



# Local Option Sales Tax Analysis for Itasca County, MN

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

Authored by Ryan Pesch and John Bennett

**REPORT SPONSOR: ITASCA COUNTY**



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

**June 2022**

Authored by Ryan Pesch and John Bennett, Extension Educators, University of Minnesota Extension Center for Community Vitality

### **Report Reviewers:**


Brett Skyles, County Administrator, Itasca County

Rani Bhattacharyya, Extension Educator, University of Minnesota Extension Center for Community Vitality

### **Sponsor:**

Itasca County

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# Table of Contents

**SUMMARY OF FINDINGS ..... 3**

**BACKGROUND AND METHODOLOGY ..... 5**

.....

**TRADE AREA ANALYSIS BY MERCHANDISE CATEGORY ..... 7**

**Vehicles and Parts..... 7**

**Furniture Stores ..... 8**

**Electronics and Appliances ..... 9**

**Building Materials..... 10**

**Food and Groceries ..... 11**

**Health and Personal Items ..... 12**

**Gas/Convenience Stores ..... 13**

**Apparel/Clothing ..... 14**

**Leisure Goods ..... 15**

**General Merchandise Stores ..... 16**

**Miscellaneous Retail ..... 17**

**Amusement and Recreation ..... 18**

**Accommodations ..... 19**

**Eating/Drinking Establishments ..... 20**

**Repair and Maintenance ..... 21**

**Personal Services/Laundry ..... 22**

**Retail (non-store) and Other Services ..... 23**

**Construction, Manufacturing, Utilities, Wholesale Operations, Transportation, and Sales  
    Suppressed for Business Confidentiality ..... 24**

**APPENDIX A: RESEARCH ON THE EFFECTS OF A LOCAL OPTION SALES TAX..... 25**

**APPENDIX B: DEFINITIONS OF TERMS ..... 27**

## SUMMARY OF FINDINGS

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

Using the most recent sales and use tax data available from the Minnesota Department of Revenue (MN Revenue), Extension estimated that non-residents account for 40 percent of taxable sales subject to a local option sales tax (LOST).

In 2019, total taxable sales in Itasca County were \$406 million. MN Revenue analysts estimate that approximately all \$400 million would be subject to a LOST. With 40 percent of sales derived from non-resident spending, Extension estimated that Itasca County residents spent \$239 million of the total \$400 million in taxable sales subject to a LOST.

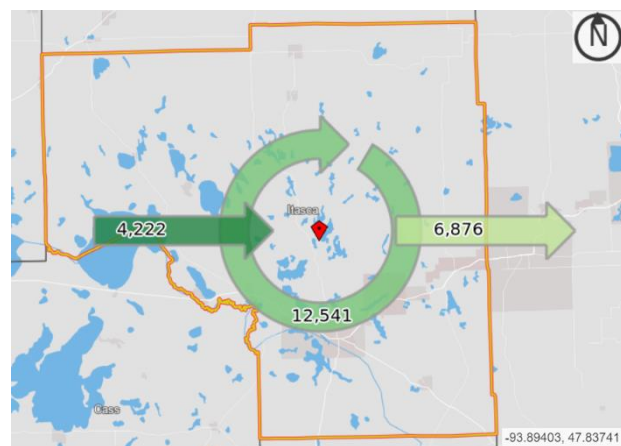
If the tax were in place in 2019, a 1.0 percent local option sales tax would have garnered \$4,000,000 in tax proceeds. Itasca County residents would have contributed \$2.4 million in taxes, and non-residents would have contributed \$1,600,000. Based on these estimates, each Itasca County resident would have paid, on average, an additional \$52.96 in sales tax in 2019.

This report is based on a trade area analysis comparing actual taxable sales to potential sales. This is calculated by multiplying the Itasca County population in 2019 (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 Itasca County 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 Itasca County's economy helped frame the analysis for the different merchandise categories:

- Itasca County has a sizeable portion of visitors and second homeowners who buy goods and services in the county. According to US Census, 27 percent of all housing units are seasonal (American Community Survey, 2020)
- Itasca County has a significant proportion of its residents leave for work and imports a smaller, but still substantial number of workers (Figure 1). In this dynamic, commuters often shop for goods and services near where they work. In this case, the Range cities do pull sales from Itasca.

**Figure 1: Itasca County worker in-flow and out-flow**



Inflow and outflow of wage earners.

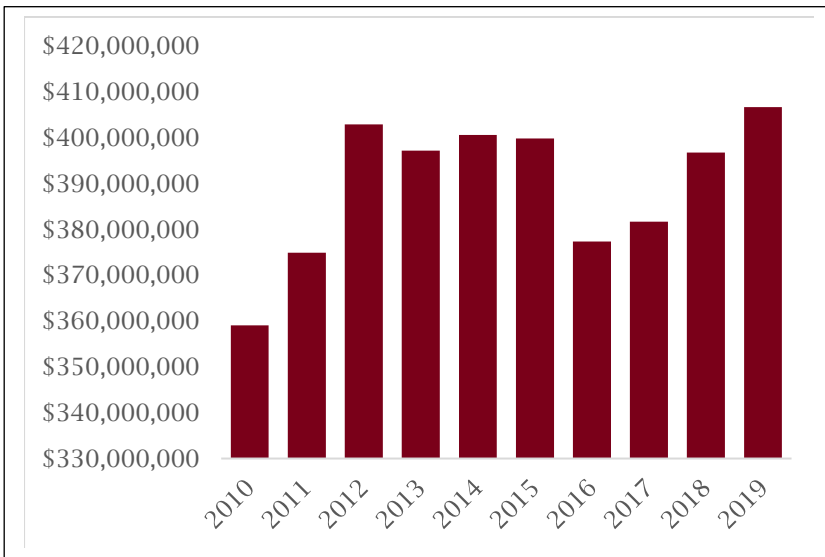
Source: 2019 U.S. Census Bureau On-The-Map

Figure 2 shows the estimated percentage of sales—across all merchandise categories— attributed to both residents and non-residents in 2019. 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 county residents represent 60 percent of all taxable retail and service sales subject to the tax (\$239 million), and the remaining 40 percent (\$161 million) are attributed to non-residents.

**Figure 2: Estimated 2019 Taxable Sales Subject to LOST**

	Taxable Sales	Percent of Sales
County residents	\$239,408,453	59.9%
Non-residents	\$160,591,547	40.1%

**Figure 3: Total taxable sales in Itasca County from 2010-2019**



Source: Minnesota Department of Revenue

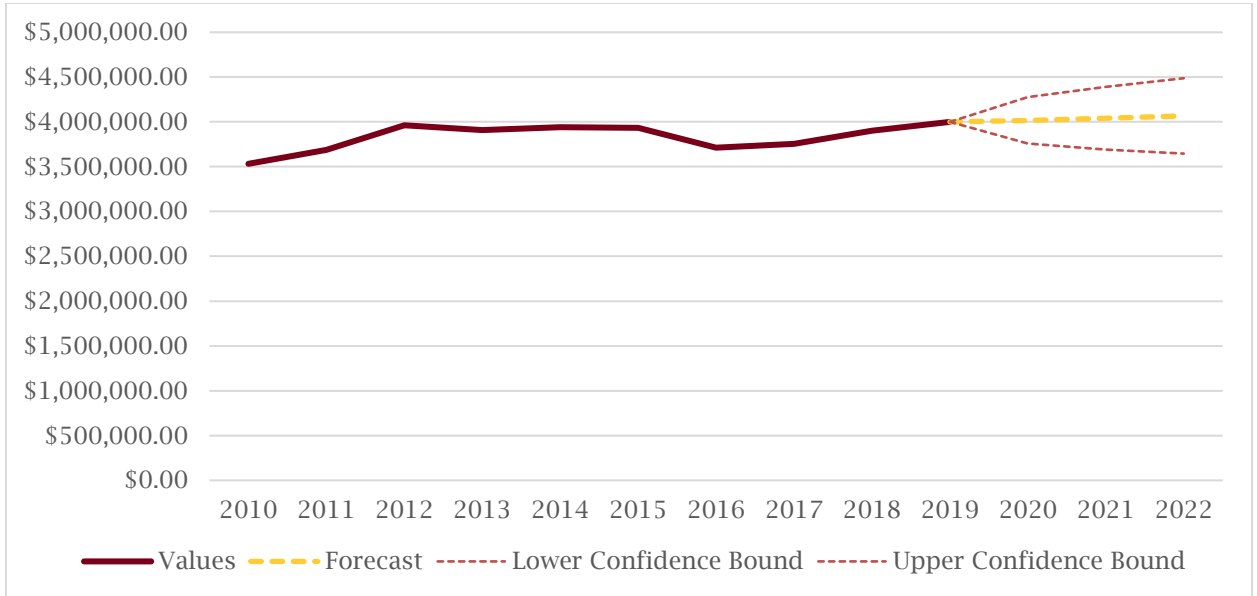
The total taxable sales in the county have fluctuated over the past 10 years at or below \$400 million (Figure 3). Total taxable sales were \$359 million in 2010 and \$406 million in 2019. This provides some sense of the stability of a LOST going forward.

Extension forecasted taxable sales subject to the local tax for 2020, 2021, and 2022 using a simple exponential smoothing forecast model that employs a moving weighted average and a 95 percent confidence interval to provide an upper and lower bound to the estimate

(Figures 4 and 5). This model estimates total tax proceeds in 2022 to be between an upper limit of \$4.5 million and a lower limit of \$3.6 million.

Considering the historic disruption of the COVID-19 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, general merchandise, and furniture did well through the pandemic, whereas dining, accommodations, and personal services saw record sales decreases. The sharp rebound in sales in 2021 further complicates any forecast.

**Figure 4: Forecast for Tax Proceeds based on Past Trends**



**Figure 5: Forecast with Upper and Lower Bound 2019-22**

	Forecast	Lower Bound	Upper Bound
2019	\$4,000,000	\$4,000,000	\$4,000,000
2020	\$4,016,517	\$3,757,076	\$4,275,959
2021	\$4,041,510	\$3,692,295	\$4,390,726
2022	\$4,066,503	\$3,646,128	\$4,486,878

Use taxes also affect the tax proceeds from a local option sales tax. Use taxes derive from city 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 2019, the county received \$1,003,396 in use (not sales) tax proceeds. It would have garnered \$146,000 for a LOST at the 1.0 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).

## 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 Itasca County residents compared to non-residents. The most recently available state sales tax data (2019) 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 Itasca County. 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.

**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:

$(T \div PMn) \times MG \times (YCC \div YMn) = \text{potential sales}$

T = Total Minnesota taxable sales for a merchandise category

PMn = 2019 population of Minnesota (5,639,632)

PM = 2019 population of Itasca County (45,203)

YHC = Per capita income of Itasca County residents (\$46,020)

YMn = Per capita income of Minnesota residents (\$58,834)



## TRADE AREA ANALYSIS BY MERCHANDISE CATEGORY

The following pages provide detailed analysis by merchandise category.

### Vehicles and Parts

#### 11.1 percent of total taxable retail and service sales

The 31 **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	\$39.35
-Potential sales	\$19.84
= \$ variance	\$19.51
= as % of potential	98.4%

### Unadjusted Trade Area Analysis

Potential taxable sales to residents	\$19.84
Surplus	\$19.51
Total	\$39.35
Non-resident share per group	49.6%

### Analysis with Adjustments

Capture rate of Itasca County residents	75%
Residents' \$ share	\$14.95
Non-Residents' \$ share	\$24.40
Total	\$39.35
Non-resident share per group	62.0%

### Analysis for Vehicles and Parts

At 11.1 percent of total taxable sales, vehicles and parts are a significant category for Itasca and one that is clearly bringing in sales from outside the county with nearly \$20 million more than expected over potential sales. Extension estimates that 62 percent of sales come from non-residents.

## Furniture Stores

### 2.2 percent of total taxable retail and service sales

These **16 businesses** sell furniture, beds, carpeting, window coverings, appliances, kitchenware, and wood-burning stoves.

	(\$Millions)
Actual taxable sales	\$7.69
Potential sales	\$9.20
= \$ variance	(\$1.51)
= as % of potential	-16.4%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$9.20
Surplus	(\$1.51)
Total	\$7.69
Non-resident share per group	-19.6%

### Analysis with Adjustments

Capture rate of Itasca County residents	75%
Residents' \$ share	\$6.92
Non-Residents' \$ share	\$0.77
Total	\$7.69
Non-resident share per group	10.0%

### Analysis for Furniture Stores

Furniture stores are a relatively minor category for Itasca County at 2.2 percent of total taxable sales. Extension's analysis suggests the community is near breakeven in this category. Extension set the non-resident spending at 10 percent to account for Itasca County residents' spending on furniture outside the community since furniture is a destination good. At 10 percent non-resident spending, the capture rate of local residents spending in this category at a conservative 75 percent.

## Electronics and Appliances

0.5 percent of total taxable retail and service sales\*

These **five businesses** primarily include household-type appliances, sewing machines, cameras, computers, and other electronic goods.

	(\$Millions)
Actual taxable sales	\$1.80
-Potential sales	\$10.11
= \$ variance	(\$8.30)
= as % of potential	-82.1%

## Unadjusted Trade Area Analysis

Potential sales to residents	\$10.11
Surplus	(\$8.30)
Total	\$1.80
Non-resident share per group	-460.2%

## Analysis with Adjustments

Capture rate of Itasca County residents	17%
Residents' \$ share	\$1.71
Non-residents' \$ share	\$0.09
Total	\$1.80
Non-resident share per group	5.0%

## Analysis for Electronics and Appliances

Extension's trade area analysis estimates that the county falls far short of potential sales. Yet, even in a category with a deficit, Extension attributes some portion of sales to non-residents. In this case, Extension set the non-resident share at a modest 5 percent. The assumption is that it is unrealistic to think that there would be no non-residents that shopped in the community for goods in this category.

## Building Materials

### 18.6 percent of total taxable retail and service sales\*

These 27 **businesses** sell lumber, hardware, paint, wallpaper, tile, hardwood floors, roofing, fencing, ceiling fans, lawn equipment, and garden items.

	(\$Millions)
Actual taxable sales	\$65.69
Potential sales	\$34.21
= \$ variance	\$31.49
= as % of potential	92.0%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$34.21
Surplus	\$31.49
Total	\$65.69
Non-resident share per group	47.9%

### Analysis with Adjustments

Capture rate of Itasca County residents	86%
Residents' \$ share	\$29.56
Non-residents' \$ share	\$36.13
Total	\$65.69
Non-resident share per group	55.0%

### Analysis for Building Materials

At just under 19 percent, building materials is the largest category of sales and revenue in Itasca County. Extension's analysis suggests that this category captures a large number of Itasca County residents at 86 percent capture rate. This conclusion is based on the assumption that such a strong building material presence would capture local dollars and bulky a heavy building materials are often best purchased close to home. At this capture rate, non-residents still account for a significant 55 percent of sales. The local focus group thought that the impacts of second homeowners and cabin owners were evident in this category.

## Food and Groceries

### 6.5 percent of total taxable retail and service sales

The **33 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	\$23.04
- Potential sales	\$25.38
= \$ variance	<b>(\$2.33)</b>
= as % of potential	-9.2%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$25.38
Surplus	<b>(\$2.33)</b>
Total	\$23.04
Non-resident share per group	-10.1%

### Analysis with Adjustments

Capture rate of Itasca County residents	81%
Residents' \$ share	\$20.51
Non-residents' \$ share	\$2.53
Total	\$23.04
Non-resident share per group	11.0%

### Analysis for Food and Groceries

Extension's trade area analysis estimated a slight deficit in the food and liquor category in this category. Extension set the non-resident share at 11 percent, primarily to allow for some reasonable portion of out-shopping by Itasca County residents; 81 percent is a reasonable and conservative capture rate of local resident spending.

## Health and Personal Items

### 0.8 percent of total taxable retail and service sales

Stores selling prescription drugs, food supplements, vision supplies, cosmetics, and hearing aids are among the **20 businesses** included in this merchandise group.

	(\$Millions)
Actual taxable sales	\$2.87
Potential sales	\$4.35
= \$ variance	(\$1.48)
= as % of potential	-34.1%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$4.35
Surplus	(\$1.48)
Total	\$2.87
Non-resident share per group	-51.7%

### Analysis with Adjustments

Capture rate of Itasca County residents	63%
Residents' \$ share	\$2.72
Non-residents' \$ share	\$0.14
Total	\$2.87
Non-resident share per group	5.0%

### Analysis for Health and Personal Items

This is a minor category in Itasca County, accounting for only 0.8 percent of total taxable sales. Yet, even in a category with a deficit, Extension attributes some portion of sales to non-residents. In this case, Extension set the non-resident share at a modest 5 percent. The assumption is that it is unrealistic to think that there would be no non-residents that shopped in the community for goods in this category.

## Gas/Convenience Stores

### 5.3 percent of total taxable retail and service sales

This merchandise group covers **31 businesses** selling convenience items at a store that also sells fuel.

	(\$Millions)
Actual taxable sales	\$18.54
-Potential sales	\$8.82
= \$ variance	\$9.72
= as % of potential	110.2%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$8.82
Surplus	\$9.72
Total	\$18.54
Non-resident share per group	52.4%

### Analysis with Adjustments

Capture rate of Itasca County residents	80%
Residents' \$ share	\$7.05
Non-residents' \$ share	\$11.50
Total	\$18.54
Non-resident share per group	62.0%

### Analysis for Gas/Convenience Stores

Itasca County has a sizable surplus in the gas and convenience store category, netting nearly \$10 million more than potential sales calculations. In a category with a surplus such as this, Extension set the non-resident share at a larger than expected 62percent to account for non-resident spending when traveling through on major thoroughfares and resident spending both when out-commuting and traveling.

## Apparel/Clothing

### 0.5 percent of total taxable retail and service sales

This merchandise group includes **19 businesses** selling new clothing and accessories, jewelry, shoes, bridal items, clocks, and luggage.

	(\$Millions)
Actual taxable sales	\$1.64
Potential sales	\$5.05
= \$ variance	(\$3.41)
= as % of potential	-67.5%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$5.05
Surplus	(\$3.41)
Total	\$1.64
Non-resident share per group	-207.5%

### Analysis with Adjustments

Capture rate of Itasca County residents	31%
Residents' \$ share	\$1.56
Non-residents' \$ share	\$0.08
Total	\$1.64
Non-resident share per group	5.0%

### Analysis for Apparel/Clothing

Extension's trade area analysis estimates that the city falls short of potential sales. Yet, even in a category with a deficit, Extension attributes some portion of sales to non-residents. In this case, Extension set the non-resident share at a modest 5 percent. The assumption is that it is unrealistic to think that there would be no non-residents that shopped in the community for goods in this category. Even some nearby non-residents may likely visit the community for these 19 stores.



## Leisure Goods

### 1.3 percent of total taxable retail and service sales

The **37 businesses** in this merchandise group sell sporting goods, books, music, hobby items, fabrics, and toys.

	(\$Millions)
Actual taxable sales	\$4.57
Potential sales	\$6.34
= \$ variance	(\$1.77)
= as % of potential	-27.9%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$6.34
Surplus	(\$1.77)
Total	\$4.57
Non-resident share per group	-38.7%

### Analysis with Adjustments

Capture rate of Itasca County residents	69%
Residents' \$ share	\$4.34
Non-Residents' \$ share	\$0.23
Total	\$4.57
Non-resident share per group	5.0%

### Analysis for Leisure Goods

Extension's trade area analysis estimates that the city falls short of potential sales. Yet, even in a category with a deficit, Extension attributes some portion of sales to non-residents. In this case, Extension set the non-resident share at a modest 5 percent. The assumption is that it is unrealistic to think that there would be no non-residents that shopped in the community for goods in this category.

## General Merchandise Stores

16.5 percent of total taxable retail and service sales\*

The 12 **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	\$58.19
potential sales	\$34.50
= \$ variance	\$23.68
= as % of potential	68.6%

## Unadjusted Trade Area Analysis

Potential sales to residents	\$34.50
Surplus	\$23.68
Total	\$58.19
Non-resident share per group	40.7%

## Analysis with Adjustments

Capture rate of Itasca County residents	81%
Residents' \$ share	\$27.93
Non-Residents' \$ share	\$30.26
Total	\$58.19
Non-resident share per group	52.0%

## Analysis for General Merchandise Stores

The 12 firms in this category account for a large share of taxable sales (16.5 percent) in Itasca County. Like building materials, the category also has a significant surplus, clearly drawing in sales from outside the county (over \$23 million in taxable sales). Extension set the non-resident share at 52 percent. At this proportion, the capture rate of Itasca County residents stands at a conservative 81 percent, which allows for some portion of out-shopping at big box stores not in the county but are available in competing centers such as Duluth or other Range Cities.

## Miscellaneous Retail

### 2.1 percent of total taxable retail and service sales

One hundred forty-three businesses are part of this group, including florists, used merchandise stores, pet supply stores, and other retailers.

	(\$Millions)
Actual taxable sales	\$7.38
Potential sales	\$9.63
= \$ variance	(\$2.25)
= as % of potential	-23.4%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$9.63
Surplus	(\$2.25)
Total	\$7.38
Non-resident share per group	-30.5%

### Analysis with Adjustments

Capture rate of Itasca County residents	73%
Residents' \$ share	\$7.01
Non-residents' \$ share	\$0.37
Total	\$7.38
Non-resident share per group	5.0%

### Analysis for Miscellaneous Retail

Extension's trade area analysis estimates that the city falls short of potential sales. Yet, even in a category with a deficit, Extension attributes some portion of sales to non-residents. In this case, Extension set the non-resident share at a modest 5 percent. The assumption is that it is unrealistic to think that non-residents never shopped in the community for goods in this category.

## Amusement and Recreation

### 1.1 percent of total taxable retail and service sales\*

The 23 **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	\$3.84
Potential sales	\$10.91
= \$ variance	(\$7.06)
= as % of potential	-64.8%

## Unadjusted Trade Area Analysis

Potential sales to residents	\$10.91
Surplus	(\$7.06)
Total	\$3.84
Non-resident share per group	-183.9%

## Analysis with Adjustments

Capture rate of Itasca County residents	33%
Residents' \$ share	\$3.65
Non-residents' \$ share	\$0.19
Total	\$3.84
Non-resident share per group	5.0%

## Analysis for Amusement and Recreation

Extension's trade area analysis estimates that the city falls short of potential sales. Yet, even in a category with a deficit, Extension attributes some portion of sales to non-residents. In this case, Extension set the non-resident share at a modest 5 percent. The assumption is that it is unrealistic to think that there would be no non-residents that shopped in the community for goods in this category.

## Accommodations

### 6.1 percent of total taxable retail and service sales

These **110 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	\$21.39
Potential sales	\$14.46
= \$ variance	\$6.93
= as % of potential	47.9%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$14.46
Surplus	\$6.93
Total	\$21.39
Non-resident share per group	32.4%

### Analysis with Adjustments

Capture rate of Itasca County residents	10%
Residents' \$ share	\$1.50
Non-residents' \$ share	\$19.89
Total	\$21.39
Non-resident share per group	93.0%

### Analysis for Accommodations

Logically, a significant percentage of lodging sales are from non-residents visiting the area or staying overnight for business or vacation. Extension set the non-resident share at 93 percent of sales to allow for some resident spending related to events, facility charges, and 'staycations.'

## Eating/Drinking Establishments

### 12.9 percent of total taxable retail and service sales

These **88 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	\$45.55
Potential sales	\$59.39
= \$ variance	(\$13.84)
= as % of potential	-23.3%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$59.39
Surplus	(\$13.84)
Total	\$45.55
Non-resident share per group	-30.4%

### Analysis with Adjustments

Capture rate of Itasca County residents	65%
Residents' \$ share	\$38.72
Non-residents' \$ share	\$6.83
Total	\$45.55
Non-resident share per group	15.0%

### Analysis for Eating/Drinking Establishments

The eating and drinking category—which includes all bars, restaurants, and other food service—is a significant category with \$45.5 million in taxable sales. Based on the potential sales estimates, Itasca County appears to bring in less than expected. This deficit was a surprise to the local focus group, which thought that between visitor traffic and quality restaurant options that this category would have had a surplus.

Extension adjusted the non-resident share up to 15 percent, to account for residents dining out when working outside the community and the easy access to other dining and drinking options in other Range Cities. Also some sizeable portion of dining sales must be driven by visitors and second homeowners. In this context, an Itasca County resident capture rate of 65 percent appears reasonable.

## Repair and Maintenance

### 3.1 percent of total taxable retail and service sales

The **73 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	\$11.05
Potential sales	\$9.54
= \$ variance	\$1.51
= as % of potential	15.8%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$9.54
Surplus	\$1.51
Total	\$11.05
Non-resident share per group	13.6%

### Analysis with Adjustments

Capture rate of Itasca County residents	85%
Residents' \$ share	\$8.07
Non-residents' \$ share	\$2.98
Total	\$11.05
Non-resident share per group	27.0%

### Analysis for Repair and Maintenance

At 3.1 percent of total taxable sales, repair and maintenance is a relatively small category in Itasca County. The surplus that exists in this category suggests many non-residents elect to purchase goods and services in this category locally as do Itasca County residents. Extension set the non-resident share at 27 percent of total taxable sales in this category to account for a reasonable portion of non-local sales and allow for resident spending elsewhere.

## Personal Services/Laundry

0.7 percent of total taxable retail and service sales

The 72 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	\$2.34
Potential Sales	\$5.80
= \$ variance	(\$3.46)
= as % of potential	-59.7%

## Unadjusted Trade Area Analysis

Potential sales to residents	\$5.80
Surplus	(\$3.46)
Total	\$2.34
Non-resident share per group	-148.2%

## Analysis with Adjustments

Capture rate of Itasca County residents	38%
Residents' \$ share	\$2.22
Non-residents' \$ share	\$0.12
Total	\$2.34
Non-resident share per group	5.0%

## Analysis for Personal Services/Laundry

This category includes businesses that typically serve a local market, such as barbers, hair salons, and dry-cleaning operations. Despite having 72 businesses operating in this category, Extension's trade area analysis estimates that the city falls significantly short of potential sales. Yet, even in a category with a deficit, Extension attributes some portion of sales to non-residents. In this case, Extension set the non-resident share at a modest 5 percent. The assumption is that it is unrealistic to think that there would be no non-residents that shopped in the community for goods in this category.



## 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	\$38.05
% of total taxable retail and service sales In Itasca County	10.8%

## Analysis with Adjustments

	(\$Millions)
Residents' \$ share	\$ 38.08
Non-residents' \$ share	\$10.61
Total	\$38.08
Non-resident share per group	28%

## 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 non-store retail 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 28 percent of these sales are to non-resident customers. The categories of sales are shown below:

Category	Taxable Sales	% non-local	\$ non-local
NON-STORE RETAIL	\$4,389,082	50%	\$2,194,541
INFO	\$11,807,813	20%	\$2,361,563
CREDIT INTERMEDIATION	\$45,644	20%	\$9,129
REAL ESTATE	\$648,989	30%	\$194,697
RENTAL, LEASING SERVICES	\$2,614,478	20%	\$522,896
PROF,SCIENTIFIC,TECH SERV	\$2,973,304	50%	\$1,486,652
ADMIN, SUPPORT SERVICES	\$11,292,021	30%	\$3,387,606
EDUCATIONAL SERVICES	\$353,177	10%	\$35,318
HEALTH	\$770,152	20%	\$154,030
PERF ART, SPECTATOR SPRTS	\$157,160	20%	\$31,432
RELIGIOUS,CIVIC,PROF ORGS	\$2,353,111	10%	\$235,311
Total	\$38,049,831	28%	\$10,613,174

## 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 \$53.7 million in taxable sales, or 15.2 percent of total taxable sales in Itasca County. 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:

Category	Taxable Sales	% non-local	\$ non-local
AG	\$1,032,526	70%	\$722,768
UTILITIES	\$17,740,144	0%	\$0
CONSTRUCTION	\$5,198,976	50%	\$2,599,488
MANUFACTURING	\$3,489,528	80%	\$2,791,622
WHOLESALE	\$22,564,969	40%	\$9,025,988
UNDESIGNATED/SUPPRESSED	\$3,537,240	25%	\$884,310
TRANSPORTATION	\$100,022	50%	\$50,011
Total	\$53,663,405	30%	\$16,074,187

Extension estimated that, overall, 30 percent of sales are to non-residents. This analysis assumes that some subcategories, such as manufacturing sell primarily (80 percent) to non-resident customers, whereas subcategories like construction split sales between resident and non-resident customers.

### Analysis with Adjustments

	(\$Millions)
Residents' \$ share	\$37.56
Non-residents \$ share	\$16.07
Total	\$53.66
Non-resident share	30%

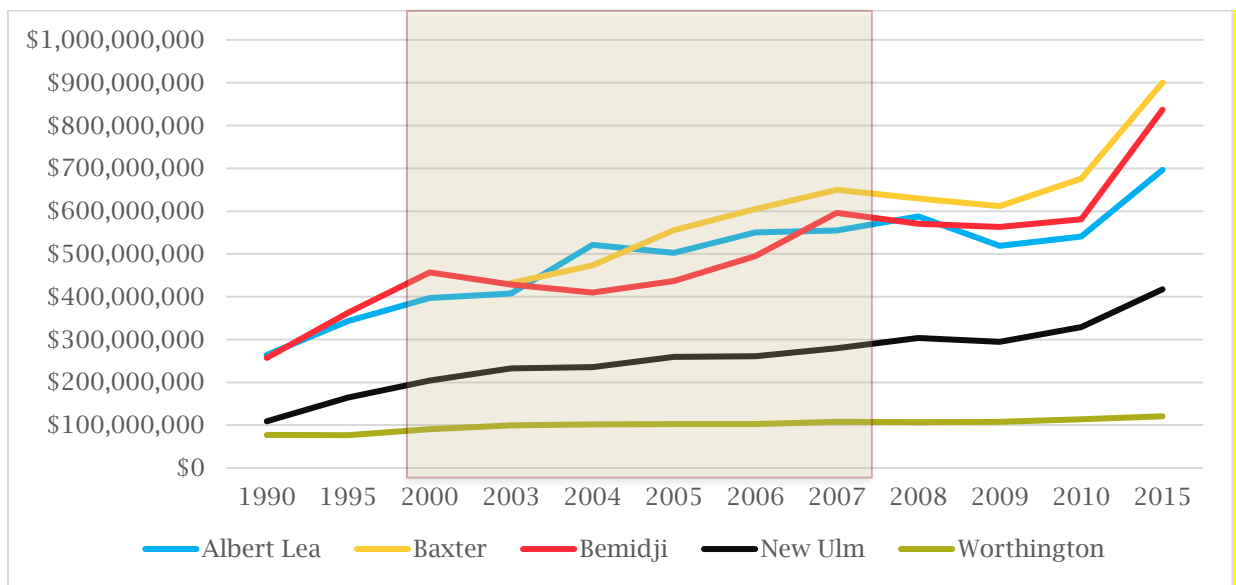
## APPENDIX A: RESEARCH ON THE EFFECTS OF A LOCAL OPTION SALES TAX

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 Itasca County, 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.

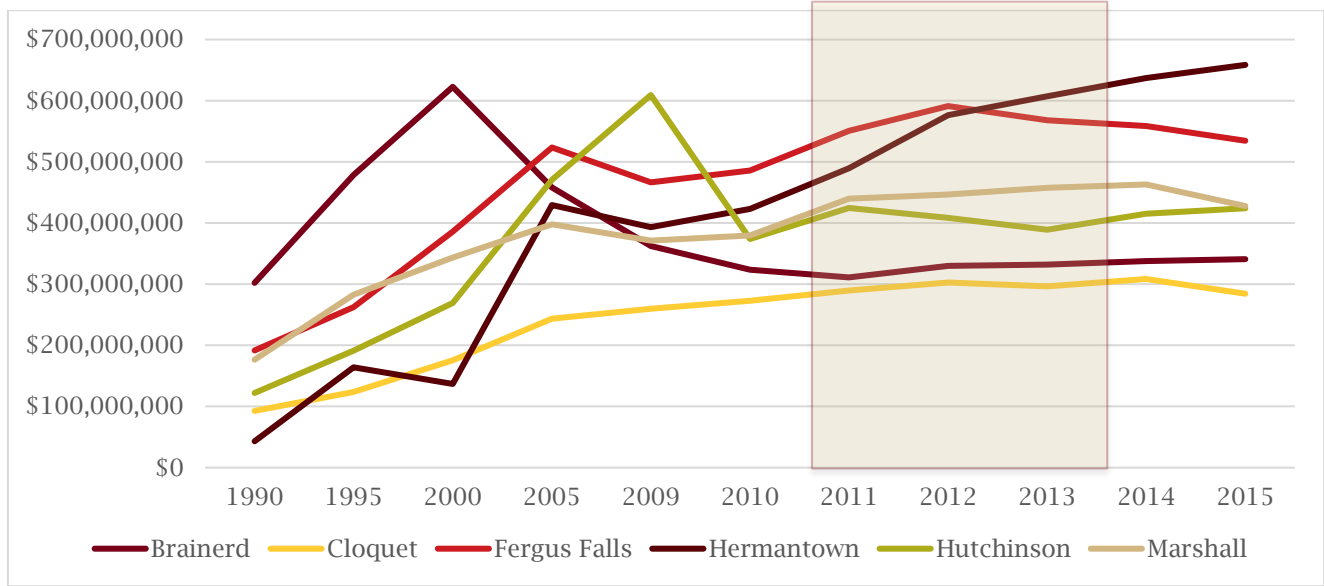
**Figure 4: Taxable retail and service sales by communities that began collecting a local option sales tax from 1999 to 2006**



**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). 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).

### **Actual sales**

For this study, the Minnesota Department of Revenue's 2018 sales data for Itasca 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 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.