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**JUNE 25-27  
DULUTH**

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**DULUTH ENTERTAINMENT  
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## **Taxes, Taxes, Taxes!**

Surprisingly Interesting. Mildly Entertaining. Totally Taxing.



# So Many Taxes... Too Little Time

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Property Tax

Local Option  
Sales Tax

Local Lodging  
Tax

Local Gambling  
Tax

Franchise Fees

Other Taxes &  
Fees

# Taxing Jurisdictions: Who Levies Property Taxes?

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Property taxes are levied by & paid to...



Counties



Cities & townships



School districts



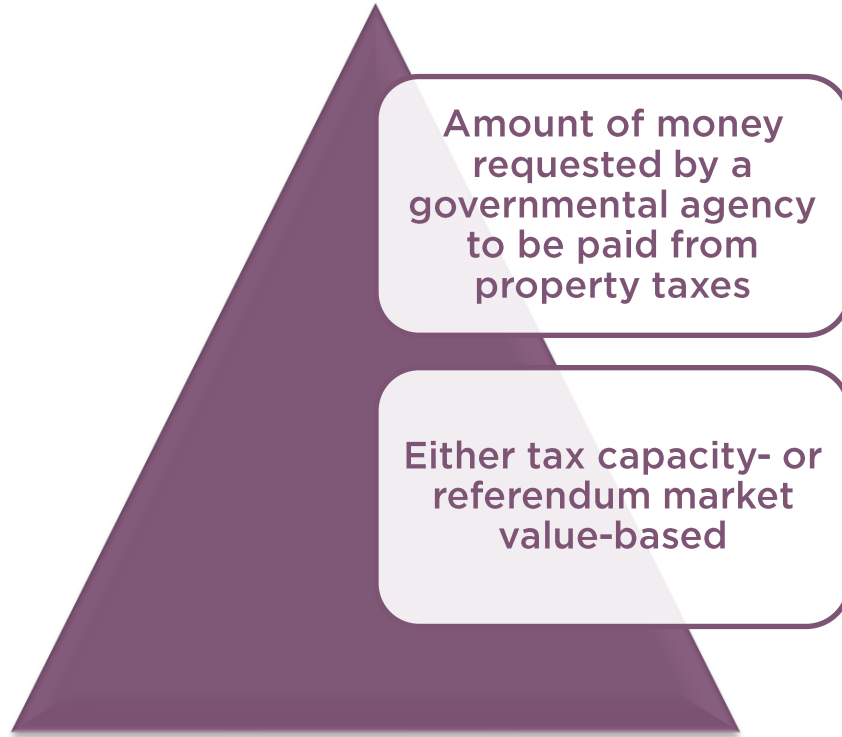
State of Minnesota



Various special taxing jurisdictions

# Wait... What's a Property Tax Levy?

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- General property taxes may be used for any allowable public purpose
- Some property taxes may only be used for specific activities
  - ✓ Special property taxes
  - ✓ Debt services taxes
  - ✓ Tax increments
  - ✓ Tax abatements

# Before We Move On...

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**For our discussion today, we are excluding certain areas of the property tax system**

Referendum  
Market  
Values &  
Levies

Fiscal  
Disparities

Taconite  
Assistance  
Area

Disparity  
Reduction  
Aid

State  
General Tax

# Property Tax: Who Determines It?

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## State Legislature

- Establishes property classes & class rates
- Creates property tax relief programs
- Determines levels of state aids
- Levies state business tax
- Sets levy limits

## Taxing Jurisdictions

- Determines property tax levy amount



## County Assessor

- Determines market value
- Assigns property class

## Property Taxpayer

- Pays the property tax
- May contest their property valuations



# Property Tax: Real vs. Personal Property

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## Real Property

- Lien against property
- If not paid, property forfeited to State

## Personal Property

- Judgement taken against entity
- If taxes not paid, personal judgement pursued

**Changes how the City collects delinquent taxes!**

# A Primer... Homestead Market Value Exclusion

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**Applies to homestead property, house, garage & 1<sup>st</sup> acre of land for agricultural properties**

**Taxes Payable in  
2024**

**First \$76,000 in EMV: 40% Excluded** (Up to max. of \$30,400)  
**Over \$76,000 in EMV: Reduce maximum exclusion by 9%**

Note: Exclusion eliminated for properties valued higher than \$413,800

**Payable 2025  
and thereafter**

**First \$95,000 in EMV: 40% Excluded** (Up to max. of \$38,000)  
**Over \$95,000 in EMV: Reduce maximum exclusion by 9%**

Note: Exclusion eliminated for properties valued higher than \$517,200

# Property Tax Levy

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- Certified by the governing body of the political subdivision
- Considered a general-purpose funding source
- Spread among eligible properties through a complex formula
- Often “reverse engineered” by the Finance Department

Estimated Expenditures	(-)	External Revenues & Funding	(-)	Internal Funding Sources	(=)	Property Tax Levy
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**Remember, your jurisdiction only gets what it levies!**

# Determining Tax Rates

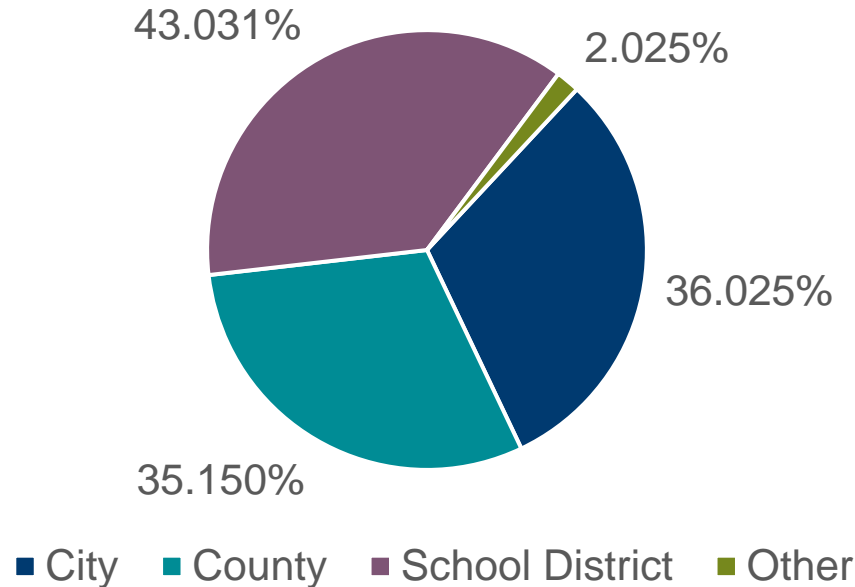
$$\text{Tax Rate} = \frac{\text{Funds to be raised by tax base (Tax Levy)}}{\text{Tax Base}}$$

Term	Definition
Tax Levy	Amount certified to the County Auditor by the taxing authority
Tax Base	The sum of the taxable values determined for each parcel & is the total tax base of the governing body
Tax Rate	Percentage applied to each individual parcel & generates local funds
Total Tax	Determined by tax rates for all governing bodies times tax base(s) for that property. Total tax = sum of those calculations

# Adding Up All The Political Subdivisions

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## Example Local Property Tax Rates, Combined Jurisdictions



# Putting It All Together: Residential Homestead

## STEP 1: CALCULATE THE TAXABLE MARKET VALUE AFTER EXCLUSION

STEP 1				
Taxable Market Value Prior to Exclusion	40.00%	multiplied by	\$95,000	= \$38,000
Less:	9.00%	multiplied by	205,000	= (18,450)
Total Market Value Exclusion =				\$19,550
Total Taxable Market Value after Exclusion =				<b>\$280,450</b>

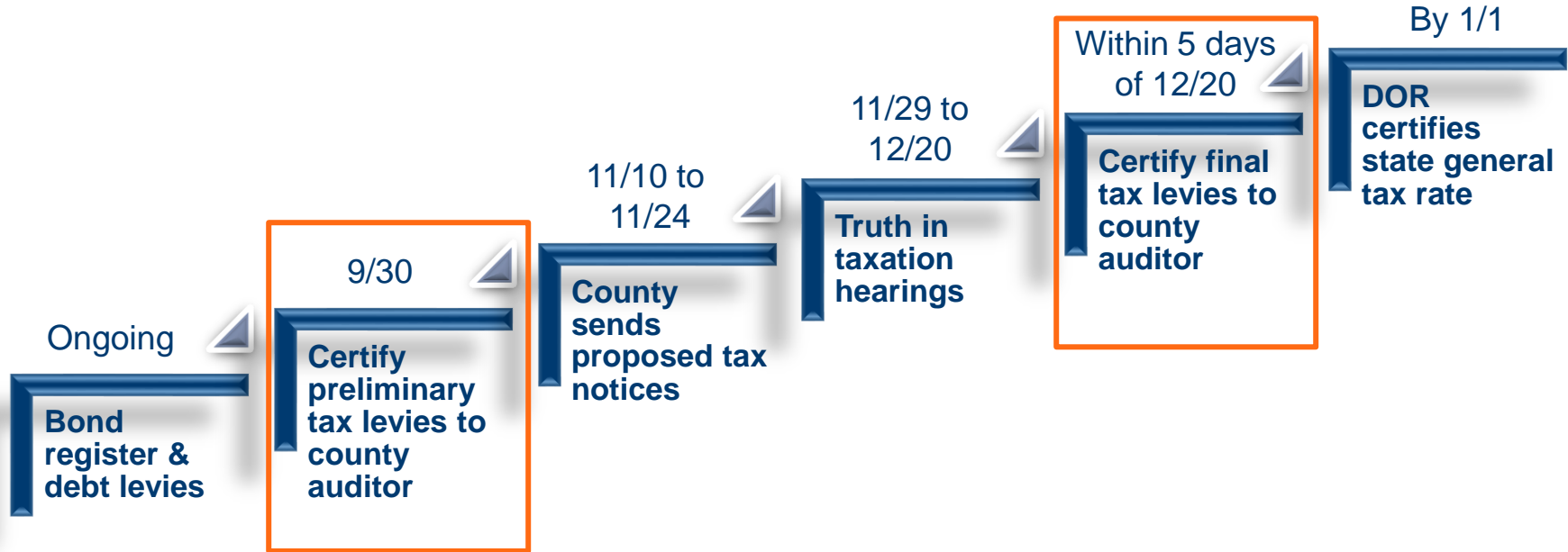
## STEP 2: CALCULATE THE NET TAX CAPACITY

1.00% x first \$500,000 of Taxable Market Value after Exclusion	\$2,805
1.25% x Taxable Market Value after Exclusion in excess of \$500,000	0
<b>Total Net Tax Capacity</b>	<b>\$2,805</b>

## STEP 3: CALCULATE THE LOCAL TAX

STEP 2				
Local Tax	116.231%	multiplied by	\$2,805	= \$3,260.28

# Taxing Jurisdictions: General Tax Levy Timeline



# Local Option Sales Tax (LOST): What Is It?

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Tax imposed  
by a local  
government  
upon the sale  
of applicable  
goods &  
services

- Cities may levy sales taxes to support certain activities, known as a Local Option Sales Tax
- Paid by the buyer, collected by the seller & remitted to the Minnesota Department of Revenue
- Remitted to the city at least quarterly



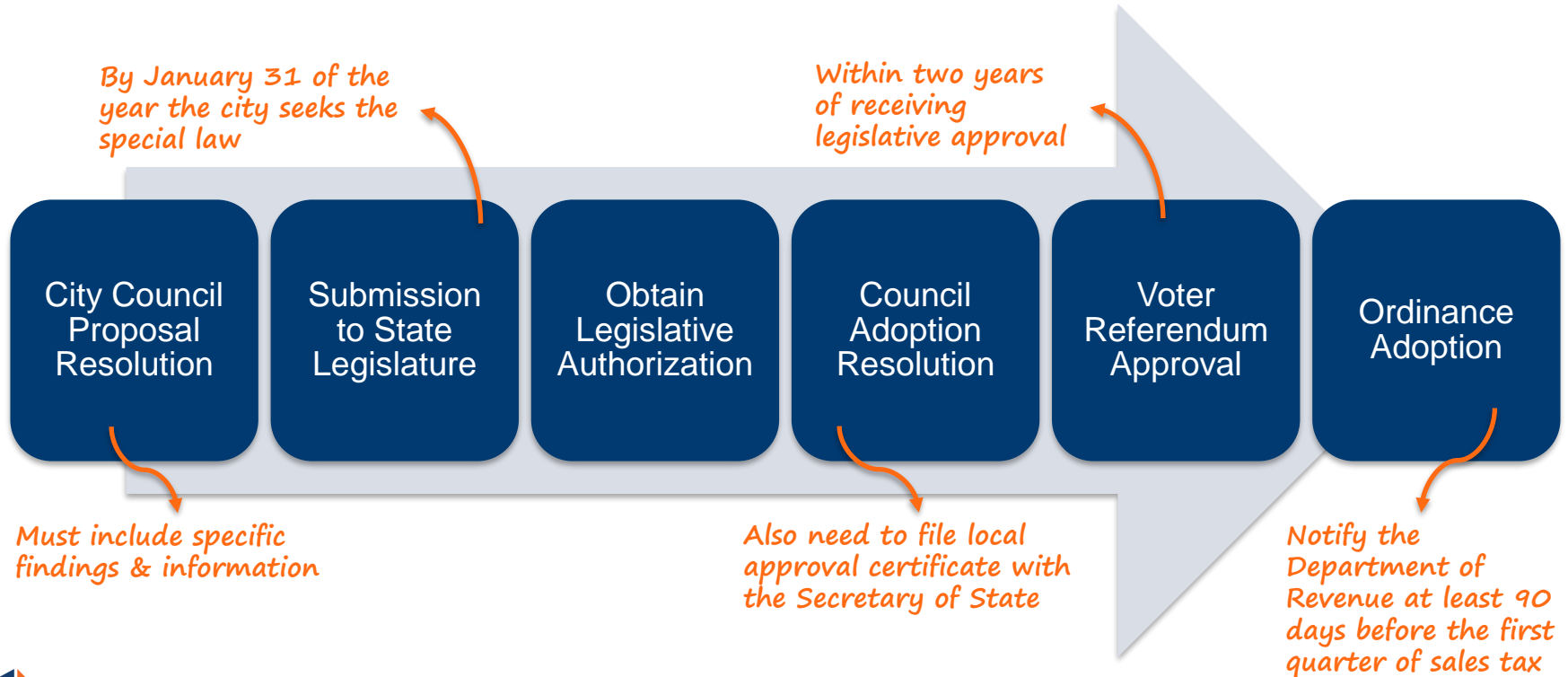
# LOST: Allowable Uses

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- Per Minnesota Statute § 297A.99, cities may impose local sales tax of up to 0.5%
- Cities may only expend LOST proceeds on up to five projects of “regional significance,” specifically:
  - ✓ A single building or structure, including associated infrastructure needed to safely access or use it
  - ✓ Improvements within a single park or named recreation area
  - ✓ A contiguous trail
- To impose the tax, cities must complete a six-step process



# LOST: Approval Process



# LOST: Current Status

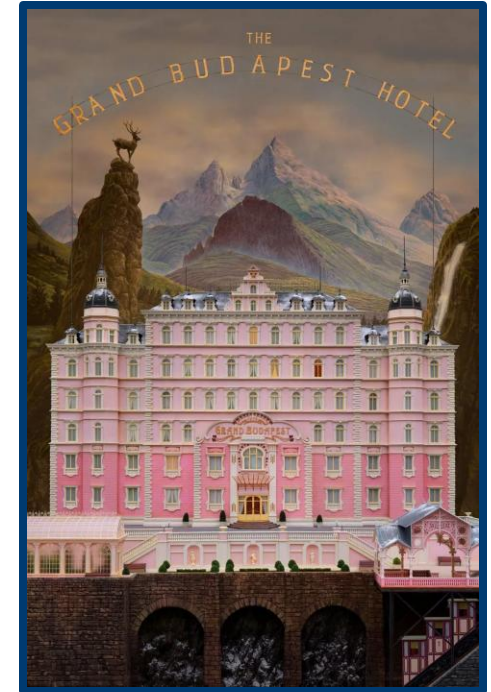
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- In 2023, the Legislature imposed a two-year moratorium on local sales tax proposals
  - ✓ Also formed a Local Taxes Advisory Task Force to make recommendations for the 2024 Legislative Session
- The 2025 Session include proposed LOST changes
  - ✓ Allow LOST without legislative approval for certain projects
  - ✓ Create a local equalization account
- Since the Legislature did not act, the moratorium expired on May 31, 2025
  - ✓ Cities now return to requesting special legislation required under the current process



# Local Lodging Tax: What Is It?

- Minnesota law allows cities and towns to impose local taxes on short-term lodging
  - ✓ For rentals of 30 days or less at a hotel, rooming house, resort, campground, motel or trailer camp
  - ✓ Up to 3%, including any lodging-related services
  - ✓ Separate from and in addition to any other taxes
- Cities may collect the lodging tax or work with the Minnesota Department of Revenue
- Local government may enter Joint Powers Agreements to expend lodging tax proceeds



# Local Lodging Tax: Allowable Uses

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## Local Lodging Taxes May Only Be Used For Tourism Promotion

95% shall be used to fund a local convention or tourism bureau to market & promote the city as a tourist or convention center

Up to 5% may be used for administrative costs

# Local Gambling Tax: What Is It?

- The State generally prohibits gambling, with exceptions for non-profit & charitable gaming
  - ✓ Includes pull-tabs, tip-boards, bingo, paddle tickets & raffles
- Cities cannot require local licensing, but they can make organizations...
  - ✓ Apply for permits for gambling exempt from State regulations
  - ✓ Expend their funds within a local trade area
  - ✓ Expend their funds on specific activities
  - ✓ Contribute to a fund administered by the City
  - ✓ Pay an investigation fee or gambling tax



# Local Gambling Tax: Potential Options

## Specific Expenditures

- Up to 10% of annual net, gambling profits
- Cannot condition any approvals on specific outlays
- Potential constitutional issues

## Local Gambling Fund

- Up to 10% of annual net, gambling profits
- Cannot condition any approvals on donations
- Annual reporting requirements

## Gambling Tax

- Up to 3% of annual gross receipts, less prize
- Only for regulatory costs
- Annual reporting requirements
- Cannot impose any investigation fees

**Local governments may always accept lawful donations from charitable gambling proceeds!**

# Local Gambling Tax: Allowable Uses

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## Charitable organizations & local governments may expend gambling proceeds on the following activities

- Non-Profit or Festival Organizations
- Poverty, Homelessness & Disabilities
- Problem Gambling Services
- Public & Private Schools
- Non-Profit Scholarship Funds
- Honor Military Service
- Federal, State & Local Government
- Recreational & Community Facilities
- Projects Approved by the MN DNR
- Nutritional Programs
- Community Arts Organizations
- Honor Humanitarian Services
- Property Taxes & Assessments
- Gambling Taxes

*Charitable  
Organizations  
Only*



# Public Utility Franchises: What Are They?

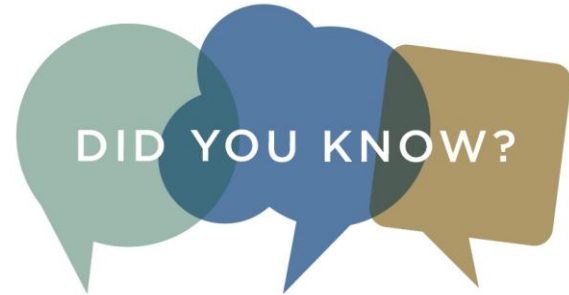
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- Under Minnesota Statutes, Section 216B.36, cities may require public utilities to obtain a franchise to operate on public property
  - ✓ Generally applicable to electric & gas utility providers
  - ✓ Public property includes parks, streets & other rights-of-way
  - ✓ Cities may require other terms & conditions, including obligations to pay municipal or franchise fees
  - ✓ May be used “to raise revenue or defray increased municipal costs accruing as a result of utility operations, or both”
- The franchises are typically negotiated as contracts, then adopted by municipality via ordinance

# What Else?

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- Given statutory authorization, municipalities may use franchise fee for any public purpose, most commonly:
  - ✓ Streets & sidewalks
  - ✓ Parks & sustainability
  - ✓ Building & public facilities
- Public utilities pass franchise fees though to ratepayers, usually labeled “City Fee” in billing



More than 350 cities in  
Minnesota collect  
Franchise Fees!

# Franchise Fees: The Pros & Cons

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## Advantages

- Flexible funding source
- Revenue stream diversification
- Capture tax-exempt Properties

- More regressive than property taxes
- No state relief program
- Less transparent process



## Disadvantages

# Okay... Okay... Now Show Us The Fees!

Electric Utility, Franchise Fee Estimates			
Customer Class	Monthly Fee	Average Monthly Accounts	Estimated Annual Revenue
Residential	\$ 3.00	3,000	\$ 108,000
Small C&I – Non-Demand	8.00	200	19,200
Small C&I – Demand	30.00	100	36,000
Large C&I	120.00	60	86,400
<b>Subtotal, Electric Utility</b>		<b>3,360</b>	<b>\$ 249,600</b>

Gas Utility, Franchise Fee Estimates			
Customer Class	Monthly Fee	Average Monthly Accounts	Estimated Annual Revenue
Residential	\$ 3.00	2,700	\$ 97,200
Commercial A	8.00	300	28,800
Commercial B	30.00	10	3,600
Commercial C	120.00	10	14,400
SVDF A & B	30.00	10	3,600
LVDF	120.00	-	-
<b>Subtotal, Gas Utility</b>		<b>3,030</b>	<b>\$ 147,600</b>

<b>Total</b>		<b>6,390</b>	<b>\$ 397,200</b>
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# Other Political Subdivisions

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## Economic Development Authorities

- Promote commercial & industrial growth
- May levy property taxes up to 0.01813% of EMV
- May issue debt

## Housing & Redevelopment Authorities

- Promote housing & redevelop blighted areas
- May levy property taxes up to 0.0185% of EMV
- May issue debt

## Port Authorities

- Promote port district commerce & welfare
- May levy property taxes up to 0.01813% of EMV
- May issue debt

# Some Other Options...

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## Special Service Districts

- For atypical or enhanced services
- Applies to commercial & multi-family properties

## Housing Improvement Areas

- For common area improvements
- Applies to properties within a common-interest community

## Storm Sewer Improvement Districts

- For constructing & maintaining storm sewer systems
- Applies to all taxable property within the district

# Final Thoughts

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**Local taxes come in many forms** — property, sales, lodging, gambling, franchise fees — each with its own rules, limits, and politics



**Understanding the “why” and “how”** of each tax tool helps cities balance service needs with fiscal responsibility



**Transparency and communication** are essential to building trust, especially with more visible taxes like LOST or franchise fees



**Strategic planning today** positions your community for success when new tools become available (again)





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