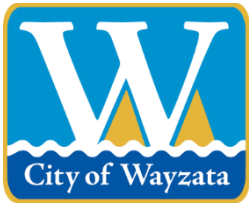




**Wayzata City Council Workshop Meeting Agenda
Wayzata City Hall Community Room, 600 Rice Street
TUESDAY, JANUARY 10, 2023**

WORKSHOP TOPICS FOR DISCUSSION:

1. Discussion of a Local Sales Tax as a 2023 Legislative Priority (6:00-6:40 p.m.)



City Council Workshop City Council Agenda Report

MEETING DATE: January 10, 2023	WORKSHOP AGENDA ITEM: 1
TITLE: Discussion of a Local Sales Tax as a 2023 Legislative Priority (6:00-6:40 p.m.)	
PREPARED BY: Aurora Yager, Deputy City Manager	
REVIEWED BY: Jeffrey Dahl, City Manager	

DISCUSSION OBJECTIVE:

To review and discuss additional information regarding a potential local sales tax and provide guidance on whether it should be considered at the next Council meeting for submittal to the Minnesota State Legislature in 2023.

BACKGROUND:

At the December 6 Workshop, the City Council discussed its legislative priorities which included pursuing a local sales tax. A sales tax would help the City meet its Strategic Plan initiative to diversify city revenues by reducing dependence on property taxes and adding a sales tax on certain types of commerce conducted within the community. As was mentioned in the 2021 U of M Extension Study, non-residents consist of an abnormally high percentage of the business transactions---one of the highest in the state. Visitors, while needed to help our business community thrive, take a toll on our City services and infrastructure without bearing any of the financial responsibility that our property owners do.

Because it requires both legislative and local approval, instituting any kind of local version of a sales tax can be a long process. While there are no guarantees, staff feels the City has a compelling case for a sales tax given the City's booming restaurant community and data that around 90% of patrons are coming from outside of the community. During the December 6 workshop, the Council directed staff to provide more information on how instituting a new tax would benefit Wayzata residents before they could determine if they wanted to pursue this as a legislative priority in 2023. Staff has prepared some high-level data regarding how a sales tax could benefit our residents by offsetting revenues in the General Fund and providing significant investment in the Parks and Trail Capital Fund. These expenditures and potential revenues will be discussed in greater detail at the workshop. Given the uniqueness of Wayzata's economy and the restrictions on what a broad local option sales tax can be used for, staff recommends pursuing a food and beverage sales tax in which revenues may be able to be used for operations (Parks, Public Safety, etc.) as well as future capital projects.

If the Council wanted to pursue a sales tax, the next steps would be to:

- Submit resolution of support to the State Legislature - January 2023
- Continue to meet with key members of the Legislature to lobby for the request - January to May 2023
- Engage and inform members of the business community regarding the request - January to May 2023

ATTACHMENTS:

1. Sales Tax Discussion - 1.10.2023 workshop

Food and Beverage Sales Tax Project Plan

Year	Capital Projects	Cost
2024	Shaver Park Design Development and Construction Documents	\$107,000
2024	Wayfinding Park Signage	\$50,000
2024	Nature Center Feasibility Study	\$53,000
2024	Klapprich Park Improvements	\$1,200,000
2025	Beach+Shaver Park Improvements	\$527,000
2025	Platform Tennis	\$547,000
2027	Nature Center	\$626,000
2029	Eastman Ln Addition of trail and boardwalk	\$208,000
2029	Klapprich Park – Tennis Court Expansion for Pickleball	\$53,000
Capital Project Total		\$3,371,000

Year	Ongoing Projects	Annual Cost
2024+	Park Maintenance Operations	\$230,000
2024+	Police Department Operations	\$200,000
2024+	Community Events/Business Retention and Attraction	\$50,000
Ongoing Total (annual)		\$480,000
Total from 2024-2033		\$3,929,052
Grand Total: Capital + Ongoing for 2024-2033		\$7,300,052

0.5% Food and Beverage Sales Tax Information

Year	Est. Sales Tax Generated	Revenue to General Fund	Revenue to Parks Capital Fund	Total
2024	\$375,547	\$93,887	\$281,660	\$375,547
2025	\$379,302	\$94,826	\$284,477	\$379,302
2026	\$383,095	\$95,774	\$287,322	\$383,095
2027	\$386,926	\$96,732	\$290,195	\$386,926
2028	\$390,796	\$97,699	\$293,097	\$390,796
2029	\$394,704	\$98,676	\$296,028	\$394,704
2030	\$398,651	\$99,663	\$298,988	\$398,651
2031	\$402,637	\$100,659	\$301,978	\$402,637
2032	\$406,663	\$101,666	\$304,998	\$406,663
2033	\$410,730	\$102,683	\$308,048	\$410,730
Grand Total	\$3,929,052	\$982,263	\$2,946,789	\$3,929,052

Revenue split 25/75

Based on the current list of identified projects and conservative estimates on potential annual revenue generated, there are more expenses related to eligible projects in a year than there are annual resources generated by the sales tax to offset. That means that the City would have to decide how to portion out those resources. As an example, staff has given the option of splitting the proceeds 25/75 between the General Fund and Parks Capital Fund. Based on that split, the benefit to the General Fund is about 1.8% of the general fund operating levy (based on the 2023 final levy) and the benefit to the parks and trails fund is depicted below.

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Parks & Trails Ending Fund Balance (Original)	\$193,556	-\$450,668	-\$463,479	-\$1,065,643	-\$1,121,011	-\$1,319,033	-\$1,273,755	-\$1,219,023	-\$1,219,023	-\$894,768
w/0.5% Sales Tax	\$475,216	\$115,469	\$389,980	\$78,010	\$315,739	\$413,745	\$758,011	\$1,114,720	\$1,527,758	\$2,052,021

1% Food and Beverage Sales Tax Information

Year	Est. Sales Tax Generated	Revenue to General Fund	Revenue to Parks Capital Fund	Total
2024	\$751,094	\$450,656	\$300,438	\$751,094
2025	\$758,605	\$455,163	\$303,442	\$758,605
2026	\$766,191	\$459,714	\$306,476	\$766,191
2027	\$773,853	\$464,312	\$309,541	\$773,853
2028	\$781,591	\$468,955	\$312,636	\$781,591
2029	\$789,407	\$473,644	\$315,763	\$789,407
2030	\$797,301	\$478,381	\$318,920	\$797,301
2031	\$805,274	\$483,165	\$322,110	\$805,274
2032	\$813,327	\$487,996	\$325,331	\$813,327
2033	\$821,460	\$492,876	\$328,584	\$821,460
Grand Total	\$7,858,103	\$4,714,862	\$3,143,241	\$7,858,103

Revenue split 60/40

Based on the current list of identified projects and conservative estimates on potential annual revenue generated, there are more expenses related to eligible projects in a year than there are annual resources generated by the sales tax to offset. That means that the City would have to decide how to portion out those resources. As an example, staff has given the option of splitting the proceeds 60/40 between the General Fund and Parks Capital Fund. Based on that split, the benefit to the General Fund is about 8.3% of the general fund operating levy (based on the 2023 final levy) while the benefit to the parks and trails fund is shown below.

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Parks & Trails Ending Fund Balance (Original)	\$193,556	-\$450,668	-\$463,479	-\$1,065,643	-\$1,121,011	-\$1,319,033	-\$1,273,755	-\$1,219,023	-\$1,219,023	-\$894,768
w/1% Sales Tax	\$493,994	\$153,211	\$446,877	\$154,254	\$411,522	\$529,263	\$893,462	\$1,270,303	\$1,703,674	\$2,248,473

0.5% Local Option Sales Tax (LOST) Information

Local Option Sales Tax (LOST) Project Plan

Year	Capital Projects	Cost
2024	Klapprich Park Improvements	\$1,200,000
2024	Wayfinding Park Signage	\$50,000
2024-2025	Beach+Shaver Park Improvements	\$634,000
2027	Nature Center	\$626,000
2029	Eastman Ln Addition of trail and boardwalk	\$208,000
Capital Project Total		\$2,718,000
		0

Year	Est. of Sales Tax Generated	Revenue to the Parks Capital Fund
2024	\$856,573	\$856,573
2025	\$865,139	\$865,139
2026	\$873,790	\$873,790
2027	\$122,498	\$122,498
Grand Total		\$2,718,000

Given that LOST revenue can only be used for up to 5 capital projects and then the tax expires once the project costs are met, there is no direct benefit to the general fund (although there is definitely an indirect benefit to the general fund and direct benefit to residents). Instead the entire \$2.7 million would benefit the Parks CIP. A conservative estimate of how the Parks CIP would look with a 0.5% LOST is shown below.

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Parks & Trails Ending Fund Balance (Original)	\$193,556	-\$450,668	-\$463,479	-\$1,065,643	-\$1,121,011	-\$1,319,033	-\$1,273,755	-\$1,219,023	-\$1,219,023	-\$894,768
w/1% LOST	\$1,050,129	\$1,271,044	\$2,132,023	\$1,652,357	\$1,596,989	\$1,398,967	\$1,444,245	\$1,498,977	\$1,607,017	\$1,823,232