

**TO:** Mayor and City Council  
**FROM:** Kate Thunstrom, City Administrator  
**SUBJECT:** Local Sales Tax \_ Information Only  
**DATE:** April 20, 2026

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**OVERVIEW:**

The revenue source of a Local Sales Tax has come forward in conversation. Below I have identified high level notes for council to review to determine if they are interested in a greater level of time to be spent on this topic.

**What is Local Sales Tax?**

A city may impose a local general sales tax. There are several State Statutes that govern the use and process of these funds. Local sales taxes are to be used instead of traditional revenues **ONLY** for construction and rehabilitation of capital projects when a clear regional benefit beyond the taxing jurisdiction can be shown.

**What can it be used for?**

Local taxes can only be used for capital projects that can show a “regional significance”. State law limits projects to:

- a single building or structure, including associated infrastructure needed to safety access or use the building or structure.
- improvements within a single park or named recreational area
- contiguous trail

Projects related to roads and other infrastructure are not considered “regionally significant” and the state feels they can be financed, at least in part, with other revenue sources.

“Regional significance” is required on the project and our document is required to include the share of the economic benefit to, or use of, each project by person residing, or businesses located, outside of the jurisdiction. It cannot be a project that only supports St. Francis.

## What is the process?

There are several statutory steps that the city must complete to impose a local sales tax. Those steps, in the order in which they are required, are as follows:

1. Adopt a resolution that includes the proposed rate, project, identify regional significance, amount to be raised and length of time it will be collected
2. Submit the resolution and supporting documentation to the State Tax Committee. Working with LGN we would submit to the Chairs and ranking minority members of the House and Senate Tax committees and other appropriate subcommittees
3. Obtain Legislative authorization. The City must secure the approval of a local tax
4. Adopt another resolution. This is to accept the new law, then file the resolution with the Secretary of State.
5. Hold a Referendum. The City must hold a referendum vote during a general election within two years of the legislative authority. Ballot questions must be specific to each project if more than one project is being proposed.
6. Pass an Ordinance. City must pass an ordinance imposing the tax including the date it will go into effect as well as notify the commission of Revenue.

An example of the timeline would be as follows:

1. 2026 council would pass a resolution prior to November
2. 2026 November/December, submit request to Tax Committee
3. 2027 staff would work with LGN on getting legislative approval.
  - a. If we obtain approval in the first year, we can move on to step four.
  - b. If we do not obtain approval, the city would need to go back to the 2028 legislative session, and the next possible general election would be in 2030
4. 2027 create ballot questions, adopt next second resolution and begin education for ballot questions for a 2028 referendum
5. 2028 General Election, hold referendum with ballot questions
6. 2029 if item passed referendum, complete state documentation requirements and determine when to begin collecting.

## What is at stake?

- Positive – this would create an additional tax that would support projects inside of St. Francis.
- Negative – use of local tax revenues, decreases the benefits to taxpayers of the deductibility of property taxes through the property tax refund program

- Risk - There is a delicate balance when adding more taxes as a metropolitan border city. As a city of the metropolitan area, we are faced with state housing and road taxes. A local sales tax would add an additional percentage on top of metro area taxes already imposed.

Current sales tax rates added as a metropolitan area city:

Anoka County Transit Tax	0.25%
Metro Area Housing Sales Tax	0.25%
Metro Area Transportation Tax	0.75%

St. Francis would need to consider if this could/would drive consumers to other nearby areas such as Elk River or Isanti for the same goods that do not have metro taxes. These examples are surrounding commercial areas that do not have metropolitan tax requirements, making taxes on goods cheaper. Consider on a \$30 item it may not be impactful, on \$300 of items residents may leave the area to pay less taxes.

- City Cost - Project identification, cost analysis and timing would need to be sorted out in detail to create a timeline and budget to complete the sales tax process. Costs would include a fiscal analysis for the project (engineering) sales tax impact/rate/term (Ehlers), legislative work (LGN), legal work (BGS) and an election (Special or general). This would also be an increase in our annual audit (Abdo) and staff tracking and time.

These expenses are not in the 2026 City budget. If this is a direction Council would like to pursue, we would need Council to identify their intent so expenses could be managed in the budget starting in 2026 and continuing until 2028 at a minimum.

### **DISCUSSION ITEM ONLY:**

Council to review information provided and determine if further action or details are needed, provide directions to staff for a future meeting.

Attachments:

- none