



# Local Option Sales Tax for Transportation Public Hearing





# Local Option Sales Tax Background

- In 2013 legislation passed granting County Boards the authority to impose an local sales tax to fund county transportation projects**
  - ✓ Up to ½ cent on MOST regular taxable items
  - ✓ Public hearing requirement
  - ✓ County Board majority vote
  - ✓ Dedicated to transportation by State Statute
  - ✓ County must designate projects to be completed
    - See 2016-2025 Sales Tax Implementation Plan(s)
  - ✓ Projected annual revenue for full ½ cent = \$4.18M
  - ✓ All revenue spent on Crow Wing County transportation improvements



# Local Option Sales Tax Background

## ❑ Application of local sales tax

- ✓ Traditional taxable transactions
- ✓ Motor vehicles registered for road use are **exempt** from local sales tax
- ✓ Cars, trucks, motorcycles and motor homes – **exempt**
- ✓ Car leases and rentals – **non exempt**
- ✓ Boats & ATVs – **non exempt**
- ✓ Boat trailers – **exempt**
- ✓ Camper trailers – **exempt**

## ❑ \$20 motor vehicle excise tax option allowed by legislation

- ✓ Not advanced by Crow Wing County
- ✓ Brainerd and Baxter already impose a motor vehicle excise tax



# State Statute Authorizing County Board Approved Local Option Sales Tax

## 297A.993 GREATER MINNESOTA TRANSPORTATION SALES AND USE TAX.

### Subdivision 1. **Authorization; rates.**

Notwithstanding section [297A.99](#), subdivisions 1, 2, 3, 5, and 13, or [477A.016](#), or any other law, the board of a county outside the metropolitan transportation area, as defined under section [297A.992, subdivision 1](#), or more than one county outside the metropolitan transportation area acting under a joint powers agreement, may by resolution of the county board, or each of the county boards, following a public hearing impose (1) a transportation sales tax at a rate of up to one-half of one percent on retail sales and uses taxable under this chapter, and (2) an excise tax of \$20 per motor vehicle, as defined in section [297B.01, subdivision 11](#), purchased or acquired from any person engaged in the business of selling motor vehicles at retail, occurring within the jurisdiction of the taxing authority.

### Subd. 2. **Allocation; termination.**

The proceeds of the taxes must be dedicated exclusively to: (1) payment of the capital cost of a specific transportation project or improvement; (2) payment of the costs, which may include both capital and operating costs, of a specific transit project or improvement; (3) payment of the capital costs of a safe routes to school program under section [174.40](#); or (4) payment of transit operating costs. The transportation or transit project or improvement must be designated by the board of the county, or more than one county acting under a joint powers agreement. Except for taxes for operating costs of a transit project or improvement, or for transit operations, the taxes must terminate when revenues raised are sufficient to finance the project.

### Subd. 3. **Administration, collection, enforcement.**

The administration, collection, and enforcement provisions in section [297A.99, subdivisions 4](#) and 6 to 12, apply to all taxes imposed under this section.



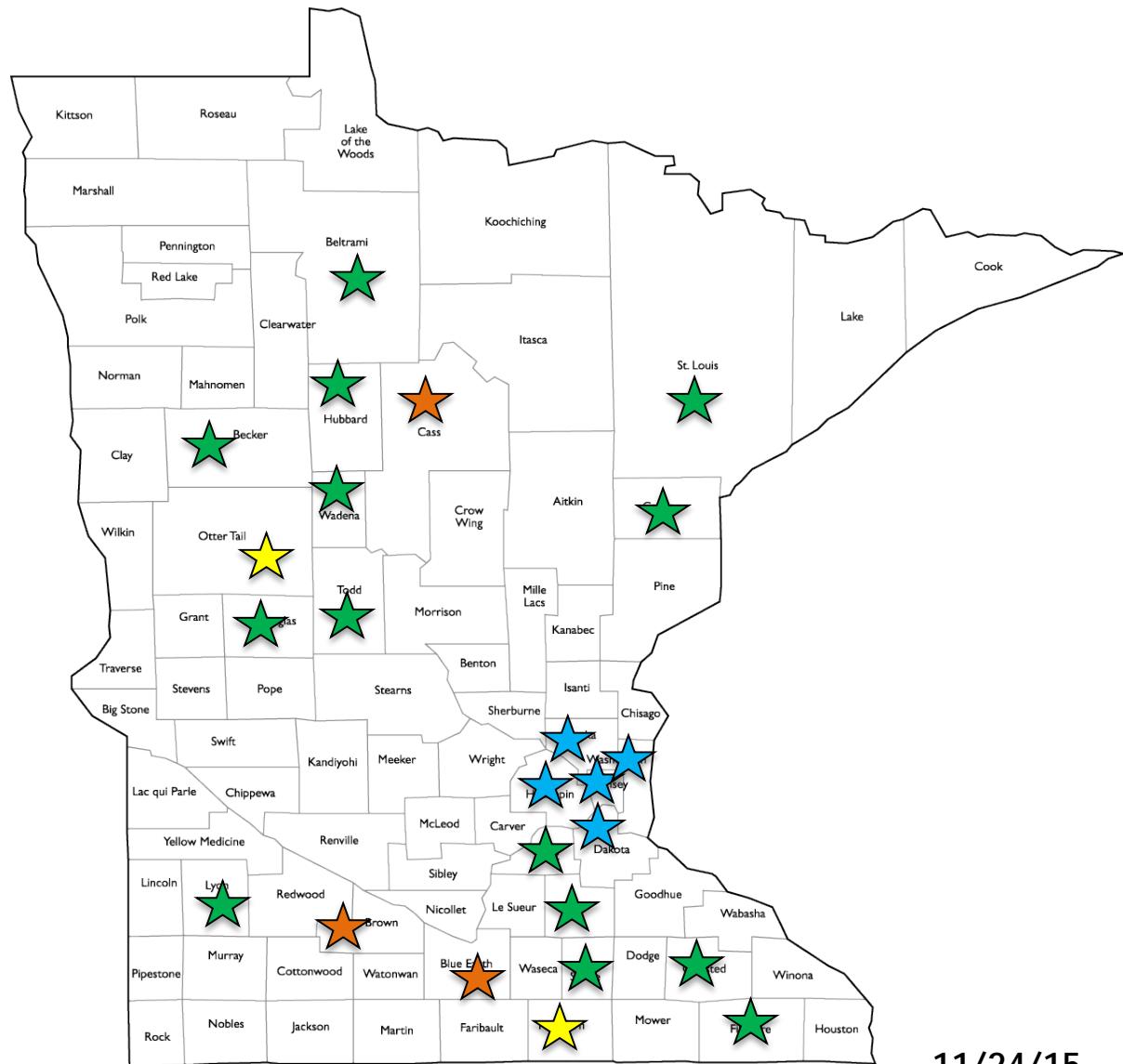
# Other Counties Choosing Local Option Sales Tax

MS 297A.993 GREATER - MN  
TRANSPORTATION SALES AND USE TAX

Olmsted	0.25%	1/1/2014
Rice	0.50%	1/1/2014
Beltrami	0.50%	4/1/2014
Wadena	0.50%	4/1/2014
Becker	0.50%	7/1/2014
Douglas	0.50%	10/1/2014
Fillmore	0.50%	1/1/2015
Todd	0.50%	1/1/2015
Carlton	0.50%	4/1/2015
St. Louis	0.50%	4/1/2015
Steele	0.50%	4/1/2015
Hubbard	0.50%	7/1/2015
Lyon	0.50%	10/1/2015
Scott	0.50%	10/1/2015
Freeborn	0.50%	1/1/2016
Otter Tail	0.50%	1/1/2016
Blue Earth	0.50%	4/1/2016
Cass	0.50%	4/1/2016
Brown	0.50%	4/1/2016

**MS 297A.992 - METROPOLITAN  
TRANSPORTATION AREA SALES TAX**

Washington	0.25%	7/1/2008
Ramsey	0.25%	7/1/2008
Anoka	0.25%	7/1/2008
Hennepin	0.25%	7/1/2008
Dakota	0.25%	7/1/2008





# Local Option Sales Tax

- Since legislation was passed in 2013 Crow Wing County has taken a thoughtful approach
  - ✓ Discussed at 2013, 2014, 2015 (2) Transportation Advisory Committee meetings.
  - ✓ Partnered with University of Minnesota Extension to conduct a county-wide sales tax study
  - ✓ Observed strategies of other counties
  - ✓ Considered alternatives proposed by the Minnesota Legislature
  - ✓ Gathered logistical information from the Department of Revenue (DOR)
  - ✓ Studied how increased funding would impact the Crow Wing County Highway system



# Crow Wing County Sales Tax Study

<http://mn-crowwingcounty2.civicplus.com/DocumentCenter/View/10682>



## Study results summary

- ✓ **\$4.18M** of new revenue projected from implementation of a full  $\frac{1}{2}$  cent sales tax
- ✓ **51.3%** of projected revenue paid by Crow Wing County guests

**Local Option Sales Tax Analysis for Crow Wing County**

ESTIMATED CONTRIBUTION OF SEASONAL RESIDENTS, VISITORS, AND TRAVELERS TO A LOCAL OPTION SALES TAX SUPPORTING TRANSPORTATION PROJECTS

Authored by Merritt Bussiere and Bruce Schwartau



Red Sand Lake, Baxter Photo Credit: Denise Stromme

PROGRAM SPONSORS: HIGHWAY DEPARTMENT, CROW WING COUNTY, MN



# Local Option Sales Tax

- ❑ Currently the Highway Department receives 10¢ for every property tax dollar paid to Crow Wing County.
  - ✓ \$3,416,745 (2016)
  - ✓ \$1.2M allocated annually for construction
  
- ❑ To generate an equivalent \$4.18M in property taxes:
  - ✓ Road & Bridge levy increase of 122%
  - ✓ Total County property tax levy increase of 12.0%



# Local Option Sales Tax

## Sales tax expenditure breakdown

- ✓ CWC and DOR Admin = **4.4%**
  - Collection, accounting and distribution of funds
- ✓ Engineering, Construction & Maintenance = **95.6% Minimum**
  - Project design and inspection (internal and external)
  - System maintenance and preservation (internal and external)
  - Construction contractor payments



# Local Option Sales Tax Challenges

## Internal Challenges

- ✓ Design of construction projects with existing staff
- ✓ Inspection of construction projects with existing staff
- ✓ Delivery of road maintenance with existing staff
- ✓ Less stable form of transportation funding
- ✓ Other

## External Challenges

- ✓ Impact on families and businesses ?



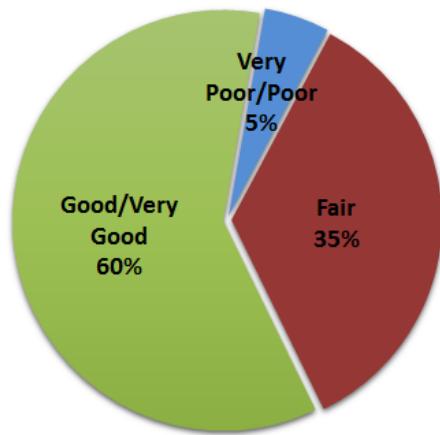
# Why Consider a Sales Tax for Transportation?



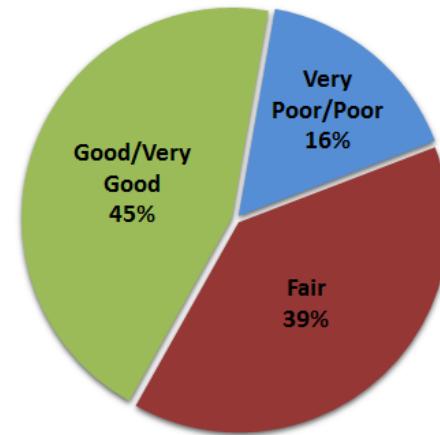


# Crow Wing County Roadway Performance Targets

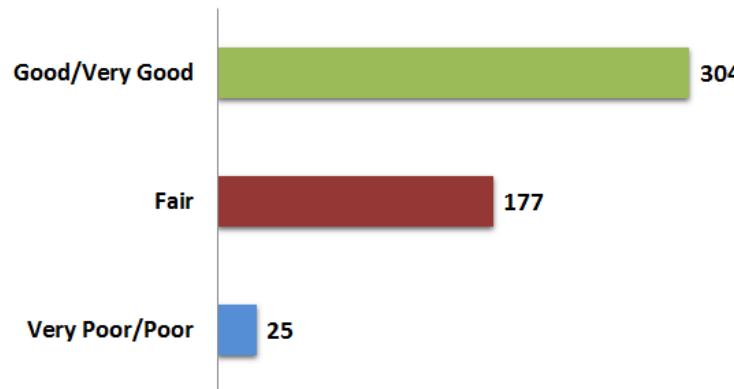
Overall System Performance Target



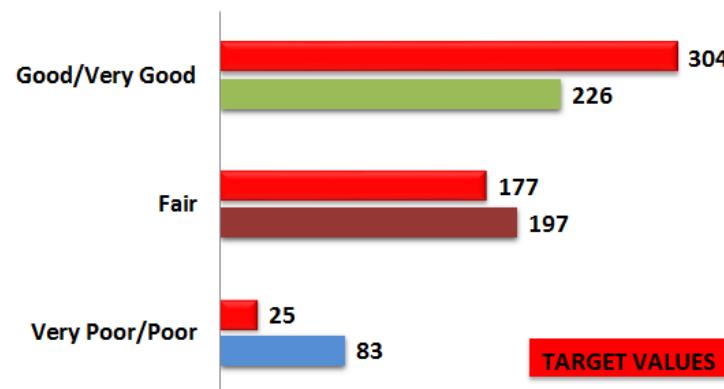
Overall System Performance 2015



Overall System Performance Target by Mileage



Overall System Mileage Distribution by Performance (507 CSAH + CR Miles)





# New Crow Wing County Pavement Management Definition

## de·fer·ment

/de 'ferment/

*Noun*

official permission to pay for something at a later time.

*“Jane was granted a five year student loan deferment.”*

the action or fact of putting something off to a later time; postponement.

*“the board of directors authorized a one year deferment of all building repairs due to the lack of funding”*

**Synonyms:** [postponement](#), [deferral](#), [suspension](#), [delay](#), [pause](#)



# Crow Wing County Roadway Performance Thresholds

## RIDE QUALITY INDEX (RQI) RANGES

CATEGORY	RQI
VERY GOOD	81-100
GOOD	61-80
FAIR	41-60
POOR	21-40
VERY POOR	0-20

## County State Aid Highway (CSAH) and County Road (CR) Ride Quality Index (RQI) Thresholds

ADT Range	RQI	Goal
$\geq 5000$	60	Maintain Good/Very Good Rating for all High Volume Roads
$\geq 2800 < 5000$	56	Maintain Fair/Good rating for all Moderate Volume Roads
$\geq 500 < 2800$	52	Maintain Fair/Good rating for all Moderate Volume Roads
<500	48	Maintain Fair Rating for all Low Volume Roads

- ❑ Ride Quality Index (RQI)
  - ✓ Roughness of the road

- ❑ Deferment
  - ✓ With current funding levels, Crow Wing County is deferring over 150 miles of pavement preservation per year.
  - ✓ Delaying roadway construction and knowingly allowing it to deteriorate below the established roughness (RQI) thresholds.



# Roadway Improvement Deferment Goal/Performance Targets

## **Proposed Crow Wing County deferment goal**

- ✓ Zero annual project deferments on entire system
- ✓ This is unachievable under current funding
- ✓ This is achievable within 10-15 years with adequate funding

## **New deferment performance target**

- ✓ Still in development

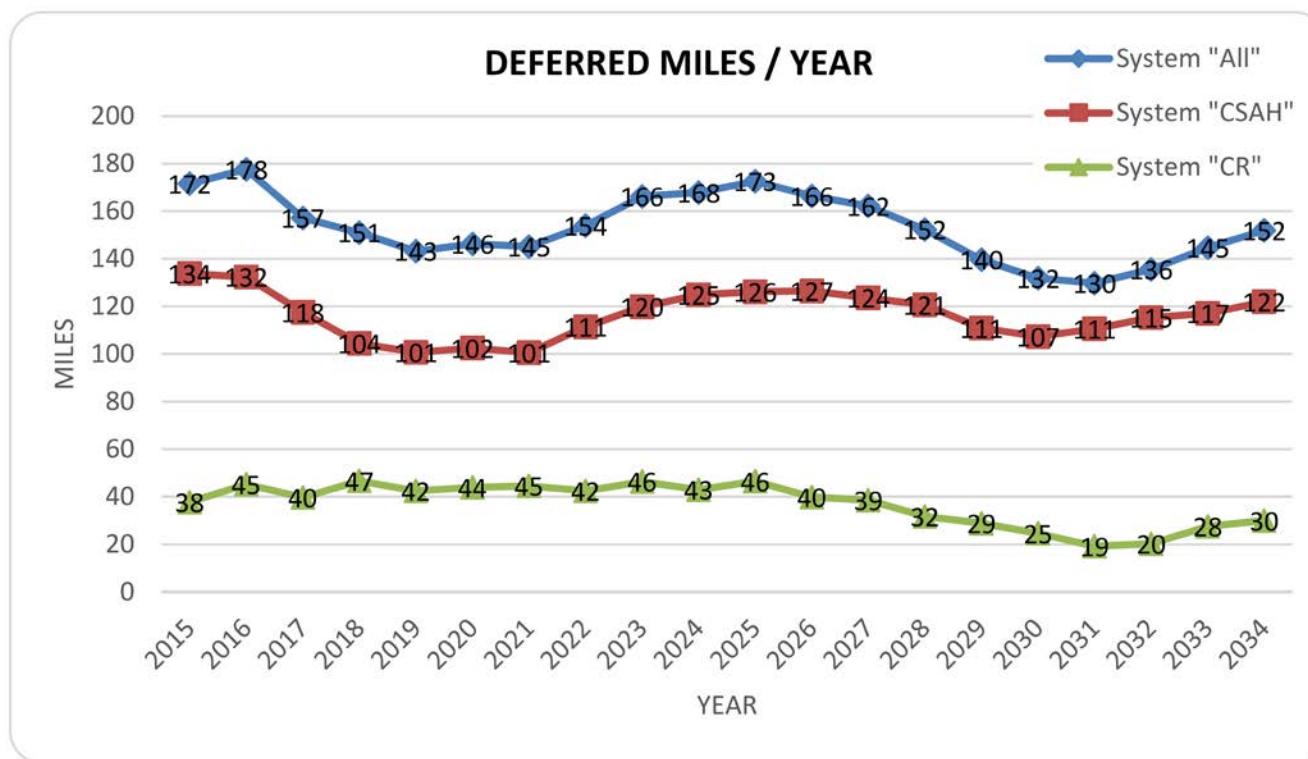


# Pavement Analysis

## Current Construction Funding Levels

**\$4.7M/year**

- ❑ CSAH system average construction = **\$3.5M per year**
- ❑ County Road (CR) average construction = **\$1.2M per year**
- ❑ Average number of miles resurfaced = **22.5 miles per year** (7.5 CR)(15.0 CSAH)
- ❑ Average number of deferred miles = **159 miles per year** (37.0 CR)(122.0 CSAH)





# Pavement Analysis

(Current funding levels \$4.7M/year)

Performance at Current Funding Levels (\$4.7M)

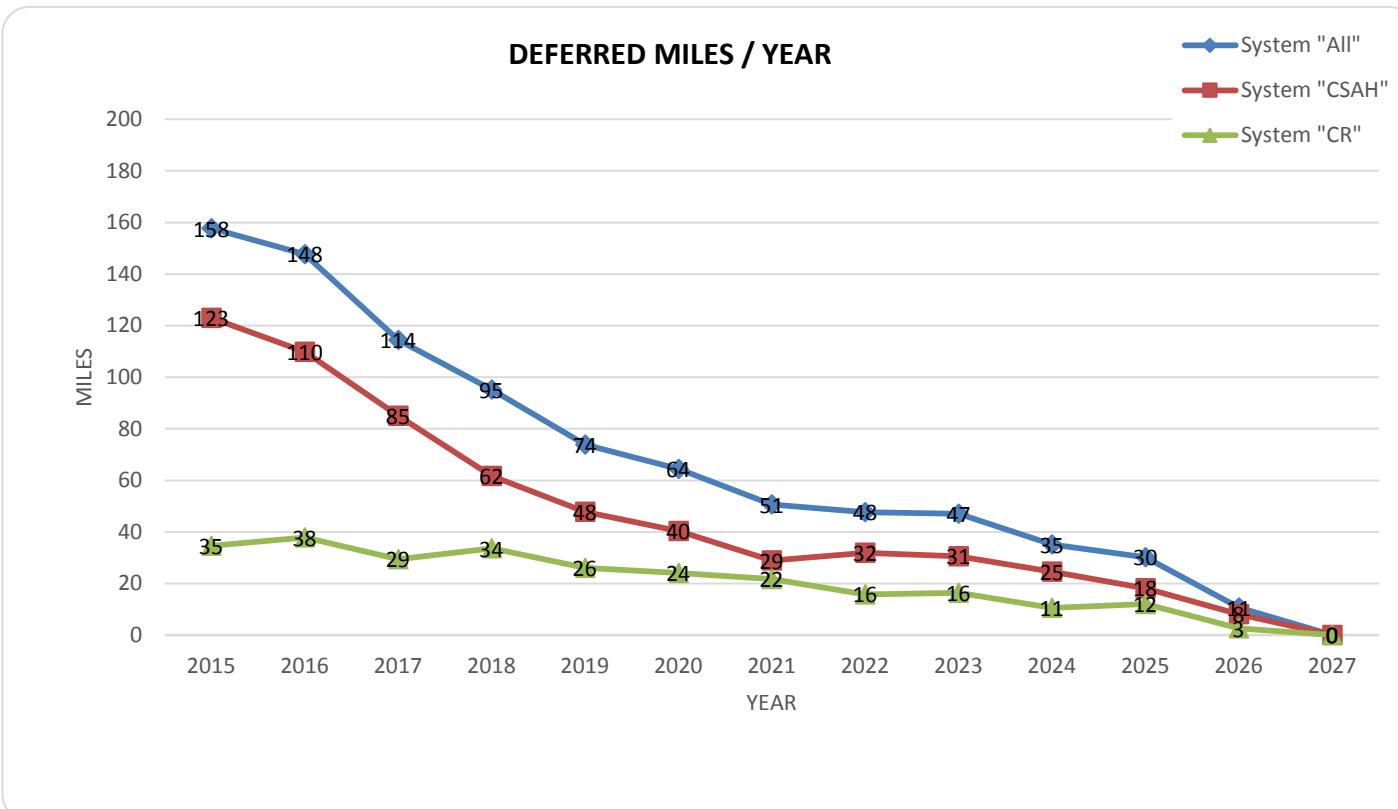




# Pavement Analysis

## (Construction Funding Increase of \$3.0M)

- Full ½ cent sales tax with no levy reduction (Full \$1.2M construction portion available)**
- CSAH system average construction = **\$3.5M + \$2.4M per year**
- County Road (CR) average construction = **\$1.2M + \$600K per year**
- Average number of miles resurfaced = **35 miles per year** (10.0 CR)(25.0 CSAH)

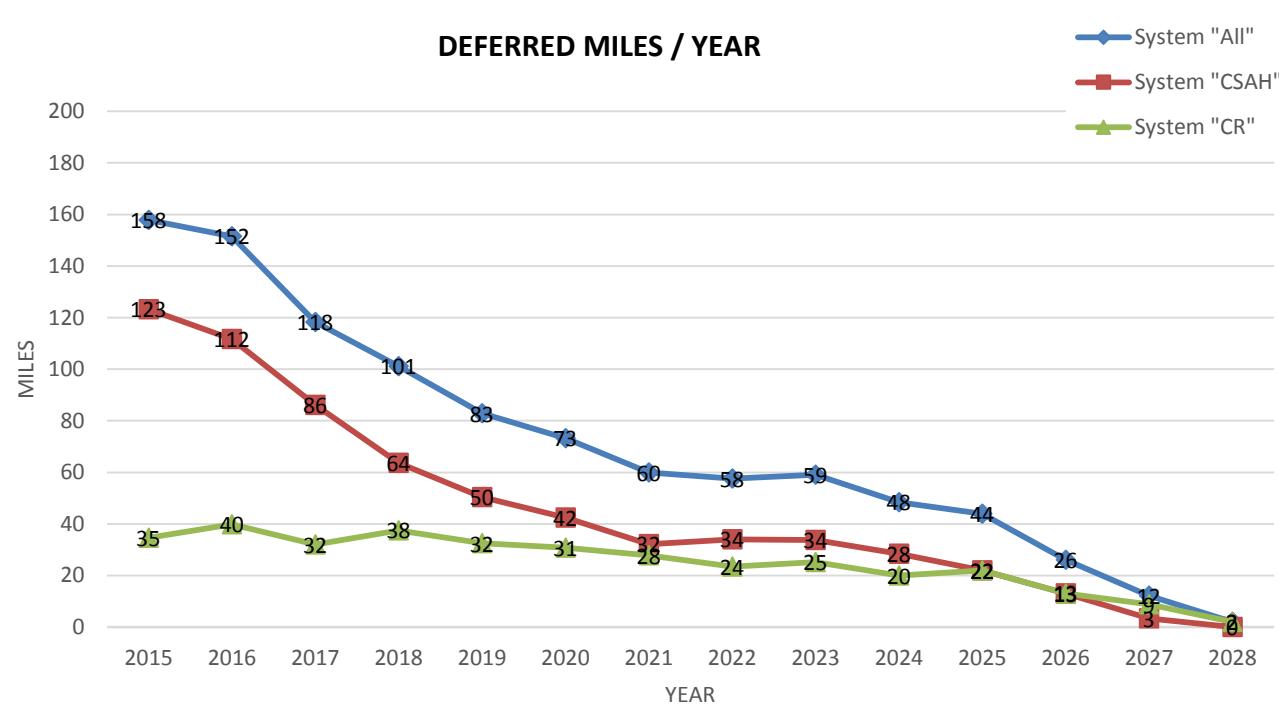




# Pavement Analysis

## (Construction Funding Increase of \$2.7M)

- ❑ Full  $\frac{1}{2}$  cent sales tax and \$600K levy reduction (  $\frac{1}{2}$  construction portion)
- ❑ CSAH system average construction = \$3.5M + \$2.3M per year
- ❑ County Road (CR) average construction = \$1.2M + \$400K per year
- ❑ Average number of miles resurfaced = 34 miles per year (9.5 CR)(24.5 CSAH)

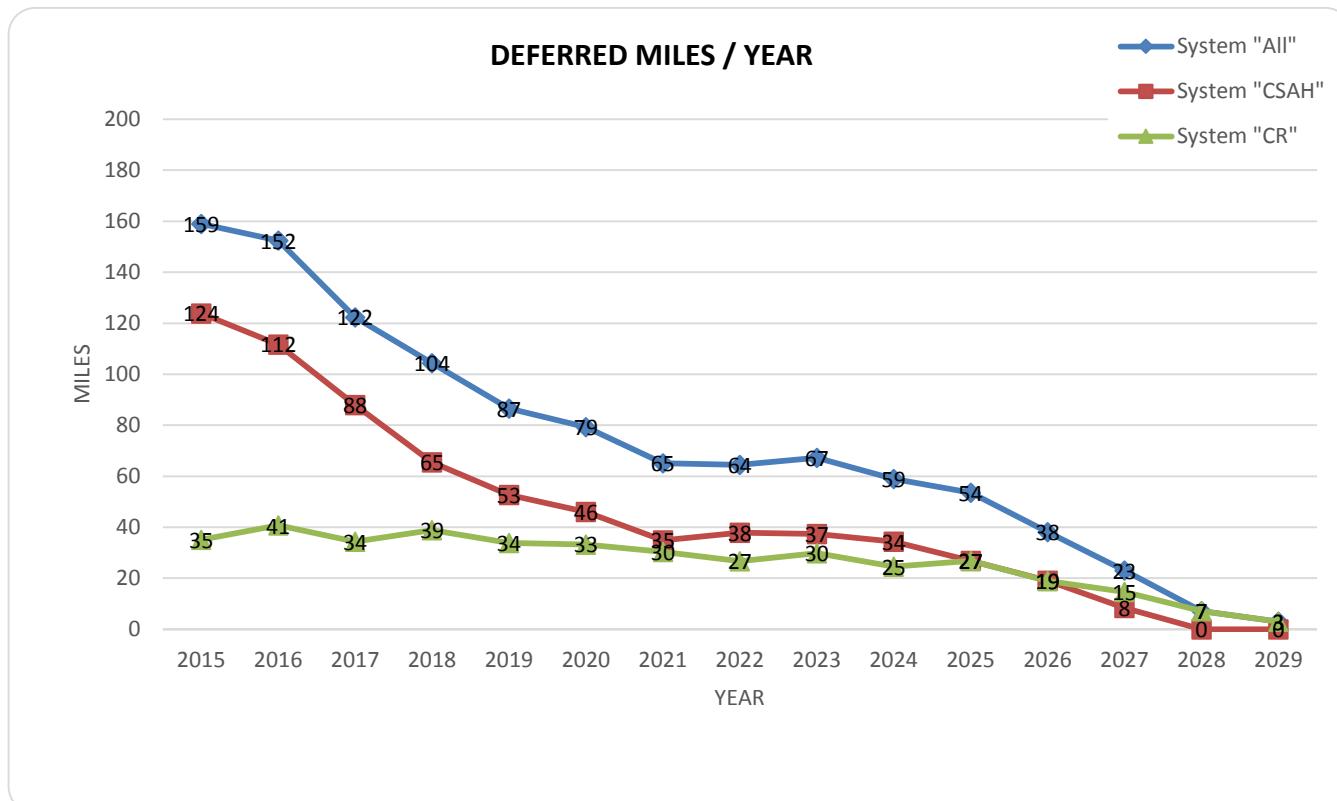




# Pavement Analysis

## (Construction Funding Increase of \$2.5M)

- ❑ Full  $\frac{1}{2}$  cent sales tax and \$1.2M levy reduction (Full construction portion)
- ❑ CSAH system average construction = \$3.5M + \$2.2M per year
- ❑ County Road (CR) average construction = \$1.2M + \$300K per year
- ❑ Average number of miles resurfaced = 33 miles per year (9.0 CR)(24.0 CSAH)





# Funding and Deferment Reduction Summary

Description	Current Funding Only		Current Funding + Sales Tax + (\$0.00) Levy Reduction		Current Funding + Sales Tax + (\$600,000) Levy Reduction		Current Funding + Sales Tax + (\$1,200,000) Levy Reduction	
New Revenue Potential (0.5%)	\$0.00		\$4,180,000.00		\$4,180,000.00		\$4,180,000.00	
County Road and Bridge Levy Reduction	0%	\$0.00	0%	\$0.00	17.6%	\$600,000.00	35.1%	\$1,200,000.00
Overall County Levy Reduction	0%		0%		1.74%		3.48%	
Net Revenue Increase for Transportation	\$0.00		\$4,180,000.00		\$3,580,000.00		\$2,980,000.00	
Administrative Allocation	4.4%	\$0.00	4.4%	\$183,920.00	3.7%	\$131,135.40	2.6%	\$78,314.40
Engineering , Mainteneance and Construction	95.6%	\$0.00	95.6%	\$3,996,080.00	96.3%	\$3,448,578.20	97.4%	\$2,901,685.60
Average CSAH Paved Per Year	15.0 Miles		25.0 Miles		24.5 Miles		24.0 Miles	
Average CR Paved Per Year	7.5 Miles		10.5 Miles		9.5 Miles		9.0 Miles	
Total Increase Miles Paved Per Year	22.5 Miles		13.0 Miles		11.5 Miles		10.5 Miles	
Year Deferment Goal Achieved	Never		2027		2028		2029	

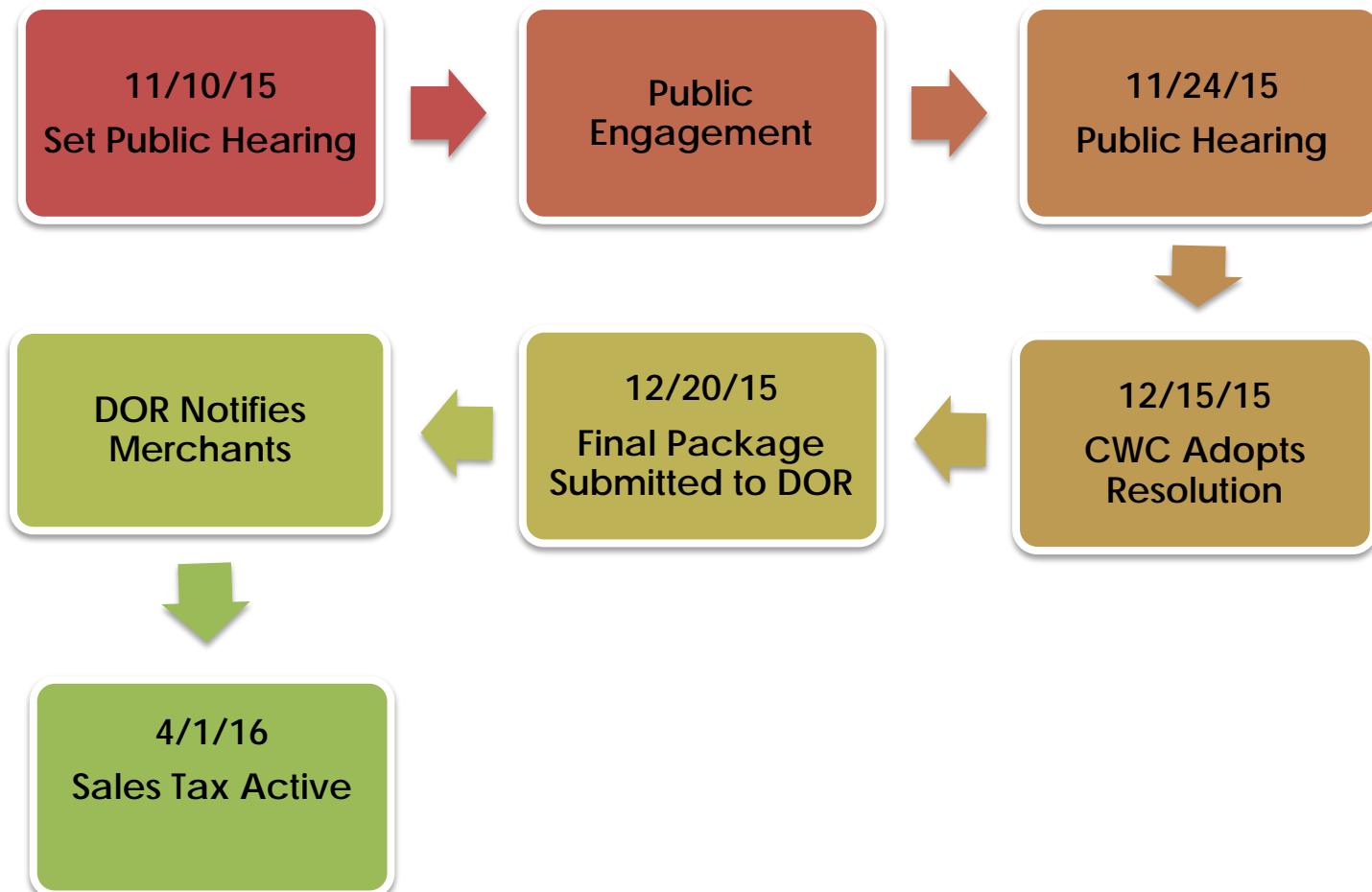


# Local Option Sales Tax Administration

- Department of Revenue (DOR) collects and distributes funds
- Can only start on first day calendar quarter
- DOR must be notified 90 days prior to start
  - ✓ Ensures merchants have 60 day notice
- \$20K one-time start up fee
- DOR fee (1-2%)
- Monthly payments from DOR to County



# Sales Tax Implementation Process





# Questions?

