

THE LOCAL OPTION LODGING TAX

AN ENDURING SUCCESS FOR MINNESOTA

Prepared By

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September 2026

In Partnership With



Tourism Marketing Drives Economic Impact. Minnesota has so many iconic attractions, world class facilities, and cultural treasures. But how do people from other parts of the state or country – and all over the world – find out about them?

Local Convention and Visitor Bureaus (CVBs) and Destination Marketing Organizations (DMOs) showcase the best of Minnesota in ways nobody else can.¹ They play a key role in shaping the image of the state, capturing the imagination of visitors, and attracting valuable business to communities across Minnesota. They market premier facilities and attractions, promote local businesses, and enhance local and state tax revenues.

The tourism industry is a central part of Minnesota's economy and identity, and its impact is enormous.² In 2025, tourism promotion attracted:

- *82.5 million visitors to Minnesota*
- *\$25.2 billion in total economic impact*
- *\$15.2 billion in visitor spending*
- *\$2.4 billion state and local tax revenue*

Tourism is responsible for \$8.4 billion of personal income, supports 131,000 jobs across the state and is the 11th largest industry by employment in Minnesota.³

Tourism-driven revenue lowers the average household tax burden by \$1,038 per year.⁴

Explore Minnesota, the state's flagship promotional agency, estimates that every \$1 in tourism promotion generates \$477 for tourism businesses and \$47 in state tax revenue.⁵

About the Author. John Reynolds is a longtime leader in policy development and legislative affairs who provides independent research and original analysis. He served as committee staff in the Minnesota House of Representatives and as government affairs director for multiple statewide organizations. John currently resides in Amherst, New Hampshire with his wife and children. He can be contacted at bardrocksolutions@gmail.com.

¹ A CVB markets to and works with convention, business, and leisure travelers. A DMO can provide the same function but may focus solely on leisure travel depending on the facilities in the organization's geographic area. For more information on the distinctions, see: "[CVB, DMO, DMC: What's the Difference?](#)," Minnesota Tourism Association, Aug. 2016.

² "[2025 Economic Impact of Visitors to Minnesota](#)," Tourism Economics (prepared for Explore Minnesota), Jul. 2026.

³ Id.

⁴ Id.

⁵ Explore Minnesota, "[Agency Overview](#)," Feb. 18, 2026.

The benefits are felt statewide. From Blue Earth (2024: \$266 million in total tourism spending, 2,237 tourism-related jobs) to Hennepin (\$9.3 billion, 67,204 jobs); Olmsted (\$1.2 billion, 9,072 jobs) to Otter Tail (\$211 million, 1,448 jobs); and St. Louis (\$1.05 billion, 5,188 jobs) to Stearns (\$535 million, 4,472 jobs), tourism boosts local economies.⁶

Local Lodging Taxes Make It Possible. Creating compelling marketing campaigns and accessible information to attract in-state, interstate, and international visitors requires collaboration, dedication, and resources.

At the state level, Explore Minnesota develops award-winning campaigns that attract visitors, support businesses, drive investment, and grow the economy. Using state General Fund dollars, the agency's statewide marketing provides a window for visitors across the country and globe.

Explore Minnesota also serves as a partner to local CVBs, DMOs, and the tourism industry by providing tools, data, and coordination to maximize local impact.

Effective local and regional marketing is provided by CVBs and DMOs. They are staffed by local experts who understand how to connect interested visitors and event organizers with their area's unique selling points, attractions and amenities. They let the world know local businesses are open and ready to welcome visitors from all walks of life.

Since the Minnesota Legislature authorized the Local Option Lodging Tax in 1983, it has provided a reliable funding stream for more than 100 local CVBs and DMOs to create innovative marketing campaigns that promote a vital industry and grow local economies. This work has proven to turn guests into lifelong visitors, regular customers, new residents, and start-up businesses.

The Local Option Lodging Tax is built on three core tenets:

- local approval
- a maximum rate of three percent, and
- at least 95 percent of revenue to local convention and tourism promotion.

This law was the product of decades of deliberation on the local and state levels about equitable funding of local services, state assistance to local governments, and sound tax policy that fosters economic growth. It allows local communities to decide how best to market their assets.

Implementing the tax requires solid planning and management to obtain buy-in from community leaders and approval from local officials.

Its success is worth celebrating, preserving, and understanding.

⁶ “[Minnesota County Tables – 2024 Impacts and Spend](#),” Tourism Economics (prepared for Explore Minnesota), accessed Aug. 10, 2026. This document provides a complete accounting of tourism-driven spending, employment, and tax impacts for each county in the state.

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1. Initial Statewide Lodging Tax Debates. Serious consideration of taxing short-term lodging stays in Minnesota dates to at least 1935.

A three percent lodging tax was part of a sweeping tax package, including an early effort at a general sales tax, that fell to Governor Floyd Olson's veto at the end of that session.⁷ Among Governor Olson's objections to the sales tax provisions was the failure to use the proceeds "for a purpose directly connected with the commodity taxed."⁸

Over the next two decades, occasional lodging tax proposals largely failed to gain serious traction in the Minnesota Legislature.⁹

In May 1959, the state faced a budget impasse, and lawmakers were four weeks into a nearly three-month special session. As was the case in 1935, state officials were grappling with age-old debates over the state budget and local government financing.

During the 1959 Tax Omnibus Conference Committee, Senator Stanley Holmquist (Grove City) proposed a five percent tax on lodging stays of less than 30 days and meals costing more than a dollar.¹⁰

The concept had been raised earlier that year in a report prepared by an interim legislative commission on local government financing.¹¹

Sen. Holmquist's amendment would have directed sixty percent of the proceeds to the state and forty percent to the collecting municipality.

The amendment was not included in the final agreement.

"I am unalterably opposed to a sales tax... unless the proceeds are to be used for a purpose directly connected with the commodity taxed."

- Governor Floyd B. Olson, 1935

⁷ "House, Senate Tax Bills Provisions Are Compared," *Minneapolis Star*, Apr. 18, 1935, pg. 4; Folwick, Orlin, "Veto Kills Tax Bill," *Minneapolis Tribune*, Apr. 25, 1935, pg. 1.

⁸ "Ultimatum to Olson on Tax Bill Seen," *Moorhead Daily News*, Apr. 23, 1935, pg. 1.

⁹ "New Proposals In Legislature," *Minneapolis Star*, Mar. 26, 1947, pg. 6; Casserly, Bernard, "Cities' Revenue Plans Opposed at Hearing," *Minneapolis Star*, Mar. 25, 1955, pg. 1. Cities of the first and second class unsuccessfully sought state authorization for local option lodging taxes for general use in 1953 and 1955. Lawmakers rejected these proposals. See Part 2.

¹⁰ "Senate Unit to Study Hotel-Motel Tax Plan," *Duluth News-Tribune*, May 14, 1959, pg. 1.

¹¹ "Host of New Tax-Raising Plans Suggested for Cities Size of Winona," *Winona Daily News*, March 2, 1959, pg. 3.

It was revived in 1965 by Rep. Fred Cina (Aurora) as part of a package of excise taxes as an alternative to a proposed statewide general sales tax that loomed over budget discussions at the time.¹²

State lawmakers backed away from lodging taxes as a means of general municipal aid when they adopted the state's first general sales tax in 1967, alongside early forms of local government revenue sharing and assistance programs.¹³

The debate over lodging taxes then shifted to the cities.

2. Early Interest in Local Lodging Taxes. Before Local Government Aid and other municipal assistance from the state, cities explored a range of local tax options in the 1950s and 1960s.

In 1953 and 1955, cities of the first and second class proposed a local option tax package, including up to five percent on lodging stays.¹⁴

The broader packages failed to gain traction with state lawmakers, amid constituent opposition, concern from business and labor groups about selective taxation of specific industries, and lawmakers' reluctance "to pass down any taxing authority."¹⁵

However, in 1953, lawmakers split Duluth off from the other cities and granted it authority to levy "upon transactions, taxable property, or persons resident or doing business or gainfully employed within its corporate limits, any tax which it is not now authorized by the laws of this state or its charter to levy."¹⁶

Hoping to shore up local finances, Minneapolis sought authority to impose a lodging tax as early as 1947 and brought a suite of proposed taxes on billboards, parking lots, hotel stays, and telephone service to the state in 1959.¹⁷ Neither effort succeeded.

In 1960, the Minneapolis Charter Commission rebuffed the city's appeal for lodging tax authority.¹⁸ The next year, Minneapolis was again turned down by state lawmakers.¹⁹

By the mid-1960s, at least three other large cities joined Minneapolis in seeking versions of a lodging tax, often as part of local financing and "entertainment tax" packages.²⁰

St. Paul raised the idea of a five percent "hotel-motel tax" in 1965.²¹ According to a *Minneapolis Star* editorial, no municipality in the Twin Cities levied a special or general

¹² "Trial Balloon Launched on State Tax Idea," *West Central Tribune*, Nov. 20, 1965, pg. 1.

¹³ Gaylord, Jacobson, "History of Taxation in Minnesota," Minnesota Tax Study Commission, Sep. 1979. The "Tax Reform and Relief Act of 1967" established a statewide general sales tax of 3 percent, and created several programs intended to provide property tax relief, including the Homestead Property Tax Credit, Rent Credit, and an early version of Local Government Aid.

¹⁴ "Omnibus Tax Bill for State Cities Proposed," *Winona Republican-Herald*, Dec. 15, 1952, pg. 3. This group included Duluth, Minneapolis and St. Paul (1st Class), and Austin, Rochester, St. Cloud, and Winona (2nd Class).

¹⁵ Casserly, Bernard, "Cities' Revenue Plans Opposed at Hearing," *Minneapolis Star*, Mar. 25, 1955, pg. 1; Bremer, Adolph, "McGill, Council Air Differences," *Winona Republican-Herald*, Apr. 28, 1953, Pg. 1, 17.

¹⁶ [Minnesota Laws 1953, Chapter 560 \(not coded\)](#).

¹⁷ "New Proposals In Legislature," *Minneapolis Star*, Mar. 26, 1947, pg. 6; Hurst, Russell, "City Asks Approval of Four New Taxes," *Minneapolis Morning Tribune*, Jan. 21, 1959. Pg. 15.

¹⁸ "Hotel Tax for St. Paul?" *Minneapolis Star*, Oct. 20, 1965, pg. 14.

¹⁹ Id.

²⁰ "Senate Gets Bills to Aid City Financing," *Minneapolis Star*, Apr. 15, 1965, pg. 65. The city's proposal included a five percent tax on lodging stays costing \$2 or more and lasting less than 45 days. Also included was a five percent telephone service tax.

²¹ "St. Paul Hotel Tax Plan Killed," *Minneapolis Star*, Nov. 11, 1965, pg. 12. At the request of the mayor, the St. Paul Charter Commission nixed the vote after support from business and labor groups failed to materialize.

tax other than a property tax at that time.²² The *Star* expressed skepticism over the ability and wisdom of individual cities attempting to capture revenue in this manner.

Bloomington saw a lodging tax proposal included in a larger package of "entertainment taxes" offered by Mayor Donald Hasselberg in December 1965.²³ This included taxes on hotel-motel stays, telephones, and admission tickets to Metropolitan Stadium, which hosted both the Minnesota Vikings and Twins. The proposal was tabled in January 1966 amid local resistance and to allow continued discussions with other municipal leaders over a metropolitan or statewide approach.

Duluth re-entered the lodging tax fray in 1966. Mayor George Johnson proposed a five percent hotel-motel tax and wheelage tax to support general city finances.²⁴ The hotel-motel tax proposal included a minimum set aside of 10 percent for tourism promotion.

Three years later, Duluth became the first major city to adopt a lodging tax. The city adopted a three percent tax relying, in part, on authority granted in a 1967 state law allowing local governing bodies to make "noncontroversial changes" to city charters.²⁵ Duluth's tax was dedicated to tourism promotion and convention center maintenance.²⁶

Soon after, Minneapolis, St. Paul, and Bloomington moved in tandem toward local excise taxes.²⁷

After receiving state approval to adopt a suite of local special taxes in June 1969, Minneapolis moved first.²⁸ That month, the city adopted – over the veto of Mayor Arthur Naftalin – a three percent tax on "admissions, amusements, and hotel-motel bills of less than 30 days." ^{29,30}

Bloomington's tax was approved by the city council, under the city's charter authority, in August 1969.³¹ It included a minimum 10 percent set aside for tourism promotion and applied to lodging stays and admission tickets to theaters, sporting events, and shows with cover charges, according to the *Minneapolis Star*.

St. Paul adopted its three percent tax on short-term lodging stays in January 1970.³² It included a 25 percent set aside for tourism promotion, despite demands from some that all revenue go to the city's general fund. Unlike Minneapolis and Bloomington, the capital city's tax did not extend to admissions and amusements.

Rochester followed suit, although its push was initially conditional on enactment of state financial assistance for local governments.³³

²² "Hotel Tax for St. Paul?" *Minneapolis Star*, Oct. 20, 1965, pg. 14.

²³ Beckwith, David, "Bloomington Council Tables Controversial Tax Package," *Minneapolis Star*, Jan. 18, 1966.

²⁴ "Motel-Hotel Tax Proposal Revised," *Duluth News-Tribune*, Oct. 7, 1966, pg. 2.

²⁵ Heffernan, James, "City Council Adopts Hotel-Motel Tax Law," *Duluth News-Tribune*, Mar. 18, 1969, pg. 1. Robert Johnson, a state lawmaker and leader of an industry group opposing the tax, objected to the use of the 1967 law for this purpose, arguing it had never been used for financial measures and was intended only for "housekeeping purposes."

²⁶ "Heffernan, James, "City Council Adopts Hotel-Motel Tax Law," *Duluth News-Tribune*, Mar. 18, 1969, pg. 1.

²⁷ Fuller, Larry, "Bloomington 3% hotel tax gets backing," *Minneapolis Star*, Jul. 22, 1969, pg. 13.

²⁸ [Minnesota Laws 1969, Chapter 1092](#).

²⁹ "LeVander Signs Bill to Give Minneapolis Special Sales Tax," *Rochester Post-Bulletin*, Jun. 6, 1969, pg. 8.

³⁰ "Minneapolis Council OKs Hotel Room Excise Tax," *Rochester Post-Bulletin*, Jun. 28, 1969, pg. 21.

³¹ Stewart, Donald, "Bloomington tax proposal advances," *Minneapolis Star*, Aug. 26, 1969, pg. 9. After 1983, Bloomington,

Rochester, and St. Paul all later received legislative approval for an additional lodging tax to fund tourism promotion. See: Dalton,

Pat, "Lodging Taxes In Minnesota," Minnesota House Research Dept., Aug. 2019.

³² "3% Hotel-Motel Tax Approved in St. Paul," *Minneapolis Tribune*, Jan. 8, 1970, pg. 1.

³³ Reising, Jerome, "City Hotel-Motel Tax Question To Be Placed On Spring Ballot," *Rochester Post-Bulletin*, Dec. 15, 1970, pg.

21. While city leaders walked back their initial pledge, the broad state aid package that came to be known as the "Minnesota Miracle" was not passed into law until a special session in October 1971 – months after the city enacted its lodging tax.

In March 1971, Rochester voters approved a change to the city's charter that allowed the city council to adopt a lodging tax.³⁴ By August, the city had approved a three percent tax and entered into an agreement with the state to collect it.³⁵ A debate over use of the proceeds began before the tax was imposed, with local business leaders asking for one third of the revenue to be dedicated to convention and tourism promotion.³⁶

3. The Minnesota Miracle of 1971 and Temporary End of New Local Lodging Taxes. During the October 1971 special legislative session, lawmakers agreed to the package of tax changes and local government financial assistance reforms commonly referred to as the "Minnesota Miracle," settling a protracted budget debate.³⁷

The agreement aimed to lower local property tax burdens and limit future property tax increases by, among other reforms, shifting greater responsibility for education funding to the state level and establishing the Local Government Aid program.³⁸

It also prohibited local governments from adopting new, or increasing existing, sales or income taxes.^{39,40}

That restriction, intended to equalize services across municipalities and guard against the creation of uncompetitive rates through tax stacking, remains in place today.⁴¹

For the better part of a decade, the Minnesota Miracle largely put a lid on the idea of new local lodging taxes as lawmakers sought to equalize service delivery and hold down property taxes across municipalities.

4. Local Requests Resume. It was not until 1979 that the state approved new special local lodging taxes.

As part of a funding agreement for the construction and initial operation of the Metrodome Stadium, Minneapolis received approval to enact a liquor and lodging tax.⁴²

The Minneapolis tax differed in significant ways from other taxes levied, before or since, on short-term lodging stays. Most obviously, it served a unique purpose as a funding source for the Metrodome. In addition, the tax rate was set based on debt service payments and was only collected from 1979 to 1984. At that point, the Metrodome's long-term financing structure was in place; this liquor-lodging tax was transitioned to backup status and not utilized again.^{43,44}

³⁴ "Rochester passes hotel-motel tax," *Minneapolis Star*, Mar. 10, 1971, pg. 4.

³⁵ "Council OKs Contract For State To Collect Hotel-Motel Tax Here," *Rochester Post-Bulletin*, Aug. 17, 1971, pg. 6.

³⁶ "Council Asked to Earmark Tourism Funds," *Rochester Post-Bulletin*, Aug. 3, 1971, pg. 13. Three decades later, the city would receive state approval for an additional one percent lodging tax dedicated to tourism promotion. See: Dalton, Pat, "Local Lodging Taxes in Minnesota," *Minnesota House Research Dept.*, Aug. 2019.

³⁷ "The Minnesota Miracle of 1971: Overview," Minnesota Historical Society, accessed Jul. 23, 2026.

³⁸ Minnesota House Research Dept., "Levy Limits," December 2024. From 1972 through 1992, the "Minnesota Miracle" reforms capped levy limits for towns, cities, and counties based on the amount of state aid received. For more information, see: Dalton, Pat, "The Local Government Aid (LGA) Program: A History," Minnesota House Research Dept., Oct. 2020.

³⁹ Minn. Laws 1971, 1st Special Session, Chapter 31.

⁴⁰ "Local-Taxing Restriction in New Law Goes Virtually Unnoticed," *Rochester Post-Bulletin*, Nov. 6, 1971, pg. 5.

⁴¹ Minn. Statutes 477A.016.

⁴² Minn. Laws 1979, Chapter 203.

⁴³ Metropolitan Sports Facilities Commission, "[Metrodome Backgrounder](#)," Nov. 1995.

⁴⁴ Minnesota Legislative Reference Library, "Football Stadiums in Minnesota," accessed Jul. 23, 2026.

After being rebuffed by state lawmakers in 1978, St. Cloud received authorization to adopt a lodging tax via special law the following year.⁴⁵ The city subsequently adopted a three percent tax, which took effect in 1980.

The session law authorizing St. Cloud's tax did not specify a distribution for the proceeds. The city set the share for tourism at 75 percent in the first year and no less than 55 percent in subsequent years.

This quickly set off squabbles within the city about the intentions behind the tax and whether it was fair to use the proceeds for purposes that do not benefit businesses affected by the tax.⁴⁶

In 1980, Duluth received permission to levy an additional tax of one percent.⁴⁷ According to the *Duluth News-Tribune*, the additional levy was to be "used for Spirit Mountain, the Arena, and other tourist promotion agencies..." and its inclusion was part of a larger, controversial debate over the municipal skiing area's finances and the city's food and liquor tax.⁴⁸

In 1981, more cities sought legislation authorizing them to impose city-specific lodging taxes, including Goodview, Mankato, Moorhead, North Mankato, and Winona.⁴⁹ The Senate author of the Moorhead request, Sen. Keith Langseth (Glyndon), also introduced a statewide local option lodging tax for statutory and home rule charter cities.⁵⁰

Winona's proposal failed to make it out of the House Taxes Committee. Rep. Irv Anderson (International Falls), then chair of the committee, objected to city-specific lodging tax proposals that year and raised the possibility of a statewide solution.⁵¹

The Winona proposal was rejected again in 1982, failing 24 to 28 as a floor amendment to the Senate Omnibus Tax Bill.⁵²

"The tax was created to do one thing, and one thing only – promote St. Cloud and get people to come here and spend their money... It's been working just fine."

- *St. Cloud Times Editorial*, 1982

Meanwhile, debate over the use of proceeds from St. Cloud's lodging tax lingered in the background of legislative discussions.

In a 1982 editorial opposing diversion of lodging tax revenue into the city's general fund, the *St. Cloud Times* argued that the clear benefits of increased conventions and visitors demonstrated all proceeds should go toward tourism promotion.⁵³

⁴⁵ Minnesota Laws 1979, Chapter 197.

⁴⁶ Daley, Dave, "New hotel-motel tax ready, some disagree over its uses," *St. Cloud Times*, Jan. 16, 1980, pg. 25.

⁴⁷ [Minnesota Laws 1980, Chap. 511, Sec. 2.](#)

⁴⁸ "Sales tax hike before council," *Duluth News-Tribune*, Sep. 12, 1980. This article describes the original city lodging tax proceeds as follows: three cents to "tourist attractions like the Arena-Auditorium and tourism promotion generally," one cent for the Depot and the city's CVB.

⁴⁹ 1981 House File 816/Senate File 706 (Goodview, Winona); House File 738/Senate File 654 (Moorhead); House File 2254/Senate File 2183 (Mankato, North Mankato)

⁵⁰ 1981 Senate File 1407; no House companion found.

⁵¹ Stapf, Scott, "Lodging Tax Bill Dies; sponsor not concerned," *Winona Daily News*, May 16, 1981, pg. 1.

⁵² Minnesota Senate Journal, March 6, 1982, pgs. 4358-4359.

⁵³ "Leave well enough alone!" *St. Cloud Times*, Sep. 9, 1982, pg. 4.

5. The 1983 Local Option Lodging Tax Agreement. As more municipalities sought legislative approval to adopt a lodging tax, state lawmakers looked for an equitable and consistent solution.

They found the answer in the form of a local option lodging tax dedicated to convention and tourism promotion.

In the 1983 Tax Omnibus Bill, Governor Rudy Perpich and state lawmakers granted cities the authority to adopt a lodging tax.⁵⁴ Lawmakers considered and rejected a range of purposes for the tax during the legislative debate, ultimately deciding that no less than 95 percent of proceeds should be used for convention and tourism promotion.

For more than 40 years, the Local Option Lodging Tax's main features and core purpose have remained intact:

- local approval from city council or town voters
- a tax of up to 3 percent on the gross receipts of short-term lodging
- at least 95 percent of proceeds must “fund a local convention or tourism bureau for... marketing and promoting the city or town as a tourist or convention center”

The law left local lodging taxes in existence prior to 1972 in effect as written but capped the total amount that a municipality could raise from all lodging taxes at three percent.

Once locally approved, the tax can be collected locally or by agreement with the Minnesota Department of Revenue.⁵⁵

A local CVB or DMO can be operated by the city or through an agreement with a third party, such as local chambers of commerce.

Local lodging taxes continue to serve as the primary funding source for local tourism promotion.

6. A Dedicated Resource. The 1983 law satisfied several key goals for state lawmakers and was informed by decades of debate about local government funding and sound tax policy.

First, the Local Option Lodging Tax law created a consistent blueprint for cities to adopt a lodging tax rather than spending future legislative time scrutinizing individual municipal requests from scratch. This was the clear preference of the House Taxes Committee, as evidenced by comments from committee leaders leading up to and during the 1983 debate.^{56,57}

⁵⁴ Minnesota Laws 1983, Chapter 342

⁵⁵ Minnesota Laws 2010, ch. 389, art. 4, § 14. If the state collects the tax, the definition of lodging must be consistent with the definition of lodging for the purposes of the state's general sales tax.

⁵⁶ Thomson, Rod, “Lodging tax bill debated,” *Winona Daily News*, Mar. 2, 1983, pg. 3. In 1983, the chair of the Economic Development Division of the House Taxes Committee, Rep. Randy Kelly (St. Paul), echoing the sentiments of former House Taxes Chair Rep. Irv Anderson, held all local requests so the committee could focus on a statewide solution.

⁵⁷ Sturdevant, Lori, “Lawmakers propose to settle lodging tax debate for cities,” *Minneapolis Star Tribune*, Mar. 18, 1983, pg. 18.

As the *Star Tribune* reported at the time, House Taxes Committee Chair John Tomlinson (St. Paul) expressed a “need for a statewide policy on lodging taxes.”

This also relieved the state of the funding obligation for local tourism promotion and created consistency by removing individual municipal requests from unrelated political debates.

Second, it established a clear purpose for the lodging tax that avoided duplicating state financial assistance programs for municipalities, did not further burden local property taxpayers, avoided uncompetitive stacking of state and local taxes, and was consistent with the vision adopted in the Minnesota Miracle of 1971.

Additionally, as the bill's prime sponsor, Rep. John Himle (Bloomington), argued at the time, dedicating the proceeds toward a specific purpose that enhances economic activity and tax revenue removes the temptation for state and local governments to repurpose the tax for unrelated uses.⁵⁸

Learning from past debates over the use of lodging proceeds, this headed off future disputes and ensured proceeds further economic development goals that enhance state and local tax revenue. It also avoided the problem of funding fixed long-term spending obligations with a revenue source that can vary due to a range of economic and non-economic factors.

Third, the dedication of at least 95 percent of proceeds toward convention and tourism promotion ensured affected lodging establishments – along with other local businesses and local taxpayers – would benefit from the proceeds. The repeatable and measurable economic benefits of convention and tourism promotion were essential to the law's passage in 1983 and remain at the heart of its continued success.

As Rep. Himle said during the 1983 debate, “We have an obligation to give something back to [the lodging] industry, or that industry is going to have problems.”⁵⁹

Subsequent local debates on adopting a lodging tax demonstrate that the dedication requires local elected officials and community leaders to develop a clear plan for how lodging tax proceeds will be used to benefit the local economy and entire community.

“We have an obligation to give something back to [the lodging] industry, or that industry is going to have problems.

- Representative John Himle, 1983

At a 1988 meeting on the adoption of a local lodging tax in Crow Wing County, formerly skeptical lodging industry leaders articulated how strong planning and community engagement won the support of hotels, motels, and campgrounds in areas that adopted the lodging tax:

“Minnesota has 35 government entities with the lodging tax. [Al] Brodie said that all of them, with the exception of Ely, have implemented the tax with approval from the lodging

⁵⁸ Id.

⁵⁹ Id.

*industry in their area. 'We've had no complaints from any customers or businesses where the tax is imposed.'"*⁶⁰

The Location Option Lodging Tax dedication is also consistent with the view of nonpartisan tax policy experts at the Tax Foundation, which describes dedicating revenue from excise taxes to an aligned purpose as a "best practice."⁶¹ The Tax Foundation cautions policymakers against using revenue for unrelated purposes due to potential for industry-specific volatility to upend broader government spending plans.

7. Time-Tested Solution. Unlike many tax and local financing solutions created by state lawmakers, the core structure and purpose of the Local Option Lodging Tax have remained largely unchanged since its enactment.

While retaining the original structure and purpose, the law was expanded in 1985 to provide authority for towns and county boards acting on behalf of unorganized territories (subject to a reverse referendum) to adopt a lodging tax.⁶²

This update also clarified that resorts are subject to the tax and empowered municipalities to collaborate through a joint powers agreement on the collection and use of lodging tax proceeds.

The joint powers structure is successfully utilized to efficiently pool resources and maximize promotional impact to spotlight communities that share a geographical feature, enhance regional identity, and advance other common interests among similarly situated communities.⁶³

A subsequent, short-lived expansion of the tax rate to 6 percent, with use of the additional three percent unrestricted, was enacted during a special session in October 1989.⁶⁴ The expanded rate drew heavy opposition from the lodging industry and was quickly repealed the next year.^{65,66}

The statute itself has remained unchanged since 1990.⁶⁷

Since then, most municipalities that have adopted a local lodging tax have done so through the authority provided in the Local Option Lodging Tax law.

Certain municipalities have occasionally sought approval for additional lodging taxes or variances through special laws. These requests typically fall into one of three categories:

⁶⁰ Hennessey, Cindy, "Two lines of thought present at discussion about lodging tax," *Brainerd Dispatch*, Apr. 7, 1988, pg. 6. Al Brodie formerly served as executive vice president for the Minnesota Motel Association and Minnesota Campground Operators Association.

⁶¹ Hoffer, Adam, "What should be done with excise tax revenue?" *Tax Foundation*, Oct. 8, 2025.

⁶² Minn. Laws 1985, 1st Special Session, Chapter 14, Art. 2, Sec. 15.

⁶³ Examples of municipalities collaborating on tourism promotion and shared branding under a joint powers agreement include the Brainerd Lakes Chamber of Commerce, Explore Willmar Lakes Area, Rainy Lake Convention and Visitors Bureau, Iron Range Tourism Bureau, Lake Vermillion Resort and Tourism Association, Twin Cities Gateway, Westopolis, and others.

⁶⁴ Minn. Laws 1989, 1st Special Session, Chapter 1, Art. 8, Sec. 1. Ninety-five percent of the first three percent remained dedicated to tourism promotion. The second three percent was unrestricted.

⁶⁵ Retzlaff, Bob, "Motel association wants tax option repealed," *Rochester Post-Bulletin*, Dec. 9, 1989.

⁶⁶ Minn. Laws 1990, Chapter 604, Art. 6, Secs. 6-8.

⁶⁷ [Minn. Stat. 469.190](#). See history at bottom.

Tourism Funding. Several cities have sought and obtained permission to levy a lodging tax in addition to an existing lodging tax to fund or supplement tourism and convention promotion.⁶⁸

Pre-1983 Municipalities. The cities with local lodging taxes adopted or authorized prior to the 1983 Local Option Lodging Tax are unique situations that account for many of the special laws.⁶⁹ These requests often supported large scale projects of regional or statewide significance (e.g., professional sports facilities) or related to complex interactions between the original lodging tax, new local taxes, and overall sales tax limits imposed by the Minnesota Legislature.⁷⁰

Miscellaneous Proposals. The few remaining special laws authorizing local lodging taxes outside of the 1983 framework share less in common. Some provided approval for counties to act on behalf of organized and unorganized municipalities while others granted exceptions to the three percent tax cap.^{71,72}

In 2023, the Minnesota Legislature rejected an effort to divert Local Option Lodging Tax revenue away from tourism and convention center promotion. The city of Woodbury sought permission to deviate from the 1983 law's revenue dedication by using two thirds of the revenue for capital improvements to public recreation facilities.⁷³

At a Minnesota Senate Tax Committee hearing on the proposal, Senator Ann Rest (New Hope), then chair of the Senate Taxes Committee and a longtime tax policy leader at the State Capitol, explained the historic purpose of the Local Option Lodging Tax:

*"The argument made for it was that the industry is willing to, in a sense, tax itself in order to promote tourism and the marketing of their area to bring in additional revenue and additional economic activity within hospitality, particularly hotels, and so forth... They impose the tax; they're willing to have it on themselves, but the purpose has to be to improve the industry itself within the jurisdiction."*⁷⁴

"The industry is willing to tax itself... but the purpose has to be to improve the industry."

- Senator Ann Rest (New Hope), 2023

The Woodbury proposal was not approved.

Confronted with an unusually high volume of requests for local tax authorizations that year, lawmakers ordered the creation of a Local Taxes Advisory Task Force.⁷⁵

⁶⁸ Pat Dalton, "Local Lodging Taxes in Minnesota," Minn. House Research Dept, Aug. 2019. Bloomington, Rochester, St. Paul, Sleepy Eye, La Crescent, and Lake County received authorization to impose an additional lodging tax to fund local tourism and convention center promotion.

⁶⁹ Id.

⁷⁰ Id. This includes convention and sports facilities in Minneapolis, the Destination Medical Center in Rochester, and Mall of America-related development in Bloomington. Further, in 2012, cities of the first class were granted authority to use "excess revenue" from existing special law sales taxes (but not from the general law lodging tax) to fund civic center, convention center, and sports facility improvements. See: [Minn. Stat. 297A.9905](#).

⁷¹ Dalton, Pat, "Local Lodging Taxes in Minnesota," Minnesota House Research Dept. Aug. 2019. The legislature has infrequently permitted exceptions to the tax cap to support specific local attractions but attempts to deviate from the statutory framework undermine the legislative goals of consistency and maintenance of purpose.

⁷² Itasca, Hubbard, and Lake of the Woods Counties received approval to act on behalf of some or all municipalities within the county. Each special law prohibited imposing both a local and county lodging tax. In all three cases, the 95 percent dedication for tourism and convention promotion in the Local Option Lodging Tax law applied. See: [Minn. Laws 2003, 1st Spec. Session, Ch. 21, Art. 8, Sec. 18](#); [Minn. Laws 2005, 1st Spec. Session, Ch. 3, Art. 5, Sec. 40](#); [Minn. Laws 2023, Ch. 64, Art. 11, Sec. 4, 2023 HF 1640, SF 475](#).

⁷⁴ Minnesota Senate Taxes Committee, [Youtube.com, Feb. 21, 2023](#). Senator Rest's remarks begin at 1:25:57.

⁷⁵ Minnesota Laws 2023, Chap. 21, Art. 10, Sec. 51.

Its mission was to determine objective evaluation criteria for local sales, food and beverage, and lodging tax proposals, as well as the proper entity to evaluate local requests and the appropriate process for approving special laws that authorize or modify these taxes.

The Minnesota Department of Revenue convened the task force in August 2023. After six months of meetings, deliberation, and public input, the task force did not recommend any substantive changes to the imposition and use of proceeds from the lodging tax.⁷⁶

Over the years, the Minnesota Attorney General's Office (AGO) has also weighed in on the law's purpose.⁷⁷ AGO Advisory Opinions issued in 1985, 1993, and 2002 cautioned against attempts to use Local Option Lodging Tax proceeds for capital expenditures and re-affirmed that expenditures should promote tourism and convention business.

8. Other Local Improvement and Marketing Mechanisms. The debate over the purpose and structure of local lodging taxes that preceded the 1983 law reflects only a small portion of lessons learned from decades of discussions about non-property tax local revenue sources.

Each year, state lawmakers are presented with numerous tax, bonding, and direct appropriation requests that require thoughtful consideration and careful scrutiny.

They strive to balance a wide range of sometimes competing priorities, including local control for municipal governments, equitable service delivery among municipalities, maximum efficiency through regional cooperation, avoidance of uncompetitive duplication of state and local taxes, service of a specific goal, and retention of the original purpose for which local voters or boards approved a tax.

State lawmakers have left in place the general requirement, adopted in 1971, for municipalities to seek legislative approval for new or increased sales or income taxes. But over the decades, they have provided local governments with additional tools to deliver services and boost growth while balancing many competing interests.

The common threads among legislative authorizations for local revenue generation mechanisms are capital investment, regional cooperation, and economic development.

This is evidenced by lawmakers retaining the lodging tax's original purpose – convention and tourism promotion – for more than 40 years. In that time, more than one hundred local and regional governments adopted this funding mechanism because it brings investment into local communities, allows for collaboration, and delivers clear economic development benefits.

⁷⁶ Minnesota Dept. of Revenue, "Local Taxes Advisory Task Force: Report to the Legislature," Feb. 2, 2024.

⁷⁷ Minnesota Tourism Association, "[Summary of Attorney General Opinions](#)," accessed Jul. 23, 2026. A 1985 AGO Opinion issued to the city of Winona affirmed that lodging tax proceeds may not be used for capital expenditures. In its review of the legislative history, the AGO cited the plain text of the law and the Minnesota House's rejection of an amendment to broaden the allowable uses by funding, among other things, construction of civic centers or auditoriums. In 1988, the AGO clarified that a CVB operated under contract between a municipality and a private entity is subject to the same legal obligations as if the municipality was directly spending the funds. Subsequent AGO opinions in 1993 and 2002 advised local governments to maintain a focus on tourism and convention promotion and avoid capital and maintenance expenditures not "reasonably designed to encourage the use of the city as a tourist or convention center."

It is also reflected in the debates that established the processes for Local Option General Sales Taxes and Tourism Improvement Districts. In both cases, lawmakers strived to achieve the same structure and clarity of purpose as the Local Option Lodging Tax.

State lawmakers began taking a more lenient approach to local general sales taxes in the 1980s.⁷⁸ As with the local lodging tax, these taxes are generally authorized for specific purposes rather than general use.^{79,80}

Long concerned that legislative committees were not providing equal and consistent review of local sales tax requests, the state established a process for local requests in 1997, overhauled it in 2019, and approved a record number of local sales taxes (32 cities, 5 towns) in 2023.^{81,82}

Also in 2023, recognizing the economic development value of the tourism industry, the state authorized the creation of Tourism Improvement Districts (TID).⁸³

Rather than diverting existing revenue sources from their original authorized purpose, the state worked with interested stakeholders to create a novel process that allows local leaders and businesses to come together to strengthen economic activity through tourism and business promotion in targeted ways.

Establishing a TID requires a majority of local lodging businesses within a defined district to petition the municipal governing body for approval of a service charge to fund tourism and lodging business promotion activities. The TID process includes robust public notice and guardrails governing alteration of the original purpose.

In 2025, the Minneapolis City Council established the first TID in collaboration with local lodging owners and Meet Minneapolis.⁸⁴ The TID is funded through a two percent service charge collected by lodging businesses in the district and is credited with bringing the Michelin Guide – a world-renowned restaurant rating publication – to Minneapolis.⁸⁵

9. Conclusion. The Local Option Lodging Tax allows local communities to advertise their unique attractions and world-class facilities to visitors from across Minnesota and beyond.

It is built on a simple and durable premise: using lodging tax proceeds to benefit local tourism and convention center marketing boosts the hospitality industry, communities, and taxpayers.

⁷⁸ Dalton, Pat, “[Local Sales Taxes in Minnesota](#),” Minnesota House Research Department, Oct. 2019.

⁷⁹ Id. Local sales tax authorizations have historically been reserved for capital investments (e.g., civic centers, wastewater treatment) or categories of improvements (e.g., transportation projects).

⁸⁰ [Minn. Stat. 297A.99](#). The current process for seeking approval of a local option sales tax request requires the project to have “clear regional benefit beyond the taxing jurisdiction.” State law provides additional flexibility for the use of local sales tax revenue on capital construction or improvement of civic centers, convention centers, or sports arenas totaling \$40,000,000 or more. See [Minn. Stat. 297A.9905](#).

⁸¹ Pollock, Nora, “[Memo re: Requirements for adopting a local sales tax](#),” Minn. Senate Counsel, Research and Fiscal Analysis, Mar. 24, 2021.

⁸² Stokes, Kyle, “[See which Minnesota cities and counties won permission to put sales tax increases on the ballot](#),” [Minnpost.com](#), Jun. 7, 2023.

⁸³ [Minn. Stat. Ch. 428B](#).

⁸⁴ Meet Minneapolis, “Minneapolis Tourism Improvement District Officially Established,” Jun. 10, 2025.

⁸⁵ Brion, Raphael, “Michelin comes to Minneapolis,” *Minneapolis Star Tribune*, Apr. 11, 2026, pg. E1.

Tourism and convention promotion delivers a proven return on investment for host communities and the entire state through economic development, employment opportunities, state and local tax revenue, robust hospitality options, and much more:

- 82.5 million visitors to Minnesota
- \$25.2 billion in total economic impact
- 131,000 tourism-supported jobs
- \$2.4 billion state and local tax revenue

The core structure and purpose of the Local Option Lodging Tax have remained intact for more than 40 years and stand out as an example of successful tax policy:

- must have local approval from city council or town voters
- a tax of up to 3 percent on the gross receipts of short-term lodging
- at least 95 percent of proceeds go to “marketing and promoting the city or town as a tourist or convention center”

The Local Option Lodging Tax also meets core criteria for sound tax policy.

It serves a clear purpose, does not duplicate existing funding, and avoids burdening local taxpayers. Its value has been scrutinized and validated by lawmakers and task forces who have continued the longstanding dedication of proceeds for tourism and convention promotion in more than one hundred communities across Minnesota.

The revenue dedication to a CVB or DMO provides consistency and clarity to local governments, the lodging industry, and other stakeholders. Nonpartisan tax policy experts at the Tax Foundation agree that industry-specific tax revenue should benefit the industries that pay it.

Recognizing the economic development and community building value of tourism promotion, state lawmakers have preserved the Local Option Lodging Tax dedication to CVB or DMO funding as a means for local governments to strengthen a local or regional brand and boost local economies.

CVBs and DMOs depend on the local lodging taxes to market their area's assets for individual travelers, families, businesses, and conventioners. The lodging tax enables these organizations to make the best decisions for their area without having to repeatedly return to the state for approval or funding.

In an era when even minor tax policy can get bogged down in the partisan divide, the enduring legacy of the Local Option Lodging Tax should be understood, celebrated, and preserved.