



Providing nonpartisan legal, research, and fiscal analysis services to the Minnesota Senate

S.F. No. 5424 – Local sales tax authorization modifications (as proposed to be amended by the A-3 amendment)

Author: Senator Ann H. Rest

Prepared by: Nora Pollock, Senate Counsel (651/297-8066)

Date: April 15, 2024

This bill modifies the process by which political subdivisions may propose and enact a local sales tax. The provisions are based in part on recommendations by the Local Taxes Advisory Task Force issued on February 2, 2024. The task force was established in the 2023 omnibus tax bill. Under this bill, a political subdivision may impose a local sales tax without legislative authorization if the projects funded by the tax meet certain requirements, as certified by the office of the state auditor. Political subdivisions would be required to annually report to the office of the state auditor to ensure compliance with the requirements of the bill.

Section 1. Authorization; scope. Provides that the section of statute currently governing local sales taxes applies to sales taxes enacted before July 1, 2024. Effective the day following final enactment.

Section 2. Legislative authority required before voter approval; requirements for adoption, use, termination. This statute currently governs how local sales taxes are authorized and imposed. The following requirements are additions to the statute and apply to currently authorized local sales taxes.

- Prohibits political subdivisions from commingling tax revenues for a project approved by the voters with revenue from a tax authorized under the new section of statute established in section 3 or any other law, ordinance, or city charter, including an extension of or modification to the uses of the tax for a different project.
- Requires a political subdivision to notify the commissioner and the state auditor at least 60 days before the political subdivision anticipates that revenues raised from a local sales tax are sufficient to fund each project approved by the voters. Also requires a political subdivision to notify the commissioner and the state auditor within 30 days of the date that sufficient revenues have been raised to fund the projects approved by the voters.
- Strikes obsolete language.
- Provides that the reporting requirements in section 4 apply to the taxes authorized under this section of statute.

- Requires that the total tax rate imposed under this section and under the new provisions of section 3 must not exceed one percent. This limit would not apply to taxes prior to June 1, 2023, but upon expiration of a tax authorized under this section, the one percent limit applies. The limit also applies if a county transportation local sales tax is imposed.

Effective the day following final enactment.

Section 3. Specified capital projects; local authorization allowed; requirements. This section establishes the requirements for a political subdivision to impose a local sales tax without legislative authorization.

Subd. 1. Definitions. Defines terms applicable to the section. Facilities that are proposed to be funded by a local sales tax must meet the definitions in this subdivision.

Subd. 2. Policy; requirements. Provides general policy statements regarding local sales taxes. Requires that access fees for facilities funded by local sales taxes must be equal for residents and nonresidents.

Subd. 3. Local authorization allowed. Allows a political subdivision to impose a local sales tax without legislative authorization by demonstrating the regional significance of a capital project as provided in this section. These provisions also apply to an extension of or modification to a local sales tax authorized under provisions of current law.

Subd. 4. Demonstration of regional benefit; resolution required. Requires a political subdivision to conduct a public hearing to provide information regarding each specified capital project that the political subdivision proposes to fund with a local sales tax. Specifies requirements for notice of the hearing. Requires the governing body of the political subdivision to adopt a resolution indicating its approval of the tax and specifies the contents of the resolution. Requires the political subdivision to submit the resolution and supporting documentation to the office of the state auditor under the provisions of section 4.

Subd. 5. Voter approval required. Requires a political subdivision to seek voter approval of a local sales tax at a general election or special election held within two years of the date it submits the resolution and documentation under subdivision 4. Each project proposed to be funded by a local sales tax must be stated in a separate question. Specifies the requirements of the ballot question to approve a local sales tax.

Subd. 6. Uses of revenues; termination of tax.

- Requires that tax revenues must be dedicated exclusively to construction and rehabilitation and associated bonding costs related to the specific capital projects approved by the voters.
- Prohibits political subdivisions from commingling tax revenues for a project approved by the voters with revenue from a tax authorized under this section or current law governing local sales taxes or any other law, ordinance, or city charter, including an extension of or modification to the uses of the tax for a different project.
- Establishes a one-year moratorium on imposing a new local sales tax after a tax imposed under this section has been terminated.
- Provides that if a tax is terminated because sufficient revenues have been raised and before the quarterly termination required under current law, any amount collected that is greater than the average quarterly revenue collected over the last 12 months must be retained by the commissioner for deposit to the general fund.

Subd. 7. Regional sports complexes; regional community centers. Specifies the requirements for a political subdivision to impose a local sales tax to fund these facilities.

Subd. 8. Criminal justice facilities. Specifies the requirements for a political subdivision to impose a local sales tax to fund a correctional facility, district court office, and law enforcement center.

Subd. 9. Convention centers; airports; parks and trails. Specifies the requirements for a political subdivision to impose a local sales tax to fund these facilities.

Subd. 10. Other provisions apply. Requires the prevailing wage rate to apply to all projects funded by a local sales tax. Requires that the total tax rate imposed under this section and under the new provisions of section 3 must not exceed one percent. The limit also applies if a county transportation local sales tax is imposed. Provides that municipal debt limits under current law apply to bonds issued for projects under this section. Establishes the maximum amount of time that a tax may be imposed as the earlier of 30 years or the time necessary to collect sufficient revenue to fund the specified capital projects, plus associated bonding costs.

Effective the day following final enactment.

Section 4. Local sales taxes; oversight.

Subd. 1. Filing requirement. Requires that a political subdivision seeking to impose a local sales tax submit the resolution and documentation required under section 3 to the office of the state auditor and the commissioner by October 31 of the year before the political subdivision seeks voter approval of the tax. Requires the state auditor to verify whether a project included in the submission meets the criteria specified in section 3 and notify the political subdivision of the determination by January 10 of the year the political subdivision seeks voter approval of the local sales tax.

Subd. 2. Annual financial reporting. Requires political subdivisions to provide information to the office of the state auditor by January 31 of each budget year. The information must be submitted in forms prescribed by the state auditor sufficient to verify the political subdivision's compliance with the requirements of sections 2 and 3. Requires the office of the state auditor to work with political subdivisions to develop a budget reporting form that conforms with generally accepted accounting principles and allows for examination of local records to complete or verify information.

Effective the day following final enactment.

Section 5. Appropriation. Appropriates \$387,000 in fiscal year 2025 to the office of the state auditor to implement the requirements of section 4 and provides the base amounts for the appropriation in fiscal years 2026 and 2027. Effective the day following final enactment.

Section 6. Repealer. Repeals the local sales tax moratorium enacted in the 2023 omnibus tax bill, which was set to expire June 1, 2025.