

Subject Local sales tax authorization and revenue sharing

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Date April 7, 2025

Overview

This bill creates a process for counties and cities to establish local sales taxes without legislative approval to fund certain projects. To establish a tax, the political subdivision would need to apply to the commissioner of revenue and receive voter approval. Taxes established under this process would be subject to a revenue sharing program, which would share a portion of the proceeds of the tax with other nearby counties or cities. This bill also limits the total combined rate of local sales taxes imposed by a political subdivision to 0.5 percent.

Summary

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| 1 | <p>Authorization.</p> <p>Allows a political subdivision to establish a local sales tax under section 4 and provides that the current statutes governing local sales taxes apply to taxes established prior to July 1, 2025.</p> |
| 2 | <p>Scope.</p> <p>Requires any local sales taxes enacted prior to July 1, 2025, to meet the requirements of section 4 if they are amended or extended.</p> |
| 3 | <p>Legislative authority required before voter approval; requirements for adoption, use, termination.</p> <p>Adds an annual reporting requirement, established under section 5, to current local sales taxes. This section subjects a political subdivision imposing a local sales tax under special law to the combined rate limit of 0.5 percent (the limit would not apply until after the expiration of a tax currently in place and does not apply to county transportation local sales taxes). This section also requires political subdivisions imposing a tax authorized under special law to:</p> <ul style="list-style-type: none">▪ File a certificate of local approval with the secretary of state;▪ Impose the tax within 15 months of receiving voter approval; |

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- Notify the commissioner of revenue of any project cancelations occurring after a project receives voter approval. If this occurs, the commissioner must proportionately decrease the maximum amount of tax the political subdivision is allowed to collect, and the political subdivision must return any revenue collected for the cancelled project. Returned revenue must be distributed in the political subdivision's sharing pool under section 6.

4	Local sales taxes; local authorization allowed.
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Subd. 1. Definitions. Defines terms for this section. Included are definitions for community center, convention center, district court, law enforcement center, library, park, sports complex, and trail; all of which are considered a "specified capital project." Under this bill, a local sales tax can be established without legislative approval to fund a specified capital project.

Subd. 2. Local authorization allowed. Allows a political subdivision (a county or a city) to impose, extend, or modify, without legislative approval, a local sales tax to finance a specified capital project. Voter approval would still be required and the political subdivision would need to receive approval from the commissioner of revenue. This applies to new local sales taxes established pursuant to this section, and to local sales taxes already authorized under current law that are extended or modified.

Subd. 3. Use of proceeds. Requires the proceeds of a tax established under this section to be used to fund a specified capital project. These projects include a community center, convention center, district court, law enforcement center, library, park, sports complex, or trail. The political subdivision would be limited to funding not more than three specified capital projects with the tax and each project would need to receive voter approval. This section also prohibits political subdivisions from commingling revenue from a tax authorized under this section with revenue from another local sales tax.

Subd. 4. Sports complexes, community centers, and convention centers; additional requirements. Adds additional requirements to funding the construction of sports complexes, community centers, and convention centers with a sales tax established under this section. Documentation showing the requirements are met must be submitted to the commissioner of revenue for approval. The additional requirements include:

- No similar facility may be located within a 15-mile radius if the political subdivision is outside the metro area;
- No similar facility may be located within an 8-mile radius if the political subdivision is in the metro area; and

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- Entry fees for use of the facility must be the same for residents and nonresidents.

Subd. 5. District courts; law enforcement centers; additional requirements.

Adds additional requirements to funding the construction of district courts and law enforcement centers with a sales tax established under this section.

Documentation showing the requirements are met must be submitted to the commissioner of revenue for approval. The additional requirements include:

- A political subdivision must demonstrate need for the facility by providing the age of the current facility and a description of the improvements needed; and
- Surrounding counties, cities, and townships must provide resolutions affirming that the functions of the facility will meet the needs of the surrounding area.

Subd. 6. Parks and trails; additional requirements. Adds additional requirements to funding the construction of parks and trails with a sales tax established under this section. Documentation showing the requirements are met must be submitted to the commissioner of revenue for approval. In determining whether a proposed park or trail meets the additional requirements, the commissioner may consult examples and guidance provided by the Department of Natural Resources Parks and Trails Legacy Plan.

This subdivision requires that parks:

- Provide outdoor recreation facilities and multiple activities that are primarily natural resourced-based;
- Occupy at least 100 acres;
- Are utilized by a regional population; and
- Include natural, historic, or cultural features.

This subdivision requires trails:

- Serve more than the local population and encompass multiple jurisdictions; and
- Connect to existing or planned state or regional parks or trails.

Subd. 7. Tax rate and duration. Limits the total combined rate of local sales taxes imposed by a political subdivision to 0.5 percent and the maximum duration of a local sales tax imposed under this section to no more than 30 years. For counties, the rate limit excludes the county transportation tax.

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Subd. 8. Bonds; authorization. Allows a political subdivision to issue bonds to finance the cost of a qualifying capital project. The bond amount must not exceed the cost of the project(s) plus the costs of issuing the bonds, including interest.

Subd. 9. Public hearing required. Requires a political subdivision to hold a public hearing prior to establishing a local sales tax under this section. The political subdivision must provide 30 days' notice of the hearing and publish the proposed tax rate, a description of each proposed project, and the amount of tax revenue and estimated time needed to pay for each project. The public must be allowed to speak at the hearing, which must not be held before 6:00 p.m.

Subd. 10. Resolution required. Requires a political subdivision to adopt a resolution indicating its approval of the tax. The resolution must not be adopted until after the public hearing and must contain:

- The proposed rate;
- A description of no more than three projects funded by the tax;
- Documentation of the regional significance of each project;
- The amount of local sales tax revenue that will be used for each project and the estimated time to raise that revenue; and
- The total revenue that will be raised for all projects before the tax expires and the estimated length of time the tax will be in effect.

The adopted resolution must be submitted to the commissioner of revenue as part of the approval process in section 5.

Subd. 11. Community support required. Requires a political subdivision to submit to the commissioner of revenue letters or resolutions from surrounding local governments that acknowledge there is a local or regional need for the proposed specified capital project.

Subd. 12. Voter approval required. Requires voter approval for a local sales tax established under this section. The tax would first need approval from the commissioner of revenue. The referendum must be held at a general or special election in November, must not be the only item on the ballot, and must be held within the two-year period after the political subdivision has received authority from the commissioner of revenue to impose the tax. The ballot must contain the following information:

- A description of each project;
- The projected start date of the tax;
- The proposed tax rate;

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- The cost of each project;
- The maximum amount of time the tax will be imposed;
- Acknowledgment that the total cost may increase due to the inflation allowance under subdivision 18;
- A statement that a portion of the revenue will be subject to the sharing requirements of this bill; and
- A statement that an affirmative vote means that a new tax will be imposed or that an existing tax will be extended or increased.

The ballot language cannot contain a statement that a “no” vote may result in the projects being funded by an increase in property taxes. Each project must have a separate question. The political subdivision may not advertise or expend money promoting support for imposing the tax.

Subd. 13. Legislative approval required. Requires a political subdivision to obtain legislative approval to impose a local sales tax if the tax does not meet the requirements of this section. To obtain this approval, the political subdivision would need to provide a resolution detailing why the request does not meet the requirements of this section and letters or resolutions from surrounding local governments acknowledging that there is a local or regional need for the proposed capital project.

Subd. 14. Filing and imposition requirements. Requires a political subdivision to file a certificate of local approval within 60 days after receiving voter approval for the tax. The tax must be imposed within 15 months of receiving voter approval.

Subd. 15. Administration; termination. Creates various administrative requirements for sales taxes authorized under this section. These requirements include a prohibition on commingling revenue of a tax authorized under this section with another local sales tax, a requirement that the political subdivision notify the commissioner of revenue at least 90 days before it anticipates revenues raised from the tax have covered the cost of the projects, and the requirement that the political subdivision notify the commissioner if it cancels a project approved by voters. This subdivision also prohibits a political subdivision from imposing a new local sales tax under this section for a period of one year after a tax imposed under this section has expired.

Subd. 16. Collection and retention. Requires the commissioner of revenue to deduct from the proceeds of a political subdivision’s local sales tax the following amounts:

- One percent to be retained by the commissioner for administration; and

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- The political subdivision's contribution share (defined in subd. 17).

Subd. 17. Revenue sharing required. Requires a political subdivision imposing a local sales tax to share revenue from the tax with other jurisdictions. The revenue sharing program is outlined in section 6. This subdivision requires the commissioner of revenue to retain the following amounts from each jurisdictions' local sales tax to be shared under the program:

- 15 percent for a tax imposed under this section;
- 15 percent for a tax that was imposed prior to July 1, 2025, which is amended, extended, or otherwise modified; and
- 20 percent for a tax authorized by special law after July 1, 2025.

Subd. 18. Allowance for inflation. Allows a political subdivision to change, by resolution, the amount of revenue collected by a tax under this section or increase the amount of time the tax may be imposed. This adjustment can occur any time after receiving voter approval and before the imposition of the tax. The total cost of the project approved by voters can be increased by 10 percent plus the rate of inflation between the time of initial application to the commissioner of revenue for the tax and the month that the tax is approved by voters.

Subd. 19. Account established. Creates the local sales tax equalization distribution account in the special revenue fund. The account is used for the revenue sharing program under section 6.

Subd. 20. Other provisions apply. Applies provisions of current local sales law to local sales taxes imposed under this section. This subdivision also requires the prevailing wage rate to apply to all contracts for construction of specified capital projects funded by a tax imposed under this section.

5 **Local sales taxes; verification and oversight.**

Subd. 1. Filing requirement. Requires a political subdivision to apply to the commissioner of revenue when seeking to impose a local sales tax under the previous section. The commissioner must verify each project meets the requirements of the previous section and must make a determination within 60 days of receiving the application.

Subd. 2. Annual financial reporting. Requires a political subdivision imposing a local sales tax to submit to the commissioner of revenue information regarding the uses of the local sales tax.

Subd. 3. Enforcement. Allows the commissioner of revenue to expire a local sales tax if a political subdivision is out of compliance with the financial reporting

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requirement in the previous subdivision or if the political subdivision is improperly using the proceeds of the tax.

Subd. 4. Report. Requires the commissioner of revenue to annually submit a report to the legislature summarizing the information provided by political subdivisions under subdivision 2.

6 **Local sales tax equalization distributions.**

Subd. 1. Definitions. Defines the following terms for this section: adjusted net tax capacity (ANTC), average fiscal capacity, city sharing pool, contribution share, contributor, county sharing pool, distribution index, distribution share, economic development region, fiscal capacity, local sales tax, political subdivision, population, and qualified recipient.

Subd.2. Local sales tax revenue sharing required. Requires a political subdivision to share revenues pursuant to this section if the political subdivision establishes a new local sales tax, either under section 4 or by special law, or modifies or extends an existing sales tax. Any political subdivision that does not impose a local sales tax is eligible to receive a distribution from the revenue sharing pool.

Subd. 3. Contribution share. Requires a political subdivision imposing a local sales tax to annually contribute a portion of the revenues from the tax to a sharing pool. Political subdivisions imposing a local sales tax under section 4 and political subdivisions modifying an existing sales tax must contribute 15 percent of the annual proceeds to their sharing pool. Political subdivisions establishing a local sales tax by special law after July 1, 2025, must contribute 20 percent of the annual proceeds to their sharing pool.

The sharing pool for a city is comprised of all cities located within the same economic development region. The sharing pool for a county is comprised of all counties located within the same economic development region.

Subd. 4. Final distribution. Requires the commissioner of revenue to calculate distributions from each sharing pool and make payments of the shared revenue in each pool to the qualified recipients.

For a city sharing pool, each city within the pool that does not impose a local sales tax is eligible for a distribution. The distribution amount for each recipient is based on the city's ANTC per capita. Cities with higher ANTC per capita will receive smaller per capita distributions, and cities with lower ANTC per capita will receive larger per capita distributions.

For a county sharing pool, each county within the pool that does not impose a local sales tax is eligible for a distribution. The distribution amount for each

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recipient is based on the county's ANTC per capita. Counties with higher ANTC per capita will receive smaller per capita distributions, and counties with lower ANTC per capita will receive larger per capita distributions.

Subd. 5. Certification and settlement. Requires the commissioner of revenue to annually calculate and certify each contributor's contribution to their sharing pool and each recipient's distribution from their sharing pool.

Subd. 6. Appropriation. Appropriates annually from the local sales tax equalization distribution account an amount necessary to pay distributions under this section.

7 **Repealer.**

Repeals the current moratorium on local sales taxes.



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