



April 10, 2024

Chair Gomez and Members of the House Tax Committee,

For purposes of conversation today surrounding HF 5335, AMC and MICA are providing the following commentary our associations submitted during the Local Taxes Advisory Task Force meetings this past fall and winter.

We hope this will provide a useful reference to the support we had behind the Task Force principles and outcomes as well as specific county interests related to our capacity to improve and update key components of our public safety and justice system, specifically: county-operated jails, sheriff's offices, dispatch centers, and district courts.

Sincerely,

A handwritten signature in black ink, appearing to read "Matt Hilgart".

Matt Hilgart
Association of Minnesota Counties

A handwritten signature in blue ink, appearing to read "Matthew Massman".

Matthew Massman
Minnesota Inter-County Association

January 17, 2024 (submitted via online public input form)

Dear Members of the Local Taxes Advisory Task Force,

On behalf of the Association of Minnesota Counties (AMC) and Minnesota Inter-County Association (MICA), we thank you for your service and thoughtfulness in approaching the difficult task in front of you, which is to examine the role of local taxes as a funding mechanism for local governments and assist with determining evaluation criteria that would allow local governments to carefully and appropriately implement this mechanism under certain conditions/requirements.

As the Commission has realized throughout the course of 14 meetings, local governments are extremely cautious in their use of local sales tax mechanisms yet still find a need to rely on this mechanism to finance core infrastructure needs in lieu of property tax pressures (and limitations), historic and rising construction-related costs, as well as insufficient state financial partnership opportunities that align with local needs. Suffice to say, no elected leader takes action to raise a sales tax without a diligent review of options and outside opportunities to fund a potential project. Moreover, counties are aware of the limitations and shortcoming of the sales tax mechanism and its regressive nature and agree with the Commission's broad

findings that there should be clear parameters in using an expanding local sales tax mechanism.

AMC and MICA both appreciate the commission's number one draft principle that states, "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." To that extent, our associations support the following:

- AMC and MICA support the creation of a sales tax mechanism outside the legislative process which has uniform standards and reasonable parameters surrounding tax rate maximums, public input, uniform but timely election/referendum date opportunities, as well as scope for duration of financing activities.
- AMC and MICA support the opportunity for counties to use a new sales tax mechanism for inherently regional public safety projects which we consider to be justice centers/jails, court facilities, and sheriff office functions such as criminal records storage, dispatch, training, and more. We understand that the Commission will be continuing discussion on this item throughout the week and hope that members reflect on counties' unique role in the state justice system as well as the nuanced factors that go into determining capital construction/rehabilitation and the end impacts on the people these facilities serve.
- AMC and MICA also support the task force's continued conversation about referendum language that provides uniformity in ballot experience while also *fairly* representing the choice in front of voters which is often between using local sales tax dollars or increasing property tax levy. Balancing the need to provide voters a choice while also fairly representing difficult constraints and public government's limited opportunity to market and educate voters on a referendum is a difficult topic, but one which we believe to have some options for reconciliation.

Again, we thank the Commission, DOR staff, and legislators for their thoughtfulness in approaching this public policy question and look forward to continued conversations as the final report becomes available.

Sincerely,

Matt Hilgart, Association of Minnesota Counties
Matt Massman, Minnesota Inter-County Association



April 11, 2024

Chair Gomez and members of the House Tax Committee:

On behalf of the 838 members of the League of Minnesota Cities, we appreciate the opportunity to share written testimony regarding HF 5335 (Gomez). This bill is in response to the Local Tax Advisory Task Force which LMC participated in throughout the interim. We appreciate the attention the committee is giving this topic and that HF 5335 recognizes that the current process for receiving approval to bring these requests to the voters is flawed. However, there are issues with the bill as it is currently drafted that we would like to work on with the committee.

Problems with current process

The League has long been supportive of some parameters establishing general authority for cities to bring local sales tax proposals to the voters without requiring the passage of a special law. The current process is opaque and changes from year to year. This kind of instability in the current process makes it unclear what proposals are likely to receive legislative approval and which ones are not. In some years cities have unsuccessfully brought forward projects that focus on transportation and road reconstruction only a year after those proposals were accepted, and vice versa. What projects are likely to receive approval changes from year to year and putting parameters around the sales tax authorization law has not streamlined the process.

Additionally, these special law proposals get wrapped up in large, often controversial, omnibus tax bills that may not become law. Providing a clear, simple, and objective criteria for cities to follow without requiring special law authorization while still requiring voter approval would be a significant improvement to current law. It would allow cities to budget better and provide a clearer picture to voters about the cost of projects.

Project List

Overall HF 5335 creates a much narrower strike zone for the types of projects that would be allowed to go directly to the voters than the task force recommended and creates additional steps in the process for local governments to go through before they bring a project to the ballot. Most notably it does not allow any authority for community centers and it allows a narrower set of parks than the task force recommended. By only allowing parks designated as regional by the Parks and Trails Legacy Plan to be eligible for general authority, HF 5335 is saying that only parks that already receive funding through legacy funds raised by the state sales tax are eligible to receive funding through a local sales tax. This sets up a structure that is more restrictive than might be intended, since of the last 17 park local sales tax projects that have gone to the voters, only one would have had general authority under this bill. Just 2.2% of cities outside the seven county metro would have a park eligible under this language. The legislature may want to consider an alternative, broader approach that does not exclude such a high percentage of cities outside the seven-county metro.

New Requirements Imposed

Another issue to consider is the additional steps that HF 5335 creates before a city could bring a project to the voters. HF 5335 would require that any project seeking authority must provide letters or resolutions from at least two surrounding bodies saying there is a need for the project. This essentially provides

limited veto authority to surrounding jurisdictions that may have much smaller populations than the voters in the jurisdiction that would support the project. HF 5335 also places additional restrictions on the authorization for athletic complexes and convention centers, creating more steps for cities that may want to consider those projects.

The narrower definitions and additional steps add up to a more complicated process that will be difficult for cities to navigate. It may result in the legislature seeing as many special law authorization bills, since cities that narrowly miss out on just one or two criteria will see themselves as likely to receive approval.

Equalization Aid

The League appreciates the attention that Chair Gomez has brought to issues of equalization in her time on tax committee. Some cities do not have the same kind of property tax capacity as other cities, which is why the League has been a longtime proponent of local government aid as a mechanism to assist cities with higher needs. But as the task force discussed and recommended, there is not a need to have both equalization aid and a narrow list of regionally significant projects. If the list of projects is limited to those that are used and enjoyed by non-residents, that itself is already providing a benefit to surrounding communities.

This is also a path that the legislature has been down before. The legislature created the “Local Government Trust Fund” in 1991. It was paid for with local sales taxes and intended to be used for state aids and property tax relief programs. State aids generally did not increase with this fund in place, because legislators would take any surpluses to pay for other programs. The program was repealed in 1996.

Another potential issue with the equalization aid is that it creates a statewide fund for a local tax. Local sales taxes are generally popular with voters because they have control over what the funds are spent on and they can see the results. That’s why since the 2019 changes to the authorization process 29 out of 33 projects have been approved at the ballot box. Creating a statewide fund undermines the appeal of the dollars being raised locally and staying local. If the legislature wishes to create an equalization component, it would be best if the revenue were shared with surrounding communities rather than statewide.

There are a number of smaller issues that inevitably come up any time a bill this significant is proposed. There are questions around the “commingle” revenue language, and whether it would prevent cities from using the property tax levy in addition to their local sales tax to pay for a project. The bill also requires an analysis of the economic benefit of a project to non-residents. This will be difficult to complete for any new construction of a capital project. As the committee discusses the higher level policy choices we would still like to work with the chair on these and other small issues that come up as this bill moves through the process. Thank you for your time and consideration.

Sincerely,

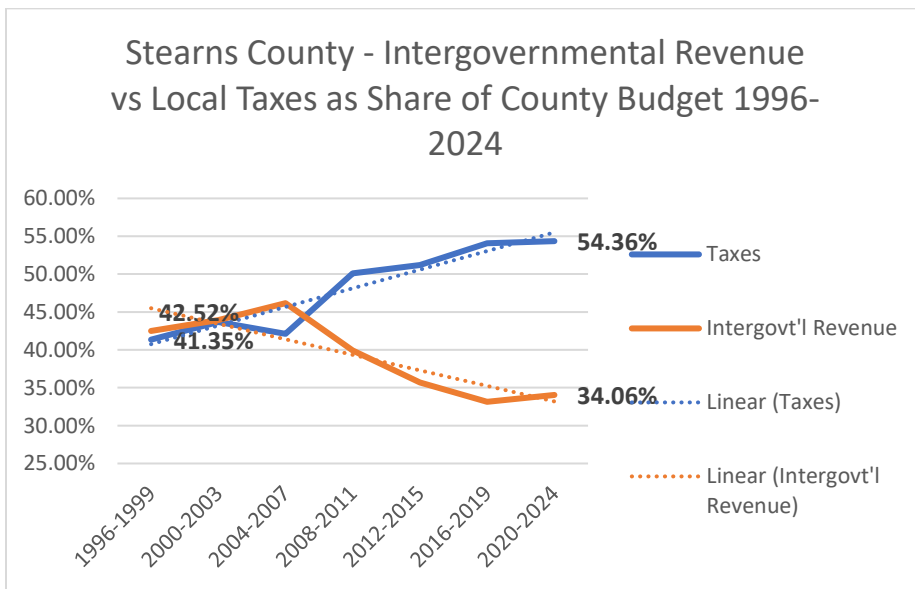


Nathan Jesson
League of Minnesota Cities

County Criminal Justice Facilities/System in Minnesota
 An Intergovernmental, Interdependent System
 For the Minnesota House Tax Committee Regarding Local Sales Taxes

Rising Costs to Local Government

One of the significant costs of meeting county mandates is the provision of jails, courts, and law enforcement centers, all of which are very expensive facilities to build and maintain. The high cost of these facilities combined with the 30-year trend of reduced state and federal aid to local governments forces county boards to make difficult decisions about how to fund these necessary facilities. The graphic below shows that in 1996 the Stearns County local taxes and intergovernmental revenues were 42% of total revenues. The county taxes are now 54% of total revenues while intergovernmental revenues are only 34% of total revenues.



Local Sales Tax Task Force

The task of the seven-member committee enacted by the Legislature was to recommend a process and the criteria necessary for local governments to obtain authority to impose a sales tax. Traditionally, local sales taxes have been used for capital projects of regional significance. In other words, to qualify for the use of sales tax, the facility must serve an area beyond the city (typically) imposing the tax. Cities have used local sales taxes mostly for convention centers, libraries, airports, parks and trails, aquatic centers, sports facilities, and community centers. A handful of counties have imposed a local sales tax for criminal justice system facilities.

The Task Force agreed upon seven guiding principles for considering recommendations. Four of the seven guiding principles of the Task Force stood out:

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.

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

To ensure equity, local sales tax policies should recognize, and remedy to the extent possible, disparate burdens on socio-economic groups.

Local sales tax policies should recognize cities and counties have differences in capacities to raise revenue and potential overburdens in providing services.

In addition, the Task Force considered the impact of local sales taxes on stakeholder groups, namely individuals, small businesses, cities and counties, state agencies and offices, and the Legislature. For example, it was agreed that the local government should pay for the administration (collection) of the tax. A second example, for small businesses struggling to comply with the complexity of the sales tax system there should be some help available. Other stakeholders' needs were also discussed.

With these principles and stakeholder analysis in mind, the Task Force set about establishing criteria for projects which if met would allow the local government to bypass the Legislative approval process. Criteria for city-type projects were agreed upon while the criminal justice center components were left until last, arguably because there was disagreement about whether jails, courts, and county law enforcement centers were regional facilities that should be considered at all.

During the discussions, it was evident that members had very different perceptions about the complexities and intergovernmental interdependence of the criminal justice system. Counties know that we are required (mandated) to provide many of the services and programs associated with the criminal justice system. For example, many of the primary programs and services typically found in a county law enforcement center are mandated such as law enforcement, dispatching, housing of prisoners, and emergency management. Counties are required to provide court facilities, with courtrooms, judge's chambers, jury rooms, a law library, and more. In addition, counties are responsible for the prosecution of most crimes requiring office space for county attorneys. Thus, the criminal justice system is a collaborative effort between the state, counties, cities, and the federal government serving and processing people from all over the state.

All counties will be serving both residents and non-residents within their criminal justice facilities in different ways and in different amounts. Stearns County is a good example of the regionality of the programs and services within the criminal justice facilities. The current corrections facility and the agencies that support it, including patrol, dispatch, and the court system, are tasked with handling a population comprised of about half Stearns County residents and half out-of-county residents.

Like all Sheriff's Offices, Stearns County hosts and collaborates with other law enforcement agencies in several ways such as training, use of firing range, sharing of equipment, joint law enforcement efforts and special task forces, use of office space by the FBI and BCA, lab space sharing, regional emergency planning, contracted law enforcement to small communities, and more.

However, Stearns County is not the same as all counties. Thus, a closer look at the county jail system in Minnesota is helpful to understanding the regionality of the criminal justice system. A review of each county's recent Department of Corrections (DOC) Jail Inspection reports and a survey answered by 85 counties provided the data for the following report.

A Picture of County Jail Facilities in Minnesota

Types of Jail Facilities by County

No facility (9): Mahnomen, Grant, Pope, Stevens, Big Stone, Rock, Dodge

Joint Facility: Red Lake, Polk, Norman – Tri-County

72-hour hold facility (6): Cook, Lake of the Woods, Murray, Norman, St. Louis County (Hibbing and Virginia)

90-day Lock facility (9): Fillmore, Kittson, Koochiching, Lac Qui Parle, Marshall, Pipestone, Watonwan

Recent inspection report recommended downgrade to 90-day Lock: Martin, Waseca

Fully licensed facility (64): All other counties

Condition of Facilities

The DOC conducts bi-annual inspections of county jails unless it is determined that enough corrective actions are necessary that warrants an annual inspection. In addition, on occasion the DOC will conduct inspections on a semi-annual basis. Counties can also be subjected to a classification change (down to a 90-day or 72-hour facility) or a Sunsetting of the license.

When a jail facility is falling short of standards there is a common language used within the DOC inspection reports. When this language is used, it means the facility needs significant repair or replacement. There are 22 counties in which the inspection report reads something like this:

According to the National Institute of Corrections, the average life expectancy of a facility operated 24 hours per day, seven days per week, is approximately 30 years, depending on usage. Given the physical plant and capacity issues identified, the County's elected officials are encouraged to determine a course of action to address long term public safety needs.

There are two counties with a DOC Conditional Permit.

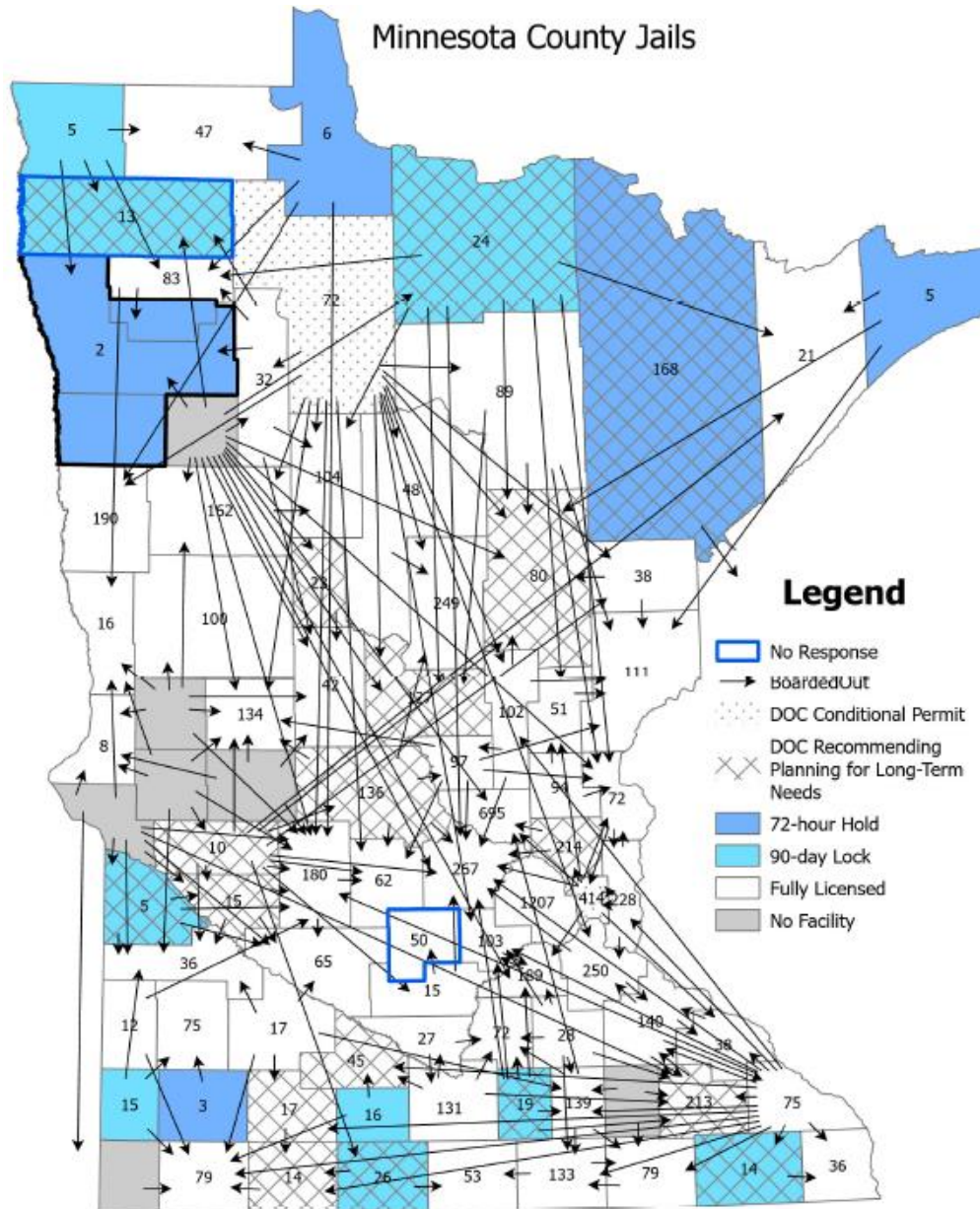
The Average Age of the 22 Facilities in Need of Improvement is 42 Years

Forty-two-year-old facilities are worn-out, outdated and out of compliance with current DOC regulations and standards, and typically lacking in space. In addition, county facilities built in the 1980's cannot provide for the special needs and treatment of many people housed in 2024. There are many county initiatives to get people proper care rather than be incarcerated. These include specialty courts, co-responder models, social worker community action teams, social workers in the jails, and other successful programs. *Unfortunately, there are people that we fear will commit violence towards others if not placed in custody.*

Regional Nature of Services

Dynamic Network of Facilities

The arrows in the map below indicate where a county in the last year contracted with another county to house one or more of its inmates. Most of this out-boarding is due to capacity while some is due to the special needs of the person being housed or a conflict of interest. While not portrayed with this map, several counties also housed people for the State Department of Corrections. *It is evident this is a state-wide network of facilities changing over time to meet the needs of the state's criminal justice system.*



Task Force Recommendation

The Task Force’s final recommendation recognizes that the criminal justice facilities are multi-functioning. The system is intergovernmental, regional, and arguably a statewide system. There were criteria established for county facilities which recognized the inherent regionality of county jails, district court houses/offices, and law enforcement centers.

The bill introduced to the House Tax Committee does not include county justice facilities as qualifying projects. As a member of the Local Sales Taxes Task Force, *I urge the Committee and the Legislature to include the Task Force’s recommendations regarding county facilities.*

Michael Williams, PhD
 County Administrator, Stearns County



DEDICATED TO A STRONG GREATER MINNESOTA

April 10, 2024

Re: HF 5335 – Local Sales Tax Proposal

Chair Gomez and members of the House Taxes Committee:

This letter is submitted on behalf of the more than 100 members of the Coalition of Greater Minnesota Cities (CGMC) to voice our significant concerns with House File 5335. Rather than make thoughtful improvements to the process of seeking local sales tax authority, this bill would put into law a set of rules that are likely to result in many more local governments needing to come before the tax committee to seek special legislation related to local sales taxes going forward.

Numerous CGMC member cities have employed local sales taxes (LSTs) to achieve projects that would not have been possible to fund otherwise and contribute to community vitality, economic development, tourism, and have widespread benefits to regions of our state. The CGMC and its members closely watched the Local Taxes Advisory Task Force assembled by the legislature and run by the Department of Revenue. The CGMC and its members commented actively on the Task Force's process, and while the CGMC does not support every recommendation made in the Task Force's report, we recognize its hard and thoughtful work. Unfortunately, in many ways, HF 5335 departs from the recommendations of the Task Force or modifies them in ways that create a less fair and predictable system for LST requests.

Project Definitions

HF 5335 and the Task Force report recommend a list of project types that have presumptive regional benefits and could be submitted to local voters without seeking legislation. However, some of the criteria for meeting these project-type definitions are too prescriptive to be usable, and some are likely to create geographic inequities that favor wealthier cities or metropolitan area cities.

Convention Centers. The 50,000 square foot threshold recommended in this bill and the Task Force report is likely to benefit the largest, wealthiest communities in the state while small and mid-sized cities are forced to seek special legislation. Even some larger regional centers may be forced to upsize planned facilities or seek special legislation. In fact, while the CGMC's analysis is still ongoing, we are concerned that the popular and widely-used convention center in downtown Mankato—a larger regional center in Greater Minnesota—may not meet the minimum definition in the bill for exhibit and meeting spaces, as well as the requirement for parking facilities that serve the center.

Community Centers. The task force recommended allowing cities to approach their voters without special legislation for community center projects greater than 10,000 square feet. We are disappointed to see this project category left out of the bill entirely, especially because the Task Force recommended additional, specific safeguards to ensure the regionality of community center projects, such as a requirement for collaboration with area community neighbors.

Parks and Trails. The CGMC urges the Committee to review testimony submitted by the Greater Minnesota Parks and Trails organization, which points out that the Task Force's recommendation to use the Legacy Plan criteria to determine regionality would not work for nearly any local parks and trails in Greater Minnesota. HF 5335 uses these same ill-fitting criteria but makes them more stringent and would

apply the Legacy criteria in a manner contrary to how they were intended. This project category demands additional stakeholder input, and we urge the Committee to engage directly with Greater Minnesota Parks and Trails.

Regional Sports Complexes. The CGMC appreciates the inclusion of this Task Force recommendation.

Libraries. The CGMC appreciates that HF 5335 adopts the Task Force’s recommendation on library projects. These are a popular and fruitful use of LST authority that frequently enhance amenities that serve residents beyond a city’s borders.

Airports. HF 5335 also leaves out the Task Force’s recommendation that airports be counted in the definition of regional projects that do not need to seek special legislation. Many airports in Greater Minnesota are operated collaboratively by local jurisdictions and contribute significantly to local economies. We encourage the Committee to revisit this subject and seek stakeholder input for additional guidance on how to define regional airport projects.

Other Categories. There are additional project categories that are not included in the Task Force report or this bill but should be considered for inclusion going forward. These include significant regional needs such as flood mitigation, water and wastewater projects, and others.

Community Support

In recent years, both the legislature and the Task Force have expressed that regional collaboration on sales tax-funded projects should be encouraged where possible.

First, for projects that meet the criteria to move forward to voters without special legislation, letters or resolutions of support from two surrounding communities are required. This criterion has its roots in the Task Force’s recommendations, but HF 5335 dramatically expands this requirement beyond what the Task Force intended. The Task Force recognized that community center and sporting facility projects may be harder to define as regional on their face, so they recommended a structure of alternatives for proving the regionality of these projects. HF 5335 takes this well-intended, flexible recommendation and applies it to all projects—even those deemed regionally beneficial by the bill’s own definitions.

For projects where legislative approval is required, letters or resolutions are required from “each local government located in Minnesota that abuts the political subdivision.” This stipulation is both vague and incredibly stringent. For example, it is not clear whether a city “abuts” the County it sits within, or vice versa. Moreover, it has never been a requirement for a project to demonstrate unanimous regional *support* to move forward. Rather, projects have been required to demonstrate regional *benefit*. Requiring unanimous support from surrounding local governments encourages division between neighbors that have nothing to do with the benefits a project may deliver.

Equalization

Because the bulk of HF 5335 is committed to making communities jump through hoops to prove the regionality of projects, the CGMC is disappointed to see the inclusion of a new, vaguely defined equalization and revenue-sharing program. The Task Force noted in its discussions and its report that an equalization or revenue-sharing program should be considered “if proposed capital projects are not regional.” In other words, the spirit of the Task Force’s recommendation is that equalization is only necessary if we are not otherwise putting in place a structure of proving regional benefit.

HF 5335 would force cities to undergo a burdensome process to prove the regionality of a project—either through the State Auditor process or to the legislature—and *still* be required to share the revenues they receive to deliver their regionally beneficial projects.

Reducing the share of locally generated revenues cities can direct toward their project will also result in taxes needing to be collected for a greater period to accomplish the same work.

Moratorium Repeal

Finally, the CGMC appreciates that HF 5335 includes a repeal of the current moratorium on new sales tax proposals. Currently, the moratorium would foreclose any discussion of new sales tax proposals during the 2025 legislative session. The CGMC supports the repeal of this moratorium as a component of any LST process reforms that move forward this session.

Thank you for your time and consideration.

Sincerely,

A handwritten signature in black ink, appearing to read "Bradley Peterson". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Bradley Peterson
Executive Director, Coalition of Greater Minnesota Cities



Executive Committee

Chair – Gina Hugo, Sherburne County
Vice Chair – Joseph Tart, Chisago County
Treasurer – Tom Salkowski, Individual Member
Comms./Secretary – Brad Harrington, Wright County
Past Chair – Ben Anderson, Stearns County

Representatives

District 1 – Sarah Ciochetto, St. Louis & Lake Cos. Railroad Authority
District 2 – VACANT
District 3 – Kevin Fellbaum, Otter Tail County
District 4 – Josh Baas, City of Elk River
District 5 – Jon Jerabek, McLeod County
District 6 – Karlin Ziegler, Olmsted County

April 10, 2024

Dear members of the House Tax Committee,

On behalf of the more than 145 cities, counties, businesses, non-profits, and individuals that comprise the Greater Minnesota Parks and Trails organization, thank you for allowing us to comment on this legislation. Many of our members currently rely on local sales tax (LST) to fund a variety of parks and related work, and many others may seek to do the same in the future. We are concerned that the eligibility requirements to use local sales tax funds for park or trail facilities without special legislative approval will be impossible for any of our members to meet. At a time when the state should be encouraging people to get outdoors, we are concerned that these provisions could be taking away a vital funding stream that makes recreational opportunities more accessible.

Importance of Parks and Trails to Healthy Communities

Lack of activity and time outdoors has been linked to a variety of chronic illnesses in children, and providing access to parks and trails can go a long way toward healthy outcomes. The National Recreation and Park Association has pointed out that children living within two-thirds of a mile of a park with a playground are five times more likely to be a healthy weight. Headwaters Economics has explained that trails can improve public health by increasing physical activity and providing safer transportation routes for pedestrians and cyclists. Moreover, trails encourage increased physical activity, particularly in rural areas and among people with low incomes and the elderly. Finally, parks and trails also promote economic development. Local facilities are indispensable as communities strive to attract younger workers and promote healthy living for all ages.

Proposed Eligibility Requirements Exclude Accessibility Improvements and Misapply Legacy Criteria

The definition for eligible parks and trails is drawn from the criteria established in the Parks and Trails 25-Year Legacy Plan. Although the criteria, when appropriately applied, serve well for distributing funds from the statewide legacy funds, they are too restrictive for purposes of an LST project. It is important to acknowledge that the goal of the Local Tax Advisory Task Force was to make sales tax dollars *easier* to employ for park and trail projects when it included these project types in its list of what might be eligible for LST dollars without first requiring special legislation. However, the Task Force missed the mark when it pointed to the Legacy Plan as its guide for what qualifies as “regional,” and this bill takes the Task Force’s mistake and carries it much further.

For example, the first criterion states that the park must be focused on natural resources. Although some local governments will use LST funding for natural resource-based projects, a popular and important use of LST funding is to improve ADA accessibility or to provide sensory-friendly parks. These types of projects would be excluded.

More importantly, the five criteria were not intended to be applied together. The description of these criteria specifically states that a park or trail must only meet three of the five criteria for parks or trails outside the Metropolitan Area to qualify for Legacy funds. Meeting all five would be difficult, if not impossible, for most projects. For example, the “special features” criterion typically allows a park that may not be as large as others to qualify because of a unique landscape feature or a culturally significant site. Of the 77 regionally designated parks and trails in Greater Minnesota, only 15 qualified as a “special features” park.

As noted above, parks and trails play an essential role in the health and well-being of our communities. Funding to ensure that these parks and trails are accessible to everyone can be challenging to obtain. Therefore, we urge the Committee to modify these requirements so that more Minnesotans can access the great outdoors. We would be happy to work with you to address these issues.

Thank you for your time and consideration.

Sincerely,



Gina Hugo
Chair, Greater Minnesota Parks and Trails
Sherburne County, Parks Director



Joseph Tart
Vice Chair, Greater Minnesota Parks and Trails
Chisago County, Parks Director