



Chair Youakim and Members of the House Property Tax Division:

We Make Minnesota is a coalition of labor and grassroots organizations united in support of adequate funding for essential public goods and services. Our partners believe every Minnesotan deserves to live in a safe and prosperous community, regardless of their race, gender or zip code, and that the state has a responsibility to fund the basic needs that make such communities possible. We are writing today to express some concerns about the proliferation of local options sales taxes (LOST) throughout the state. Although our coalition applauds local governments seeking any available avenue to provide the basic building blocks of strong, safe, and healthy communities, we feel that reliance on local option revenue is indicative of a troubled fiscal system.

First and foremost, growth in LOST revenue and new LOST proposals reflect Minnesota's broad unmet public funding need. The LOST proposals being heard today come from both parties and every corner of the state, and are intended to fund a wide range of projects. Clearly, few Minnesota communities are finding their funding needs met. This makes sense given recent budgetary trends: Measured as a share of the economy, state and local spending has fallen more than 11% since the 1990s, equating to billions of lost funding every year, including more than \$13 billion in the current biennium. This decline has been felt by every school district, city, and town in the state, and it is no coincidence that local option taxes have increased over the same period. Local sales taxes totaled less than \$100 million or 0.07% of state personal income in the late-1990s, but now represent nearly \$700 million or 0.18% of personal income, according to Minnesota DOR.

Cities and counties should not be asked to make up for the funding failures of the state. And with a \$9.2 billion surplus, it is clear that Minnesota can afford to reinvest in the collective goods and services that enable communities to thrive. Rather than leaving localities to patch up public services with *ad hoc* requests for self-funded projects, the state should make public funds available to all. Just like the Minnesota Miracle made Minnesota a national leader in the provision of equitable education funding, the legislature should help all communities secure the public facilities they need to thrive. Expanding local government or county program aid, or establishing an equalization formula, could help smooth local funding across Minnesota.

In the absence of any equalization program, however, the growth of LOST has led to a meaningful increase in regressive tax burdens without the guarantee of any accompanying access to additional public goods or services. Averaged across Minnesota, the total state and local sales tax rate is now 7.49%—roughly 9% higher than the state-mandated sales tax rate of 6.875%. Because sales taxes are more regressive than property taxes, and are not tied to any income tests like the property tax refund, LOST puts a disproportionate burden on lower-income Minnesotans. Many will pay increased sales taxes in the areas they work, travel, or shop, but will not benefit from the public goods that their additional tax dollars fund because they live elsewhere. If Minnesotans are being asked to pay a higher sales tax rate, they should benefit from the revenue generated. State leaders can and should secure a more fair and sufficient distribution of funds for public services.

In closing, we would like to reaffirm that the projects funded by the bipartisan LOST proposals being heard today represent precisely the sort of public goods that Minnesota needs, and which have made our state a regional and national standout for decades. But we believe every Minnesotan should benefit from first-rate trails, parks, libraries, community centers, and other public spaces, and we hope that this legislative session will move our state further towards that inclusive vision.

Sincerely,

A handwritten signature in black ink that reads "Eric H Bernstein".

Eric Harris Bernstein
Policy Director, We Make MN