



May 5, 2022

The Honorable Carla Nelson, Chair
Senate Tax Committee
3235 Minnesota Senate Building
St. Paul, MN 55155

The Honorable Paul Marquart, Chair
House Tax Committee
597 State Office Building
Saint Paul, MN 55155

Dear Chairs Nelson and Marquart:

Thank you for your work this session toward tax policy to aid Minnesota's economic recovery. Given that the tax bills are likely headed to conference committee in the coming days, we write to give our perspective on several provisions in play that affect the hospitality industry.

Support for Conformity on RRF and other Federal Relief. We appreciate and support the work of both bodies to include conformity provisions in the omnibus tax bills to make sure that Restaurant Revitalization Fund (RRF) grants and other federal relief are not taxed. According to the most recent survey conducted by Hospitality Minnesota, the Federal Reserve Bank of Minneapolis and Explore Minnesota Tourism:

- 66% of restaurants took on debt due to COVID with an average debt over \$500,000;
- Half of restaurants do not project revenue to return to "normal" until 2023;
- Nearly half of restaurants are concerned about insolvency in the next 6-12 months;
- 88% of operators indicate labor availability is "tight."

Given these conditions, it is critical that the state not require additional tax payments from these businesses at this vulnerable time in our industry's recovery.

Support for the Sales Tax Exemption on Restaurant Equipment. This provision is currently included in the House Omnibus Tax Bill. Given that SF1318 received a favorable hearing in the Senate Tax Committee, we remain optimistic about this provision's inclusion moving forward. Foodservice businesses are *the only category of manufacturers required to pay the sales tax on their equipment purchases*. Many operators put purchases on hold over the past two years as they struggled to survive. Now, many are in the position where they cannot wait any longer. This much-needed exemption is both a fair long-term policy and smart short-term stimulus action. [Click here to read our Issue Brief.](#)

Support for Phasing out the General State Levy Property Tax. This provision is currently included in the Senate Omnibus Property Tax Bill and impacts all sectors of hospitality from overnight accommodations to foodservice. [Click here to read our Issue Brief.](#) To date, Minnesota has not passed a state targeted relief plan to assist hotels and other overnight accommodations impacted by pandemic conditions (other states around us including Wisconsin and Nebraska directed federal funds for this purpose). Passing meaningful property tax relief would be a step in the right direction for helping this industry. We note that Minnesota occupancy rates continue to significantly trail national averages and [recent reporting](#) indicates a troubling number of hotels remain on a watchlist for financial collapse. In our recent survey referenced above, half of hotels indicated they do not expect revenue to return to normal until 2023 or later.

Support for Property Tax Relief for Resorts. This provision is currently included in the Senate Omnibus Property Tax bill. While resorts are a major driver of economic activity in communities in greater Minnesota, significant economic pressures have led to a major reduction in resort properties in recent years. Minnesota has lost 300 resort businesses since 2004. Increased business costs and regulations, as well as competition from the thousands of largely un- or under-regulated short-term vacation rentals in Minnesota pose challenges to sustainability, not to mention expansion. Given the role these businesses play in driving local economic activity, we believe it is in Minnesota's interest to incentivize expansion and growth of resorts in our state. Providing property tax relief by increasing the value tiers for resorts is one tool the legislature can bring to bear to achieve this goal. (While perhaps not in play this session, other policy shifts we support to achieve this goal include: 1) [sales tax exemption on building materials](#), 2) [streamlining septic regulations](#), and 3) [fairly regulating short-term vacation rentals](#)).

Opposition to Local Lodging Tax Diversions. Provisions to divert local lodging taxes from their statutory purpose in Woodbury and Plymouth are included in the House Omnibus Tax Bill. We stand in strong opposition to these changes. Current statute dictates that 95% of the proceeds from local lodging taxes are to be used to fund a local convention or tourism bureau for the purpose of *marketing and promoting the city or town as a tourist destination*. The Attorney General's Office has concurred in its opinions that these proceeds are not to be used to fund capital projects. While we do not opine on the merits of the projects in either municipality, we are fundamentally opposed to a misdirection of lodging tax dollars as the funding mechanism and would argue that local governments have other mechanisms to fund such projects that are much fairer. Allowing local governments such exemptions under the local lodging tax statute creates bad precedent and is likely to encourage other jurisdictions to seek similar special legislation. In light of the current economic challenges outlined above and in [recent reports](#) that dozens of hotels remain on a watchlist including properties in Woodbury, the current proposals are even more inappropriate. We believe other funding mechanisms are more appropriate when all factors are considered. [Click here to read our Issue Brief.](#)

Thank you for your consideration of our suggestions. Please let us know if we can provide any additional information. We are committed to serving as a resource to you in any way as we work on our shared goal of economic recovery to move Minnesota's hospitality industry forward.

Sincerely,

A handwritten signature in black ink, appearing to read "Liz Rammer". The signature is fluid and cursive, with a long horizontal stroke at the end.

Liz Rammer, President & CEO
Hospitality Minnesota

cc: Senator Rest, Representative Davids, Commissioner Doty and Governor Walz