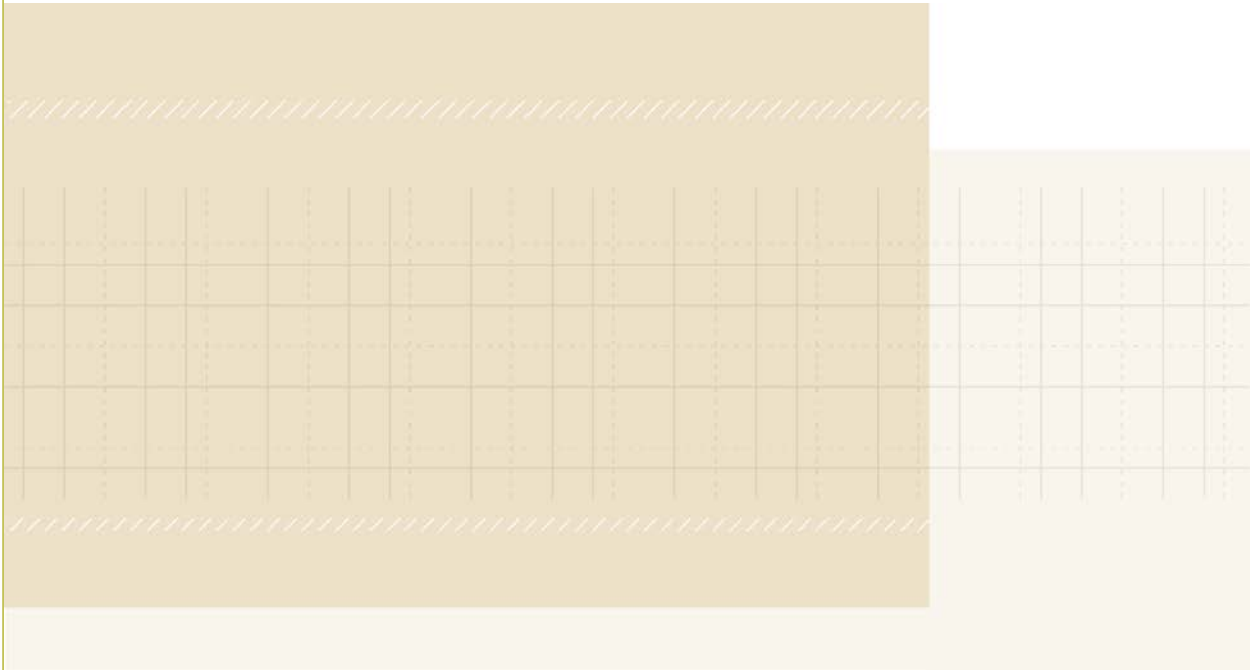




Local Option Sales Tax Analysis for Benton County

ESTIMATED CONTRIBUTIONS OF RESIDENTS AND NON-RESIDENTS TO A LOCAL OPTION SALES TAX SUPPORTING TRANSPORTATION PROJECTS AND PROGRAMS

Authored by Ryan Pesch and Merritt Bussiere



PROGRAM SPONSORS: BENTON COUNTY, MINNESOTA

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June 2018

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EXECUTIVE SUMMARY

Minnesota law enables non-metro county boards, following a public hearing, to create a local option sales tax of up to a half percent and then use proceeds from that tax to fund designated transportation projects and programs. In accordance with our signed service agreement, this memo outlines an estimate by Extension's Community Economics Program of the total estimated tax raised by a local option sales tax, as well as the percentage of that tax likely to be paid by permanent county residents as compared with seasonal residents, and other visitors and travelers. Using the most recent sales and use tax data available (2016) from the Minnesota Department of Revenue (MN Revenue), Extension estimates that non-residents account for 37.4% of taxable sales, while permanent county residents account for the remainder, 62.6%. This equates to \$143 million out of a total of \$382 million in taxable sales in 2016. Under a half percent local option sales tax, Benton County would have had an additional \$1.9 million in tax proceeds if the tax were in effect in 2016. Extension estimates that each Benton County resident will pay an additional \$29.89 on average if the county enacts the tax at the one half percent level.

Our goal in Community Economics, in preparing these and other technical studies, is to provide credible, conservative estimates and analyses supporting more informed discussions and decisions by our local, county and regional partners. This report is not intended to make recommendations to county officials about what actions to take but simply determine the estimated sales tax proceeds from a local option tax program and what proportion of those dollars will likely be paid by year-round county residents versus non-residents.

Extension initially generated a trade area analysis comparing actual taxable sales, based on Minnesota Revenue sales tax data¹, with a calculated "expected sales" amount. This amount was determined by multiplying the Benton County population by the Minnesota average per capita sales and then adjusting for the county's income factor. Doing so provided an estimate of retail and service purchases made by year-round Benton County residents. For each merchandise group, the estimates for two types of purchasers—year-round county residents and others—were considered and adjusted considering the area economy. These adjustments were aimed, in part, at reducing what otherwise might have been overestimates of the sales tax share falling to non-residents. Assumptions and calculations are shown for major retail and service categories so decision makers can adjust totals to accommodate local considerations.

Several key factors and features in the Benton County economy helped frame our analysis of the different merchandise categories:

- A significant proportion of county residents are employed outside the county which facilitates out-shopping for retail goods and services (see Figure 1).
- Benton County is situated near the large retail, commercial and service concentration in greater St. Cloud which pulls residents into Stearns County for shopping.
- Taxable sales industries other than retail and services are a significant portion of total taxable sales in Benton County (37.5% in 2016). This mix of industries includes construction,

1. *MN County Sales Tax Statistics*. (2016). Minnesota Department of Revenue. Retrieved from http://www.revenue.state.mn.us/research_stats/Pages/Sales-and-Use-Tax-Statistics-and-Annual-Reports.aspx

manufacturing, wholesale trade, and agriculture. It is reasonable to assume a sizable portion of sales from these industries are to customers outside of Benton County.

Figure 1: Benton County worker in-flow and out-flow (Source: 2016 U.S. Census Bureau OnTheMap application, Longitudinal-Employer Household Dynamics Program, <http://onthemap.ces.census.gov/>)

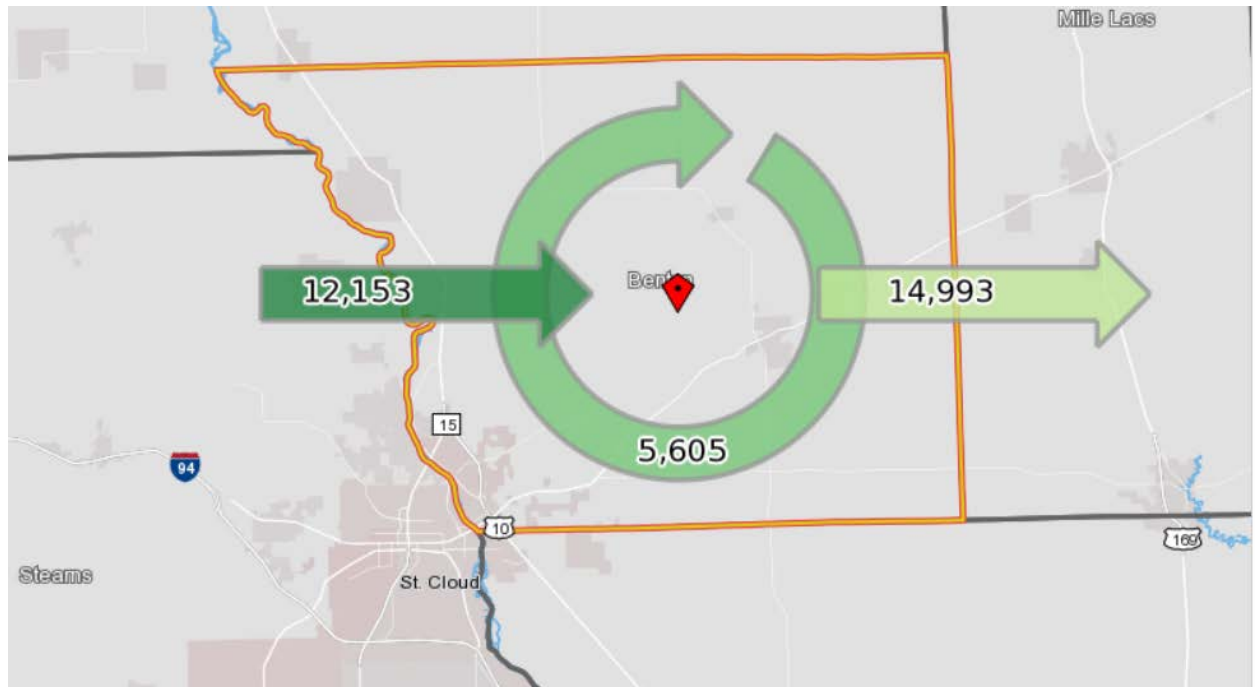


Figure 2 below shows the estimated percentage breakout—across all merchandise categories—for the *adjusted* analysis to more accurately reflect the county’s economic and consumption circumstances. Based on these findings, we estimate that 63 percent of all taxable retail and service sales would be made by permanent county residents, and the remaining 37 percent of taxable sales would be made by non-residents.

Figure 2: Estimated taxable sales using an adjusted trade area analysis

	Taxable Sales \$millions	Percentage of Sales
Benton County Residents	\$239.1	62.6%
Non-residents	\$143.1	37.4%
Totals	\$382.2	100%

Extension also estimated the dollars generated by different levels of a local option sales tax and what year-round residents would pay at each level compared to non-residents. Using the adjusted trade area analysis, these dollar amounts are shown in Figure 3.

Benton County could realize as much as \$1.9 million in tax proceeds to support designated projects if the full half percent tax were enacted. If the county does realize \$1.9 million, the proportion of the tax total paid by non-residents is estimated to be \$715,600, and the proportion paid by year-round

Benton County residents is estimated to be \$1.2 million. The additional tax burden for Benton County residents would average nearly \$30 per resident (see Figure 3).

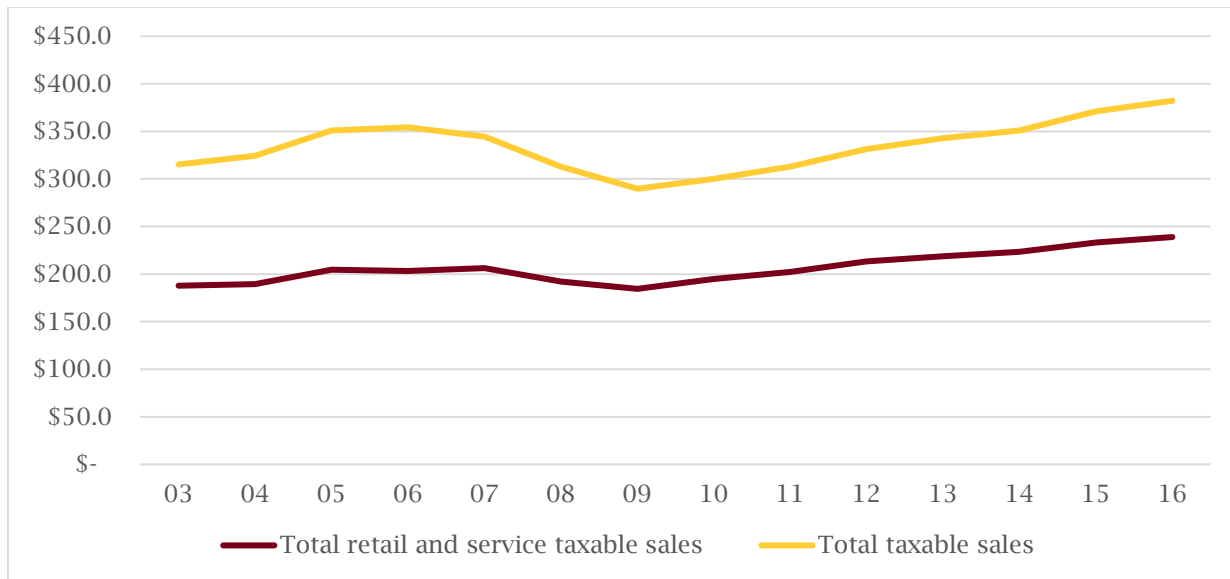
Figure 3: Estimated tax proceeds and who pays in dollars based on 2016 data

ESTIMATED TAX PROCEEDS	Multiplier	Total Tax Proceeds	Dollars Paid By Benton Co Residents	Additional Tax Paid per Benton Co Resident	Dollars Paid By Non-Residents
@ 1/8th of a Percent	0.00125	\$477,811	\$298,918	\$7.47	\$178,893
@ 1/4th of a Percent	0.0025	\$955,623	\$597,836	\$14.95	\$357,787
@ 3/8ths of a Percent	0.00375	\$1,433,434	\$896,754	\$22.42	\$536,680
@ 1/2 of a Percent	0.005	\$1,911,246	\$1,195,672	\$29.89	\$715,574

Total Taxable Sales:
\$382,249,107

The total taxable sales in the county increased 21 percent from 2003 to 2016 from \$315 million to \$382 million. Retail and service taxable sales, however, have increased 27%. Since tax proceeds are calculated as a simple percentage of total taxable sales, the trend during the past 13 years gives some sense of stability if the tax were enacted. Clearly the downturn in taxable sales during the great recession impacted sales tax collections (see Figure 4). Although the county has experienced modest growth in taxable sales since the end of great recession, this trend is not assured.

Figure 4: Total taxable and total taxable retail and service sales (in millions) in Benton County from 2003 to 2016 (source: Minnesota Department of Revenue)



Proceeds from *use* taxes are also added to the estimated tax proceeds from sales taxes. Based on 2016 figures, for each one-eighth of a percent enacted, county officials can expect an estimated additional \$3,300 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 tax proceeds, but there is no way to accurately estimate this number. The amount will result from purchases made by local businesses in other Minnesota locations.

Benton County policymakers are understandably concerned that enacting a sales tax in their community will cause a loss of consumer purchases to other counties. However, at its highest potential application of half a percent, a local option sales tax would add 50 cents to a \$100 purchase. Extension examined records of 11 cities that have enacted a local option sales tax since 1999 available on the Minnesota Department of Revenue website. The 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) .

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 non-metro county boards to enact a local option sales tax of up to a half 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.

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 project²

This report estimates the proportion of tax proceeds generated by year-round Benton County residents compared to non-residents. The most recently available state sales tax data (2016) from the Minnesota Department of Revenue (MN Revenue) is used.

Data/Study Limitations

The data, analysis and findings described in this report are specific to the geography, time frame and project requirements of Benton County. Findings are not transferable to other jurisdictions. Extension neither approves nor endorses the use or application of findings and other contents in this report by other jurisdictions.

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

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 that were made by local residents, as well as those made by non-residents. Use tax is insignificant compared to sales tax proceeds and is calculated differently.

Extension calculated potential sales for the county in each merchandise category and compared this calculation to actual taxable sales, as found in Minnesota Department of Revenue sales tax statistics for the same category. Actual sales greater than potential sales indicate the county attracts sales from outside the county or has sales greater than one would expect from only 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 Benton County. Specifically, potential sales result from county population, state per capita taxable sales, and the index of income (see sidebar and Appendix B).

The section that follows, "Trade Area Analysis by Merchandise Category," 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.

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:

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

T = Total Minnesota taxable sales for a merchandise category

PMn = Population of Minnesota
(5,528,630)

PCW = Population of Benton County
(40,000)

YCW = Per capita income of Benton County resident (\$39,439)

YMn = Per capita income of Minnesota resident (\$51,957)

TRADE AREA ANALYSIS BY MERCHANDISE CATEGORY

Vehicles and Parts

13.4% of total taxable retail and service sales

The **29 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	\$32.13
Potential sales	\$15.86
= \$ variance	\$16.27
= as % of potential	102.6%

Unadjusted Trade Area Analysis

Potential taxable sales to residents	\$15.86
Surplus (local preference and non-residents)	\$16.27
Total	\$32.13
Surplus percentage	50.6%

Analysis with Adjustments

Residents' \$ share	\$14.46
Non-Residents' \$ share	\$17.67
Total	\$32.13
Non-resident share per group	55.0%

Analysis and Recommendations for Vehicles and Parts

The trade area analysis predicts that the county has approximately twice as many sales than one would expect, so the county's 29 firms are clearly pulling in outside sales. Considering that some portion of resident sales must be lost to other counties, Extension set non-resident share at 55% of taxable sales.

Furniture Stores

2.3% of total taxable retail and service sales

These **8 stores** sell furniture, beds, carpeting, window coverings, lamps, china, kitchenware, and wood-burning stoves.

	(\$Millions)
Actual taxable sales	\$5.58
Potential sales	\$8.15
= \$ variance	(\$2.57)
= as % of potential	-31.6%

Unadjusted Trade Area Analysis

Potential sales to residents	\$8.15
Surplus (local preference and non-residents)	(\$2.57)
Total	\$5.58
Non-resident share per group	-46.1%

Analysis with Adjustments

Residents' \$ share	\$5.41
Non-Residents' \$ share	\$0.17
Total	\$5.58
Non-resident share per group	3.0%

Analysis and Recommendations for Furniture Stores

Furniture stores are often located in regional retail centers and small communities typically lose sales to these retail centers. In the case of Benton County, the trade area analysis shows that the county lost 32% more than expected. Even with a deficit, it is reasonable to assume that not all sales come from within the county, so Extension set the non-resident share to 3% of sales in this category.

Electronics and Appliances

0.5% of total taxable retail and service sales

These 5 establishments primarily include household-type appliances, sewing machines, cameras, computers, and other electronic goods.

	(\$Millions)
Actual taxable sales	\$1.27
-Potential sales	\$8.80
= \$ variance	(\$7.53)
= as % of potential	-85.6%

Unadjusted Trade Area Analysis

Potential sales to residents	\$8.80
Surplus (local preference and non-residents)	(\$7.53)
Total	\$1.27
Non-resident share per group	-593.5%

Analysis with Adjustments

Residents' \$ share	\$1.23
Non-residents' \$ share	\$0.04
Total	\$1.27
Non-resident share per group	3.0%

Analysis and Recommendations for Electronics and Appliances

Potential sales calculations suggest that more than 85% of sales leave the county. Although Benton County residents leave the county for a majority of these purchases, it is reasonable to assume residents from neighboring counties still make some minor purchases. Extension set the non-resident share to 3% of sales in this category.

Building Materials

11.6% of total taxable retail and service sales

These **10 establishments** sell lumber, hardware, paint, wallpaper, tile, hardwood floors, roofing, fencing, ceiling fans, lawn equipment, and garden items.

	(\$Millions)
Actual taxable sales	\$27.71
Potential sales	\$30.38
= \$ variance	(\$2.67)
= as % of potential	-8.8%

Unadjusted Trade Area Analysis

Potential sales to residents	\$30.38
Surplus (local preference and non-residents)	(\$2.67)
Total	\$27.71
Non-resident share per group	-9.6%

Analysis with Adjustments

Residents' \$ share	\$26.33
Non-residents' \$ share	\$1.39
Total	\$27.71
Non-resident share per group	5.0%

Analysis and Recommendations for Building Materials

Along with gasoline and general merchandise categories, building materials often account for a significant amount of total taxable sales (11.6% in Benton County's case). The trade area analysis estimates that more sales are leaving rather than entering the county, equating to a 9% leakage. Since it is realistic to assume that nearby competition would pull an even greater proportion of resident spending outside of the county, Extension set the non-resident spending to 5% of building material sales.

Food and Groceries

2.4% of total taxable retail and service sales

The **26 stores** 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	\$29.56
Potential sales	\$21.07
= \$ variance	\$8.49
= as % of potential	40.3%

Unadjusted Trade Area Analysis

Potential sales to residents	\$21.07
Surplus (local preference and non-residents)	\$8.49
Total	\$29.56
Non-resident share per group	28.7%

Analysis with Adjustments

Residents' \$ share	\$20.10
Non-residents' \$ share	\$9.46
Total	\$29.56
Non-resident share per group	32.0%

Analysis and Recommendations for Food and Groceries

The trade area analysis estimates a surplus of \$8.5 million more than expected in the food and liquor category. Clearly Benton County businesses are pulling in traffic from outside the county. Considering the competition from significant food and liquor establishments in St. Cloud, one would expect a portion of Benton County spending in this category to cross into Stearns County. With this assumption, Extension increased the non-resident share of grocery and liquor sales to 32%.

Health & Personal Items

1.0% of total taxable retail and service sales

Stores selling prescription drugs, food supplements, vision supplies, cosmetics, and hearing aids are among the **8 shops** included in this merchandise group.

	(\$Millions)
Actual taxable sales	\$2.31
Potential sales	\$3.78
= \$ variance	(\$1.47)
= as % of potential	-38.9%

Unadjusted Trade Area Analysis

Potential sales to residents	\$3.78
Surplus (local preference and non-residents)	(\$1.47)
Total	\$2.31
Non-resident share per group	-63.6%

Analysis with Adjustments

Residents' \$ share	\$2.24
Non-residents' \$ share	\$0.07
Total	\$2.31
Non-resident share per group	3.0%

Analysis and Recommendations for Health and Personal Items

These stores sell items that most people buy locally, so county residents are likely to dominate the marketplace. Though a fair amount of sales leak outside of Benton County, Extension would expect some sales from non-residents to increase their share to a minimal 3%.

Gas/Convenience Stores

4.2% of total taxable retail and service sales

This merchandise group covers 22 retailers selling convenience items at a store that also sells fuel.

	(\$Millions)
Actual taxable sales	\$9.92
Potential sales	\$6.86
= \$ variance	\$3.06
= as % of potential	44.5%

Unadjusted Trade Area Analysis

Potential sales to residents	\$6.86
Surplus (local preference and non-residents)	\$3.06
Total	\$9.92
Non-resident share per group	30.8%

Analysis with Adjustments

Residents' \$ share	\$6.55
Non-residents' \$ share	\$3.37
Total	\$9.92
Non-resident share per group	34.0%

Analysis and Recommendations for Gas Station/Convenience Stores

The initial trade area analysis indicates that non-residents account for 31% of sales. With knowledge of the large portion of residents traveling outside of the county for work, Extension assumed that a portion of those out-commuters would purchase gas near their place of work. Based on this assumption, Extension increased the non-resident sales to 34%.

Apparel/Clothing

0.002% of total taxable retail and service sales

This merchandise group includes **7 stores** selling new clothing and accessories, jewelry, shoes, bridal items, clocks, and luggage.

	(\$Millions)
Actual taxable sales	\$0.08
Potential sales	\$5.32
= \$ variance	(\$5.24)
= as % of potential	-98.5%

Unadjusted Trade Area Analysis

Potential sales to residents	\$5.32
Surplus (local preference and non-residents)	(\$5.24)
Total	\$0.08
Non-resident share per group	-6573.1%

Analysis with Adjustments

Residents' \$ share	\$0.08
Non-residents' \$ share	\$0.00
Total	\$0.08
Non-resident share per group	3.0%

Analysis and Recommendations for Apparel/Clothing

The trade area analysis shows that nearly all potential sales in this small category leak outside of Benton County. Assuming that clothing stores in the county would still attract in some minimal sales with non-resident traffic, Extension set the non-resident share at 3%.

Leisure Goods

1.1% of total taxable retail and service sales

The **18 firms** in this merchandise group sell sporting goods, books, music, hobby items, fabrics, and toys.

	(\$Millions)
Actual taxable sales	\$2.71
Potential sales	\$7.01
= \$ variance	(\$4.30)
= as % of potential	-61.3%

Unadjusted Trade Area Analysis

Potential sales to residents	\$7.01
Surplus (local preference and non-residents)	(\$4.30)
Total	\$2.71
Non-resident share per group	-158.7%

Analysis with Adjustments

Residents' \$ share	\$2.63
Non-Residents' \$ share	\$0.08
Total	\$2.71
Non-resident share per group	3.0%

Analysis and Recommendations for Leisure Goods

As with health, personal, and clothing items, local purchasers rather than non-residents drive demand for leisure goods. With actual sales falling 61% short of potential sales, Extension set the non-resident share at a minimal 3%.

General Merchandise Stores

14.0% of total taxable retail and service sales

The **11 stores** 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	\$33.42
potential sales	\$30.21
= \$ variance	\$3.20
= as % of potential	10.6%

Unadjusted Trade Area Analysis

Potential sales to residents	\$30.21
Surplus (local preference and non-residents)	\$3.20
Total	\$33.42
Non-resident share per group	9.6%

Analysis with Adjustments

Residents' \$ share	\$28.41
Non-Residents' \$ share	\$5.01
Total	\$33.42
Non-resident share per group	15.0%

Analysis and Recommendations for General Merchandise Stores

Given the proximity to St. Cloud with a significant general merchandise presence, Benton County surprisingly has 11% more sales than expected based on potential sales calculations. Since a significant portion of Benton County resident must still purchase general merchandise in St. Cloud, Extension increased the non-resident share to 15%, up from 9.6%.

Miscellaneous Retail

1.5% of total taxable retail and service sales

55 establishments are part of this group, including florists, used merchandise stores, pet supply stores, and other retailers.

	(\$Millions)
Actual taxable sales	\$3.62
Potential sales	\$9.31
= \$ variance	(\$5.70)
= as % of potential	-61.2%

Unadjusted Trade Area Analysis

Potential sales to residents	\$9.31
Surplus (local preference and non-residents)	(\$5.70)
Total	\$3.62
Non-resident share per group	-157.5%

Analysis with Adjustments

Residents' \$ share	\$3.51
Non-residents' \$ share	\$0.11
Total	\$3.62
Non-resident share per group	3.0%

Analysis and Recommendations for Miscellaneous Retail

The category currently brings in 61% less in taxable sales than one would expect. Extension set the non-resident share to a minimal 3%, especially considering the large number of establishments in this category, some of which are specialized enough to draw in outside traffic.

Amusement and Recreation

1.1% of total taxable retail and service sales

The **13 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.

	(\$Millions)
Actual taxable sales	\$2.62
Potential sales	\$9.47
= \$ variance	(\$6.86)
= as % of potential	-72.4%

Unadjusted Trade Area Analysis

Potential sales to residents	\$9.47
Surplus (local preference and non-residents)	(\$6.86)
Total	\$2.62
Non-resident share per group	-262.0%

Analysis with Adjustments

Residents' \$ share	\$2.54
Non-residents' \$ share	\$0.08
Total	\$2.62
Non-resident share per group	3.0%

Analysis and Recommendations for Amusement and Recreation

Local residents likely comprise the vast majority of buyers in this category where nearly 72% of sales leave the county. Therefore, the non-resident share is estimated to be a minimal 3% of total taxable sales.

Accommodations

1.1% of total taxable retail and service sales

These **8 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	\$2.66
Potential sales	\$12.30
= \$ variance	(\$9.65)
= as % of potential	-78.4%

Unadjusted Trade Area Analysis

Potential sales to residents	\$12.30
Surplus (local preference and non-residents)	(\$9.65)
Total	\$2.66
Non-resident share per group	-363.1%

Analysis with Adjustments

Residents' \$ share	\$0.27
Non-residents' \$ share	\$2.39
Total	\$2.66
Non-resident share per group	90.0%

Analysis and Recommendations for Accommodations

Logically, a large majority of lodging sales will include visitors from outside the county, including those visiting the area, attending nearby events, and simply traveling through. Since some portion of accommodation sales always include local events and family 'stay-cations' Extension set the non-resident share at 90% of sales.

Eating/Drinking Establishments

20.4% of total taxable retail and service sales

These **70 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	\$48.67
Potential sales	\$49.36
= \$ variance	(\$0.69)
= as % of potential	-1.4%

Unadjusted Trade Area Analysis

Potential sales to residents	\$49.36
Surplus (local preference and non-residents)	(\$0.69)
Total	\$48.67
Non-resident share per group	-1.4%

Analysis with Adjustments

Residents' \$ share	\$46.24
Non-residents' \$ share	\$2.43
Total	\$48.67
Non-resident share per group	5.0%

Analysis and Recommendations for Eating/Drinking Establishments

According to market potential estimates, Benton County leaks a minimal 1.4% of food service sales outside the county. Considering that little evidence exists for non-resident spending and the high level of competition from nearby communities, Extension set the non-resident share of spending in this category at a conservative 5%.

Repair and Maintenance

4.7% of total taxable retail and service sales

The **87 stores** 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, radio, television, computers, copiers, appliances, lawn mowers, specialized equipment, small engines, furniture, shoes, guns, etc.

	(\$Millions)
Actual taxable sales	\$11.31
Potential sales	\$7.57
= \$ variance	\$3.75
= as % of potential	49.5%

Unadjusted Trade Area Analysis

Potential sales to residents	\$7.57
Surplus (local preference and non-residents)	\$3.75
Total	\$11.31
Non-resident share per group	33.1%

Analysis with Adjustments

Residents' \$ share	\$7.35
Non-residents' \$ share	\$3.96
Total	\$11.31
Non-resident share per group	35.0%

Analysis and Recommendations for Repair and Maintenance

The initial trade area analysis identifies a surplus and estimates non-resident spending at 33.1%. Assuming Benton County as a commuter county, Extension expects that residents would spent more on car repair than residents of other counties. As such, Extension conservatively increased the share of non-resident sales to 35%.

Personal Services/Laundry

1.9% of total taxable retail and service sales

The 54 stores 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	\$4.65
Potential sales	\$4.89
= \$ variance	(\$0.24)
= as % of potential	-4.9%

Unadjusted Trade Area Analysis

Potential sales to residents	\$4.89
Surplus (local preference and non-residents)	(\$0.24)
Total	\$4.65
Non-resident share per group	-5.2%

Analysis with Adjustments

Residents' \$ share	\$4.41
Non-residents' \$ share	\$0.23
Total	\$4.65
Non-resident share per group	5.0%

Analysis and Recommendations for Personal Services/Laundry

Local residents will likely comprise the vast majority of buyers in this category of convenience services. Therefore, the non-resident share is estimated to be a conservative 5% of taxable sales.

Retail (non-store) and Other Services

	(\$Millions)
Actual taxable sales	\$20.75
% of total taxable retail and service sales	8.7%

Analysis with Adjustments

Residents' \$ share	\$18.68
Non-residents' \$ share	\$2.08
Total	\$20.75
Non-resident share per group	10%

Analysis and Recommendations for Retail and Other Services

The rest of retail and service sales will be largely local. This group includes healthcare, waste management, rental/lease services, administrative support, and the performing arts. This mix of business types is very diverse, yet due to the local nature of the businesses, Extension assumes 90 percent 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

The above industries and services generate a significant portion of total taxable sales in Benton County (37.5%), a proportion greater than other counties for which Extension has conducted a local option sales tax analysis. This amount will be subject to any new sales taxes, including a local option sales tax supporting county transportation projects and operations. A diverse mix of businesses fall into these non-retail categories and a large portion of sales are within a suppressed or non-disclosed subcategory. This diversity makes it difficult to understand the customer mix of these businesses, however Extension broke out each known subcategory and assigned assumptions according to their business type:

Subcategory	2016 Taxable Sales
Agriculture	\$4,041,493
Construction	\$9,716,778
Manufacturing	\$70,923,660
Wholesale	\$51,001,282
Undesignated	\$7,620,827

Extension estimated that overall 66% of sales are to non-residents. Extension assumed that some subcategories such as agriculture and manufacturing sell primarily (80%) to non-resident customers, whereas less construction and wholesale businesses split their sales between resident and non-resident customers.

Residents' \$ share	\$48.72
Non-residents \$ share	\$90.58
Total	\$143.3
Non-resident share	66%

ESTIMATES OF PROJECTED SALES TAX REVENUE

The table below shows sales tax revenue for designated transportation projects in Benton County at one-eighth percent intervals up to half a percent. This is the highest taxation rate permitted by state law. The table also includes estimates for the tax dollars likely to be paid by year-round Benton County residents, along with the estimates for tax dollars likely to be paid by non-residents. These estimates include all merchandise categories, based on the adjusted trade area analysis.

Figure 5: Estimated Tax Proceeds Based on 2016 Sales Tax Data

ESTIMATED TAX PROCEEDS	Multiplier	Total Tax Proceeds	Dollars Paid By Benton Co Residents	Additional Tax Paid per Benton Co Resident	Dollars Paid By Non- Residents
@ 1/8th of a Percent	0.00125	\$477,811	\$298,918	\$7.47	\$178,893
@ 1/4th of a Percent	0.0025	\$955,623	\$597,836	\$14.95	\$357,787
@ 3/8ths of a Percent	0.00375	\$1,433,434	\$896,754	\$22.42	\$536,680
@ 1/2 of a Percent	0.005	\$1,911,246	\$1,195,672	\$29.89	\$715,574

Total Taxable Sales:
\$382,249,107

The total sales figure of \$382 million is based on 2016 Minnesota Department of Revenue data.

There is a *use* tax component to this local option tax program. Consequently, two other likely sources of tax proceeds can be added to the estimated tax proceeds listed above:

1. For each one-eighth of a percent enacted, county officials can expect an estimated additional \$3,300 in use (not sales) tax proceeds derived from county businesses purchasing products from out-of-state sources. (This is based on the 6.875% use tax rate applied to out-of-state purchases).
2. County officials can also anticipate additional use (not sales) tax proceeds, but there is no way to accurately estimate this number. The amount, however, will be from purchases made by local businesses in other Minnesota locations.

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

County policymakers are understandably concerned that enacting a local sales tax will result in a loss of consumer purchases to neighboring communities that have not adopted the tax. At its highest potential application of half a percent, however, a local option sales tax would add 50 cents to a \$100 purchase.

An analysis of eleven comparable Minnesota cities that have adopted a 0.5% local option sales tax shows that most cities showed continued sales growth after they began collecting the local option sales tax (see Figures 7, 8, 9, and 10). These cities, like most others that have instituted a local option sales tax, are regional centers or minor regional hubs which already had steady taxable sales growth.

Decision-makers should decide on the best allowable method to raise revenue. 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 excludes the basic necessities of food and clothing. In addition, a sales tax raises revenues from non-residents who shop in Benton County. Policymakers should carefully consider each of the above factors before making a decision about enacting a local sales tax.

Figure 6: Taxable retail and service sales by comparable communities began collecting a local option sales tax between 1999-2006

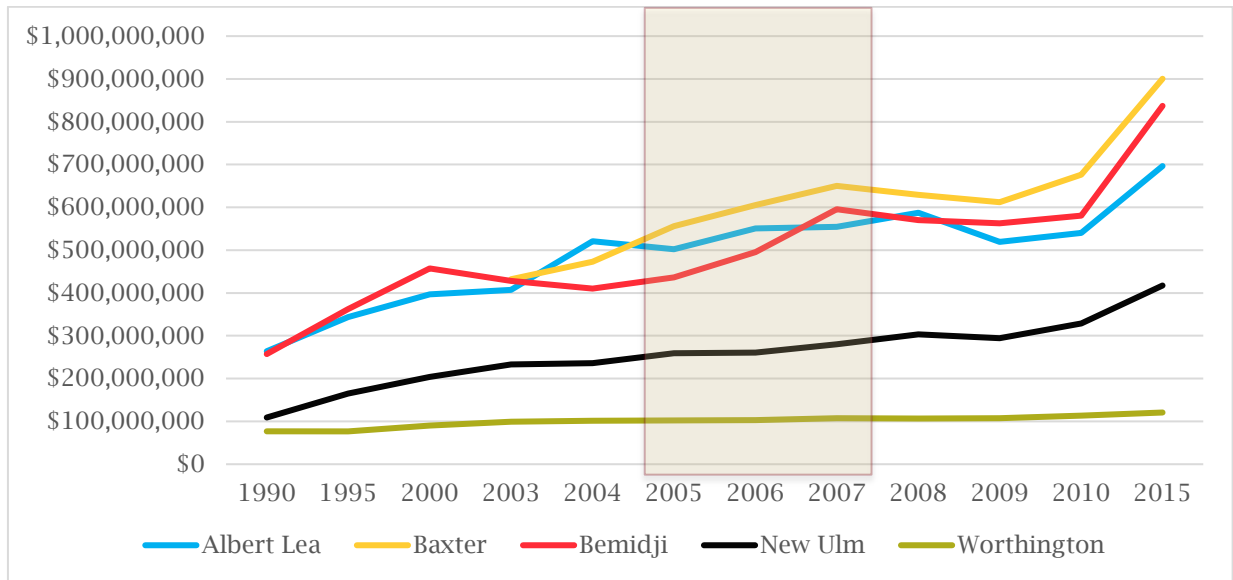


Figure 7: Data table for comparable communities, taxable retail and service sales (in millions)

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

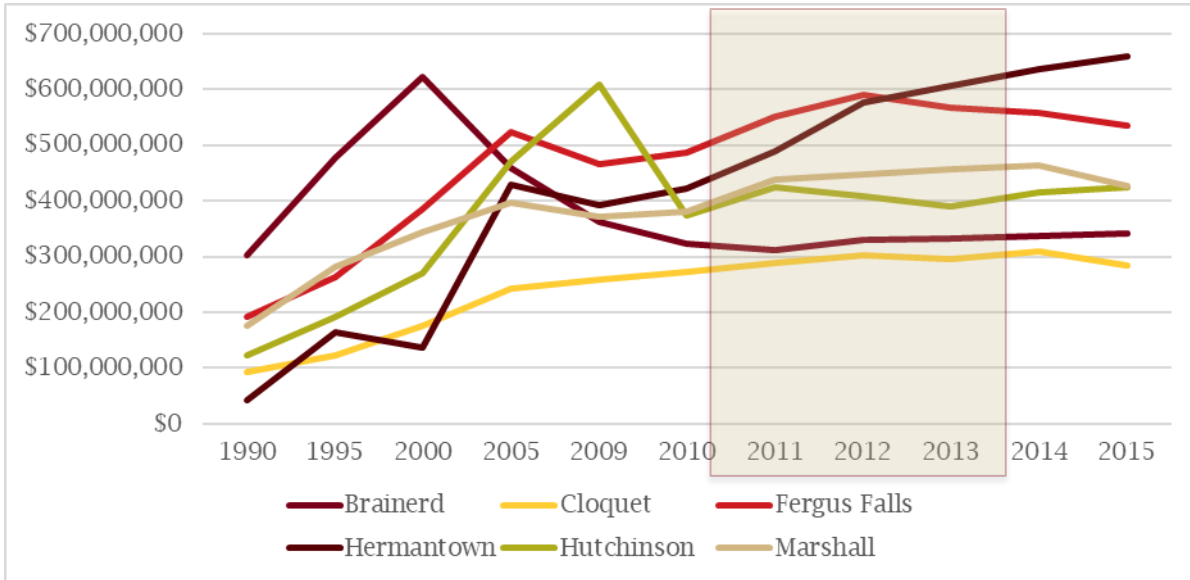


Figure 9: Data table for comparable communities, taxable retail and service sales (in millions)

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 the 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 those 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 http://www.revenue.state.mn.us/Forms_and_Instructions/sales_tax_booklet.pdf

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. It is the product of county population, state per capita sales, and the index of income. Potential sales for counties is similar to expected sales for cities. Potential sales, however, do not utilize a measure of average pulling power (like the typical pull factor used in the expected sales equation). Since a county is a relatively large region where retail business takes place, counties are compared without adjustments for trade area size.

Actual Sales

For this study, the Minnesota Department of Revenue's 2016 sales data for Benton County 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 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 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 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. 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 city 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 city. Whenever misreporting is discovered, the Minnesota Department of Revenue is contacted to clarify the situation.