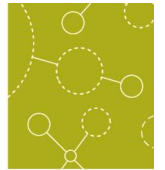




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EXTENSION CENTER FOR COMMUNITY VITALITY

Local Option Sales Tax Analysis for Crookston, MN

ESTIMATED CONTRIBUTIONS OF RESIDENTS AND NON-RESIDENTS TO A LOCAL OPTION SALES TAX

Authored by Eric King

THE CITY OF
CROOKSTON

REPORT SPONSOR: CROOKSTON, MINNESOTA

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September 2024

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City of Crookston

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SUMMARY OF FINDINGS

University of Minnesota Extension conducted a study to estimate the proportion of sales proceeds attributed to both Crookston residents and non-residents.

Using 2022 sales and use tax data available from the Minnesota Department of Revenue (MN Revenue), Extension estimated that non-residents account for 39.6 percent of taxable sales subject to a local option sales tax (LOST).

In 2022, total taxable sales in Crookston were \$74.41 million. MN Revenue analysts estimate that 99.44% of taxable sales would be subject to a LOST. With 39.6 percent of sales derived from non-resident spending, Extension estimated that Crookston residents spent \$44.7 million of the total \$74.0 million in taxable sales subject to a LOST.

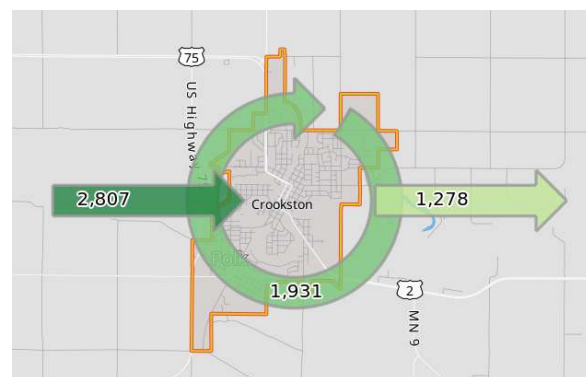
If the tax were in place in 2022, a 0.5 percent local option sales tax would have garnered \$370,000 in tax proceeds according to MN Department of Revenue analysts. A 1.0 percent local option sales tax would have garnered \$740,000. Crookston residents would have contributed \$223,480 in taxes, and non-residents would have contributed \$146,520 in 2022. Based on these estimates, each Crookston resident would have paid, on average, an additional \$30.00 in sales tax in 2022 at the 0.5% rate. At a 1.0 percent local option sales tax, residents would have paid, on average, an additional \$70.00 in sales tax. Based on changes and suppression of data in 2022, 2021 sales tax data was used for estimates regarding resident versus non-resident split.

This report is based on a trade area analysis comparing actual taxable sales to potential sales. This is calculated by multiplying the Crookston population in 2021 (MN Demographic Center) by the Minnesota average per capita sales for each category, and then adjusting for the county's personal income factor. This initial analysis provided an estimate of retail and service purchases made by Crookston residents. For each merchandise group, the estimates for two types of purchasers—county residents and others—were calculated and adjusted considering the area economy. These adjustments were based on informed estimates and were aimed, in part, at reducing potential overestimates of the sales tax share attributable to non-residents. Assumptions and calculations are included for major retail and service categories so local decision makers can adjust totals if they have more nuanced insight.

Several factors and features of Crookston's economy helped frame the analysis for the different merchandise categories:

- Residents of nearby communities can easily access Crookston businesses. For this analysis, cross-hauling has the general effect of increasing non-resident spending as Crookston is a central shopping hub in the region.
- Crookston has more workers entering the county for employment than residents who leave for work (Figure 1). In this dynamic, commuters often shop for goods and services near where they work and those

Figure 1: Crookston worker in-flow and out-flow



Inflow and outflow of wage earners.

Source: 2022 U.S. Census Bureau On-The-Map

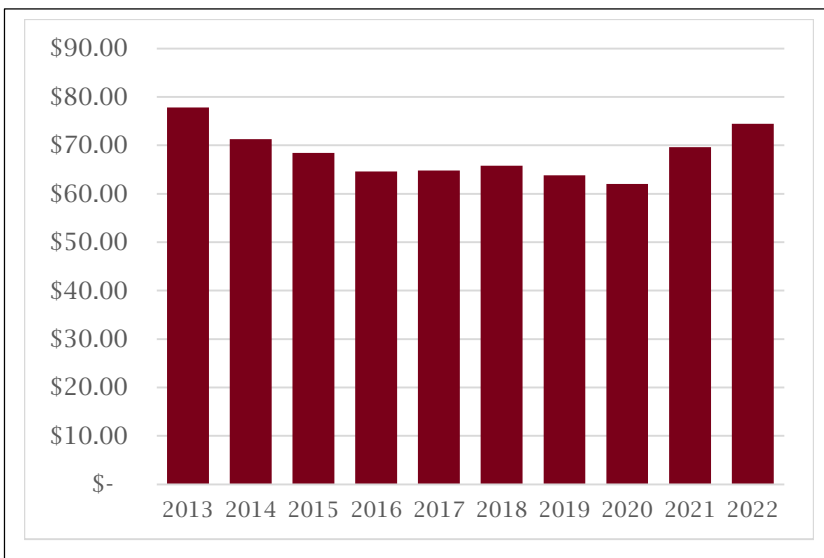
commuting into the county purchase in the county.

Figure 2 shows the estimated percentage of sales—across all merchandise categories—attributed to both residents and non-residents in 2022. These estimates are based on the adjusted analysis to more accurately reflect the county’s economic and consumption circumstances. Based on these findings, Extension estimates city residents represent 60.4 percent of all taxable retail and service sales subject to the tax (\$44.7 million), and the remaining 39.6 percent (\$29.3 million) are attributed to non-residents.

Figure 2: Estimated 2022 Taxable Sales Subject to LOST

	Taxable Sales	Percent of Sales
City residents	\$44,696,000	60.4%
Non-residents	\$29,304,000	39.6%

Figure 3: Total taxable sales in Crookston from 2013-2022



Source: Minnesota Department of Revenue

The total taxable sales in the city decreased steadily between 2013 to 2020 (Figure 3). Total sales began increasing in 2021 following the global pandemic of 2020 and has increased year-over-year. This provides some sense of the stability and trajectory of a LOST going forward.

Extension forecasted taxable sales subject to the local tax for 2022, 2023, and 2024 using a simple

exponential smoothing forecast model that employs a moving weighted average and a 95% confidence interval to provide an upper and lower bound to the estimate (Figures 5 and 6). This model estimates total tax proceeds in 2023 to be between an upper limit of \$405,130 and a lower limit of \$367,730. Sales tax from 2022 was used for these projections.

Considering the historic disruption of the pandemic and its uneven effect on business categories, this forecast is an unlikely scenario based only on past trends. National evidence shows that home-focused businesses like food, building materials, furniture, and general merchandise did well through the pandemic, whereas dining, accommodations, and amusement saw record sales decreases. The increase in sales in 2021 and 2022 further complicates any forecast, though based on historical data, with past trends suggesting slight decreases in sales year-over-year.

Figure 5: Forecast for Tax Proceeds based on Past Trends 2013 to 2022

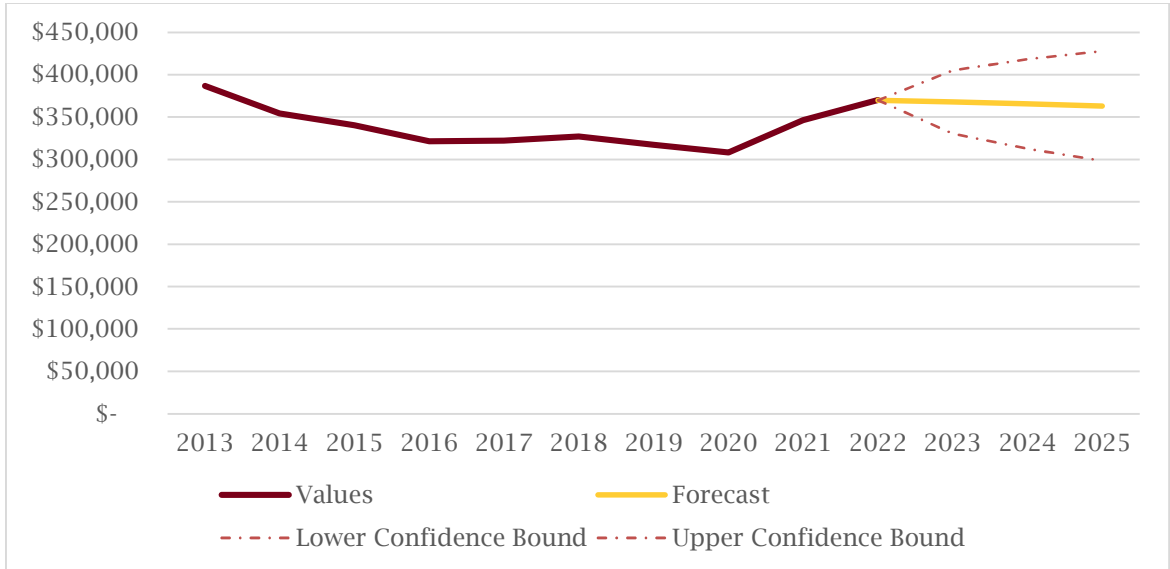


Figure 6: Forecast with Upper and Lower Bound 2022-25

	Forecast	Lower Bound	Upper Bound
2023	\$367,730	\$330,330	\$405,130
2024	\$365,460	\$312,595	\$418,325
2025	\$363,190	\$298,433	\$427,947

Use taxes also affect the tax proceeds from a local option sales tax. Use taxes derive from county businesses purchasing products from out-of-state sources and in other Minnesota locations. Use taxes are often less consistent and more difficult to estimate accurately than sales taxes. In 2022, the county received \$163,288 in use (not sales) tax proceeds. It would have garnered \$12,095 for a LOST at the 0.5 percent rate.

Policymakers must also consider the impacts that a LOST may have on consumer purchasing behavior, particularly whether it will result in a loss of consumer purchases to other jurisdictions. Extension examined records of 11 cities that enacted a local option sales tax between 1999 and 2006 (information available on the Minnesota Department of Revenue website). Records do not indicate a major purchasing change due to the additional sales tax, and most of the jurisdictions have shown continued sales growth (see Appendix A). These communities, however, may not be comparable to Crookston. All communities included in this analysis are located outside the Twin Cities metro area and may retain more shoppers than communities in the metro area where one can easily switch spending from one jurisdiction to another.

BACKGROUND AND METHODOLOGY

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 local governments to enact a local option sales tax. Extension has assisted these administrations in estimating their potential tax proceeds and the portion of taxes paid by local residents.

This report estimates the proportion of tax proceeds generated by Crookston residents compared to non-residents. The most recently available state sales tax data (2022) from the Minnesota Department of Revenue (MN Revenue) was used.

Trade Area Analysis and Calculations

Extension conducted a trade area analysis of retail and service sales in select merchandise categories, estimating the amount of taxable sales subject to sales taxes made by both local residents and non-residents. Use tax is a much smaller portion of the total collection compared to sales tax proceeds. It is also estimated using a different formula.

Extension calculated potential sales for the county in each merchandise category and compared this calculation to actual taxable sales from the Minnesota Department of Revenue sales tax statistics for the same category. Actual sales greater than potential sales indicate the county attracts sales from outside its boundaries or has sales greater than one would expect from its residents. Extension used the difference between potential and actual sales to set reasonable estimates of spending by residents and non-residents across all categories. These estimates also helped inform adjustments for each category.

Potential sales calculations are based on average statewide spending by merchandise category and the population of the county, then adjusted by the level of income in Crookston. Specifically, potential sales result from county population, state per capita taxable sales, and the index of income (see sidebar and Appendix B).

The following section details the initial and adjusted trade area calculations for all merchandise categories. The sections labeled “Analysis with Adjustments” lists the final estimate of sales generated by non-residents. A rationale for adjustments and conclusions is also included.

Online sales have been left out of the estimates for this analysis as data for these types of transactions by jurisdiction are not available before a local option sales tax is enacted. After a local option sales tax is enacted, sales tax is collected for online sales for delivered purchases. Extension estimates about 15% of sales are done online by households.

Potential sales estimate the dollar amounts for purchases made by local residents *if* local residents spend as much as the average Minnesota resident.

Potential sales are calculated by the following formula:

$$(T \div PMn) \times PO \times (YWC \div YMn) = \text{potential sales}$$

T = Total Minnesota taxable sales for a merchandise category

PMn = 2022 population of Minnesota (5,801,769)

PO = 2022 population of Crookston (7,450)

YWC = Per capita income of Crookston residents (\$58,902)

YMn = Per capita income of Minnesota residents (\$68,840)

TRADE AREA ANALYSIS BY MERCHANDISE CATEGORY

The following pages provide detailed analysis by merchandise category.

Vehicles and Parts

N/A percent of total taxable retail and service sales*

The N/A **businesses** in this retail category include repair parts, snowmobiles, boats, trailers, and recreational vehicles. *Sales of cars and other on-road vehicles are not included in this category since they are subject to a different tax.*

	(\$Millions)
Actual taxable sales	\$-
-Potential sales	\$-
= \$ variance	\$-
= as % of potential	-%

Unadjusted Trade Area Analysis

Potential taxable sales to residents	\$-
Surplus	\$-
Total	\$-
Surplus percentage	-%

Analysis with Adjustments

Capture rate of Crookston residents	-%
Residents' \$ share	\$-
Non-Residents' \$ share	\$-
Total	\$-
Non-resident share per group	-%

Analysis for Vehicles and Parts

Department of Revenue suppresses data for categories with 4 or fewer businesses to maintain confidentiality for business owners. Totals are included in the Undesignated/Suppressed category.

Furniture Stores, Electronics, and Appliances

N/A percent of total taxable retail and service sales*

These N/A **businesses** primarily include household-type appliances, sewing machines, cameras, computers, other electronic goods, furniture, beds, carpeting, window coverings, kitchenware, and wood-burning stoves.

	(\$Millions)
Actual taxable sales	\$-
-Potential sales	\$-
= \$ variance	\$-
= as % of potential	-%

Unadjusted Trade Area Analysis

Potential sales to residents	\$-
Surplus	\$-
Total	\$-
Non-resident share per group	-%

Analysis with Adjustments

Capture rate of Crookston residents	-%
Residents' \$ share	\$-
Non-residents' \$ share	\$-
Total	\$-
Non-resident share per group	-%

Analysis for Furniture Stores, Electronics, and Appliances

Department of Revenue suppresses data for categories with 4 or fewer businesses to maintain confidentiality for business owners. Totals are included in the Undesignated/Suppressed category.

Building Materials

24.5 percent of total taxable retail and service sales*

These 5 **businesses** sell lumber, hardware, paint, wallpaper, tile, hardwood floors, roofing, fencing, ceiling fans, lawn equipment, and garden items.

	(\$Millions)
Actual taxable sales	\$7.82
Potential sales	\$9.51
= \$ variance	(\$1.69)
= as % of potential	-17.7%

Unadjusted Trade Area Analysis

Potential sales to residents	\$9.51
Surplus	(\$1.69)
Total	\$7.82
Non-resident share per group	-21.6%

Analysis with Adjustments

Capture rate of Crookston residents	70%
Residents' \$ share	\$6.65
Non-residents' \$ share	\$1.17
Total	\$7.82
Non-resident share per group	15.0%

Analysis for Building Materials

The "Building Materials" category in Crookston, which includes 5 businesses selling lumber, hardware, paint, tile, flooring, and garden items, is performing below potential sales estimates. Actual taxable sales are \$7.82 million, while potential sales are estimated at \$9.51 million, resulting in a variance of -\$1.69 million, or -17.7%. Extension estimates that Crookston residents contributed \$6.65 million in sales with a capture rate of 70%. Non-residents accounted for \$1.17 million, making up 15.0% of total sales. The lower-than-expected non-resident share suggest opportunities to increase sales, either by attracting more out-of-town customers or by better capturing local demand within this merchandise group.



Food and Groceries

16.5 percent of total taxable retail and service sales*

The 7 **businesses** in this merchandise group include grocery stores, delis, bakeries, and butcher shops that sell food to be prepared at home. Liquor stores are also included in this group.

	(\$Millions)
Actual taxable sales	\$5.27
- Potential sales	\$4.99
= \$ variance	\$0.28
= as % of potential	5.7%

Unadjusted Trade Area Analysis

Potential sales to residents	\$4.99
Surplus	\$0.28
Total	\$5.27
Non-resident share per group	5.4%

Analysis with Adjustments

Capture rate of Crookston residents	90%
Residents' \$ share	\$4.48
Non-residents' \$ share	\$0.79
Total	\$5.27
Non-resident share per group	15.0%

Analysis for Food and Groceries

In the "Food and Groceries" category, which accounts for 16.5 percent of total taxable retail and service sales in Crookston, seven businesses operate, including grocery stores, delis, bakeries, butcher shops, and liquor stores. The actual taxable sales for this category amount to \$5.27 million, slightly exceeding the potential sales estimate of \$4.99 million. This creates a variance of \$0.28 million, representing 5.7% above potential sales. Extension estimates Crookston residents' capture rate at 90%, contributing \$4.48 million to the total sales, while non-residents contribute \$0.79 million. Non-resident spending accounts for 15.0% of total sales in this category, demonstrating that the local market retains a high percentage of resident spending.

Health and Personal Items

N/A percent of total taxable retail and service sales*

Stores selling prescription drugs, food supplements, vision supplies, cosmetics, and hearing aids are among the N/A **businesses** included in this merchandise group.

	(\$Millions)
Actual taxable sales	\$-
Potential sales	\$-
= \$ variance	\$-
= as % of potential	-%

Unadjusted Trade Area Analysis

Potential sales to residents	\$-
Surplus	\$-
Total	\$-
Non-resident share per group	-%

Analysis with Adjustments

Capture rate of Crookston residents	-%
Residents' \$ share	\$-
Non-residents' \$ share	\$-
Total	\$-
Non-resident share per group	-%

Analysis for Health and Personal Items

Department of Revenue suppresses data for categories with 4 or fewer businesses to maintain confidentiality for business owners. Totals are included in the Undesignated/Suppressed category.



Gas/Convenience Stores

N/A percent of total taxable retail and service sales*

This merchandise group covers N/A **businesses** selling convenience items at a store that also sells fuel.

	(\$Millions)
Actual taxable sales	\$-
-Potential sales	\$-
= \$ variance	\$-
= as % of potential	-%

Unadjusted Trade Area Analysis

Potential sales to residents	\$-
Surplus	\$-
Total	\$-
Non-resident share per group	-%

Analysis with Adjustments

Capture rate of Crookston residents	-%
Residents' \$ share	\$-
Non-residents' \$ share	\$-
Total	\$-
Non-resident share per group	-%

Analysis for Gas/Convenience Stores

Department of Revenue suppresses data for categories with 4 or fewer businesses to maintain confidentiality for business owners. Totals are included in the Undesignated/Suppressed category.

Apparel/Clothing

N/A percent of total taxable retail and service sales*

This merchandise group includes N/A **businesses** selling new clothing and accessories, jewelry, shoes, bridal items, clocks, and luggage.

	(\$Millions)
.9Actual taxable sales	\$-
Potential sales	\$-
= \$ variance	\$-
= as % of potential	-%

Unadjusted Trade Area Analysis

Potential sales to residents	\$-
Surplus	\$-
Total	\$-
Non-resident share per group	-%

Analysis with Adjustments

Capture rate of Crookston residents	-%
Residents' \$ share	\$-
Non-residents' \$ share	\$-
Total	\$-
Non-resident share per group	-%

Analysis for Apparel/Clothing

Department of Revenue suppresses data for categories with 4 or fewer businesses to maintain confidentiality for business owners. Totals are included in the Undesignated/Suppressed category.



General Merchandise Stores

N/A percent of total taxable retail and service sales*

The N/A **businesses** in this category sell general merchandise and are unique because they have the equipment and staff needed to sell a large variety of goods from a single location. This includes department stores, superstores, dollar stores, and variety stores.

	(\$Millions)
Actual taxable sales	\$-
potential sales	\$-
= \$ variance	\$-
= as % of potential	-%

Unadjusted Trade Area Analysis

	\$-
Potential sales to residents	\$-
Surplus	\$-
Total	-%
Non-resident share per group	

Analysis with Adjustments

Capture rate of Crookston residents	\$-
Residents' \$ share	\$-
Non-Residents' \$ share	\$-
Total	\$-
Non-resident share per group	-%

Analysis for General Merchandise Stores

Department of Revenue suppresses data for categories with 4 or fewer businesses to maintain confidentiality for business owners. Totals are included in the Undesignated/Suppressed category.

Leisure Goods, All Other Miscellaneous Retail

1.1 percent of total taxable retail and service sales*

15 businesses are part of this group, including florists, used merchandise stores, pet supply stores, sporting goods, books, music, hobby items, fabrics, toys, and other retailers.

	(\$Millions)
Actual taxable sales	\$0.36
Potential sales	\$4.56
= \$ variance	(\$4.20)
= as % of potential	-92.1%

Unadjusted Trade Area Analysis

Potential sales to residents	\$4.56
Surplus	(\$4.20)
Total	\$0.36
Non-resident share per group	-1159.1%

Analysis with Adjustments

Capture rate of Crookston residents	8%
Residents' \$ share	\$0.34
Non-residents' \$ share	\$0.02
Total	\$0.36
Non-resident share per group	5.0%

Analysis for Miscellaneous Retail

In the "Leisure Goods, All Other Miscellaneous Retail" category, which makes up 1.1 percent of Crookston's total taxable retail and service sales, there are 15 businesses. These include florists, used merchandise stores, pet supply shops, sporting goods, books, music, hobby items, fabrics, toys, and other retailers. The actual taxable sales for this group total \$0.36 million, which falls significantly short of the potential sales estimate of \$4.56 million. This results in a variance of -\$4.20 million, indicating a gap of 92.1% below potential sales.

Extension estimates a Crookston's resident capture rate of 8%, contributing \$0.34 million to the total sales, while non-residents contribute \$0.02 million, 5.0% of total sales.

Amusement and Recreation

3.1 percent of total taxable retail and service sales*

The **4 businesses** 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.

	(\$Millions)
Actual taxable sales	\$0.98
Potential sales	\$2.41
= \$ variance	(\$1.43)
= as % of potential	-59.2%

Unadjusted Trade Area Analysis

Potential sales to residents	\$2.41
Surplus	(\$1.43)
Total	\$0.98
Non-resident share per group	-145.2%

Analysis with Adjustments

Capture rate of Crookston residents	20%
Residents' \$ share	\$0.49
Non-residents' \$ share	\$0.49
Total	\$0.98
Non-resident share per group	50.0%

Analysis for Amusement and Recreation

In the "Amusement and Recreation" category, which accounts for 3.1% of Crookston's total taxable retail and service sales, there are 4 businesses. This group includes 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, and roller rinks.

Actual taxable sales for these businesses are \$0.98 million, significantly below the estimated potential sales of \$2.41 million. This creates a variance of -\$1.43 million, representing 59.2% below potential sales. Extension estimates a capture rate of 20% for Crookston residents, contributing \$0.49 million to the total sales. Non-residents also accounted for \$0.49 million, which represents 50% of the total sales.

Accommodations

9.8 percent of total taxable retail and service sales*

These 5 **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.

	(\$Millions)
Actual taxable sales	\$3.13
Potential sales	\$2.70
= \$ variance	\$0.44
= as % of potential	16.3%

Unadjusted Trade Area Analysis

Potential sales to residents	\$2.70
Surplus	\$0.44
Total	\$3.13
Non-resident share per group	14.0%

Analysis with Adjustments

Capture rate of Crookston residents	12%
Residents' \$ share	\$0.31
Non-residents' \$ share	\$2.82
Total	\$3.13
Non-resident share per group	90.0%

Analysis for Accommodations

Logically, a significant percentage of lodging sales are from non-residents visiting the area or staying overnight for business or vacation. As with previous LOST analyses, Extension set the non-resident share at 90 percent of sales to allow for resident spending related to events, facility charges, and 'staycations.' A capture rate of 12 percent of Crookston resident spending in this category was estimated.



Eating/Drinking Establishments

30.7 percent of total taxable retail and service sales*

These **16 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.

	(\$Millions)
Actual taxable sales	\$9.79
Potential sales	\$12.17
= \$ variance	(\$2.37)
= as % of potential	-19.5%

Unadjusted Trade Area Analysis

Potential sales to residents	\$12.17
Surplus	(\$2.37)
Total	\$9.79
Non-resident share per group	-24.2%

Analysis with Adjustments

Capture rate of Crookston residents	60%
Residents' \$ share	\$7.34
Non-residents' \$ share	\$2.45
Total	\$9.79
Non-resident share per group	25.0%

Analysis for Eating/Drinking Establishments

In the "Eating/Drinking Establishments" category, which accounts for 30.7% of Crookston's total taxable retail and service sales, 16 businesses provide food and beverage services. These businesses include full-service and limited-service restaurants, ice cream parlors, snack bars, street vendors, bars, taverns, and nightclubs. The actual taxable sales in this category total \$9.79 million, which falls short of the potential sales of \$12.17 million, resulting in a negative variance of \$2.37 million or -19.5%. This indicates there is unmet demand in the local market for eating and drinking establishments. Extension estimates a capture rate of 60% by Crookston residents, contributing \$7.34 million to the total sales. Non-residents contributed \$2.45 million, making up 25% of the total sales. This non-resident share emphasizes that visitors and travelers play a modest but important role in the food and beverage sector.

Repair and Maintenance

10.2 percent of total taxable retail and service sales*

The **8 businesses** in this group restore machinery, equipment, and other products. The group does not include plumbing or electrical repair services but does encompass auto repair, cameras, televisions, computers, copiers, appliances, lawn mowers, specialized equipment, small engines, furniture, shoes, guns, etc.

	(\$Millions)
Actual taxable sales	\$3.25
Potential sales	\$2.33
= \$ variance	\$0.92
= as % of potential	39.4%

Unadjusted Trade Area Analysis

Potential sales to residents	\$2.33
Surplus	\$0.92
Total	\$3.25
Non-resident share per group	28.3%

Analysis with Adjustments

Capture rate of Crookston residents	88%
Residents' \$ share	\$2.05
Non-residents' \$ share	\$1.20
Total	\$3.25
Non-resident share per group	37.0%

Analysis for Repair and Maintenance

In the "Repair and Maintenance" category, which represents 10.2% of Crookston's total taxable retail and service sales, 8 businesses provide services for restoring various products, including machinery, auto repair, appliances, small engines, and more. Plumbing and electrical repairs are excluded from this category. The actual taxable sales in this group amount to \$3.25 million, which exceeds the potential sales estimate of \$2.33 million by \$0.92 million. This suggests that the local market is capturing a strong share of repair and maintenance demand, possibly attracting customers from outside the area. Extension estimates a capture rate of 88% from Crookston residents, contributing \$2.05 million to the total sales. Non-residents contributed \$1.20 million, making up 37% of the total sales. This highlights the importance of non-resident customers to the repair and maintenance businesses and the overall strong performance in this category.

Personal Services/Laundry

0.4 percent of total taxable retail and service sales*

The **16 businesses** in this merchandise group include 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.

	(\$Millions)
Actual taxable sales	\$0.14
Potential Sales	\$1.20
= \$ variance	(\$1.06)
= as % of potential	-88.3%

Unadjusted Trade Area Analysis

Potential sales to residents	\$1.20
Surplus	(\$1.06)
Total	\$0.14
Non-resident share per group	-757.8%

Analysis with Adjustments

Capture rate of Crookston residents	10%
Residents' \$ share	\$0.13
Non-residents' \$ share	\$0.01
Total	\$0.14
Non-resident share per group	10.0%

Analysis for Personal Services/Laundry

In the "Personal Services/Laundry" category, which accounts for 0.4% of Crookston's total taxable retail and service sales, 16 businesses offer a variety of personal services. This includes barber shops, beauty parlors, laundry and dry-cleaning services, death care, pet care (excluding veterinary services), photofinishing, and other specialized services. The actual taxable sales for this category are \$0.14 million, which is significantly lower than the estimated potential sales of \$1.20 million. This results in a negative variance of \$1.06 million, or -88.3%, indicating a substantial underperformance in the market compared to its potential. Extension estimates a capture rate of 10% of Crookston resident spending, contributing \$0.13 million of the total sales. Non-residents account for \$0.01 million, making up 10% of the total. This indicates minimal attraction of outside customers and limited market capture in this category.

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Retail (Non-Store) and Other Services

This section includes taxable sales attributed to North American Industrial Classification System categories 511-813 released by MN Revenue.

	(\$Millions)
Actual taxable sales	\$1.13
% of total taxable retail and service sales In Crookston	3.6%

Analysis with Adjustments

	(\$Millions)
Residents' \$ share	\$0.70
Non-residents' \$ share	\$0.43
Total	\$1.13
Non-resident share per group	38%

Analysis for Retail and Other Services

This group includes non-store retailers (such as direct selling operations), healthcare, waste management, rental/lease services, administrative support, and the performing arts. Some of these categories serve primarily a local market, whereas categories like 541 (professional and technical services) often serve a non-local market. This mix of business types is too diverse to run a trade area analysis for, but Extension estimated an aggregate 38 percent of these sales are to non-resident customers. The categories of sales are shown below:

CATEGORY	TAXABLE SALES	% NON-LOCAL	NON-LOCAL \$
541 PROF, SCIENTIFIC, TECH SERV	\$270,169	40%	\$108,068
561 ADMIN, SUPPORT SERVICES	\$501,575	35%	\$175,551
621 HEALTH -AMBULATORY CARE	\$45,176	35%	\$15,812
813 RELIGIOUS, CIVIC, PROF ORGS	\$317,028	40%	\$126,811
TOTALS	\$1,133,948	38%	\$426,242

2022 Construction, Manufacturing, Utilities, Wholesale Operations, Transportation, and Sales Suppressed for Business Confidentiality

A diverse mix of businesses fall into these non-retail categories, and a portion of sales are within a suppressed or non-disclosed subcategory. These industries and services generate \$42.52 million in taxable sales, or 57.1 percent of total taxable sales in Crookston. A significant portion of this amount would be subject to any new sales taxes, including a local option sales tax.

This category includes utilities that primarily serve a local market and are subject to a local option sales tax. The diversity of firm types included in this category makes it difficult to understand the customer mix of these businesses; however, Extension broke out each known subcategory with an assumption of whether customers paying the taxable sales were non-local:

Category	Taxable Sales	% non-local	\$ non-local
CONSTRUCTION	\$176,224	60%	\$105,734.40
MANUFACTURING	\$12,082,870	90%	\$10,874,583.00
WHOLESALE	0	80%	\$0.00
UNDESIGNATED/SUPPRESSED	\$30,258,220	30%	\$9,077,466.00
Total	\$42,517,314	47%	\$20,057,783.40

Extension estimated that, overall, 47 percent of sales are to non-residents. This analysis assumes that some subcategories, such as manufacturing sell primarily (90 percent) to non-resident customers, whereas subcategories like construction split sales between resident and non-resident customers.

Analysis with Adjustments

	(\$Millions)
Residents' \$ share	\$22.46
Non-residents \$ share	\$20.06
Total	\$42.52
Non-resident share	47%

Analysis for this section was completed using 2022 data. Upon completion of analysis and the changes in how data was categorized and the large increase in suppressed data, an additional analysis was conducted using 2021 data. Using 2021 analysis estimates, adjustments were made to 2022 analysis estimates. 2021 analysis is on the following page.

2021 Construction, Manufacturing, Utilities, Wholesale Operations, Transportation, and Sales Suppressed for Business Confidentiality

A diverse mix of businesses fall into these non-retail categories, and a portion of sales are within a suppressed or non-disclosed subcategory. These industries and services generate \$17.15 million in taxable sales, or 24.6 percent of total taxable sales in Crookston. A significant portion of this amount would be subject to any new sales taxes, including a local option sales tax.

This category includes utilities that primarily serve a local market and are subject to a local option sales tax. The diversity of firm types included in this category makes it difficult to understand the customer mix of these businesses; however, Extension broke out each known subcategory with an assumption of whether customers paying the taxable sales were non-local:

Category	Taxable Sales	% non-local	\$ non-local
CONSTRUCTION	\$139,103	60%	\$83,461.80
MANUFACTURING	\$12,238,116	80%	\$9,790,492.80
WHOLESALE	\$236,655	90%	\$212,989.50
UNDESIGNATED/SUPPRESSED	\$4,493,162	50%	\$2,246,581.00
Total	\$17,107,036	72%	\$12,333,525.10

Extension estimated that, overall, 72 percent of sales are to non-residents. This analysis assumes that some subcategories, such as manufacturing sell primarily (90 percent) to non-resident customers, whereas subcategories like construction split sales between resident and non-resident customers.

Analysis with Adjustments

	(\$Millions)
Residents' \$ share	\$4.80
Non-residents \$ share	\$12.35
Total	\$17.15
Non-resident share	72%

APPENDIX A: RESEARCH ON THE EFFECTS OF A LOCAL OPTION SALES TAX

Policymakers are often concerned that enacting a local sales tax will result in a loss of consumer purchases to neighboring communities that have not adopted the tax.

The Minnesota Department of Revenue records the tax collected from a set of Minnesota jurisdictions that have had a local sales or use tax in effect for at least eight years. Most of these cities show continued sales growth. A comparison that includes 11 Minnesota cities adopting a 0.5 percent local option sales tax is offered below (refer to Figures 4, 5, 6, and 7).

Policymakers must determine the best allowable method to raise revenue from a variety of options. One option is raising property taxes, which is not directly related to a household’s current income and raises the financial burden of low-income or retired homeowners. Sales taxes raise revenues based on household expenditures, which, in Minnesota, excludes the basic necessities of food and clothing. However, since sales tax raises revenues from non-residents who shop in Crookston, resident contributions to tax revenues are significantly lower than a tax generated exclusively by local residents, such as a property tax. Policymakers must carefully consider these and other factors before making a decision about enacting a local sales tax.

Figure 4: Taxable retail and service sales by communities that began collecting a local option sales tax from 1999 to 2006

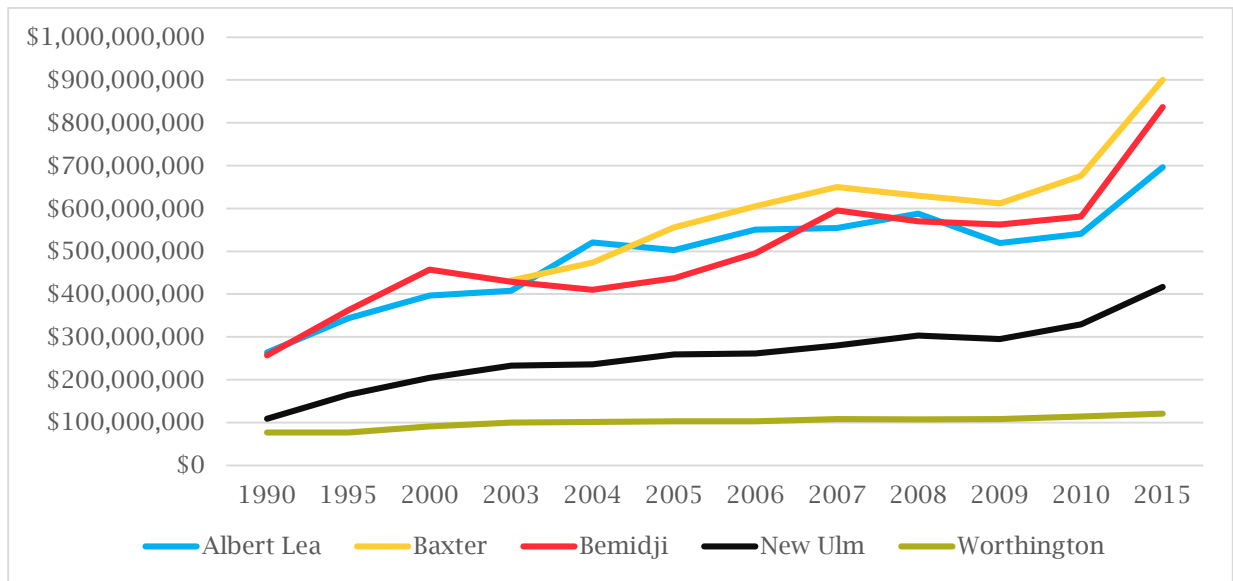


Figure 5: Data table for example communities, taxable retail and service sales (in millions)

Town Name	2015 Population	Year LOST	90	95	00	03	04	05	06	07	08	09	10	15
Albert Lea	18,356	2006	\$264	\$344	\$397	\$407	\$521	\$502	\$551	\$555	\$588	\$519	\$541	\$696
Baxter	8,065	2006				\$432	\$473	\$556	\$605	\$650	\$630	\$612	\$676	\$900
Bemidji	11,917	2005	\$257	\$362	\$457	\$428	\$410	\$437	\$495	\$596	\$570	\$563	\$581	\$837
New Ulm	13,594	1999	\$109	\$165	\$204	\$233	\$236	\$259	\$261	\$280	\$303	\$295	\$329	\$417
Worthington	11,283	2005	\$77	\$77	\$91	\$99	\$102	\$103	\$103	\$108	\$107	\$108	\$114	\$121

Figure 6: Taxable retail and service sales by communities that began collecting a local option sales tax between 2011- 2012

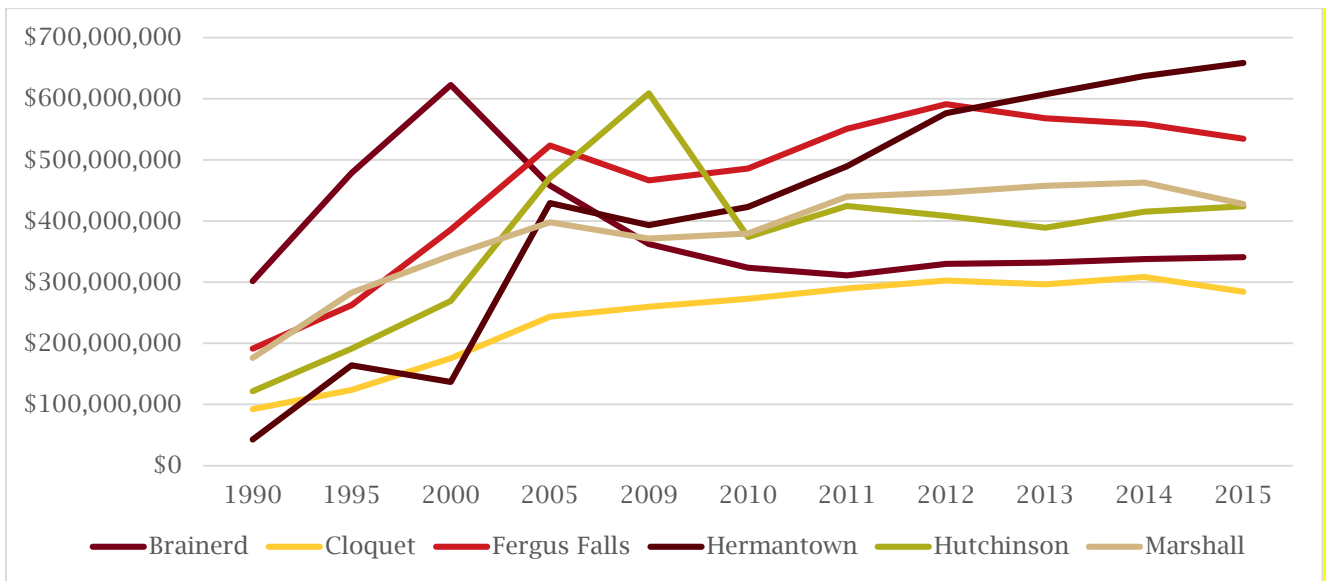


Figure 7: Data table for example communities, taxable retail and service sales (in millions)

Town Name	2015 Pop	Year LOST	90	95	00	05	09	10	11	12	13	14	15
<i>Brainerd</i>	13,178	2011	\$302	\$479	\$623	\$458	\$362	\$324	\$311	\$330	\$332	\$338	\$341
<i>Cloquet</i>	11,201	2011	\$93	\$124	\$175	\$244	\$260	\$273	\$290	\$303	\$296	\$308	\$284
<i>Fergus Falls</i>	13,471	2011	\$192	\$263	\$386	\$523	\$467	\$486	\$551	\$591	\$568	\$558	\$534
<i>Hermantown</i>	7,448	1996 - increase 2012	\$43	\$164	\$137	\$430	\$393	\$423	\$489	\$576	\$607	\$637	\$659
<i>Hutchinson</i>	13,080	2011	\$122	\$191	\$269	\$471	\$609	\$374	\$425	\$409	\$389	\$415	\$424
<i>Marshall</i>	12,735	2011	\$176	\$283	\$343	\$398	\$371	\$380	\$440	\$447	\$457	\$463	\$428

APPENDIX B: DEFINITIONS OF TERMS

Gross sales

Gross sales include taxable sales and exempt businesses with sales and use tax permits. This is the most inclusive indicator of business activity for reporting jurisdictions, but it can be misleading when used in comparisons. At times, non-taxable commodity items (e.g., gasoline) can have large price variations, creating huge swings in gross sales.

Taxable sales

Taxable sales are 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 the purpose of this study, taxable sales were the focus of the analysis. For more information on what is taxed in Minnesota, see the "Minnesota Sales and Use Tax Instruction Booklet" available at <https://www.revenue.state.mn.us/minnesota-tax-handbooks>

Taxable retail and service sales

In this study and other retail trade analyses conducted by University of Minnesota Extension, the term "taxable retail and service sales" refers to the North American Industry Classification System (NAICS) numbers of 441 to 454 (retail) and 511 to 812 (most service industries) released by the Minnesota Department of Revenue for a geographic area.

Current and constant dollar sales

Current dollar (or "nominal dollar") sales are those 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 according to 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, a 1.20 index of income indicates that per capita income in the area is 20 percent above the state average.

Potential sales

Potential sales are an estimate of the amount of money spent on retail goods and services by residents of a county or county. It is the product of county population, state per capita sales, and the index of income (based on the county personal per capita income).

Actual sales

For this study, the Minnesota Department of Revenue's 2019 sales data for Crookston provides the actual sales numbers used.

Variance between actual and potential sales

The variance between actual and expected sales is the difference in sales 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 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. Furthermore, gross sales are not audited by the state of Minnesota. It is believed that 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. All sales reported by a business is attributed to that selected NAICS category. Regardless of who makes this classification, errors are occasionally made. Also, sometimes a business will start out as one type but evolve over time to a considerably different type. 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 underreport 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. Sales for suppressed retail categories are placed into the miscellaneous retail category (NAICS 999) and included in total sales but not total sales of a typical retail trade analysis. For this report, however, all taxable sales—including NAICS 999—are part 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 county, and county for each business. Data for 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 county. Whenever misreporting is discovered, the Minnesota Department of Revenue is contacted to clarify the situation.