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Minnesota House of Representatives

January 28, 2013

TO: Interested Persons

FROM: Pat Dalton, Legislative Analyst

RE: Additional local sales tax collections under the governor's proposed sales tax base expansion

The attached table contains information on the current local sales taxes imposed in Minnesota, the tax rates, and information regarding any expiration provisions included in the authorizing legislation for each tax.

The last two columns of the table try to provide a basic estimate of how much additional revenue these cities might receive annually if the sales tax base was expanded as proposed by the governor. The second column from the right show actual local sales tax collections in CY 2011, the most recent year available from the Department of Revenue. The tax in three of the cities (Fergus Falls, Hutchinson, and Lanesboro) was not imposed until 2012 so no data is available in those cities. For the two larger cities – Fergus Falls and Hutchinson – estimates are made of what might have been collected in 2011 if their taxes had been in effect, based on information on state tax collections in those cities.

The estimated *increase* in local sales tax revenue if the governor's base expansion had been in effect in CY 2011 appears in the last column. It assumes that the revenues collected in each city would increase by 62.5%. This is the same percentage as the statewide sales tax revenue increase from the base expansion based on the budget documents from the governor's proposal.

Caveat: The estimated increases assume that each local sales tax base would expand at the same rate as the state tax base under the governor's proposal. The actual increase in revenue collected will vary by jurisdiction, depending on the makeup of the local economy compared to the state as a whole. The assumption that the Metro transit tax will grow at the same rate as the state tax is probably reasonable; it is less reasonable for taxes in cities like Bemidji. To get more accurate estimates would require a more sophisticated economic analysis that took into account numbers of different types of businesses in the community and purchasing patterns for local residents and businesses.

Table of Existing Local Sales Taxes - Current Collections and Expiration Provisions and Projected Collection Increases under the Governor's Proposal

Local Entity	Rate	Expiration Provision	CY 2011 Collections	<i>Additional Est. Revenue if Governor's Proposal Imposed in 2011</i>
Albert Lea	0.5%	Earlier of 10 years (4/1/2016) or when \$15 million is raised	\$1,385,185	\$865,835
Austin	0.5%	Earlier of 10 years (4/1/2027) or when revenues are sufficient to pay \$14 million in bonds	1,602,890	1,000,806
Baxter	0.5%	Earlier of 12 years (10/1/2018) or when revenues are sufficient to fund \$15 million in bonds	1,842,188	1,151,724
Bemidji	0.5%	Sufficient to fund the \$9.826 million in bonds	1,962,085	1,226,303
Brainerd	0.5%	Earlier of 12 years (4/1/2019), or when revenues are sufficient to fund the \$22.03 million in bonds	839,153	524,471
Clearwater	0.5%	Earlier of 20 years (10/1/2028), or when revenues are sufficient to fund the \$12 million projects plus associated bond costs	301,999	188,749
Duluth	1.0%	No expiration date	12,708,709	7,942,943
Fergus Falls*	0.5%	When revenues are sufficient to pay \$6.6 million in project costs plus associated bond costs	1,741,800	1,088,625
Hermantown	0.5%	March 31, 2026 or when revenues are sufficient to fund authorized projects and associated bonds	1,169,932	731,208
Hutchinson*	0.5%	Earlier of 18 years (1/1/2030), or when revenues are sufficient to finance the approved projects	1,049,800	656,125
Lanesboro*	0.5%	When revenues are sufficient to fund \$800,000 in projects plus associated bond costs	NA	NA
Mankato	0.5%	December 31, 2022	4,702,420	2,939,013
Minneapolis	0.5%	Upon repayment of all bonds issued to renovate and improve the convention center; currently not before CY2046 but no limit on bonds	30,759,503	19,244,689

Local Entity	Rate	Expiration Provision	CY 2011 Collections	<i>Additional Est. Revenue if Governor's Proposal Imposed in 2011</i>
New Ulm	0.5%	When revenues are sufficient to fund \$9 million in projects plus associated bond costs	1,022,880	639,300
North Mankato	0.5%	When revenues raise equal \$6 million	488,382	305,239
Proctor	0.5%	When revenues are sufficient to pay off \$10 million in bonds	151,106	94,441
Rochester	0.5%	When funds are sufficient to pay for the additional \$137.5 million of projects authorized in 2011	9,658,017	6,036,261
St. Cloud Area	0.5%	Earlier of December 31, 2018, or when revenues are sufficient to fund the project bonds	8,714,584	5,446,615
St. Paul	0.5%	December 31, 2030	16,383,063	10,239,414
Two Harbors	0.5%	When revenues are sufficient to fund up to \$20 million in projects plus associated bond costs	311,437	194,648
Worthington	0.5%	Earlier of 10 years (4/1/2019), or when revenues are sufficient to fund the \$6 million in bonds	804,606	502,879
Cook County	1.0%	When revenues are sufficient to pay \$20 million in project costs plus associated bond costs	1,145,291	715,807
Hennepin County	0.15%	When revenues are sufficient to defease stadium bonds (up to \$4 million annually may be used for other purposes)	31,063,329	19,414,581
Metro Transit	0.25%	No expiration	96,773,584	60,483,490

* The taxes in Fergus Falls, Hutchinson, and Lanesboro were not imposed until 2012 so no data is yet available on actual collections in those cities. The estimates for Fergus Falls and Hutchinson 2011 collections is based on 2010 state tax collection for larger cities, adjusted for the difference in tax rate and the state growth in tax collections between 2010 and 2011.

Caveat: The estimated increases assume that each local sales tax base would expand at the same rate as the state tax base under the governor's proposal. The actual increase in revenue collected will vary by jurisdiction, depending on the makeup of the local economy compared to the state as a whole.