

Local Option Sales Tax

What is a local option sales tax?

A local option sales tax (LOST) is a tax that is collected within a city's geographic boundaries from individuals – residents and non-residents alike – when certain goods or services are sold. In Minnesota, governmental entities are required to get special approval from the legislature before the measure can be put to a public vote in a general election. The funds collected from this type of tax are directed toward capital projects such as public buildings, parks, trails, and similar amenities. Through a LOST, a city can obtain funding for local projects that benefit residents while putting some of the financial responsibility on non-residents.

On the November 5th General Election ballot, Fairmont voters will have the chance to approve or reject a half-cent LOST to fund the construction of a community center and ice arena. This is the second LOST of its kind. The first LOST, approved in 2016, included funding for Phase I: the construction of a community center. The LOST on this year's ballot would fund Phase II of the project which includes building a new ice arena connected to the community center.



What is the potential impact?

If approved, the sales tax in Fairmont would change to 7.875%, effective January 1, 2025. It would remain in effect for 25 years or until \$20,000,000 is raised, plus an amount equal to interest and costs related to the issuance of any bonds to finance construction. That rate is on



par with other communities including Mankato, New Ulm, and Worthington and is lower than Rochester (8.125%) and the Twin Cities Metro (8.375% – 9.878%).

Items exempt from Minnesota's regular state sales tax (ex. groceries, clothing, prescription medications, gasoline) are also exempt from the local sales tax. Motor vehicles are covered by a separate tax and are not subject to the local sales tax either. Additionally, approval of this LOST would not affect property taxes.

What is the rationale behind this proposed LOST?

Capital projects seek to enhance public services as well as support community and economic development. The current ice arena is located at the Martin County Fairgrounds on the outskirts of town. Most Fairmont businesses and attractions are far from this area and therefore do not realize the full potential that tourism from hockey and other ice-related events provide. The new community center and ice arena will be located between State Street and Johnson Street on a lot just west of the Mayo Clinic Health System facility. This more central location and year-round operation will better position businesses to capture additional revenue from visitors.

Frequently Asked Questions

What happened with the community center that was approved in the 2016 LOST?

The community center project has been delayed primarily due to litigation in federal court brought forward by the Fairmont Taxpayers Coalition for Government Transparency against the City of Fairmont. On March 30th, a federal judge dismissed the lawsuit. However, the ruling has been appealed. The litigation has prevented the Fairmont Area Community Center Foundation from being able to secure federal New Market Tax Credits which are a critical part of the financing.

What is being done with the funds that have been generated by the first half-cent LOST?

Due to the approved LOST vote in 2016, shoppers are paying a sales tax of 7.375% (consisting of a 6.875% state tax and a 0.50% local tax), and the City is collecting those funds. More than \$6.7 million have been collected so far. Funds are being set aside in the Community Center Construction Fund, and the architect/design portions of the project have been paid out of it.

Is the addition of an ice arena to the community center a new idea?

No, having an ice arena attached to the community center has been part of the plan since the beginning. It was pushed back to Phase II due to costs.

Does the current arena offer year-round ice opportunities?

No. The Martin County Arena is co-owned with the County Fair Board and used for hockey from October 15th to April 15th. The Fair Board uses it for other events from April 15th to October 15th.

If the LOST vote passes, what will happen with the new refrigeration equipment being installed in the Martin County Arena?

The equipment will be moved from the current arena to the new arena.

If the LOST vote passes, could the funds be used to construct an ice arena if the community center is not built?

Due to legal restrictions, the City would not be able to use revenue from the approved sales tax exclusively on the development of an ice arena without first receiving authorization from the Minnesota Legislature.

Will there be a third local option sales tax?

There are no plans for a third LOST.

Will the construction of the community center and ice arena raise Fairmont's property taxes?

No. Construction will be funded with LOST dollars, not property tax dollars.

Will the new ice arena be used exclusively for hockey?

No, the ice arena would provide the community with year-round access to ice beyond hockey purposes. Additional opportunities include open skating, learn-to-skate classes, figure skating, curling, sports camps, and other ice-related activities.

When will the ice arena be built?

Due to ongoing litigation with Phase I of the community center project, it is unlikely that construction will be able to begin until after this litigation is resolved.

How will the LOST question appear on the General Election ballot?

“Shall the City of Fairmont impose a sales and use tax of one-half of one percent (0.50%) for no more than 25 years or until \$20,000,000 is raised, plus an amount equal to interest and the costs of the issuance of any bonds, to finance the construction of a community center and ice arena in the City?”