CITY OF MINNEAPOLIS

Local Sales and Hospitality Tax Overview and Summary

Ways & Means Committee

April 25, 2016

Minneapolis
City of Lakes

Local Sales and Hospitality Taxes Staff Direction

1. A description of legal uses of sales tax under current state law;
2. A description of projected sales tax proceeds for the next 20 years;
3. A report showing the current plans for debt service and finance plan payment for the Convention Center, Target Center, and Vikings Stadium, and a comparison of sales tax receipts in excess of such finance plans.
4. Develop a proposal for annual reports on sales tax proceeds and expenditures to the City Council.

Local Sales and Hospitality Taxes Defined

- **Minneapolis Entertainment Tax – 3.0%**
  - Admission fees
  - Use of Amusement devices and games
  - Food, drinks and merchandise sold in public places during live performances
  - Short-term lodging within the city limits
- **Minneapolis Lodging Tax – 2.625%**
  - Hotels and Motels with > 50 rooms available for lodging
- **Downtown Minneapolis Liquor and Restaurant Taxes – 3.0%**
  - Only applies in specified downtown areas
- **Minneapolis Sales and Use Tax – 0.5%**
  - Applies to all taxable sales within City

Source: http://www.revenue.state.mn.us/businesses/sut/factsheets/FS164M.pdf

Local Sales and Hospitality Taxes
Summary of Sales/Uses Taxes Charged in Minneapolis

Minneapolis tax combinations

	State Tax	Liquor tax	Transit Improv	Henn Co	Mpls sales/use	Mpls lodging	Mpls liquor	Mpls restaurant	Mpls entertainment		Total %
Restaurant											
No entertainment	6.875	—	0.25	0.15	0.5	—	—	—	—	=	7.775
Live entertainment	6.875	—	0.25	0.15	0.5	—	—	—	3	=	10.775
Downtown restaurant											
No entertainment	6.875	—	0.25	0.15	0.5	—	—	3	—	=	10.775
Live entertainment	6.875	—	0.25	0.15	0.5	—	—	3	3	=	13.775
Liquor on-sale											
No entertainment	6.875	2.5	0.25	0.15	0.5	—	—	—	—	=	10.275
Live entertainment	6.875	2.5	0.25	0.15	0.5	—	—	—	3	=	13.275
Downtown liquor on-sale											
No entertainment	6.875	2.5	0.25	0.15	0.5	—	3	—	—	=	13.275
Live entertainment	6.875	2.5	0.25	0.15	0.5	—	3	—	3	=	16.275
Liquor off sales	6.875	2.5	0.25	0.15	0.5	—	—	—	—	=	10.275
Lodging											
50 rooms or less	6.875	—	0.25	0.15	0.5	—	—	—	3	=	10.775
More than 50 rooms	6.875	—	0.25	0.15	0.5	2.625	—	—	3	=	13.400
Theater admissions*	6.875	—	0.25	0.15	0.5	—	—	—	3	=	10.775
Other retailers	6.875	—	0.25	0.15	0.5	—	—	—	—	=	7.775

*Theater snack bar sales in the downtown taxing area are subject to the special restaurant and liquor taxes and may be subject to the entertainment tax (during periods of live entertainment.

Source: http://www.revenue.state.mn.us/businesses/sut/factsheets/FS164M.pdf

Sales/Use Tax Summary
Sales Taxes Retained By State

Sales/Use Tax Collections	Millions $ 2010	2011	2012	2013	2014
Total Received from MN Cities*	$3,307.07	$3,493.05	$3,641.71	$3,869.34	$3,961.72
Minneapolis	$485.98	$516.58	$521.99	$575.09	$583.58
St. Paul	$209.22	$219.59	$221.90	$238.55	$228.69
Bloomington	$186.85	$192.34	$197.18	$212.06	$227.83
All Others	$2,425.04	$2,564.52	$2,700.64	$2,843.65	$2,921.63
Minneapolis % of Total MN Cities	14.7%	14.8%	14.3%	14.9%	14.7%

**Source: MN Department of Revenue – amounts do not reflect collections from sources outside the state or unincorporated areas*

Local Sales and Hospitality Taxes Legal Uses

- *Pursuant to Laws 1986, Chapter 396, Sec.4, as amended by Laws 1987, Chapter 55, Secs. 5 and 6; Laws 2009, Chapter 88, Art. 4, Secs. 11 and 12; and Laws 2012, Chapter 299, Art. 3,Sec. 4:*
- The excess in any year of the City's .5% sales and use tax, and the City's liquor, lodging and restaurant taxes, (after stadium, Convention Center and Target Center Debt) can be used for the following purposes:
  - **"to fund capital projects to further residential, cultural, commercial, and economic development in both downtown Minneapolis and the Minneapolis neighborhoods;" and**
  - **"to fund other city expenditures in support of the basketball arena, other capital projects, or for other economic development, provided the city may direct excess revenue first to convention center debt, operations, capital improvements, and marketing."**

Local Sales and Hospitality Taxes City Policy* for Uses

The City shall use the proceeds from local sales taxes dedicated by the State for municipal use as funding levels allow for the following purposes:

- **For the payment of debt service obligations on the City's convention center.**
- **For operational support of the City's convention center, inclusive of maintenance, service, and marketing agreements.**
- **For baseline capital projects and maintenance at City facilities as allowed by law, including the City's convention center and Target Center.**
- **For establishment of reserves in a tax stabilization account to smooth changes in taxes levied.**
- **For infrastructure needs that promote economic development.**
- **For economic development – related public safety needs.**
- **For discretionary capital projects at the City's convention center and Target Center.**
- **Other needs as determined by the City.**

**City Financial Policies, 2016 Council Adopted Budget Book, page 78*

Local Sales and Hospitality Taxes History

	Millions $$				
	2012 Actual	**2013 Actual**	**2014 Actual**	**2015 Actual**	**2016 Adopted**
Sales and Uses Taxes	$ -	$ -	$ 34.19	$ 37.81	$ 35.07
Entertainment Taxes	$ 12.91	$ 13.10	$ 15.28	$ 14.80	$ 15.26
Food Taxes	$ -	$ -	$ 12.33	$ 11.67	$ 12.67
Liquor Taxes	$ -	$ -	$ 5.20	$ 4.72	$ 5.48
Lodging Taxes	$ -	$ -	$ 7.32	$ 7.23	$ 7.52
Total General Fund	$ 12.91	$ 13.10	$ 74.32	$ 76.23	$ 76.00
Sales and Uses Taxes	$ 31.73	$ 32.60	$ -	$ -	$ -
Food Taxes	$ 11.46	$ 11.87	$ -	$ -	$ -
Liquor Taxes	$ 5.43	$ 5.09	$ -	$ -	$ -
Lodging Taxes	$ 6.43	$ 6.75	$ -	$ -	$ -
Total Convention Center	$ 55.05	$ 56.31	$ -	$ -	$ -
Entertainment Taxes	$ 1.30	$ 1.23	$ 1.98	$ 1.58	$ 1.39
Total Arena	$ 1.30	$ 1.23	$ 1.98	$ 1.58	$ 1.39
Grand Total Local Taxes	**$ 69.25**	**$ 70.63**	**$ 76.29**	**$ 77.82**	**$ 77.39**

Source: MN Department of Revenue; Finance and Property Services

Local Sales and Hospitality Taxes Historical Uses

- Convention Center ($50-$56M)
  - Debt Service
  - Operations (incl. Meet Minneapolis)
  - Capital Improvements
- Target Center (~$2M)
  - Capital and Operations
    - (Entertainment Taxes only)
- General Fund (~$13M)
    - (Entertainment Taxes only)
    - Plus ~$5M transfer from Convention Center
    - Total General Fund Use ~$18M

Local Sales and Hospitality Taxes Uses in 2016 Budget

- Convention Center (~$50M)
  - Debt Service
  - Operations (incl. Meet Minneapolis)
  - Capital Improvements
- Target Center (~$3M)
  - Capital and Operations
  - Renovation Debt Service
- General Fund (~$23M)

Local Sales and Hospitality Taxes Projections

	Millions $$				
	2017 Proj	**2018 Proj**	**2019 Proj**	**2020 Proj**	**2021 Proj**
Sales and Uses Taxes	$ 36.47	$ 37.38	$ 38.31	$ 39.27	$ 40.25
Entertainment Taxes	$ 15.87	$ 16.26	$ 16.67	$ 17.09	$ 17.51
Food Taxes	$ 13.18	$ 13.51	$ 13.85	$ 14.19	$ 14.55
Liquor Taxes	$ 5.70	$ 5.84	$ 5.99	$ 6.14	$ 6.29
Lodging Taxes	$ 7.82	$ 8.02	$ 8.22	$ 8.43	$ 8.64
Total General Fund	$ 79.04	$ 81.02	$ 83.04	$ 85.12	$ 87.25
Sales and Uses Taxes	$ -	$ -	$ -	$ -	$ -
Food Taxes	$ -	$ -	$ -	$ -	$ -
Liquor Taxes	$ -	$ -	$ -	$ -	$ -
Lodging Taxes	$ -	$ -	$ -	$ -	$ -
Total Convention Center	$ -	$ -	$ -	$ -	$ -
Entertainment Taxes	$ 0.94	$ 1.60	$ 1.63	$ 1.67	$ 1.71
Total Arena	$ 0.94	$ 1.60	$ 1.63	$ 1.67	$ 1.71
Grand Total Local Taxes	$ 79.98	$ 82.62	$ 84.67	$ 86.79	$ 88.96

Source: Finance and Property Services Staff

Local Sales and Hospitality Taxes Known Obligations

- Convention Center
  - Debt
  - Capital Improvements
  - Operations
- Target Center
  - Debt
  - Capital Improvements
  - Operator Reimbursement
- USBank Stadium
  - Stadium Debt
  - Revenue Sharing for MSFA Operations
  - Stadium Operations

Local Sales and Hospitality Taxes
Future Estimates and Uses

Estimated Sources/Uses	Millions $$	Notes
Projected Revenues 2015-2035	$ 2,084.5	($77M/Yr ==> $127M/Yr)
Convention Center Debt 2015-2020	($ 152.4)	(avg $25M/Yr)
Convention Center Ops 2015-2035	($ 702.9)	(~$25M ==> $46M/Yr)
Stadium Debt and Ops 2021-2035	($ 383.1)	(~$25M/Yr)
Target Center Ops 2015-2035	($ 44.7)	(avg $2M/Yr)
Target Center Capital 2015-2035	($ 127.8)	(avg $6M/Yr)
TC Renovation Debt 2016-2035	($ 100.0)	(~$6M/Yr)
General Fund Uses 2015-2035	($ 517.1)	($20M ==> $30M/Yr)
Net Estimated "Surplus" 2015-2035*	$ 56.5	(~$2M ==> $5M/Yr Beg 2021)

**Subject to a number of factors and assumptions including: continued growth in receipts, relatively low inflationary cost increases, volatility of other non-tax revenues*

Local Sales and Hospitality Taxes Use Considerations

- Volatility
- Inflation
- Economy (Business Cycle)

Local Sales and Hospitality Taxes
On-Going Reporting Recommendation

- Propose to incorporate as additional schedule in annual 4th Quarter Report (see Attachment 3 as sample)

CITY OF MINNEAPOLIS

Questions?

Ways & Means Committee

April 25, 2016