and the preponderance of those increased property values will be captured by the city's tax structure in higher property tax receipts.

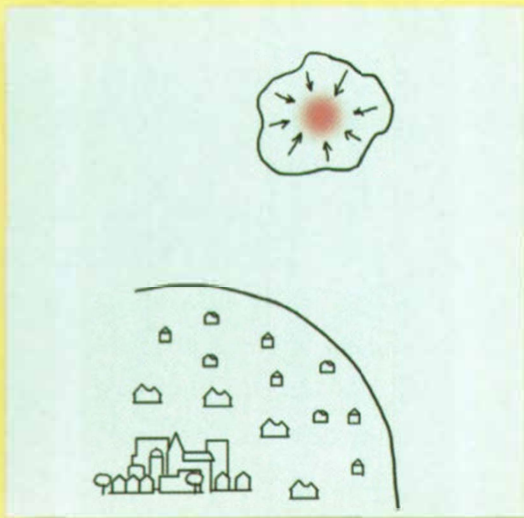
Cities that are highly dependent on the sales tax, on the other hand, are incentivized to promote development at the fringes of the city because such investments (e.g., in shopping malls) attract people from the entire 'shopping shed' which is not constrained by the political borders of the city. In other words, a city's investment in, say, infrastructure at a city's edge can be paid for by residents who purchase goods at that site as well as non-residents. The imperative, then, is to invest public funds at a city's boundaries to optimize sales tax collections.

In conclusion, I would like to note that a city invests in specific areas of the city for the dual purpose of creating economic growth and of generating revenue for the city, which are not necessarily always compatible. A developer may find the development potential of a parcel of land at a city's edge to be very high, while a city may find the revenue-generation prospects to be very low if the city's revenue

system relies on property taxes. Likewise, a developer may find a downtown parcel to be very desirable, while the sales-tax dependent city may prefer to invest at the edge of the city.

Thank you for the opportunity to talk with you today. I am available at any time for a follow-up conversation. In the meantime, I wish the committee all the best as it continues its important work.

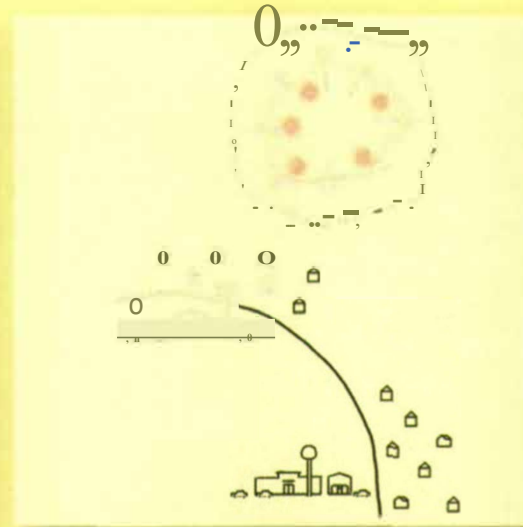
Exhibit I



Property Tax-Dependent City

- Concentric urban structure
- Clear physical and historical identity
- High-end residences closer to center
- High-end office and retail in center

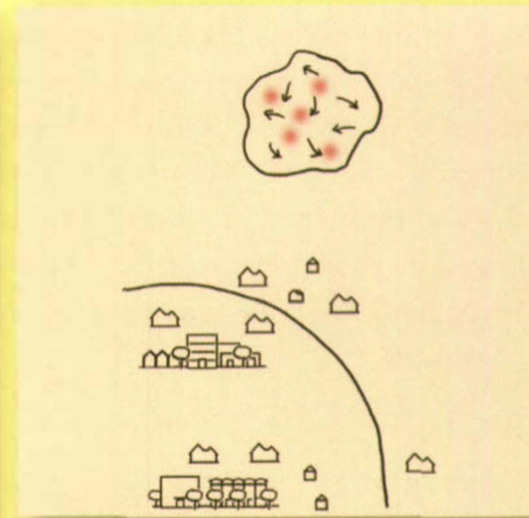
Exhibit 2



Sales Tax-Dependent City

- Development pressure at urban edges
- Tax dollars drawn across city borders
- Development formulaic
- Urban center languishes

Exhibit 3



Income Tax-Dependent City

- Development less formulaic
- Targeted to higher incomes
- Development locations idiosyncratic
- Results depend on where tax collected

Graphic designed by Stei,e Price, Urban Advantage

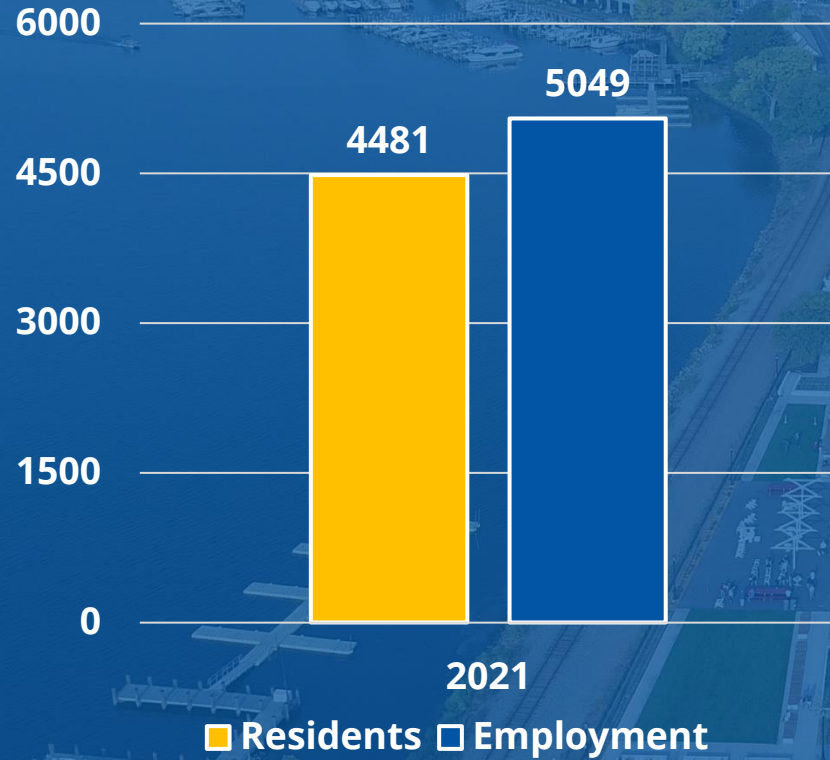
Food and Beverage Sales Taxes: An Important Tool for Regional Destinations

Jeffrey Dahl, City Manager
Aurora Yager, Deputy City Manager

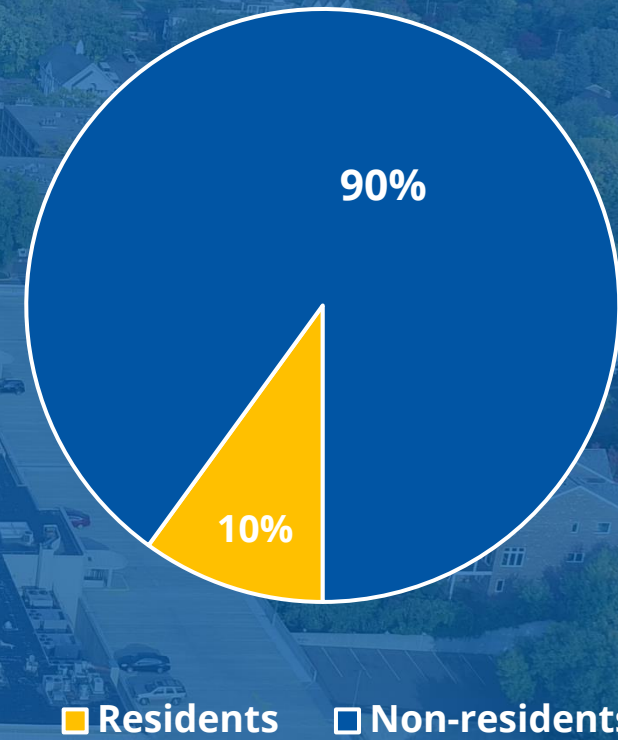


The Need: Regional Destination

Population vs. Employment



Patrons to food and beverage establishments



Based on U of M Extension study with 2019 data



The Importance of Food and Beverage Sales Taxes

- 1. Non-Residents Help Pay Their Share** – As a regional destination, City services and public infrastructure investments are greater than they would be otherwise.



The Importance of Food and Beverage Sales Taxes

- 2. Local Tax Directly Related to Regional Demand** – As a more specialized tax, it captures activities more directly related to visitors and tourism as opposed to local option sales taxes which would apply to everything including essential and everyday purchases and services.

With lots of hot new restaurants, Wayzata is suddenly 'the place to be'

In the past year, five eateries and a boutique hotel have opened, transforming a once-sleepy suburb into a culinary destination.

By Amelia Rayno Star Tribune | DECEMBER 11, 2017 — 11:31AM



The Importance of Food and Beverage Sales Taxes

- 3. More Flexibility** – Food and beverage sales taxes can align with a community's more modest but numerous needs.



The Importance of Food and Beverage Sales Taxes

- 4. Local Autonomy and Responsiveness** – Local sales taxes give municipalities the ability to tailor tax policies to the unique needs of their communities.



Please continue to support a path for communities to utilize food and beverage sales taxes in future years.

