



# Local Sales Taxes – A History

Presentation by Pat Dalton to the  
House Property and Local Tax Division  
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# The legislature struggles with competing policy goals in its relationship with local governments

- **Equity** – ensuring that local governments can provide comparable services at comparable costs to their taxpayers
- **Local autonomy** – letting the local governments and their constituents decide what services to provide and how to pay for those services

The conflicts between these two goals are at the core of state law and changes in state statutes regarding imposition of local sales taxes.

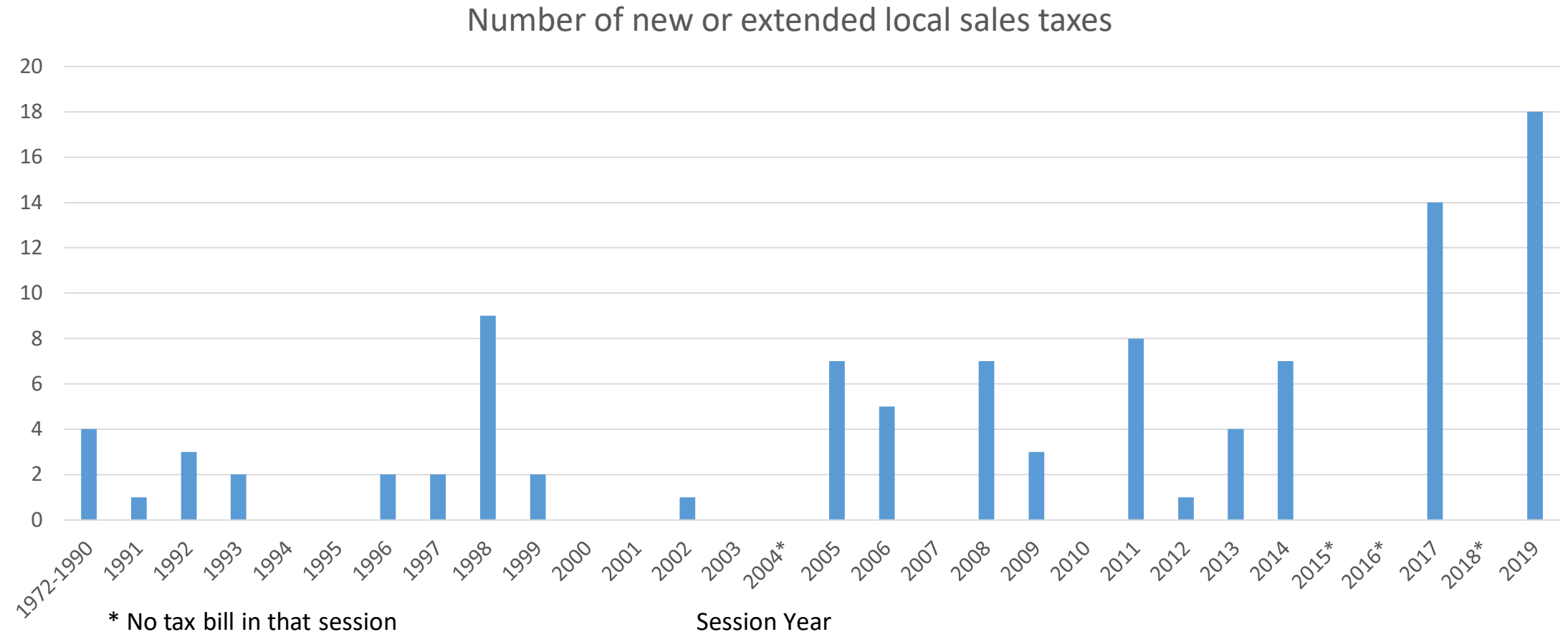
# Why does the state control imposition of local sales taxes?

- 1971 prohibition against local sales taxes was a subdivision of the new (at that time) local government aid (LGA) law
- There is a correlation between a city having a high property tax base and a significant retail base – allowing cities to impose local sales taxes makes it harder for the state to equalize local ability to pay for local government services

# So why has the legislature allowed any local sales taxes?

- Regional projects need a regional funding source
- The weight given to the trade-offs between the policy goals of local autonomy and funding equity have differed over time
- Allowing local governments additional local funding tools is often more attractive than increasing state taxes to fund additional local government aid or other grants or spending programs; especially when the state has budget problems

# Number of local sales taxes authorized or extended by special law per year



# History of local sales tax statute

- 1997: Minn. Stat. § 297A.48 (later recodified as § 297A.99) enacted primarily to standardize the special legislation drafting and implementation
- 1998 and 1999: the resolution and local referendum requirements were added to statute
- 7/2008-6/2010: local governments prohibited from spending any money to promote or even hold a referendum on a local sales tax; in 2011 they were allowed to again hold a referendum, and in 2013 they could again spend money to provide facts but not promote
- In 2011 began requiring that the referendum be held before coming to the legislature

# Local sales taxes in the 2019 session

- Record number of referenda on the ballots at the 2018 general election and the majority passed (16 out of 22)
- Factors that may have contributed to the high passage rate:
  - Uncertain growth in state support for local projects
  - Multiple projects bundled together and vague wording in referenda might have led to more local buy-in
- Conference committee compromise:
  - All that were approved by voters were allowed, although some with vague referenda had to pass and file a new, more detailed resolution
  - Tighten up the statute to give more control back to the legislature and increase information available to voters

# Statutory changes that increase legislative control

- Require that voter approval only occur after the legislature has vetted the projects to be funded and the authority is granted
- Limits use of revenue to projects with clear regional benefit beyond the jurisdictional limits
- Requires that the initial city resolution enumerate no more than 5 projects to be funded
- Local government must submit to tax chairs by January 31 of the year in which the legislation is sought the list of projects to be funded and documentation of why each project is of regional significance



# Changes that increase local voter information and control

- Allows local government to spend money to disseminate information only if each project and its cost is listed separately
- The information sent to the tax chairs on beneficiaries of each project will also be available to interested individuals
- Requires a separate question for each project to be funded, with the amount of revenue that a local government may raise under the special authority decreased for any project questions that fail

# What does this mean for 2020 legislative session?

- 20 cities and 2 counties filed required resolutions with the chairs and ranking minority members of the House and Senate by the January 31<sup>st</sup> deadline
- The current statute does not define “project”; many local governments used the definition from an uncodified section in last year’s bill but some did not
- Regional significance was also not defined last year and documentation submitted with resolutions varies significantly

# Definition of project contained in 2019 Laws, 1st Special Session ch. 6, art. 5, sec. 34

For purposes of this section a "specific capital project" means:

- (1) a single building or structure including associated infrastructure needed to safely access or use the building or structure;
- (2) improvements within a single park or named recreation area;
- (3) a contiguous trail;
- (4) a contiguous segment of roadway, or two or more contiguous segments of roadway provided that all segments of the roadway are listed, and including city infrastructure beneath the roadway provided the infrastructure is explicitly listed; and
- (5) a sanitary sewer, storm sewer, or water project in a contiguous geographic area served by the project that is specifically described in the resolution.



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