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Local Option Sales Tax Analysis for Koochiching County

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

Authored by Ryan Pesch and John Bennett



PROGRAM SPONSORS: KOOCHICHING COUNTY, MINNESOTA

Local Option Sales Tax Analysis for Koochiching County

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

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EXECUTIVE SUMMARY

University of Minnesota Extension recently conducted a study to estimate overall tax proceeds and the proportion of tax proceeds generated by Koochiching County residents. Comparing these results to non-residents using the 2016 sales and use tax data available from the Minnesota Department of Revenue (MN Revenue), Extension estimated that non-residents account for 41.6 percent of taxable sales. This equated to \$41.2 million out of a total of \$99.1 million in taxable sales in 2016. Under a half percent local option sales tax, Extension estimated that each Koochiching County resident will pay an additional \$22.70 on average with non-residents paying the remainder of the tax.

The intent of this report was not to make recommendations to county officials about what actions to take but rather 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 generated a trade area analysis comparing actual taxable sales, based on Minnesota Revenue sales tax data¹ with a calculated estimated sales amount. This amount was determined by multiplying the Koochiching County population by the Minnesota average per capita sales and then adjusting for income. Doing so provided an estimate of retail and service purchases made by year-round Koochiching 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. Extension also conducted on-site interviews with Koochiching County retailers to inform estimates by category. A dozen local retailers estimated the levels of resident vs. non-resident spending in their stores. 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 Koochiching County economy helped frame our analysis of the different merchandise categories:

- Seasonal resident and tourists bring significant non-resident spending into the county. According to the 2016 census figures, seasonal housing accounted for 20% of all housing units (American Community Survey, 2012-16). Seasonal residents are in the area a significant amount of time and use their homes an average of 60 days per year (Pesch and Bennett, 2015).
- Although local retailers note that nearby Canadian residents have tempered their spending in recent years, Canadians are significant contributors to county retail and service sales. Their spending was estimated to be four times greater than seasonal residents in a 2015 study of the International Falls trade area (Pesch and Bennett, 2015)
- A sizeable proportion of employed residents (27 percent) are employed outside the county which facilitates out-shopping for retail goods and services (see Figure 1). A smaller portion of people commute into Koochiching County for which, an activity which facilitates in-

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

2. Ryan Pesch and John Bennett. *Voyage Forward Retail Market Analysis (2015)*. Retrieved from <https://conservancy.umn.edu/handle/11299/198815>

shopping. This trend impacts non-resident shopping in the county less than visitor and seasonal resident traffic.

Figure 1: 2015 Koochiching 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/>)

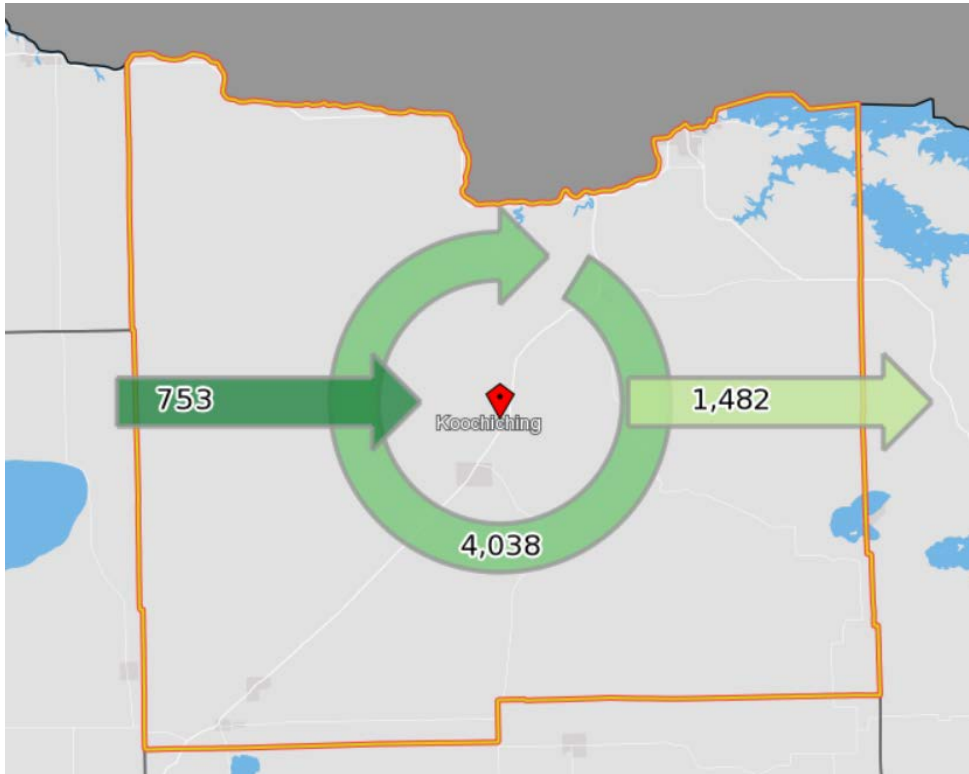


Figure 2 below shows the estimated percentage breakout—across all merchandise categories—for the *adjusted* analysis to more accurately reflect the county’s economic and consumption circumstances. Based on these findings, we estimate 51.7 percent of all taxable retail and service sales would be made by permanent county residents, and the remaining 48.3 percent of taxable sales would be by non-residents.

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

	Taxable Sales	Percentage
	\$millions	of Sales
Koochiching County Residents	\$52.4	51.7%
Non-residents	\$48.9	48.3%
Totals	\$101.3	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.

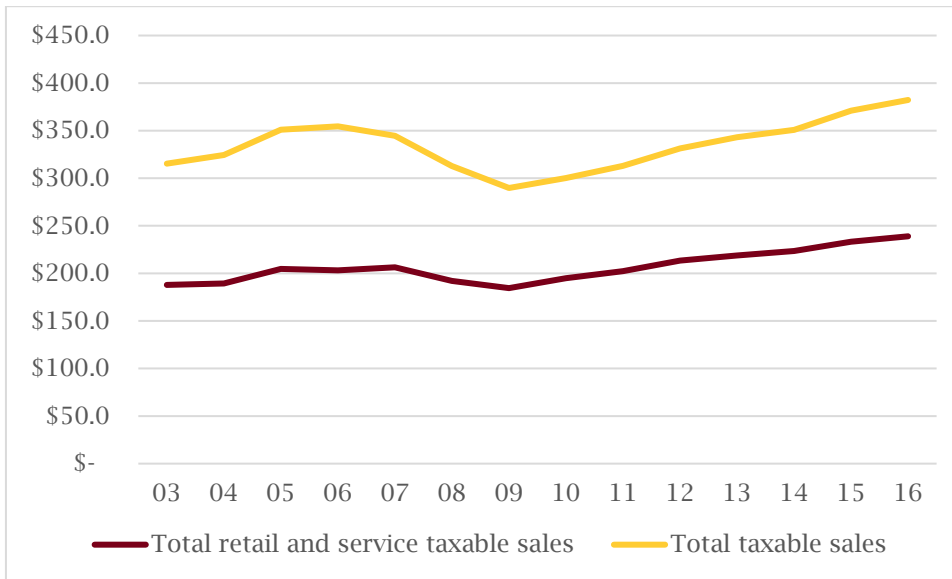
Koochiching County would have realized as much as \$495,490 in tax proceeds if the full half percent tax were enacted in 2016. If the county does realize \$459,490, the proportion of the tax total paid by non-residents is estimated to be \$289,502, and the proportion paid by year-round county residents is estimated to be \$205,988.

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

ESTIMATED TAX PROCEEDS	Total Tax Proceeds	Dollars Paid By Koochiching Residents	Average Paid per Koochiching Resident	Dollars Paid By Non- Residents
@ 1/8th of a Percent	\$123,873	\$72,376	\$5.68	\$51,497
@ 1/4th of a Percent	\$247,745	\$144,751	\$11.35	\$102,994
@ 3/8ths of a Percent	\$371,618	\$217,127	\$17.03	\$154,491
@ 1/2 of a Percent	\$495,490	\$289,502	\$22.70	\$205,988
 Total Taxable Sales:	 \$99,098,015			

The total taxable sales in the county has increased 21 percent from 2003 to 2016 from \$315.3 million to \$382.2 million. Retail and service taxable sales have increased 27% during the same timeframe and now account for a greater portion of the total taxable sales. 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. The county experienced a decrease in total sales from 2007 to 2008 and growth from 2009 to 2016 (see Figure 4). Although the county has experienced growth in taxable sales since 2009, this trend is not assured.

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



Proceeds from *use* taxes would also be 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 \$6,749 in use (not sales) tax proceeds derived from county businesses purchasing products from out-of-state sources. At 0.5% local option sales tax rate and based on 2016 data, this would net the county up \$27,000 on top of the sales tax revenue. The use tax has ranged widely in the past three years, however, so county officials should realize that the use tax is inconsistent. The county garnered \$2.6 million in use tax in 2014, but only \$371,000 in 2016.

Koochiching 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. Records available on the Minnesota Department of Revenue website (Appendix A) show the tax collected from 11 Minnesota jurisdictions that have enacted some type of local sales or use tax within the last ten years. 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.

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 Koochiching 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 the Koochiching 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.

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 Koochiching County. Specifically, potential sales result from county population, state per capita taxable sales, and index of income (see sidebar and Appendix B for definitions).

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:

$$(T \div PMn) \times PKC \times (YKC \div YMn) = \text{Potential Sales}$$

T = Total Minnesota taxable sales for a merchandise category

PMn = Population of Minnesota in 2016 (5,528,630)

PKC = Population of Koochiching County in 2016 (12,753)

YKC = Per capita income of Koochiching County residents in 2016 (\$36,844)

YMn = Per capita income of Minnesota resident in 2016 (\$51,957)

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

TRADE AREA ANALYSIS BY MERCHANDISE CATEGORY

Vehicles and Parts

5.1 percent of total 2016 taxable retail and service sales

The **8 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	\$4.82
-Potential sales	\$4.72
= \$ variance	\$0.09
= as % of Potential	1.9%

Unadjusted Trade Area Analysis

Potential taxable sales to residents	\$4.72
Surplus	\$0.09
Total	\$4.82
Surplus percentage	1.9%

Analysis with Adjustments

Residents' \$ share	\$2.89
Non-Residents' \$ share	\$1.93
Total	\$4.82
Non-resident share per group	40.0%

Analysis and Recommendations for Vehicles and Parts

The trade area analysis found only 2% more taxable sales than potential in 2016, however conversations with local retailers indicated much higher sales from non-residents. One retailer suggested that 60 or 80% of his sales were to non-residents. Considering that the data does not corroborate such a high non-resident proportion, Extension set non-resident share at a significant, but still conservative 40 percent.

Furniture Stores

1.7 percent of total 2016 taxable retail and service sales

These 6 stores sell furniture, beds, carpeting, window coverings, lamps, china, kitchenware, and wood-burning stoves.

	(\$Millions)
Actual taxable sales	\$1.59
Potential sales	\$2.43
= \$ variance	(\$0.84)
= as % of Potential	-34.5%

Unadjusted Trade Area Analysis

Expected sales to residents	\$2.43
Surplus	(\$0.84)
Total	\$1.59
Non-resident share per group	-52.7%

Analysis with Adjustments

Residents' \$ share	\$1.54
Non-Residents' \$ share	\$0.05
Total	\$1.59
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 clusters. Evidence points to Koochiching County experiencing similar leakage with over 50% of sales leaving the county. Even with leakage, it is reasonable to expect some small portion of existing sales to come from non-residents who are shopping in the county. As a result, Extension set the non-resident spending at a modest 3 percent.

Electronics and Appliances

NA percent of total 2016 taxable retail and service sales

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

	(\$Millions)
Actual taxable sales	NA
-Potential sales	\$2.62
= \$ variance	NA
= as % of Potential	NA

Unadjusted Trade Area Analysis

Expected sales to residents	\$2.62
Surplus	NA
Total	NA
Non-resident share per group	NA

Analysis with Adjustments

Residents' \$ share	NA
Non-residents' \$ share	NA
Total	NA
Non-resident share per group	NA

Analysis and Recommendations for Electronics and Appliances

Since there are fewer than four businesses in this category in Koochiching County, the Minnesota Department of Revenue does not disclose the sales data making it impossible to estimate sales by residents and non-residents. The sales from this category, however, are included in the miscellaneous retail category on page 19.

Building Materials

26.5 percent of total 2016 taxable retail and service sales

These **11 establishments** sell lumber, hardware, paint, wallpaper, tile, hardwood floors, roofing, fencing, ceiling fans, lawn equipment, and garden items.

	(\$Millions)
Actual taxable sales	\$25.01
Potential sales	\$9.05
= \$ variance	\$15.96
= as % of Potential	176.3%

Unadjusted Trade Area Analysis

Expected sales to residents	\$9.05
Surplus	\$15.96
Total	\$25.01
Non-resident share per group	63.8%

Analysis with Adjustments

Residents' \$ share	\$8.75
Non-residents' \$ share	\$16.26
Total	\$25.01
Non-resident share per group	65.0%

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 (26.5 percent of all retail and service sales for the county). The trade area analysis estimates that the county draws in significantly more sales than expected. Even with such strong evidence of in-shopping, the issue of cross-hauling is still at play, where residents are still out-shopping even though non-residents more than make up for their losses. Extension set the non-local resident spending share at 65 percent of building material sales, up from 63.8 percent as calculated by the trade area analysis.

Food and Groceries

9.7 percent of total 2016 taxable retail and service sales

The 14 **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	\$9.14
- Potential sales	\$6.28
= \$ variance	\$2.87
= as % of Potential	45.7%

Unadjusted Trade Area Analysis

Expected sales to residents	\$6.28
Surplus	\$2.87
Total	\$9.14
Non-resident share per group	31.4%

Analysis with Adjustments

Residents' \$ share	\$5.94
Non-residents' \$ share	\$3.20
Total	\$9.14
Non-resident share per group	35.0%

Analysis and Recommendations for Food and Groceries

The trade area analysis estimates a surplus of \$2.87 million more than expected in the food and liquor category. Clearly the 14 stores in this category are drawing in some non-resident traffic. Interviews with retailers indicated that Canadians have tapered back their spending in International Falls in recent years, but the evidence points to about a third of total spending from all non-resident sources. Therefore, Extension increased the non-resident share to 35 percent from 31.4 percent.

Health & Personal Items

0.7 percent of total 2016 taxable retail and service sales

4 stores selling prescription drugs, food supplements, vision supplies, cosmetics, and hearing aids are included in this merchandise group.

	(\$Millions)
Actual taxable sales	\$0.63
Potential sales	\$1.13
= \$ variance	(\$0.50)
= as % of Potential	-44.0%

Unadjusted Trade Area Analysis

Expected sales to residents	\$1.13
Surplus	(\$0.50)
Total	\$0.63
Non-resident share per group	-78.7%

Analysis with Adjustments

Residents' \$ share	\$0.61
Non-residents' \$ share	\$0.02
Total	\$0.63
Non-resident share per group	3.0%

Analysis and Recommendations for Health and Personal Items

This minor category shows a significant portion of sales leaking outside the county. Even with leakage, it is reasonable to expect some small portion of existing sales to come from non-residents who are shopping in the county. As a result, Extension set the non-resident spending at a modest 3 percent.

Gas/Convenience Stores

5.4 percent of total 2016 taxable retail and service sales

This merchandise group covers **14 retailers** selling convenience items at a store that also sells fuel.

	(\$Millions)
Actual taxable sales	\$5.14
-Potential sales	\$2.04
= \$ variance	\$3.10
= as % of Potential	151.7%

Unadjusted Trade Area Analysis

Expected sales to residents	\$2.04
Surplus	\$3.10
Total	\$5.14
Non-resident share per group	60.3%

Analysis with Adjustments

Residents' \$ share	\$1.80
Non-residents' \$ share	\$3.34
Total	\$5.14
Non-resident share per group	65.0%

Analysis and Recommendations for Gas Station/Convenience Stores

The initial trade area analysis indicates that non-residents account for 60 percent of sales, showing the impact of not only tourist traffic but Canadian purchases of gas over the border. Since it is unrealistic to assume that no resident sales leave the county, Extension increased the non-resident sales to 65 percent.

Apparel/Clothing

0.5 percent of total 2016 taxable retail and service sales

This merchandise group includes **6 stores** selling new clothing and accessories, jewelry, shoes, bridal items, clocks, and luggage.

	(\$Millions)
Actual taxable sales	\$0.43
Potential sales	\$1.58
= \$ variance	(\$1.15)
= as % of Potential	-72.6%

Unadjusted Trade Area Analysis

Expected sales to residents	\$1.58
Surplus	(\$1.15)
Total	\$0.43
Non-resident share per group	-265.1%

Analysis with Adjustments

Residents' \$ share	\$0.42
Non-residents' \$ share	\$0.013
Total	\$0.43
Non-resident share per group	3.0%

Analysis and Recommendations for Apparel/Clothing

The trade area analysis shows that Koochiching County leaks over 70 percent of clothing sales outside the county. Even with leakage, it is reasonable to expect some small portion of existing sales to come from non-residents who are shopping in the county. As a result, Extension set the non-resident spending at a modest 3 percent.

Leisure Goods

2.4 percent of total 2016 taxable retail and service sales

The 13 firms in this merchandise group sell sporting goods, books, music, hobby items, fabrics, and toys.

	(\$Millions)
Actual taxable sales	\$2.29
Potential sales	\$2.09
= \$ variance	\$0.20
= as % of Potential	9.5%

Unadjusted Trade Area Analysis

Expected sales to residents	\$2.09
Surplus	\$0.20
Total	\$2.29
Non-resident share per group	8.7%

Analysis with Adjustments

Residents' \$ share	\$2.06
Non-Residents' \$ share	\$0.23
Total	\$2.29
Non-resident share per group	10.0%

Analysis and Recommendations for Leisure Goods

Trade area analysis Of Koochiching County shows that the county holds its own in this category and non-residents account for 8.7% of sales. A person could reasonably assume that seasonal spending has a greater impact in this category, yet Extension kept the non-resident at a conservative 10 percent.

General Merchandise Stores

9.8 percent of total 2016 taxable retail and service sales

The **9 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	\$9.27
Potential sales	\$9.00
= \$ variance	\$0.27
= as % of Potential	3.0%

Unadjusted Trade Area Analysis

Expected sales to residents	\$9.00
Surplus	\$0.27
Total	\$9.27
Non-resident share per group	2.9%

Analysis with Adjustments

Residents' \$ share	\$8.35
Non-Residents' \$ share	\$0.93
Total	\$9.27
Non-resident share per group	10.0%

Analysis and Recommendations for General Merchandise Stores

Potential sales calculations suggest that that county has a small surplus in this category. Since the 2015 Voyage Forward market analysis found that a sizeable portion of local spending leaves the International Falls trade area to regional retail centers in general merchandise, Extension increased the non-resident portion at 10 percent.

Miscellaneous Retail

1.8 percent of total 2016 taxable retail and service sales

35 establishments are part of this group, including florists, used merchandise stores, pet supply stores, and other retailers. Also included in miscellaneous are stores where there were less than four stores in the category.

	(\$Millions)
Actual taxable sales	\$1.71
Potential sales	\$2.77
= \$ variance	(\$1.07)
= as % of Potential	-38.4%

Unadjusted Trade Area Analysis

Expected sales to residents	\$2.77
Surplus	(\$1.07)
Total	\$1.71
Non-resident share per group	-62.3%

Analysis with Adjustments

Residents' \$ share	\$1.66
Non-residents' \$ share	\$0.05
Total	\$1.71
Non-resident share per group	3.0%

Analysis and Recommendations for Miscellaneous Retail

Because Koochiching County has fewer than four stores in the electronics category, sales from those stores are added to other miscellaneous retail store sales. Also, there are many small stores in this category—some 35 establishments which are bringing in a modest \$1.7 million in sales. Like some other small categories with large leakages, Extension set the non-resident share at 3 percent.

Amusement and Recreation

1.7 percent of total 2016 taxable retail and service sales

The **8 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	\$1.58
Potential sales	\$2.82
= \$ variance	(\$1.24)
= as % of Potential	-44.1%

Unadjusted Trade Area Analysis

Expected sales to residents	\$2.82
Surplus	(\$1.24)
Total	\$1.58
Non-resident share per group	-78.9%

Analysis with Adjustments

Residents' \$ share	\$1.53
Non-residents' \$ share	\$0.05
Total	\$1.58
Non-resident share per group	3.0%

Analysis and Recommendations for Amusement and Recreation

Potential sales calculations suggest that nearly over 40 percent of sales leave the county, surprising since the county does see have visitor traffic. Although residents leave the county for a sizeable portion of these purchases, it is reasonable to assume residents from neighboring communities still make some minor purchases. Therefore, the non-resident share is estimated to be a minimal 3 percent of taxable sales in this category.

Accommodations

5.6 percent of total 2016 taxable retail and service sales

These **20 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	\$5.29
Potential sales	\$3.67
= \$ variance	\$1.62
= as % of Potential	44.3%

Unadjusted Trade Area Analysis

Expected sales to residents	\$3.67
Surplus (local preference and non-residents)	\$1.62
Total	\$5.29
Non-resident share per group	30.7%

Analysis with Adjustments

Residents' \$ share	\$0.53
Non-residents' \$ share	\$4.76
Total	\$5.29
Non-resident share per group	90.0%

Analysis and Recommendations for Accommodations

Extension set the portion of accommodations sales at 90 percent non-resident since the category is geared to visitors. Extension assumed that some portion of sales come from local residents through events, dining, and staycations.

Eating/Drinking Establishments

22.9 percent of total 2016 taxable retail and service sales

These 37 **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	\$21.65
Potential sales	\$14.71
= \$ variance	\$6.94
= as % of Potential	47.2%

Unadjusted Trade Area Analysis

Expected sales to residents	\$14.71
Surplus	\$6.94
Total	\$21.65
Non-resident share per group	32.1%

Analysis with Adjustments

Residents' \$ share	\$14.07
Non-residents' \$ share	\$7.58
Total	\$21.65
Non-resident share per group	35.0%

Analysis and Recommendations for Eating/Drinking Establishments

According to potential sales estimates, Koochiching County brought in nearly \$7 million more in taxable sales than expected. Assuming that local residents are spending some of their dining dollars in other communities with regional shopping trips, Extension increased the non-resident share of spending in this category to 35 percent.

Repair and Maintenance

2.2 percent of total 2016 taxable retail and service sales

The 27 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	\$2.11
Potential sales	\$2.25
= \$ variance	(\$0.14)
= as % of potential	-6.3%

Unadjusted Trade Area Analysis

Expected sales to residents	\$2.25
Surplus (local preference and non-residents)	(\$0.14)
Total	\$2.11
Non-resident share per group	-6.7%

Analysis with Adjustments

Residents' \$ share	\$2.01
Non-residents' \$ share	\$0.11
Total	\$2.11
Non-resident share per group	5.0%

Analysis and Recommendations for Repair and Maintenance

The initial trade area analysis identified 6.3 percent less spending than expected. Assuming that Koochiching County is serving a portion of visitor and seasonal resident spending in this category, Extension conservatively estimated non-resident sales at 5 percent.

Personal Services/Laundry

0.2 percent of 2016 total taxable retail and service sales

The **19 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	\$0.17
Potential sales	\$1.46
= \$ variance	(\$1.28)
= as % of Potential	-88.0%

Unadjusted Trade Area Analysis

Expected sales to residents	\$1.46
Surplus (local preference and non-residents)	(\$1.28)
Total	\$0.17
Non-resident share per group	-736.1%

Analysis with Adjustments

Residents' \$ share	\$0.17
Non-residents' \$ share	\$0.01
Total	\$0.17
Non-resident share per group	3.0%

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 minimal 3 percent of total taxable sales.

Retail (non-store) and Other Services

3.9 percent of total 2016 taxable retail and service sales

These **80 establishments** includes healthcare, waste management, rental/lease services, administrative support, and the performing arts.

	(\$Millions)
Actual taxable sales	\$3.72
% of total taxable retail and service sales	3.9%

Analysis with Adjustments

Residents' \$ share	\$3.35
Non-residents' \$ share	\$0.37
Total	\$3.72
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 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 **72 establishments** in this diverse non-retail category are subject to sales tax. The diversity makes it difficult to understand the customer mix of these businesses, however Extension broke out each known major subcategories and assigned assumptions according to their business type:

	Taxable Sales	Firms	Assumption Non-Resident Sales
Construction	\$387,048	8	50%
Manufacturing	\$61,756	13	80%
Wholesale	\$1,158,640	11	50%
Undesignated	\$2,929,275	40	50%

Extension assumed that manufacturing sells primarily (80%) to non-resident customers, whereas construction, wholesale, and undesignated businesses split their sales between resident and non-resident customers.

Residents' \$ share	\$2.22
Non-residents \$ share	\$2.31
Total	\$4.54
Non-resident share	51%

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 .5 percent 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 Koochiching County. Policymakers should carefully consider each of the above factors before making a decision about enacting a local sales tax.

Figure 5: Taxable retail and service sales by comparable communities began collecting a local option sales tax between 1999-2006

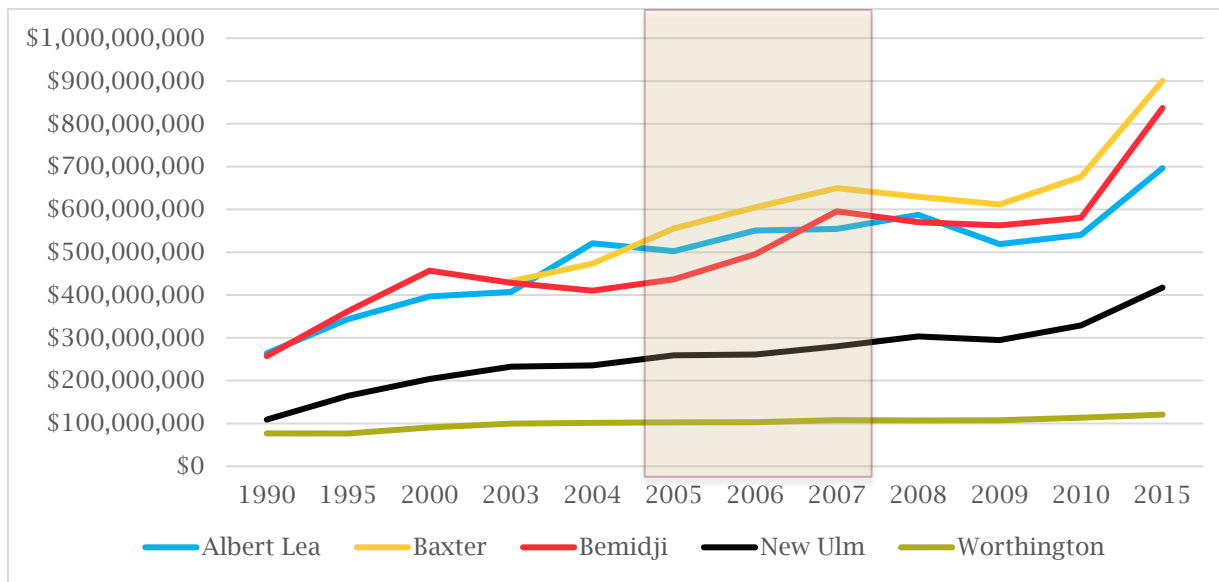


Figure 6: Data table for comparable communities, taxable retail and service sales (in millions)

Town Name	2015 Population	Year LOST Adopted	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 7: Taxable retail and service sales by comparable communities that began collecting a local option sales tax between 2011- 2012

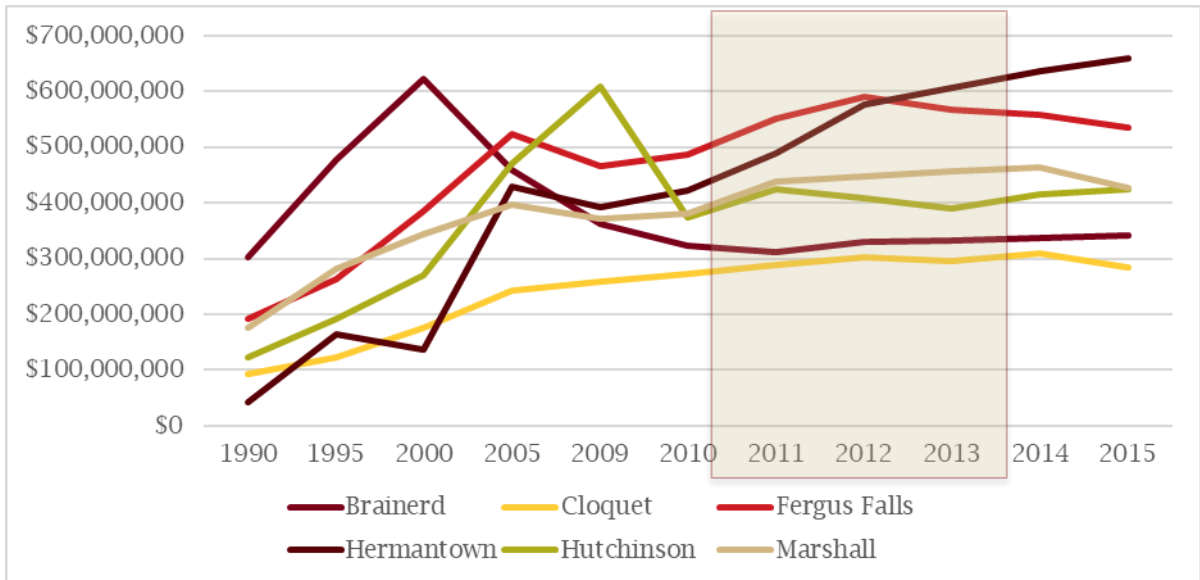


Figure 8: Data table for comparable communities, taxable retail and service sales (in millions)

Town Name	2015 Pop	Year LOST Adopted	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.

Actual Sales

For this study, the Minnesota Department of Revenue's 2016 sales data for Koochiching County provides the actual sales numbers used.

Variance between Actual and Potential Sales

The variance between actual and potential sales is the difference in sales from the “norm” (i.e., the amount above or below the standard established by the potential sales formula). When actual sales exceed potential sales, the county has a “surplus” of retail sales. When actual sales fall short of potential sales, the county has a retail sales “leakage.” Discrepancies between potential 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.