



Change Orders

Alternative Revenue Sources



Why Consider Other Revenues?

Part of an overall funding strategy

- Match resources to projects
- Reduce stress during planning process
- Take pressure off bond rating
- Lessen property tax impact on those that do not benefit
- Make difficult decisions easier



Session Overview

Todd: Transportation Taxes, Special/Subordinate Service Districts, Housing Improvement Areas, Storm Sewer Improvement Districts, and Sidewalk Improvement Districts

Nick: Franchise Fees

Jon: Example of the LOST Process

Gary: New LOST Process



What is a Transportation Tax?

Provisions relating to counties and taxes for transportation purposes

- Wheelage Tax
 - ✓ Highway purposes within the State
 - Trunk highways, county state-aid highways and municipal state-aid streets
 - Bridges along such highways and streets, but not necessarily bridge overpasses



What is a Transportation Tax?

Transportation Sales Tax and Motor Vehicle Excise Tax

- Operating costs of transit projects and capital costs of...
 - ✓ A safe routes to school program
 - ✓ Specific transportation or transit projects



How do you use a Transportation Tax?

Either offset a bond levy or pay-as-you go

- Does not include any bonding tool
 - ✓ May reduce or eliminate the property taxes otherwise needed to repay general obligation bonds issued under a variety of existing statutes



How do you use a Transportation Tax?

Examples include:

- Voted GO bonds issued (for highways, roads, bridges and streets or transit projects)
- Capital Improvement Program bonds
- Street Reconstruction bonds
- State-aid highway bonds (or with a joint powers agreement, state-aid street bonds issued by a city)
- Bridge bonds issued
- Bonds (revenue or otherwise) issued by a regional rail authority (for transit projects only)



What is a Subordinate Service District?

Defined area within a township

- One or more services or additions to township-wide services are provided in a specific area and financed from revenues from that area (bonds may be issued)
 - ✓ Property tax
 - ✓ Service charge
 - ✓ Net revenues
 - ✓ Special assessments or a combination of each



What is a Special Service District?

Defined area within a city

- Finances a particular improvement or governmental service
- Only public utility and commercial/industrial property
 - ✓ Service charge ONLY (no bonding authority)
- Other types of property may be included but are not subject to service charge



What is a Housing Improvement Area?

Defined area within a city implemented by the city or its EDA/HRA

- Housing improvements are made or constructed to common areas of condos/townhomes
- City may finance project (typically taxable loan)
- City assesses fee to repay debt
- Housing association must petition city



What is a Storm Sewer Improvement District?

Defined area within a city

- To improve storm sewer systems
- And holding ponds within or outside city limits
 - ✓ Property tax
 - ✓ Procedure similar to MS 429 Improvements
 - ✓ Bonds may be issued



What is a Sidewalk Improvement District?

Defined area within a city

- To improve and repair sidewalks
 - ✓ Provide safe pedestrian walkways to & from schools, school bus stops, public transportation facilities, and other neighborhood and community services
- Established by ordinance on a “direct or indirect benefit basis”
- Special assessments (no mention of MS 429)
 - ✓ Spread over 5-years
 - ✓ Bonds may not be issued



What is a Franchise Fee?

Negotiated as part of a Franchise Agreement for access to municipal right-of-way

- Public Utility providers for natural gas and electricity
- Municipality may charge the provider a fee for use of public right-of-way

Pass-through to franchisee's customer base

- Included as a line item on billing statements
- Fee revenue typically remitted quarterly



What can Franchise Fees be used for?

- Raise revenue and/or defray increased municipal costs resulting from utility operations
- Subject to provisions of the franchise agreement
 - ✓ May identify restriction on use or sunset
 - ✓ Otherwise, general revenues established by ordinance
- May establish policies to govern spending and/or special revenue fund accounting



Example uses

General Fund

- Parks
- EDA/HRA funding source
- Energy efficiency and climate programs

Capital Projects Fund

- Facility maintenance or improvements
- Pavement and/or trail management programs
- Sidewalks, Trails and Tree/Landscaping
- Powerline relocation



Why use Franchise Fees?

Flexible alternative to property tax or assessments

- Not directly tied to property classification (i.e. tax-exemption)
- Can be one fixed fee assessed to all customers
- Can also vary fee by type of user
- No benefit test or limitation
- Reliable: funding level tied to customer counts
 - ✓ Grows with new development
 - ✓ Can be updated by adjusting ordinance/franchise agreements



Disadvantages

- Payer perceives fee relative to utility bill, not other taxes
- Affects economic competitiveness
 - ✓ Flat rate is stable, but may be regressive
 - ✓ Usage rate may burden high volume users
- Setup requires coordination with franchisee
- No bonding authority
 - ✓ Fees can offset required debt service revenues



Everything you need to know about Local Option Sales Tax

- Project*
- Financing the entire project*
- Local Politics*
- Tax Rates around you*

Local Sales Taxes

2019 Local Sales Taxes

• Avon (new)	• International Falls (new)
• Blue Earth (new)	• Perham (new)
• Cambridge (new)	• Rogers (new)
• Cloquet (amended)	• Sauk Centre (new)
• Detroit Lakes (new)	• Scanlon (new)
• Duluth (amended)	• Two Harbors (amended)
• Elk River (new)	• Virginia (new)
• Excelsior (new)	• West St. Paul (new)
• Glenwood (new)	• Willmar (new)

Local Sales Tax Process



- Old Law:

Resolution → Referendum → Legislation

- New Law:

Resolution → Legislation → Referendum

Effective May 31, 2019



Local Sales Tax Process



- Resolution must include:
 - Proposed sales tax rate and time frame for the sales tax
 - Detailed description of (up to five) project(s) to be funded
 - Amount to be raised for each project
 - Finding of “regional significance” for project(s) funded with the sales tax
- Information must be submitted to the House & Senate Tax Chairs by January 31 each year.

Effective May 31, 2019

2020 Local Sales Tax Requests

• Bemidji	• Litchfield
• Breckenridge	• Little Falls
• Crosslake	• Moorhead
• East Grand Forks	• Northfield
• Edina	• Oakdale
• Fairmont	• St. Cloud
• Fergus Falls	• St. Peter
• Grand Rapids	• Wadena
• Hermantown	• Waite Park

Local Sales Tax Process (cont.)



- If special legislation approved, city must seek voter approval at a general election within two years of legislative approval
- If more than one “project” is proposed, separate ballot questions are required
- The authorized revenue to be raised and duration of the tax is reduced for any project that is not approved by the voters

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Local Sales Tax Process: Final Steps

- Local units of government must adopt a resolution to “approve” the special law AND file certificate with the Secretary of State
- The local unit of government must approve an ordinance imposing the tax and notify the Commissioner of Revenue at least 90 days before the first day of the calendar quarter on which the tax is to be imposed

Effective May 31, 2019



Regional Significance (Minn. Stat. § 297A.99)

- *“Local sales taxes are to be used instead of traditional local revenues only for construction and rehabilitation of capital projects when a clear regional benefit beyond the taxing jurisdiction can be demonstrated.”*
- *“Documentation of the regional significance of each project, including the share of the economic benefit to or use of each project by persons residing, or businesses located, outside of the jurisdiction.”*

Effective May 31, 2019



Proposed uses of new sales taxes

Bemidji	Improvements to water infrastructure and capital needs at the Sanford Center
Breckenridge	Three Rivers Activities Complex
Crosslake	Wastewater infrastructure projects
East Grand Forks	Ice arena/rec facility improvements
Edina	Parks and road projects
Fairmont	Local road improvements
Fergus Falls	Aquatic Center, Fire station, streets and infrastructure, parks and trails
Grand Rapids	Civic center project
Hermantown	Hockey arena, trails and athletic facilities

Proposed uses of new sales taxes (cont.)

Litchfield	Community wellness/recreation center
Little Falls	Community recreation center
Moorhead	Aquatic center, city hall, library
Northfield	City park and rec facilities
Oakdale	Public safety facility/public works facility
St. Cloud	Road improvements to relieve road congestion in parts of the city
St. Peter	Fire hall
Wadena	City library improvements
Waite Park	Regional transportation corridors, trail connections, regional park, public safety facility
Warren	Child care facility

Existing local sales tax ordinances

Update to reflect recent Minn. Stat. Ch. 297A changes, including SCOTUS decision in *Wayfair*

- Remote retailers and marketplace providers must collect if they make 200 retail sales or \$100,000 in retail sales into the state in last 12-month period

Practice pointer: Department of Revenue has offered to review local ordinances for completeness and accuracy



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Effective for sales and purchases made after September 30, 2019





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