



Local Taxes Advisory Task Force

Report to the Legislature

01/10/2024

DRAFT REPORT

This is only a draft report and is being shared for the purposes of providing the public an opportunity to provide public comment. The final report will be different upon submission to legislators by February 2, 2024.

Contents

- Introduction..... 1
 - Local Taxes Advisory Task Force expectations 1
 - Local Taxes Advisory Task Force Members 1
 - Public Member Selection..... 2
 - Broader Perspectives..... 2
 - Supporting Groups for the Task Force..... 2
- Task Force Work: 3
 - Conceptual Agreements 3
 - Principles and Definitions..... 3
 - Development of Principles 4
- Current Pathways to Authorize and Implement a Local Tax..... **Error! Bookmark not defined.**
- Impact of Taxes on Stakeholder Groups 6
 - Individual Taxpayers..... 6
 - Local City and County Government..... 7
 - Small Business Owners 6
 - The Legislature 7
 - State Agencies and Offices 7
- General Local Sales and Use Taxes 8
- Local Lodging Taxes 11
- Local Food, Beverage, and Entertainment Taxes 12
- Local Transportation Taxes..... 13
- Additional Recommendations 14

Future Considerations 15

A Brief History of Tax Policy in Minnesota 16

 Current Funding Mechanisms for Local Government 20

 Local Tax Revenue in Minnesota 20

 Uses and Impact of Local Taxes 21

Themes from Public Testimony 21

Appendix 23

 References 23

Process 24

DRAFT

Introduction

The 2023 tax bill created a Local Taxes Advisory Task Force to look at how city and county governments use local taxes—including sales, food, alcohol, and lodging—and then provide recommendations for improving policies and practices around local sales tax use to legislators. This report captures the progress-to-date of the task force and the decisions recommended by its members.

Local Taxes Advisory Task Force expectations

The Local Taxes Advisory Task Force was authorized by Minnesota Laws 2023, Article 4, Section 51. Requirements for its work include:

Examining the role of local taxes as a funding mechanism for local governments and determining:

1. Objective evaluation criteria for general local sales tax proposals
2. Objective evaluation criteria for food and beverage tax proposals
3. Objective evaluation criteria for lodging tax proposals seeking accommodations beyond the restrictions of Minnesota Statute 469.190
4. The appropriate entity or entities to evaluate local tax proposals bases on the established criteria
5. The appropriate process for enacting special laws authorizing new or changing existing general and special local taxes
6. The necessary changes to current law to accommodate the determinations made by the task force

The task force needs to be able to reach decisions as a group with an agreed-upon consensus process made during the course of the public meetings and the associated work.

Local Taxes Advisory Task Force Members

Local Taxes Advisory task force membership included the commissioner of Revenue, four public members appointed by the commissioner, and one member each from the League of Minnesota Cities and Association of Minnesota Counties.

- Revenue Commissioner Paul Marquart chaired the task force meetings
- Public members included:
 - Lisa Bode, the Governmental Affairs Director for the City of Moorhead
 - Pat Dalton, a retired Legislative Analyst for the nonpartisan Minnesota House Research Department
 - Suyapa Miranda, the Executive Director for Prepare + Prosper

- Jill Sims, the Director of Governmental Affairs for Hospitality Minnesota
- The League of Minnesota Cities appointed Jenny Max, Nisswa City Administrator and current League president
- The Association of Minnesota Counties appointed Michael Williams, Stearns County Administrator

Public Member Selection

The Minnesota Department of Revenue posted the four public member seats on the Secretary of State's website on June 16, 2023. Revenue promoted the open seats and encouraged applications through the department's social media platforms. Eleven people applied for the four seats.

On July 7, 2023, Revenue began review of applications to identify public members who represented geographic regions across Minnesota, presented diverse ideas, and had expertise on the topic of local sales taxes in Minnesota.

On August 9, 2023, Revenue announced the public members.

Broader Perspectives

Task force members brought perspectives in local and county government and their historical knowledge of local taxes, low and moderate-income households, the hospitality industry, and tax administration. Four members live in Greater Minnesota and three reside in the seven-county metro area.

The small number of task force seats meant some important perspectives may not be represented, including those from:

- Tribal governments
- Black, Indigenous, and People of Color (BIPOC) communities
- Individuals and businesses who pay and collect local sales taxes
- Tax professionals supporting businesses as they navigate various local sales tax obligations

To support inclusion of these and other perspectives as well as to capture additional feedback, the task force provided three opportunities for public testimony as well as a public comment period. The feedback gathered through public testimony, public comments on the draft report, and the task force's broad experiences and geographic representation were all important to development of the final set of recommendations.

Supporting Groups for the Task Force

The Minnesota Department of Revenue ensured that employees with subject matter expertise were available to provide the advisory task force with insights on historical background, administrative considerations, and legislative processes for local and special taxes. The Revenue employees

represented three units within the agency: Tax Research, Sales and Use Tax, and Local Government Services Unit. They met weekly to prepare, plan, and gather resources to support task force discussions.

Revenue hired Wilder Research to facilitate meetings and the recommendation development process, record meeting minutes, and draft the legislative report. As a result, the task force was able to:

- Fully participate in discussions
- Remain neutral and independent
- Ensure the final report fully and accurately reflected their recommendations

Task Force Work:

Conceptual Agreements

Early meetings focused on developing consensus on key terms and their definitions. In turn, these terms and definitions provided a foundation to evaluate important concepts and processes as they related to local taxes in Minnesota. The terms listed in Table X reflect the range of concepts the Task Force discussed on the meaning and application of each term used in their evaluation of local taxes.

Principles and Definitions

Table X: Terms and Definitions

Term	Task Force Definition
Access	<p>City and county governments have clear and consistent guidelines to pursue local sales taxes as a revenue stream.</p> <p>Individuals and businesses have information readily available to make decisions on the merit of local sales tax proposals and to understand expectations and comply with local sales taxes.</p>
Autonomy	<p>Through a voter referendum, voters are the final decision-maker to impose a local sales tax to fund a capital project.</p> <p>Cities and counties can utilize local sales taxes to generate revenue for capital projects needed to provide government services to a region.</p>
Benefit	<p>Individuals in the region paying a tax have access to the government services and resources the local sales tax funds.</p>

Burden	For businesses, state agencies, and city and county governments the collection, monitoring, auditing, and administration are a burden. For individuals, burden is the disproportion costs some groups pay in sales taxes compared to others.
Equalization	Ensuring consistency in providing the average amount of government services with the average tax rate.
Equity	Balancing benefits with the tax burden among different stakeholder groups.
Fairness	All city and county governments should be treated the same when pursuing a local sales tax.
Flexibility	Cities and counties should have several options available to fund a variety of capital projects.
Modernization	Updating and streamlining the tax system to ensure administering and collecting taxes is simple and clear.
Regionality	Capital projects and government services provides a benefit and draw to the region.
Simplicity	Reliable timelines and clear guidelines for enacting the tax; ease of comprehension and remittance by businesses.
Transparency	Taxpayers know what the tax will fund and the benefits they will receive. Businesses have the information that allows them to comply easily.

Several terms were difficult for the members of the task force to define, including regionality, equity, and equalization. The challenge in reaching consensus on these terms came from an appreciation for the various stakeholder perspectives and experiences with these terms. Eventually they reached consensus on the definitions in the table.

Development of Principles

To create criteria to evaluate local tax policies, members developed working principles to provide guidance for current evaluation of tax policies as well as future recommendations.

Table X: Principles with consensus

	Principles
1	Cities and Counties should have the flexibility and autonomy to pursue sales taxes for criteria-based regional projects in consultation with their voters, without going to the Legislature.

	Principles
2	Voters in the jurisdiction imposing the tax must approve in a referendum. Voters must 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 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.
4	To the extent possible, the cost of administering local taxes should be borne by the local governments imposing the taxes, and not individuals, the state, or businesses.
5	To ensure fairness, all cities and counties should have access to uniform, modern, and transparent parameters regarding sales tax authorization and criteria for projects.
6	To ensure equity, local sales tax policies should recognize and remedy to the extent possible, disparate burdens on socio-economic groups.
7	Local sales tax policies should recognize cities and counties have differences in capacities to raise revenue, and potential overburdens in providing services.

Based on the agreed-upon principles, the task force was able to make a set of decisions including:

- Adjustments in current evaluation criteria for local taxes,
- The entities to hold authority across the tax process,
- The process of enacting a local tax from start to finish,
- Recommendations across each category of taxes. For some types of local taxes, the task force recommended that current policies remain in place.

The task force referenced Table X as a starting point to consider each local tax type, which was originally created by Revenue’s Local Government Services Unit.

Table X. Statute Comparison

Requirements	297.99 (Local Sales Taxes)	297A.993 (County Transportation Sales and Use)	469.190 (Local Lodging)	469.190 *	Special Taxes **
Resolution	Yes	Yes	Yes	Yes	No
Project Plan	Yes	Yes	No	No	No
Sunset Date	Yes	Yes	No	No	No
Funding Cap	Yes	Yes	No	No	No
Rate Cap	No	0.50%	3.00%	No	No

Projects	Up to 5	Transportation	95% for Tourism and Convention Center	Projects Vary	No Requirements
Legislative Approval	Yes	No	No	Yes	Yes
Referendum	Yes	No	No	No	No [^]
File with Secretary of State	Yes	No	No	Yes	Yes
Department Administration	Required	Required	No	No	No

* Applies to lodging taxes above 3.0% or changes to how revenues are spent.

** Admissions, Entertainment, Food and Beverage, Liquor, and other special taxes.

[^] Referendum is not required unless otherwise specified.

Impact of Taxes on Stakeholder Groups

Much of the discussion by the task force in considering changes to the current tax policy structure focused on the impacts on specific stakeholder groups:

- Individual taxpayers
- Small businesses
- Local cities and counties
- State agencies and offices
- The Legislature

Individual Taxpayers

In the review of local taxes, there are always burdens to consider for individual taxpayers. Individuals face a range of taxes annually, such as property taxes, state and federal income taxes, state sales taxes, and a variety of local taxes.

Task force members raised concerns that new policies should account for members of low-income communities paying higher shares of local taxes for facilities they may never be able to afford to use or access, even with attention to regional proximity. Members highlighted that unchecked proliferation of local taxes may create undue and disproportionate financial burdens for low-income individual taxpayers in the state.

Small Business Owners

Even as more revenue is needed in local communities, the responsibility to collect and administer local taxes can result in additional burdens for small business owners. Supports are needed by businesses to manage the administrative work more efficiently. Simplifying the local tax structure is one proposed avenue to support small businesses. Other options, such as providing a vendor allowance or a Certified

Professional Accountant budget and other approaches aligning with Streamlined Sales Tax should also be considered.

Local City and County Government

Local government entities face tensions on the need to secure additional revenue for capital projects that provide government services to local communities. The wait for legislative approval for projects that meet existing criteria presents another burden around timing, especially considering the COVID-19 pandemic and subsequent inflation delays that can substantially increase project costs, effectiveness of policymakers, and considerations of the legislative process.

The Legislature

The burdens faced by the Legislature with local tax policies and process center on an increasing number of requests from city and county governments. Each request is unique to the needs of a local community, making consistent legislative evaluation of local tax requests a challenge.

State Agencies and Offices

State agencies implementing and authorizing the taxes, such as the Minnesota Department of Revenue and the State Auditor, also face unique burdens. A proliferation of many local taxes has increased the administrative work required to track, collect, notify, and monitor, and report on local sales taxes.

General Local Sales and Use Taxes

Current Policy

Revenue administers all general local sales and use taxes. To impose one, city and county governments must receive authorization of the Minnesota Legislature by completing these steps:

1. The city or county must pass a resolution that includes:

- a) A proposed tax rate,
- b) Detailed description of up to five projects to be funded with the tax. A capital project includes:
 - i. A single building or structure, including associated infrastructure needed to safely access or use the building or structure.
 - ii. Improvements within a single park or named recreation area.
 - iii. A contiguous trail.
- a) Documentation of how each project will provide an economic benefit to residents, businesses, and visitors from outside the jurisdiction.
- b) Amount of revenue to be raised for each project and the estimated time needed to raise funds.
- c) Total amount of revenue to be raised for all projects.
- d) Estimated length of time the tax will be in effect if all proposed projects are approved.

2. The city or county must submit the approved resolution and supporting documents to the Senate and House Tax Committee Chairs by January 31

- a) The bills will be reviewed, and testimonies will be heard in both the House and Senate Tax Committees and if passed, the bill will be considered for inclusion into an Omnibus tax bill.

3. The city or county must pass a referendum to impose the tax:

- a) Hold a vote at a general election within two years of legislative approval.
 - i. Each project must be a separate question for approval.
 - ii. Voters must approve by a majority vote. If a project is not approved by the voters, the revenue and expiration date must be adjusted.
- b) Locals cannot spend money to advertise or promote the proposed tax. They may publicize information included in the resolution.

4. If approved, the city or county will create and pass an ordinance imposing the tax:

- a) A certificate of approval must be filed and a copy of the ordinance with the Minnesota Secretary of State
- b) Once filed with the Minnesota Secretary or State, the local entity must notify the Minnesota Department of Revenue in writing to start a new local tax.

Task Force Recommendations

A major challenge for the task force was to identify measures for regionality. Through discussion and other activities, members developed a set of requirements for regional projects to help with determining regionality.

Regional projects must:

- Serve a regional population
- Provide economic development benefits and opportunities for a region
- Draw individuals from the region

The task force recommends the following categories of pre-approved capital projects that would not need legislative approval for implementation, so long as they follow the defined process and meet the requirements for pre-approval. Projects outside of these categories, or projects that otherwise do not meet the requirements for pre-approval, would need to seek legislative approval.

Pre-approved project categories

- Library that is part of a regional public library system as approved by the library board
- Regional aquatic center*
- Regional sports complex*
- Regional community center*
- Convention center*
- Airport
- Trails designated as regional by the Parks and Trails Legacy Plan
- Parks designated as regional by the Parks and Trails Legacy Plan
- Public safety facility*

*Demonstration of regionality required

Additional Criteria for General Local Sales and Use Tax

In addition to the having the list of pre-approved capital project categories, the task force recommends these criteria must be met to not require approval from legislators:

1. General local sales taxes, excluding county transportation sales and use tax, must require a voter referendum
2. Local sales taxes imposed by a city must be limited to 1% in total
3. Local sales taxes imposed by a county are limited to 1% in total, inclusive of county transportation sales and use tax
4. 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

5. Access fees for residents and non-residents are equal

If legislators determine all general local sales and use tax proposals must be approved by the Legislature, the task force recommends legislators use recommendations in this section to evaluate the regional benefit of each proposal, giving special attention to projects that depart from the listed criteria.

DRAFT

Local Lodging Taxes

Current Policy

Cities, towns, or a county board acting on behalf of an unorganized territory may impose a local lodging tax, under Minnesota Statute 469.190, of up to 3%. 95% of the gross proceeds are to be used to fund a local convention or tourism bureau for the purpose of marketing and promoting the city or town. Local entities can administer their own lodging tax or request the Department of Revenue to administer.

Task Force Recommendations

The task force recommends no changes be made to the current law under M.S. 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 and legislative approval.

Local Food, Beverage, and Entertainment Taxes

Current Policy

For admissions, entertainment, food and beverage, liquor, and other special local taxes, there is no specific law associated to special local taxes but will require legislative approval under M.S. 645.021. There is nothing in law that dictates how revenues are spent, what the rate needs to be, how much revenue can be generated, and no requirement for a sunset date.

Task Force Recommendation

The task force recommends food, beverage, amusement, and admissions taxes continue to require legislative approval.

The Legislature should examine (perhaps through a future task force) the definitions of and parameters for use of food, beverage, amusement, or admissions taxes as well as any appropriate limits and guidance for their use.

Local Transportation Taxes

Current Policy

Any county may impose a local sales and use tax of up to 0.5% and a \$20 vehicle excise tax on commercial sales of motor vehicles to fund a transportation or transit project. These funds can also be used to fund transit operating costs and safe routes to school programs. The Department of Revenue administers all local transportation sales and use taxes.

To impose a local transportation tax, the political subdivision must complete these steps:

1. Publish advanced notification of a public hearing to discuss potential transportation projects.
2. Pass a resolution that includes:
 - Reference to Minnesota Statute 297A.993
 - Proposed tax rate up to 0.5%
 - \$20 vehicle excise tax (if applicable)
 - Intended use of the revenue (project plan)
 - Amount of revenue to be raised
 - Anticipated expiration date
 - Intent to have Revenue administer the new tax
 - Reference to governing statute Minnesota Statute 297A.99. subd. 4, and 6 – 13

Task Force Recommendation

The task force recommends no changes to the current local transportation tax.

Additional Recommendations

Recommendation 1

Prior to seeking legislative approval for a food, beverage, amusement, or admissions taxes, as well as lodging taxes outside of M.S. 469.190, a local government is required to provide notice to all businesses subject to administering the tax and hold a public hearing.

Recommendation 2

If projects are not regional, then the Legislature needs to consider equalization broadly as part of state aid and other tax bases.

Recommendation 3

The task force recommends these entities review, administer, and audit aspects of the local tax process:

1. The state auditor should:
 - a) Review and confirm that requests for a local sales tax from the pre-approved project list meet all relevant criteria.
 - b) Audit city and county governments to ensure funds are allocated and spent appropriately.
2. The Minnesota Department of Revenue will administer the taxes including:
 - a) Notifying the public and registered businesses of a new tax.
 - b) Updating systems and information.
 - i. Updating rate and boundary files.
 - ii. Submit files to Streamlined Sales Tax Governing Board.
 - iii. Update sales tax tools, website, and other materials.
 - c) Administering local taxes.
 - i. Process returns and payments submitted by businesses.
 - ii. Calculate and send payments to local governments.
 - iii. Provide tools and support to businesses collecting sales taxes.
 - iv. Audit businesses with in-state and out-of-state presence.
 - v. Handle appeals and tax court cases.
 - vi. Offer training, educational opportunities, and answer tax questions.

The cost of administering these functions should be met by local governments.

Future Considerations

Areas requiring future task forces to consider and develop recommendations:

- Special districts or jurisdictions
- Other things the task force did not have time or expertise to address
- Consideration of stacking
- Consultation on local sales taxes with Tribal governments

DRAFT

A Brief History of Tax Policy in Minnesota

While there are many types of taxes, the bulk of Minnesota’s tax revenue is paid by “the big three” — individual income tax, property tax, and sales tax. Historically, Minnesota has relied heavily on property taxes to fund projects and, until the state sales tax was introduced in 1967 (discussed below), property taxes accounted for majority of Minnesota tax revenue (Department of Revenue, 2004).

In 1967, Minnesota became the second-to-last state to adopt a state sales tax (3%), to offset the “rapidly rising” and “increasingly unpopular” local property taxes (Minnesota Department of Revenue, 2004). Four years later in 1971, the sales tax increased to 4%.

The timeline below provides an overview of tax policy milestones in Minnesota.

Timeline header

1967	<ul style="list-style-type: none">• First state sales tax (3%) is enacted
1971	<ul style="list-style-type: none">• Omnibus bill (Minnesota Miracle) enacted.• Sales tax increases to 4%• First Local Government Aid (LGA) program established
1981	<ul style="list-style-type: none">• State sales tax increases to 5%
1983	<ul style="list-style-type: none">• State sales tax increases to 6%
1991	<ul style="list-style-type: none">• State sales tax increases to 6.5%
2004	<ul style="list-style-type: none">• Minnesota Revenue develops a report to the Minnesota Legislature on local sales and use taxes
2008	<ul style="list-style-type: none">• State sales tax rate increase to 6.875 percent.
2023	<ul style="list-style-type: none">• Legislature passes a tax bill, that includes a two-year moratorium on new local sales taxes and the establishment of the Local Taxes Advisory Task Force.

The Minnesota Miracle, Local Government Aid, and A Move Toward Centralized Funding

In 1971, the Minnesota Legislature passed an omnibus tax bill, later called the “Minnesota Miracle” (Thorson & Anderson, 2006). A major impetus for this tax bill was to shift funding for education away from local property taxes (since districts that had a wealthier tax base had more dollars for education) to a more equitable state-funded system (Thorson & Anderson, 2006). Property taxes began to decrease

and the state saw increases in income tax rates, as well as the newly founded state sales tax (increasing from 3% to 4%).

The Minnesota Miracle’s focus on state funding included a prohibition of new or increased local taxes, stating that “new local sales taxes were limited to those specifically authorized by state legislation” (Minnesota Department of Revenue, 2004, p. 1). Five cities—Minneapolis, Bloomington, Duluth, Saint Paul, and Rochester—had already adopted local sales taxes before the prohibition took effect. However, other communities were required to go through the new authorization process to enact their own local sales taxes and many areas needed to rely solely on local property taxes.

Because increasing property taxes creates additional burden on residents of small towns and cities, additional funding mechanisms were needed. In addition, 1971 legislation saw the establishment the first Local Government Aid (LGA) program (League of Minnesota Cities, 2023). The LGA program is state aid to cities (and initially counties) who have an unmet financial need. Calculating the amount of funding that each city receives includes a “complex formula that compares a city’s expenditure need to its ability to pay...this difference, or gap, is the city’s unmet need” (League of Minnesota Cities, 2023).

In the 1980s, LGA “became primarily a city program” and “county LGA was finally eliminated in 1991” (Dalton, 2020). While counties were removed from LGA, aid was still distributed to counties under various different program until 2004 when they were consolidated into one program, County Program Aid (CPA).

The Need for More Revenue to Fund Local Projects

In the 1990s, continued pressure for other revenue options created more requests to have legislation that would authorize new local sales taxes (Minnesota Department of Revenue, 2004, p. 1), allowing smaller cities and towns to generate revenue beyond the local property tax.

In the 2004 legislative report on this same topic, the Minnesota Department of Revenue illustrated that local governments (i.e., cities and towns) are far more reliant on local property taxes than on local sales and use taxes, compared to other states. For example, in fiscal year 2000, local property taxes accounted for 94% of all local tax revenue in Minnesota, versus 72% across all other states. Local sales and use tax accounted for 3% of local tax revenue in Minnesota, compared to 17% in other states (Figure X; Minnesota Department of Revenue, 2004, p. 2).

Local tax revenue in fiscal year 2000, by tax type

Tax type	Minnesota	All States
Property	94.2%	71.6%
Sales and use	2.8%	17.2%
Income	0.0%	5.1%
Corporate franchise	0.0%	1.1%
Motor vehicle sales	0.1%	0.4%
Other taxes	2.9%	4.6%

Source. State of Minnesota. Department of Revenue. February 2004. *Minnesota’s Local Sales and Use Taxes: A report to the 2004 Minnesota Legislature. Page 2, Table 2.*

By 2020, property taxes accounted for 90% of all local tax revenue and local sales and use accounted for nearly 6%.

Local tax revenue in fiscal year 2020, by tax type

Tax type	Minnesota	All States
Property	90.7%	72.2%
Sales and use	5.9%	17.3%
Income	0.0%	4.9%
Corporate franchise	0.0%	1.1%
Motor vehicle sales	0.16%	0.3%
Other taxes	3.3%	4.2%

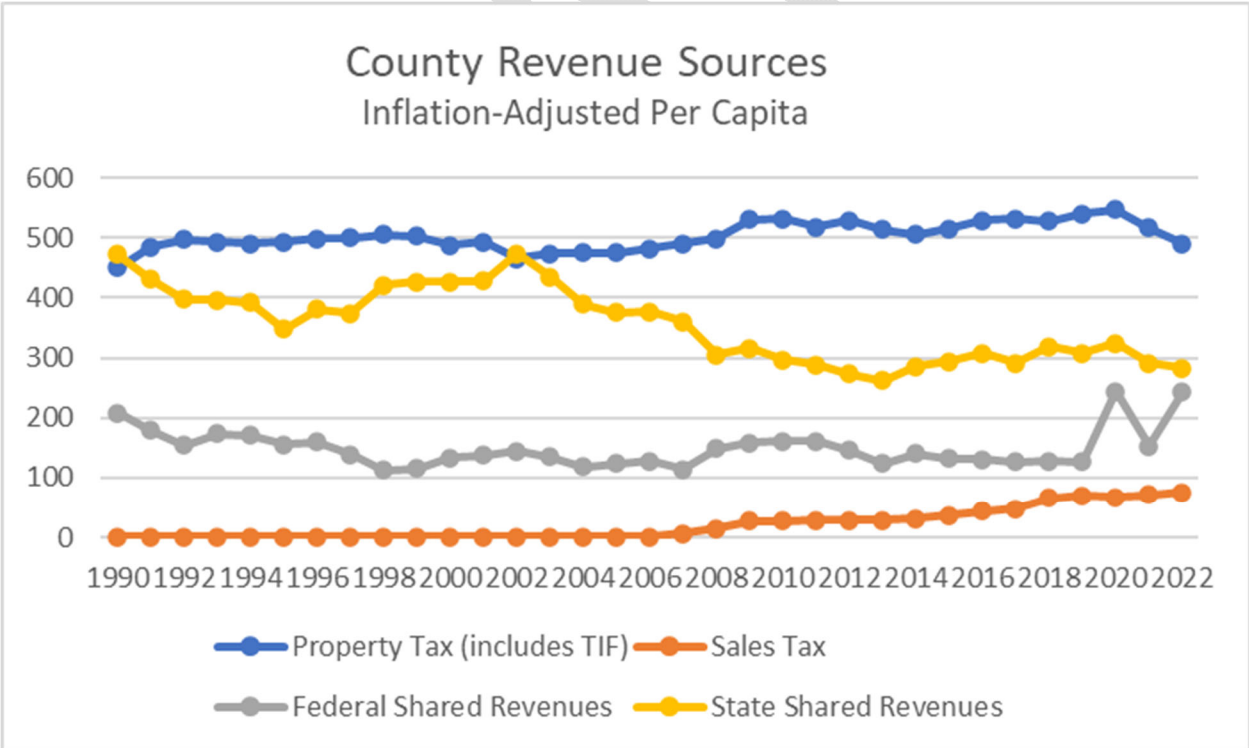
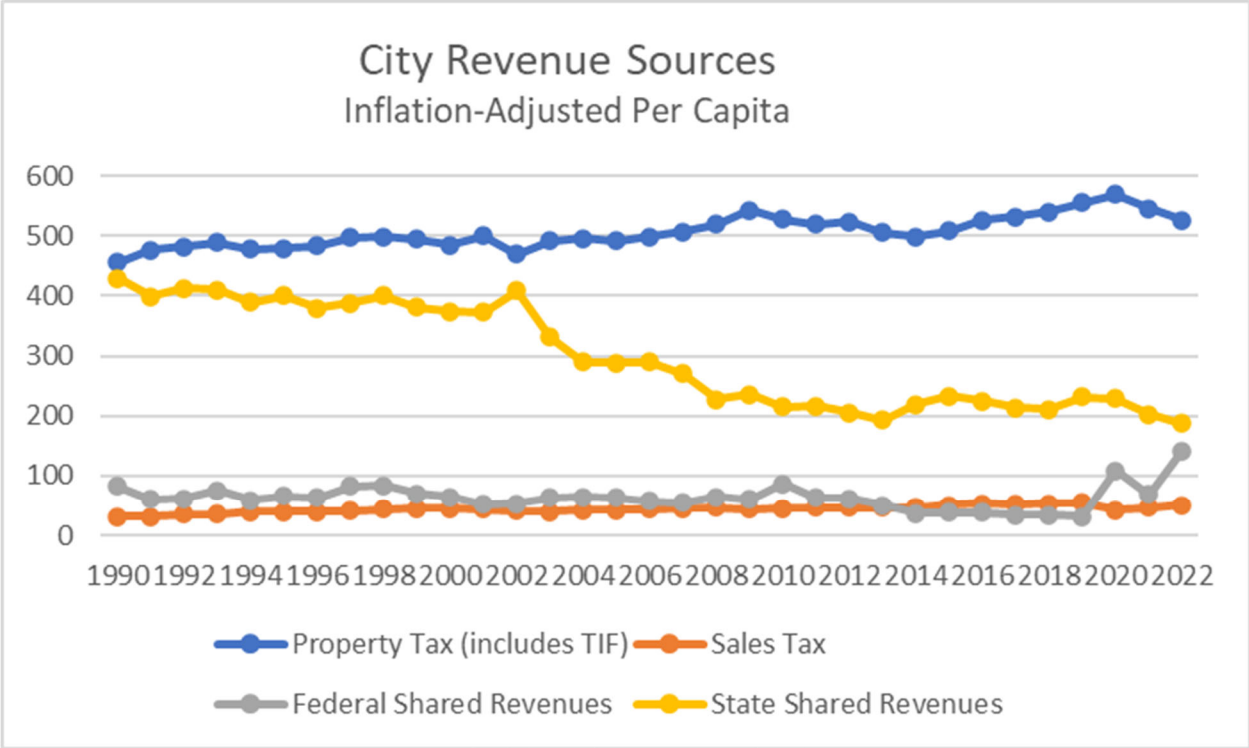
Declines in Local Government Aid

In 1990, Local Government Aid program saw a first-time decline in payments.

“1990 was the first time that the city LGA payments declined from the previous year and these declines were due to two causes. The first cause was a major restructuring of state local fiscal relations that began that year—in which the state reduced aids to each city and town...The second cause was a state budget crisis in fiscal year 1991 that led to a cut in 1990 city aids after certification but before payment” (Dalton, 2020).

Since 1971, there have been 104 local taxes that were authorized through legislation. Sixty-four of those local taxes are currently imposed, including two local taxes that begin April 1, 2024. As of January 7, 2024, 23 local taxes are pending on referendum approval.

Two charts developed by Minnesota Revenue showing city and county revenue sources from 1990 – 2022:



Current Funding Mechanisms for Local Government

Changes in local tax policies, especially the proportions of property and sales taxes, as well as amount of local government aid, highlight the importance of striking the right balance for funding local projects, particularly in thinking about equitable taxation of residents in a given area. The next sections outline current funding mechanisms for local government in Minnesota.

Local Tax Revenue in Minnesota

Generally, Minnesota city and county governments have these revenue sources to fund local projects:

- Local property tax
- Local sales and use taxes (most of which currently require legislative authorization), including:
 - General
 - Transportation
 - Lodging
 - Food and beverage
 - Other special taxes
- State Government Aid
- Federal Government Aid
- Bonding

When cities and counties rely on local property taxes for revenue, this can cause sharp increases in property tax to meet the needs of a community, especially as state aid declines. While property taxes and sales taxes are regressive, the Minnesota Revenue’s 2021 tax incidence study found sales taxes to be more regressive, due in part to property tax refunds. With a regressive tax, a person earning less income is paying a higher *proportion* of their income toward the tax than someone who earns more income.

In addition, sales taxes affect businesses and consumers differently depending on geography. In a presentation to the task force in September 2023, Minnesota Revenue experts discussed how the price of products differs based on local sales tax rates. Using the Department of Revenue Sales Tax Calculator, researchers give examples using the cost of Post-It Notes (Figure X) and an iPhone (Figure X) by region.

Cost of Post-It Notes, by region (September 2023)

Location	Price	State tax	County tax	City tax	Other tax	Tax amount	Total
Duluth	\$5.39	6.875%	0.50%	1.5%		\$0.48	\$5.87
Minneapolis			0.15%	0.5%	0.5%*	\$0.43	\$5.82
Anoka County			0.25%	--	--	\$0.38	\$5.77

*Hennepin County transit tax

Cost of an iPhone, by region (September 2023)

Location	Price	State tax	County tax	City tax	Other tax	Tax amount	Total
Duluth	\$799.99	6.875%	0.50%	1.5%		\$71.00	\$870.99
Minneapolis			0.15%	0.5%	0.5%*	\$64.20	\$864.19
Anoka County			0.25%	--	--	\$57.00	\$856.99

*Hennepin County transit tax

Uses and Impact of Local Taxes

Placeholder

Themes from Public Testimony

Public Testimony Perspectives

Public testimony is summarized into 11 key themes. Public testimony informed the development of recommendations by task force members and provides important broader context. The themes from public testimony do not necessarily reflect the final decisions and recommendations of the task force.

Theme 1: Cities and counties should be allowed to authorize and impose sales taxes based on shared definitions and criteria and voter referendum, to meet revenue needs for capital projects.

Some testifiers felt limiting projects was too restrictive, and local sales taxes should be used for roads, bridges, operations for community facilities, and more.

Theme 2: Local Government Aid formula may need adjustment to be able to cover the needs of local governments more equally.

Theme 3: The Legislature should not be primarily involved in approving local funding.

Theme 4: Due to escalating requests to the Legislature paired with an increasing need of communities and residents, having a local tax system that affords greater accessibility, flexibility, and autonomy for local governments would be helpful.

Theme 5: Sales taxes although regressive, can be, with public input and clear limitations a workable solution to an imperfect tax structure.

Theme 6: Questions of regionality and equalizations need to be resolved.

Theme 7: Examine local sales tax in the broader context. It should be part of a mixed system of funding. Consider newly proposed local sales taxes holistically stacked with all other taxes.

Theme 8: Local sales tax should be temporary, non-expandable, and non-renewable with a hiatus between requests.

Theme 9: Cities need stable sources of revenue, among which local taxes could be part of the total revenue.

Theme 10: Small businesses sales are increasingly multi-jurisdictional and need more support and resources as they play a key role in the collection of sales taxes. This could be through vendor allowances or access to certified service providers.

Theme 11: Taxes should be fair and simple, and sales taxes are not, because they have different rates and exemptions, and therefore burdensome to administer.

Appendix

References

- Dalton, P. (2020). *The Local Government Aid (LGA) Program: A history*. Minnesota House Research Department. <https://www.house.mn.gov/hrd/pubs/lgahist.pdf>
- Griffith, M. (2023, June 1). What's in Minnesota's 2023 tax bill. *Minnesota Reformer*. <https://minnesotareformer.com/2023/06/01/whats-in-minnesotas-2023-tax-bill/>
- League of Minnesota Cities. (2023). *Local Government Aid 101: Overview of the local government aid program*. <https://www.lmc.org/resources/lga-101/>
- Minnesota Department of Revenue. (2004). *Minnesota's local sales and use taxes: Report to the 2004 Minnesota Legislature*. https://www.revenue.state.mn.us/sites/default/files/2011-11/research_reports_content_local_sales_tax_study.pdf
- Minnesota Department of Revenue. (2023a). *Local Taxes Advisory Task Force*. <https://www.revenue.state.mn.us/local-taxes-advisory-task-force>
- Minnesota Department of Revenue. (2023b). *Tax law changes: 2023 Legislative session*. <https://www.revenue.state.mn.us/tax-law-changes>
- Thorson, G. R., & Anderson, J. L. (2006). The Minnesota Miracle abandoned? Changes in Minnesota school funding, 2001-2007. *Rural Minnesota Journal*, 27-43. <https://www.ruralmn.org/wp-content/uploads/2011/03/The-Minnesota-Miracle-Abandoned.pdf>

Process

Public Meetings

Each public meeting moved the task force closer to understanding stakeholders involved in the life cycle of the local tax process, the impacts on those stakeholders, and potential recommendations. Guided discussions during meetings enabled deeper understanding of the experience of different stakeholders impacted by current and future tax policy (for example, what is the experience of businesses administering taxes or how do communities with smaller retail bases generate necessary flexible revenue?) Public meeting dates, as well as public testimony dates, are identified here:

Public Meeting Dates	Session Type
August 16, 2023	Task Force Meeting and Work Session
August 30, 2023	Task Force Meeting and Work Session
September 13, 2023	Task Force Meeting and Work Session
September 27, 2023	Public Testimony
October 17, 2023	Task Force Meeting and Work Session
November 1, 2023	Task Force Meeting and Work Session
November 8, 2023	Public Testimony
November 22, 2023	Task Force Meeting and Work Session
November 27, 2023	Task Force Meeting and Work Session
December 6, 2023	Task Force Meeting and Work Session
December 12, 2023	Task Force Meeting and Work Session
December 20, 2023	Public Testimony
January 3, 2024	Task Force Meeting and Work Session
January 11, 2024	Task Force Meeting and Work Session
January 25, 2024	Task Force Meeting and Work Session

Task Force Meeting Approach

Throughout its process, the task force met up to four times a month, from August 2023 to January 2024. Each meeting lasted between 1.5 to 4 hours. Commissioner Paul Marquart chaired the meetings and called upon members to speak in turn. Wilder Research provided facilitation of activities designed to prompt discussion of topics required of the task force to meet Legislative objectives. Progress was tracked using this set of milestones:

1. Concepts
2. Priorities
3. Evaluation of Guidelines
4. Proposed Amendments
5. Recommendations

There were three official public testimony days offered to the public to submit either written or five-minute verbal presentations on topics related to the task force’s charge. For the sake of fairness and time, task force members did not have follow-up discussion or the opportunity to ask questions of the testifiers. Where possible, the current report includes testimony that either reflects the task force’s decisions or offers alternative positions for more consideration.

Between each of the public meetings, Wilder Research assigned homework that asked members to continue to process ideas, processes and definitions. Homework assignments were compiled by Wilder and presented at the following public meeting to help with decision-making.

Wilder proposed that consensus of the group majority (as per the statutory guidelines of the task force) be determined using a simple “fist-to-five” method, where members raise their fingers on one hand to a number between one and five. Numbers indicating three and higher from the majority of the group indicated consensus to move forward on a decision. If majority were two or lower, then that decision would not have consensus to move forward. The occasions where one or two members were in direct opposition to the group, the facilitators noted each individual, and the process was offered for them to provide a dissenting opinion in a follow up letter in the Appendix.

