

Local Option Sales Tax Discussion

March 7, 2018

Topics of Discussion



- ▶ What is a local options sales tax?
- ▶ What is the process for implementation?
- ▶ Local Background and need summary
- ▶ What is the City of Two Harbors considering?
- ▶ How much is this additional tax going to generate?
- ▶ How is it collected and dispersed to the City?
- ▶ Doesn't the City already have a Local Option Sales Tax?
- ▶ How am I benefiting?
- ▶ What are the alternatives to fund infrastructure repairs?

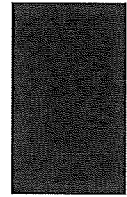


What is a local options sales tax?



- ▶ Authorized under MN Statute **297A.99 LOCAL SALES TAXES.**
- ▶ Allows local governments to create a tax to fund special projects in local communities.
- ▶ Other Communities in the Region with Local Option Sales Tax:
- ▶ Duluth – current 1% - looking for legislature support for an additional .5% for infrastructure improvements
- ▶ Hermantown – current 1.5% (this is max amount per State Statute)
- ▶ Proctor – current 1%
- ▶ Cloquet – current .5%
- ▶ Cook County- current 1%

What is the process for implementation?



#1: City Council must pass a resolution proposing:

- a. *Proposed tax rate*
- b. *Amount of revenue to be raised and its intended uses*
- c. *Anticipated date the tax will expire*

#2: Then the following actions must occur:

- a. *The political subdivision must get special legislation authorizing the imposition of the sales tax.*
- b. *The political subdivision must pass a majority referendum at the general election.*
- c. *The political subdivision must file the approval with the Secretary of State.*
- d. *The political subdivision must pass an ordinance imposing the tax.*

#3. A resolution of support from the Chamber of Commerce or other business organizations is highly recommended for Legislative consideration.

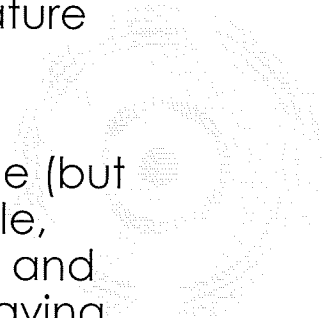
Local Background and Need Summary

- ▶ The City has over 64 miles of underground Sanitary Sewer, Water Mains, and Storm Sewer Facilities that will likely need to be replaced within the next 25 years.
- ▶ The Total estimated cost to repair all of those facilities is estimated at \$61,850,000.
- ▶ The total estimated cost of all of the projects listed in the 5 year CIP (including future years) is over \$15,000,000.
- ▶ Some of the projected assessments associated with the 2018 projects are in excess of \$15,000 with the largest cost associated with the replacement of necessary underground facilities.

What is the City of Two Harbors considering?



- ▶ The City of Two Harbors has sent a request to the State Legislature for a .5% Local Option Sales Tax to fund infrastructure projects associated with the Capital Improvement Plan (CIP).
- ▶ Proposed authorized expenses associated with the CIP include (but not limited to): gravity feed sewer mains, water mains, drain tile, service lines, street patching, acquiring property, engineering and construction expenses related to these improvements, and paying debt service on bonds or other obligations issued to finance acquisition and construction of these improvements.
- ▶ The proposed tax would expire at the earlier of 1. 25 year period or 2. until the revenues received equal or exceed \$30,000,000.



How much is this additional tax going to generate?



- ▶ If the proposed sales tax is authorized it is projected to generate between \$275,000 to \$325,000 per year.
- ▶ If the proposed .5% is authorized The total tax for purchases in city limits would be 8.375%
 - ▶ State – 6.875%
 - ▶ County - .5%
 - ▶ City – 1% (if additional .5% increase were to get passed)

How is it collected and dispersed to the City?



- ▶ All retailers who are registered to collect MN sales tax and are doing business in the City are required to collect tax. Retailers report tax collections directly to the MN Dept of Rev at the same time they report MN sales tax
- ▶ The Minnesota Department of Revenue currently administers the local taxes

Doesn't the City already have a .5% Local Options Sales Tax?



- ▶ The City of Two Harbors passed a voter referendum in 1998 for a .5% Local Sales Tax.
- ▶ The Projects include sewer separation, wastewater treatment, and harbor development projects.
- ▶ The tax expires when sufficient funds have been raised for all 3 projects.
- ▶ The funds are currently dedicated to cover debt service for projects in the water and sewer fund



How am I benefiting?



- ▶ Allows the City to offset assessments to property owners by collecting sales tax from other user groups including visitors to the area and people who live outside the City but frequently use City roads and utilities.
- ▶ Helps keep the City's Utility fees in check.
- ▶ Helps keep property taxes in check.
- ▶ Allows the City to make necessary repairs to the utility system to facilitate new commercial, industrial, and residential development.
- ▶ Newer facilities require fewer costly emergency fixes.



What are the alternatives to fund street and infrastructure repairs?



- ▶ City transfers \$200,000 a year from the Campground Revenues to fund CIP Projects.
- ▶ State dedicated road fund for cities under 5,000
 - ▶ \$37,810 received in 2017
- ▶ Property Taxes
- ▶ Utility Fees
- ▶ Special Assessments
- ▶ Grants/Other Appropriations (does not apply to every project)