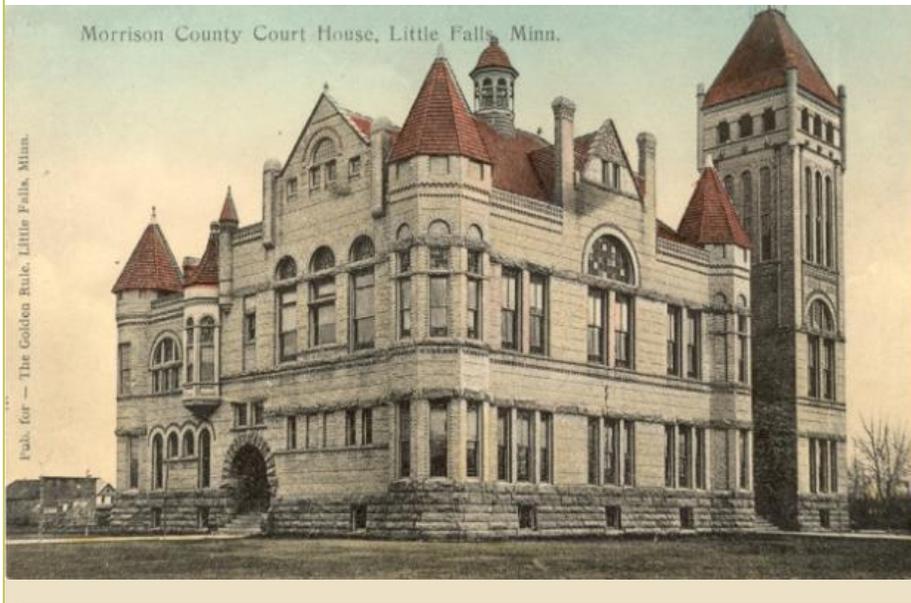




Local Option Sales Tax Analysis for Morrison County

ESTIMATED CONTRIBUTION OF SEASONAL RESIDENTS, VISITORS, AND TRAVELERS TO A LOCAL OPTION SALES TAX SUPPORTING TRANSPORTATION PROJECTS

Authored by Merritt Bussiere and Ryan Pesch



PROGRAM SPONSORS: PUBLIC WORKS DEPARTMENT, MORRISON COUNTY, MN

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ESTIMATED TAX PROCEEDS AND CONTRIBUTION OF SEASONAL RESIDENTS, VISITORS, AND TRAVELERS TO A LOCAL OPTION SALES TAX SUPPORTING TRANSPORTATION PROJECTS

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EXECUTIVE SUMMARY

Minnesota has adopted laws enabling non-metro county boards, following a public hearing, to create a local option sales tax of up to a ½ percent to fund transportation projects. This report details the results of a study conducted by University of Minnesota Extension to estimate overall tax proceeds and the proportion of tax proceeds generated by sales to year-round Morrison County residents. These results are compared to proceeds generated by seasonal residents, travelers, visitors, and other non-residents, using sales tax data from the Minnesota Department of Revenue (MN Revenue).

Extension’s Community Economics (CE) educators develop applied research and educational resources to help business and community partners make more informed decisions. One of CE’s core program offerings is Retail Trade Analysis <http://www.extension.umn.edu/community/retail/analysis/>. Educators and specialists have completed more than 250 retail trade studies in the last 10 years using MN Revenue data, as well as other population and income information from state and federal agencies. Helping Minnesota jurisdictions understand their prospects should officials choose to enact a local option sales tax is one type of research available through CE’s Retail Trade Analysis. In this report, Extension makes no recommendations as to what actions county officials should take. Rather, the intent of the report is to determine the estimated sales tax proceeds emerging from the enactment of a local option tax program and what proportion of those dollars are likely be paid by year-round county residents vs. non-residents.

Extension initially generated a trade area analysis that compared actual taxable sales, based on MN Revenue sales tax data¹, with a calculated “expected sales” amount that is created by multiplying the Morrison County population by the Minnesota average per capita sales and adjusting for county income factor. This provided an estimate of retail and service purchases made by year-round Morrison County residents. For each merchandise group, the estimates for two types of purchasers—year-round county residents and others—were considered and adjusted in light of the area economy and lifestyle. Adjustments were also made in categories where there has been a consistent difference between the average per capita sales in Greater Minnesota and the state average. These adjustments involved informed approximations and were aimed, in part, at avoiding overestimates of the sales tax share falling to non-residents. The assumptions and the calculations are shown for the major retail and service categories so that decision makers can adjust the totals if they have more precise local information.

Several key factors and features in the Little Falls and Morrison County economy helped frame our analysis of the different merchandise categories.

- Little Falls is a small regional hub for commercial, retail, service, etc. purchases. Location of the city along Hwy 371 and Hwy 10 will facilitate some travelers making stops for gas, meals, and other items. Highway 27 functions as a key east-west corridor in this part of the state.
- Little Falls is the county seat.
- 12% of housing is vacant for purposes of seasonal, occasional and recreational use (vs 30% in Crow Wing County, 49% in Aitkin County)
- Camp Ripley employs several hundred people, hosts thousands of short-term visitors, and spends millions of dollars in local purchases.
- Agriculture is a big driver in the county economy
- Little Falls, because of its location, will likely lose some retail and service sales to Brainerd/Baxter and the St Cloud metro area.

1. *MN County Sales Tax Statistics* (2014). Minnesota Department of Revenue. NOTE: Adjusted for inflation, 2014 total taxable sales for Morrison County is within 6percent of average sales for the last 5 years.

The table below shows the estimated percentage breakout—across all merchandise categories—for the *adjusted* analysis to more accurately reflect economic and consumption circumstances in the county. Based on this research process, we estimate that 81% of all taxable retail and service sales would be made by permanent county residents, while the remaining 19% of taxable sales would be by non-residents.

Figure 1. Estimated taxable sales to using an adjusted trade area analysis.

	Taxable Sales	Percentage
	\$millions	of Sales
Morrison County Residents	\$158.8	80.9%
Non-residents	\$37.4	19.1%
Totals	\$196.20	100%

Extension estimated the dollars generated by different levels of a local option sales tax and also estimated what year-round county residents would pay at each level compared to non-residents. Using the adjusted trade area analysis, these dollar amounts are shown in the table below.

Morrison County has the potential to realize substantial tax proceeds to support designated transportation projects and operations, reaching as much as \$981 thousand if the full ½ percent tax were to be enacted. At the \$981 thousand level, the proportion of the tax total to be paid by non-residents is estimated to be \$187 thousand, and the proportion to be paid by year-round Morrison County Residents is estimated to be \$794 thousand.

Non-residents would bear the lesser share of the tax in Morrison County for two basic reasons. Unlike some neighboring Minnesota counties like Crow Wing and Stearns, Morrison is not a regional retail hub that brings many shoppers from other counties. Also, the portion of second homeowners account for a modest portion of the homeowners in the county, owning 11.9% of total housing units.

TAX PROCEEDS		Total	Paid By	Paid By
	Multiplier	Tax	Morrison	Non-
		Proceeds	Residents	Residents
@ 1/8th of a Percent	0.00125	\$245,253	\$198,470	\$46,782
@ 1/4th of a Percent	0.0025	\$490,505	\$396,941	\$93,564
@ 3/8ths of a Percent	0.00375	\$735,758	\$595,411	\$140,346
@ 1/2 of a Percent	0.005	\$981,010	\$793,882	\$187,128

Total Taxable Sales:
\$196,202,000

Figure 2. Estimated tax proceeds and who pays in dollars.

Use tax proceeds would also be added to the estimated tax proceeds in the table above. Based on 2014 figures, for each 1/8 of a percent enacted, county officials can expect an estimated additional \$6,000 in use (not sales) tax proceeds derived from county businesses purchasing products from out-of-state sources. County officials can also anticipate some additional use (not sales) tax proceeds, but there is no way to accurately estimate this number. This will be from purchases made by local businesses in other Minnesota locations

Morrison County policymakers are understandably concerned that enacting a sales tax in their county when neighboring counties have not adopted the tax will result in the loss of consumer purchases to these other counties. However, at its highest potential application of ½ of a percent,

this local option sales tax would add just 50 cents to a \$100 purchase. Records available from the Minnesota Department of Revenue website (Appendix A) shows the tax collected from 23 Minnesota jurisdictions that have enacted some type of local sales or use tax within the last 9 years. Most of these jurisdictions show continued sales growth. This Extension report also looks at sales before and after a local option sales tax was enacted in three Minnesota cities. Many factors influence retail sales, but these records do not indicate a major purchasing change due to the additional sales tax.

ABOUT THE STUDY AND REPORT

This report is divided into five parts:

- Executive Summary, Page 2
- About the Study and Report, Page 4
- Trade Area Analysis of Retail Sales & Estimation of Resident & Non-Resident Purchase Share by Merchandise Group, Page 5
- Estimates of Projected Sales Tax Revenue, Page 22
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- Appendixes, Page 25

The Community Economics educators at University of Minnesota Extension provide applied research and education to help community and business partners make better informed decisions. In recent years, Minnesota has adopted laws enabling non-metro county boards to enact a local option sales tax of up to a ½ percent to fund transportation projects and operations. The sales tax is enacted on a per project basis and must end once sufficient funds are raised for a specified project.

Proceeds must be dedicated exclusively for:

- A specific transportation project or improvement
- Capital for or operation of a specific transit project
- Capital for a Safe Routes to School project.²

This report details the results of a study conducted by Extension to estimate the proportion of tax proceeds generated by sales to year-round Morrison County residents compared to proceeds generated by seasonal residents, travelers, visitors, and other non-residents. The study uses the most recently available state sales tax data from the Minnesota Department of Revenue (MN Revenue).

Specifically, Extension carried out a trade area analysis of retail and service sales in selected merchandise categories, estimating the amount of taxable sales that were made by local residents, as well as those outside Morrison County. Other research items addressed in this study include a) estimates of total projected sales tax revenues to be realized in 1/8 of a percent increments up to ½ of a percent, and b) whether or not, in general, adoption of such a tax shifts retail goods purchases away from the geographical area that imposes the tax, with examples offered of such jurisdictions.

2. Sandberg, W. & Bryduck, A. (2014). *County Local Option Wheelage and Sales Tax*. Association of Minnesota Counties. Presentation.

TRADE AREA ANALYSIS AND ESTIMATION OF RESIDENT & NON-RESIDENT PURCHASE SHARE BY MERCHANDISE GROUP

Vehicles & Parts

	(\$Millions)
Actual Taxable Sales	\$14.14
- Potential Sales	\$10.83
= \$ Variance	\$3.32
= As % of Potential	30.6%
# of Firms	26
% of Total Taxable Retail & Service Sales	2.0%

Unadjusted Trade Area Analysis

Potential Taxable Sales to Residents	\$10.83
Surplus (local preference & non-residents)	\$3.32
Total	\$14.14
Surplus percentage	23.5%

Analysis with Adjustments

Residents' \$ Share	\$10.82
Non-Residents' \$ Share	\$3.32
Totals	\$14.14
Non-Resident Share per Group	23.5%

Potential Sales estimate the dollar amounts for purchases made by local residents IF local residents spend as much as the average MN resident.

Potential sales are calculated by the following formula:

$$(T \div PMn) \times PCW \times (YCW \div YMn) = \text{Potential Sales}$$

T = Total MN taxable sales for a merchandise category

PMn = Population of MN

PCW = Population of Morrison County

YCW = Average income of Morrison County resident

YMn = Average income of MN resident

Analysis & Recommendations for Vehicles & Parts

The retail category includes repair parts, snowmobiles, boats, trailers, recreational vehicles, and repair parts. Sales of cars and other on-road vehicles are not included in this category; such sales are subject to a different tax.

The trade area analysis predicts that county residents' share of vehicle and parts purchases would be \$3.32 million, or about 24% of total purchases made in Morrison County within this merchandise group. The average Minnesota business sold \$470 (taxable) per resident in this category in 2014. Near the Lakes District, it is likely that residents own more boats, snowmobiles, and recreational vehicles than the average Minnesotan. Therefore, actual local purchases are likely greater than the \$10.8 million in expected sales, however being en route to Lakes County would also attract non-resident spending. In total, these competing factors favor keeping non-resident spending at its estimated 23.5% of total.

Furniture Stores

	(\$Millions)
Actual Taxable Sales	\$2.19
- Potential Sales	\$5.76
= \$ Variance	(\$3.57)
= As % of Potential	-62.0%
# of Firms	15
% of Total Taxable Retail & Service Sales	0.3%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$5.76
Surplus (local preference & non-residents)	(\$3.57)
Totals	\$2.19
Non-Resident Share per Group	-163.1%

Analysis with Adjustments

Residents' \$ Share	\$2.06
Non-Residents' \$ Share	\$0.13
Totals	\$2.19
Non-Resident Share per Group	6.0%

Analysis and Recommendations for Furniture Stores

These stores sell furniture, beds, carpeting, window coverings, lamps, china, kitchenware, and wood-burning stoves. In the trade area analysis, the calculated potential may be overestimated, as this is a mostly rural area where furniture sales are lower per capita than the state, \$166 per person compared to \$250 respectively. Since furniture often concentrates in regional retail centers, the leakage of sales to other communities such as St. Cloud and Brainerd is evident. Even though Morrison County residents are shopping for furniture outside the county, some residents from small towns in neighboring counties such as Todd and Mille Lacs would reasonably be attracted to this cluster of 15 furniture stores.

Electronics and Appliances

	(\$Millions)
Actual Taxable Sales	\$2.69
- Potential Sales	\$6.08
= \$ Variance	(\$3.39)
= As % of Potential	-55.7%
# of Firms	6
% of Total Taxable Retail & Service Sales	0.4%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$6.08
Surplus (local preference & non-residents)	(\$3.39)
Totals	\$2.69
Non-Resident Share per Group	-125.9%

Analysis with Adjustments

Residents' \$ Share	\$2.64
Non-Residents' \$ Share	\$0.05
Totals	\$2.69
Non-Resident Share per Group	2.0%

Analysis and Recommendations for Electronics & Appliances

These establishments primarily engage in retailing household-type appliances, sewing machines, cameras, computers, and other electronic goods. The average Minnesota resident purchases \$264 per capita in this category, although residents of greater Minnesota spend only about half that much. Potential sales calculation suggest that over 50% of sales are leaving the county. The trade area analysis predicts that year-round residents of Morrison County would make all of the electronics and appliance purchases in the county. Again, although Morrison residents are leaving the county for some of these purchases, it is reasonable that residents from neighboring counties are still making some purchases. Our recommendation is to increase the non-resident portion from 0% to 2% , with residents and non-residents generating sales of \$2.64 million and \$50,000 respectively.

Building Materials

	(\$Millions)
Actual Taxable Sales	\$24.35
- Potential Sales	\$22.37
= \$ Variance	\$1.98
= As % of Potential	8.9%
# of Firms	26
% of Total Taxable Retail & Service Sales	3.4%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$22.37
Surplus (local preference & non-residents)	\$1.98
Totals	\$24.35
Non-Resident Share per Group	8.1%

Analysis with Adjustments

Residents' \$ Share	\$20.70
Non-Residents' \$ Share	\$3.65
Totals	\$24.35
Non-Resident Share per Group	15.0%

Analysis and Recommendations for Building Materials

These establishments sell lumber, hardware, paint, wallpaper, tile, hardwood floors, roofing, fencing, ceiling fans, lawn equipment, and garden items. The trade area analysis estimates that local sales would account for over 90% of all building materials sales. Although seasonal resident account for only 12 of housing stock, evidence from research in Crow Wing County suggests that second homeowners are significant purchasers of home and garden products. We believe that this effect would increase the non-local resident spending from 8% to 15% of building material sales.

Food & Groceries

	(\$Millions)
Actual Taxable Sales	\$15.51
- Potential Sales	\$14.76
= \$ Variance	\$0.74
= As % of Potential	5.0%
# of Firms	32
% of Total Taxable Retail & Service Sales	2.1%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$14.76
Surplus (local preference & non-residents)	\$0.74
Totals	\$15.51
Non-Resident Share per Group	4.8%

Analysis with Adjustments

Residents' \$ Share	\$14.58
Non-Residents' \$ Share	\$0.93
Totals	\$15.51
Non-Resident Share per Group	6.0%

Analysis and Recommendations for Food & Groceries

This merchandise group includes grocery stores, delis, bakeries, and butcher shops that sell food to be prepared at home. Liquor stores are also included in this group. The trade area analysis estimates that about 95% of grocery sales are accounted for by Morrison County residents. Local residents account for the majority of food and liquor sales, but we expect non-residents such as second homeowners and travelers will play a larger role than the initial analysis indicated. We recommend an increase of the non-resident share of grocery and liquor sales from 5% to 6%.

Health & Personal Items

	(\$Millions)
Actual Taxable Sales	\$1.17
- Potential Sales	\$2.84
= \$ Variance	(\$1.67)
= As % of Potential	-58.7%
# of Firms	8
% of Total Taxable Retail & Service Sales	0.2%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$2.84
Surplus (local preference & non-residents)	(\$1.67)
Totals	\$1.17
Non-Resident Share per Group	-142.3%

Analysis with Adjustments

Residents' \$ Share	\$1.15
Non-Residents' \$ Share	\$0.02
Totals	\$1.17
Non-Resident Share per Group	2.0%

Analysis and Recommendations for Health & Personal

Stores selling prescription drugs, food supplements, vision supplies, cosmetics, and hearing aids are among the shops included in this merchandise group. These stores sell the types of items that most people buy locally, so county residents are likely to dominate the marketplace as they do in the trade area analysis, accounting for 100% of sales. Even with a fair amount of sales leaking outside of Morrison, we expect some sales from non-residents would increase their share to a modest 2% of sales.

Gas/Convenience Stores

	(\$Millions)
Actual Taxable Sales	\$9.91
- Potential Sales	\$4.82
= \$ Variance	\$5.08
= As % of Potential	105.5%
# of Firms	20
% of Total Taxable Retail & Service Sales	1.4%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$4.82
Surplus (local preference & non-residents)	\$5.08
Totals	\$9.91
Non-Resident Share per Group	51.3%

Analysis with Adjustments

Residents' \$ Share	\$4.82
Non-Residents' \$ Share	\$5.08
Totals	\$9.91
Non-Resident Share per Group	51.3%

Analysis and Recommendations for Gas Station/Convenience Stores

This merchandise group, which covers retailers selling convenience items at a store also selling fuel, is a good example of spending that is driven by travelers and visitors. The initial trade area analysis indicates that non-residents account for 51% of sales which makes sense considering second homeowners in the county, travel through en route to the Lakes District, and the traffic along highways 10 and 371. Highway 27 serves as an east-west corridor for this part of the state. We recommend leaving the sales breakout as-is at 51/49.

Clothing

	(\$Millions)
Actual Taxable Sales	\$0.78
- Potential Sales	\$4.06
= \$ Variance	(\$3.28)
= As % of Potential	-80.7%
# of Firms	10
% of Total Taxable Retail & Service Sales	0.1%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$4.06
Surplus (local preference & non-residents)	(\$3.28)
Totals	\$0.78
Non-Resident Share per Group	-417.8%

Analysis with Adjustments

Residents' \$ Share	\$0.77
Non-Residents' \$ Share	\$0.02
Totals	\$0.78
Non-Resident Share per Group	2.0%

Analysis and Recommendations for Apparel/Clothing

This merchandise group includes stores selling new clothing and accessories, jewelry, shoes, bridal items, clocks, and luggage. Sales leakage outside of Morrison County in the analysis indicate that either local residents spend less than the average Minnesotan on these items, or they make their purchases elsewhere or on the internet. Certainly the nearby retail centers in Brainerd/Baxter and St. Cloud pull local resident sales to those locations. Some specialized Apparel/Clothing in Morrison County, such as Bridal or Jewelry, would still bring in some sales from outside the county, so we raised the non-local sales proportion to 2%.

Leisure Goods

	(\$Millions)
Actual Taxable Sales	\$2.06
- Potential Sales	\$5.35
= \$ Variance	(\$3.29)
= As % of Potential	-61.5%
# of Firms	21
% of Total Taxable Retail & Service Sales	0.3%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$5.35
Surplus (local preference & non-residents)	(\$3.29)
Totals	\$2.06
Non-Resident Share per Group	-159.9%

Analysis with Adjustments

Residents' \$ Share	\$1.94
Non-Residents' \$ Share	\$0.12
Totals	\$2.06
Non-Resident Share per Group	6.0%

Analysis and Recommendations for Leisure Goods

This merchandise group includes stores selling sporting goods, books, music, hobby items, fabrics, and toys. As with health, personal, and clothing items, it is likely that demand for these products will come mostly from local purchasers rather than non-residents. With local boating and hunting popular activities in the area, it is likely that sales to local residents in sporting goods stores are higher than the Minnesota average. Considering these factors we raised the share of non-resident spending to 6% even though the county has an overall loss of sales in this category.

General Merchandise Stores

	(\$Millions)
Actual Taxable Sales	\$32.56
- Potential Sales	\$23.95
= \$ Variance	\$8.61
= As % of Potential	35.9%
# of Firms	9
% of Total Taxable Retail & Service Sales	4.5%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$23.95
Surplus (local preference & non-residents)	\$8.61
Totals	\$32.56
Non-Resident Share per Group	26.4%

Analysis with Adjustments

Residents' \$ Share	\$24.75
Non-Residents' \$ Share	\$7.81
Totals	\$32.56
Non-Resident Share per Group	24.0%

Analysis and Recommendations for General Merchandise Stores

Stores in this category sell general merchandise and are unique in that they have the equipment and staff capable of retailing a large variety of goods from a single location. This includes department stores, superstores, dollar stores, and variety stores. The initial analysis suggests that non-residents account for 26% of general merchandise sales. Since this is a strong category for Morrison County, we assume that there is a substitution effect at play where local residents are taking purchases in categories like health and leisure goods to general merchandise stores like Wal-Mart. With this in mind, we lowered the 26% of non-resident sales to 24%.

Miscellaneous Retail

	(\$Millions)
Actual Taxable Sales	\$4.68
- Potential Sales	\$6.50
= \$ Variance	(\$1.82)
= As % of Potential	-28.1%
# of Firms	87
% of Total Taxable Retail & Service Sales	0.6%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$6.50
Surplus (local preference & non-residents)	(\$1.82)
Totals	\$4.68
Non-Resident Share per Group	-39.0%

Analysis with Adjustments

Residents' \$ Share	\$4.49
Non-Residents' \$ Share	\$0.19
Totals	\$4.68
Non-Resident Share per Group	4.0%

Analysis and Recommendations for Miscellaneous Retail

Establishments such as florists, used merchandise stores, pet supply stores, and other retailers are found in this group. The category is currently bringing in 28% less sales than one would expect. We recommend setting the non-resident share to 4%, especially considering the large number of establishment in this category, some of which are specialized enough to be drawing some traffic from outside Morrison County.

Amusement & Recreation

	(\$Millions)
Actual Taxable Sales	\$2.51
- Potential Sales	\$6.67
= \$ Variance	(\$4.16)
= As % of Potential	-62.3%
# of Firms	14
% of Total Taxable Retail & Service Sales	0.3%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$6.67
Surplus (local preference & non-residents)	(\$4.16)
Totals	\$2.51
Non-Resident Share per Group	-165.6%

Analysis with Adjustments

Residents' \$ Share	\$2.26
Non-Residents' \$ Share	\$0.25
Totals	\$2.51
Non-Resident Share per Group	10.0%

Analysis and Recommendations for Amusement & Recreation

Establishments in this group include casinos, bowling lanes, water parks, amusement parks, arcades, bingo halls, golf courses, ski slopes, marinas, dance or fitness centers, recreational clubs, ice rinks, swimming pools, roller rinks, etc. Greater Minnesota per capita sales in this category are much lower than the state average. This is likely especially true in an area like Morrison County where people enjoy the water, woods, and bike trails compared to constructed recreational facilities. As with the clothing and apparel category, local residents do not account for 100% of all amusement and recreation sales. Some of these establishments experience stronger sales during the months when seasonal residents and visitors are present, and others close during the months when these important customers are not around. Interviews with facility managers in Crow Wing County for another study, however, underscored the importance of the local customer to these types of facilities. We therefore recommend a 90% local/10% non-local breakout.

Accommodations

	(\$Millions)
Actual Taxable Sales	\$4.52
- Potential Sales	\$8.51
= \$ Variance	(\$3.99)
= As % of Potential	-46.9%
# of Firms	23
% of Total Taxable Retail & Service Sales	0.6%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$8.51
Surplus (Local Preference & Non-Residents)	(\$3.99)
Totals	\$4.52
Non-Resident Share per Group	-88.2%

Analysis with Adjustments

Residents' \$ Share	\$0.45
Non-Residents' \$ Share	\$4.07
Totals	\$4.52
Non-Resident Share per Group	90.0%

Analysis and Recommendations for Accommodations

These businesses provide lodging or short-term accommodations for travelers, vacationers, and others. Included are hotels, motels, lodges, bed & breakfasts, campgrounds, fraternities, boarding houses, and dormitories. Logically, a large majority of lodging sales will include visitors from outside the county, including those visiting and traveling through on busy highways 371 and 10. However, since some portion of accommodation sales always include local events and family 'stay-cations' we set the non-resident share at 90% of sales.

Eating/Drinking Establishments

	(\$Millions)
Actual Taxable Sales	\$31.32
- Potential Sales	\$34.34
= \$ Variance	(\$3.02)
= As % of Potential	-8.8%
# of Firms	94
% of Total Taxable Retail & Service Sales	4.3%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$34.34
Surplus (local preference & non-residents)	(\$3.02)
Totals	\$31.32
Non-Resident Share per Group	-9.7%

Analysis with Adjustments

Residents' \$ Share	\$26.93
Non-Residents' \$ Share	\$4.38
Totals	\$31.32
Non-Resident Share per Group	14.0%

Analysis & Recommendations for Eating & Drinking

These businesses sell food at full-service or limited-service establishments. The group includes cafeterias, bagel shops, ice cream parlors, snack bars, food service contractors, caterers, lunch wagons, and street vendors. It also includes bars, taverns, and nightclubs. According to the market potential estimates, Morrison County is leaking a small portion of sales outside of the county. One factor that may suggest Extension is overestimating the local resident sales is that Greater Minnesota sales are lower per capita than the state average. When thinking about the break between residents and non-residents, restaurants and bars certainly serve a local clientele. Considering that some residents are clearly shopping outside the county and another portion also works outside the county, at best the county retains 80% of its spending on food and drink. Add in the non-local traffic along Highways 371 and 10, we recommend that 14% of total sales in this category are non-resident.

Repair & Maintenance

	(\$Millions)
Actual Taxable Sales	\$9.53
- Potential Sales	\$6.00
= \$ Variance	\$3.52
= As % of Potential	58.7%
# of Firms	104
% of Total Taxable Retail & Service Sales	1.3%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$6.00
Surplus (local preference & non-residents)	\$3.52
Totals	\$9.53
Non-Resident Share per Group	37.0%

Analysis with Adjustments

Residents' \$ Share	\$8.57
Non-Residents' \$ Share	\$0.95
Totals	\$9.53
Non-Resident Share per Group	10.0%

Analysis and Recommendations for Repair & Maintenance

Stores in the Repair and Maintenance group restore machinery, equipment, and other products. This group does not include plumbing or electrical repair services. It does include, however, repairs to autos, cameras, radio, television, computers, copiers, appliances, lawn mowers, specialized equipment, small engines, furniture, shoes, guns, etc. Local residents own more items with small engines that require maintenance. Non-metro average spending is stronger than statewide average spending (Twin Cities included). We believe the trade area analysis model does not reflect the strong role that year-round Morrison County residents would play in this market, increasing the local share to 90%.

Personal Services, Laundry

	(\$Millions)
Actual Taxable Sales	\$0.79
- Potential Sales	\$3.42
= \$ Variance	(\$2.63)
= As % of Potential	-76.9%
# of Firms	58
% of Total Taxable Retail & Service Sales	0.1%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$3.42
Surplus (local preference & non-residents)	(\$2.63)
Totals	\$0.79
Non-Resident Share per Group	-332.9%

Analysis with Adjustments

Residents' \$ Share	\$0.76
Non-Residents' \$ Share	\$0.03
Totals	\$0.79
Non-Resident Share per Group	4.0%

Analysis and Recommendations for Personal Services, Laundry

This merchandise group includes barber shops and beauty parlors, death care services, laundry and dry-cleaning services, and a wide range of other personal services, such as pet care (except veterinary), photofinishing, temporary parking, and dating services. As with similar merchandise categories, local residents will likely be the dominant buyers but, of course, not accounting for 100% of sales. Therefore, the non-resident share is estimated to be a modest 4% of total taxable sales.

**Retail (Non-store) and Other Services
(North American Industrial
Classification System 511-711 sales
amounts released by MN Revenue)**

	(\$Millions)
Actual Taxable Sales	\$11.0
% of Total Taxable Retail & Service Sales	1.5%

Analysis with Adjustments

Residents' \$ Share	\$9.9
Non-Residents' \$ Share	\$1.1
Totals	\$11.0
Non-Resident Share per Group	10.0%

Analysis & Recommendations for All Other Retail & Service Sales:

The rest of retail and service sales are overwhelmingly local. This group includes utilities, rental/lease services, administrative support, and performing arts. This mix of business types is too diverse in which to run the trade area analysis. We assume that 90% of these sales are local.

Agricultural Production, Forestry, Construction, Manufacturing, Wholesale Operations, Transportation, Civic and Professional Organizations, Government, and Sales Information Suppressed for Business Confidentiality.

There are \$26.5 million of taxable sales generated by the above industries and services. This amount will be subject to any new sales taxes, including a local option sales tax supporting county transportation projects and operations. Many of the specifics are suppressed because there are less than four firms in the business category within the county which makes the data difficult to analyze. For purposes of estimating the residential and non-residential portion of the tax collected, Extension uses a conservative estimate of 80% local resident sales.

Residents' \$ Share	\$ 21.2
Non-Residents \$ Share	\$ 5.3
Totals	\$26.5
Non-Resident Share	20.0%

ESTIMATES OF PROJECTED SALES TAX REVENUE

The table immediately below highlights the sales tax revenue for Morrison County for designated transportation projects and/or operations at $\frac{1}{8}$ of percent intervals up to $\frac{1}{2}$ of a percent, the highest taxation rate permitted by state law for local option sales for transportation in counties outside the Twin Cities metropolitan area. The table also includes estimates for the tax dollars likely to be paid by year-round Morrison County residents, along with the estimates for tax dollars likely to be paid by non-residents across all merchandise categories based on the adjusted trade area analysis.

TAX PROCEEDS		Total Tax Proceeds	Paid By Morrison Residents	Paid By Non- Residents
@ 1/8th of a Percent	Multiplier 0.00125	\$245,253	\$198,470	\$46,782
@ 1/4th of a Percent	0.0025	\$490,505	\$396,941	\$93,564
@ 3/8ths of a Percent	0.00375	\$735,758	\$595,411	\$140,346
@ 1/2 of a Percent	0.005	\$981,010	\$793,882	\$187,128

Total Taxable Sales:
\$196,202,000

SOURCE: Total sales figure of \$196 million is based on MN Revenue 2014 data.

There is a *use* tax component to this local option tax program. In 2014, a total of \$146,227 was collected through the use tax for Morrison County, a modest amount in comparison to sales tax collections. There are two likely sources of use tax proceeds that can be added to the estimated tax proceeds in the table above:

1. For each $\frac{1}{8}$ of a percent enacted, county officials can expect an estimated additional \$6,000 in use (not sales) tax proceeds derived from county businesses purchasing products from out of state source (based on the 6.5% use tax rate).
2. County officials can also anticipate some additional use (not sales) tax proceeds, but there is no way to accurately estimate this number. This will be from purchases made by local businesses in other Minnesota locations. If Morrison County officials enact a local option sales tax, they will have a better idea after a year of experience what this amount will be in the future.

DOES ENACTING A LOCAL OPTION SALES TAX SHIFT CONSUMER PURCHASES TO OTHER COUNTIES?

Morrison County policymakers are understandably concerned that enacting a local sales tax in their county, when neighboring counties have not adopted the tax, will result in the loss of consumer purchases to these other counties. However, at its highest potential application of ½ of a percent, this local option sales tax would add just 50 cents to a \$100 purchase.

Records available from the Minnesota Department of Revenue website (Appendix A) records the tax collected from 23 Minnesota jurisdictions that have enacted some type of local sales or use tax within the last 10 years. Most of these cities show continued sales growth.

A more specific comparison of three Minnesota cities that adopted a .5% local option sales tax several years ago is also offered on the following page. The important piece of information to note, however, is that the tax does not add much to a consumer's purchase.

Albert Lea, tax started 2006



These are examples of cities that enacted a local option sales tax.

Each city installed a .5 percent local option sales tax. Factors other than the tax appear to be the primary influence in sales. Convenience, customer service, overall pricing, loyalty, and product choice all play a factor in where people shop.

Increasingly, people are paying a local option sales tax, no matter where they shop. If people leave Austin because of the tax, they will find that the cities of Rochester, Owatonna, and Albert Lea also have the same tax.

Willmar, tax started 2006



Austin, tax started 2007



APPENDIX A.

Minnesota Local Sales & Use Tax
Total Collections
CY 2005-2013

Local Entity	2005	2006	2007	2008	2009	2010	2011	2012	2013
Albert Lea		\$672,514	\$1,193,643	\$1,295,287	\$1,302,397	\$1,417,881	\$1,385,185	\$1,361,956	\$1,371,727
Austin			824,839	1,306,244	1,415,665	1,521,493	1,602,890	1,654,987	1,626,125
Baxter		269,460	1,907,480	1,817,395	1,814,425	1,812,195	1,842,188	2,003,212	2,120,411
Bemidji		1,423,560	1,690,976	1,688,220	1,749,687	1,846,889	1,962,085	1,962,300	2,189,580
Brainerd			556,740	830,840	850,614	829,980	839,153	883,124	881,244
Clearwater				16,142	143,050	170,377	301,999	182,010	188,439
Cloquet									695,762
Duluth		11,398,159	12,225,979	12,194,936	11,641,832	12,084,658	12,708,709	13,068,224	13,685,071
Fergus Falls								1,019,239	1,189,756
Hermantown	\$1,153,669	1,137,678	1,193,037	1,109,705	1,127,223	1,134,116	1,169,932	1,224,434	2,089,558
Hutchinson								1,193,556	1,432,169
Lanesboro								47,126	79,416
Mankato	4,386,026	4,128,429	4,334,356	4,388,499	4,381,403	4,520,952	4,702,420	4,881,939	4,974,848
Marshall									894,350
Medford									81,810
Minneapolis	28,556,270	28,493,948	30,425,381	30,108,225	27,603,226	27,913,705	30,759,503	32,561,414	33,548,740
New Ulm	843,201	886,988	939,425	933,519	939,757	993,663	1,022,880	1,062,888	1,233,243
North Mankato				49,057	393,426	463,065	488,382	568,365	614,733
Owatonna			1,240,622	1,946,356	2,092,829	1,886,147	1,224,809	15,330	7,459
Proctor	126,570	151,315	132,581	130,167	154,416	150,941	151,106	162,363	213,830
Rochester	8,732,500	9,255,831	9,833,630	9,482,871	9,635,634	9,319,670	9,658,017	10,071,132	10,428,422
St. Cloud Area	6,164,590	8,114,589	8,719,065	8,434,991	8,250,610	8,282,589	8,714,584	9,175,367	9,473,929
St. Paul	14,934,741	15,452,469	16,171,672	15,670,879	15,842,996	16,023,319	16,383,063	16,454,773	17,502,316
Two Harbors	240,134	265,108	270,767	254,739	229,402	265,545	311,437	284,653	270,934
Willmar		1,475,634	1,794,419	1,751,563	1,733,787	1,753,486	1,870,799	2,064,924	429,176
Worthington					414,264	717,875	804,606	802,609	842,602
Cook Co	1,074,550	1,079,651	1,181,755	443,333	996	767,942	1,145,291	1,258,563	1,444,164
Hennepin Co			24,573,566	29,082,574	28,030,758	28,864,673	31,063,329	32,344,624	34,249,703
Metro Area Transit				34,024,649	86,990,821	90,169,253	96,773,584	101,077,456	108,100,932

Source: Minnesota Department of Revenue, Tax Research Division, October 11, 2014



APPENDIX B.

Definitions of Terms

Gross Sales

Gross sales include taxable sales and exempt sales for businesses with sales and use tax permits. This is the most inclusive indicator of business activity for the reporting jurisdictions, but it can be misleading when used in comparisons. At times, commodity items (e.g., gasoline) that are not taxable can have large price variations, creating huge swings in gross sales.

Taxable Sales

Taxable sales are the number of sales subject to sales tax. Taxable sales exclude exempt items, items sold for resale, items sold for exempt purposes, and items sold to exempt organizations. For purposes of this study, taxable sales were the focus of the analysis. For more information on what is taxed in Minnesota, see "Minnesota Sales and Use Tax Instruction Booklet" available at http://www.revenue.state.mn.us/Forms_and_Instructions/sales_tax_booklet.pdf

Taxable Retail and Service Sales

In this report and other retail trade analysis reports written by the University of Minnesota Extension, the term "taxable retail and service sales" refer to the North American Industry Classification System (NAICS) numbers of 441 to 454 (retail) and 511 to 711 (most service industries) that are released by the Minnesota Department of Revenue for a geographic area.

Current and Constant Dollar Sales

Current dollar (or "nominal dollar") sales are sales reported by the state. No adjustment has been made for price inflation. In general, this measure of sales is not satisfactory for comparisons over long periods of time since it does not account for changes in population, inflation, or the state's economy. Constant dollar (or "real dollar") sales reflect changes in price inflation by adjusting current dollar sales with the Consumer Price Index (CPI). Constant dollar sales indicate the real sales level with respect to a base year. This is a more realistic method of evaluating sales over time than current dollar comparisons, but it still does not take into consideration changes in population or the state's economy.

Number of Businesses

The number of sales and use tax permit holders who filed one or more tax returns for the year.

Index of Income

This index provides a relative measure of income, calculated by dividing local per capita income by state per capita income. The base is 1.00. For example, an index of income of 1.20 indicates that per capita income in the area is 20% above the state average.

Potential Sales

Potential sales are an estimate of the amount of money that is spent on retail goods and services by residents of a county. It is the product of county population, state per capita sales, and the index of income. The potential sales concept for counties is similar to the expected sales calculations for cities. Potential sales, however, do not utilize a measure of average pulling power (like the typical pull factor that is used in the expected sales equation). Since a county is a relatively large region within which retail business takes place, counties are compared without adjustments for trade area size.

Actual Sales

For this study, MN Revenue's 2014 sales data for Morrison County provides the actual sales numbers used.



Variance between Actual and Potential Sales: The variance between actual and expected sales is how much retail sales differ from the “norm” (i.e., the amount above or below the standard established by the expected sales formula). When actual sales exceed expected sales, the county has a “surplus” of retail sales. When actual sales fall short of expected sales, the county has a retail sales “leakage”. Discrepancies between expected and actual sales occur for a variety of reasons. For this study, we use potential sales per merchandise group to create a first-cut estimate of permanent county residents’ purchase activities.

Cautions

Gross Sales

Gross sales are a comprehensive measure of business activity, but it should be noted the numbers in this report are self-reported by holders of sales and use tax reports. Furthermore, the gross sales are not audited by the State of Minnesota. It is believed the gross sales figures are generally reliable, but there is the possibility of distortions, especially in smaller cities where misreporting may have occurred.

Misclassification

Holders of sales and use tax permits select the North American Industry Classification System (NAICS) category that best fits their business. Regardless of who makes this classification, errors are occasionally made. Also, sometimes a business will start out as one type of business but may evolve over time to a considerably different type of business. Misclassifications can distort sales among business categories, especially in smaller cities. For example, a furniture store that is classified as a general merchandise store will under-report sales in the furniture store category and over-report sales in the general merchandise category.

Suppressed Data

The sales data for merchandise categories that have less than four reporting firms are not reported. This is a measure taken by most states to protect the confidentiality of sales tax permit holders. The sales for suppressed retail categories are placed into the miscellaneous retail category and are included in total sales. The sales for suppressed service categories are placed into the NAICS 999 category and are not included in total sales of a typical retail trade analysis. However, for this report of Morrison County, all taxable sales, including NAICS 999, are included for the purposes of calculating the amount of special taxes collected.

Consolidated Reporting

Vendors with more than one location in Minnesota have the option of filing a separate return for each location or filing one consolidated return for all locations. The consolidated return shows sales made, tax due, and location by city and county for each business. Data for the establishments of consolidated filers are combined with data for single-location filers to produce the figures in this report. Occasionally, consolidated reports may not be properly deconstructed and all sales for a company may be reported for one town or city. Whenever misreporting is discovered, contacts are made with the Minnesota Revenue Department to clarify the situation.



APPENDIX C.

State of Minnesota Per Capita Taxable Retail Sales & Threshold Levels for Selected Goods and Services						
2014						
<p><i>Threshold level refers to the number of people per business, which can be used as a general guide for determining the "critical mass" necessary to support a business. These are broad averages for the state as a whole and do not reflect differences in income, tourism, agglomeration, establishment, etc. Further, the business counts are based on the number of sales tax returns filed and are converted to "full-time equivalents." Multiplying people per business by sales per capita yields average sales per firm. In addition to state averages, averages for the non-metropolitan regions were calculated by excluding the seven county Minneapolis -St. Paul metropolitan region.</i></p>						
Business Activity / Store Type	People Per Business		Sales Per Capita			
	State	Non-Metro	State	Non-Metro	Little Falls	
NAICS						
RETAIL TRADE						
441 Vehicles, Parts	2,006	1,450	\$470.09	\$467.23	\$315.35	
442 Furniture Stores	3,187	3,069	\$250.06	\$166.45	\$106.29	
443 Electronics	4,137	4,207	\$263.96	\$132.04	\$198.95	
444 Building Materials	2,754	1,854	\$971.21	\$1,065.60	\$1,172.21	
445 Food and Beverage Stores	1,562	1,386	\$640.97	\$538.30	\$1,181.96	
446 Health, Personal Stores	3,242	3,504	\$123.23	\$79.73	NA	
447 Gas/Convenience Stores	2,667	1,939	\$209.32	\$253.26	\$597.87	
448 Clothing & Accessory Stores	1,572	1,861	\$176.39	\$84.99	\$87.87	
451 Leisure Goods	1,516	1,350	\$232.33	\$163.16	\$23.57	
452 General Merchandise	4,886	3,622	\$1,039.97	\$1,112.70	\$3,675.45	
453 Miscellaneous Merchandise	502	424	\$282.19	\$207.65	\$253.44	
454 Non-store Retail	968	924	\$100.46	\$91.15	\$15.81	
Retail Total			\$4,760.17	\$4,362.26	\$7,628.75	
INFORMATION						
511 Publishing Industry	10,367	13,518	\$5.01	\$1.48		
512 Movie & Recording Industry	11,408	19,479	\$31.27	\$20.02		
515 Broadcasting	47,011	31,315	\$12.65	\$8.06		
516 Info -Internet Publ/Brcst	227,217	309,234	\$0.02	\$0.00		
517 Telecommunications	9,988	9,095	\$387.49	\$301.58		
518 Internet Service	13,077	23,787	\$17.93	\$1.36		
519 Other Information Services	5,189	5,355	\$87.87	\$38.16		
FINANCE AND INSURANCE						
522 Credit Intermediation	8,237	6,476	\$29.63	\$7.33		
523 Securities, Commodities	19,758	37,483	\$2.16	\$0.54		
524 Insurance Carriers	11,106	15,858	\$0.91	\$0.66		
525 Funds, Trusts	147,384	154,617	\$0.59	\$0.70		
REAL ESTATE AND RENTAL AND LEASING						
531 Real Estate	2,654	3,389	\$35.31	\$28.61		
532 Rental, Leasing Services	3,697	3,494	\$157.37	\$66.45		
533 Lessors Nonfinancial Assets	218,129	206,156	\$0.38	\$0.40		
PROFESSIONAL, SCIENTIFIC, AND TECHNICAL SERVICES						
541 Prof, Scientific, Technical Services	478	720	\$173.76	\$77.60		
551 Mgmt Of Companies	26,092	47,575	\$32.49	\$4.36		
ADMINISTRATIVE & SUPPORT; WASTE MGMT & REMEDIATION SVCS						
561 Admin, Support Services	572	600	\$271.61	\$135.88		
562 Waste Mgmt, Remediation	13,599	9,664	\$2.02	\$2.10		
EDUCATIONAL SVCS; HEALTH & SOCIAL ASSISTANCE						
611 Educational Services	4,260	4,694	\$17.55	\$15.62		
621 Health -Ambulatory Care	1,064	1,303	\$16.58	\$11.43		
622 Health -Hospitals	35,642	24,254	\$14.84	\$15.06		
623 Health -Nursing, Residential Care	11,175	8,650	\$2.75	\$2.75		
624 Health -Social Assistance	10,950	11,094	\$3.05	\$4.52		
ARTS, ENTERTAINMENT & RECREATION						
711 Performing Art, Spectator Sports	2,342	2,786	\$68.52	\$12.16		
712 Museums, Historical Sites	31,705	21,144	\$4.13	\$1.65		
713 Amusement, Gambling, Recr	2,393	1,933	\$289.63	\$142.07	\$75.21	
ACCOMMODATION & FOOD SERVICES						
721 Accommodation	2,171	1,203	\$369.36	\$352.23	\$261.91	
722 Food Services, Drinking Places	482	465	\$1,491.19	\$1,107.06	\$1,697.33	
OTHER SERVICES						
811 Repair, Maintenance	640	459	\$260.68	\$272.23	\$208.58	
812 Personal, Laundry Service	630	558	\$148.31	\$52.11	\$29.88	
813 Religious, Civic, Professional Orgs	2,627	2,122	\$32.74	\$36.49		
814 Private Households	79,032	77,309	\$0.20	\$0.17		
921 Exec., Legisla., Other Govt	7,522	4,348	\$50.84	\$67.85		
TOTAL RETAIL AND SERVICES			\$8,779.00	\$7,231.14		