



UNIVERSITY OF MINNESOTA | EXTENSION

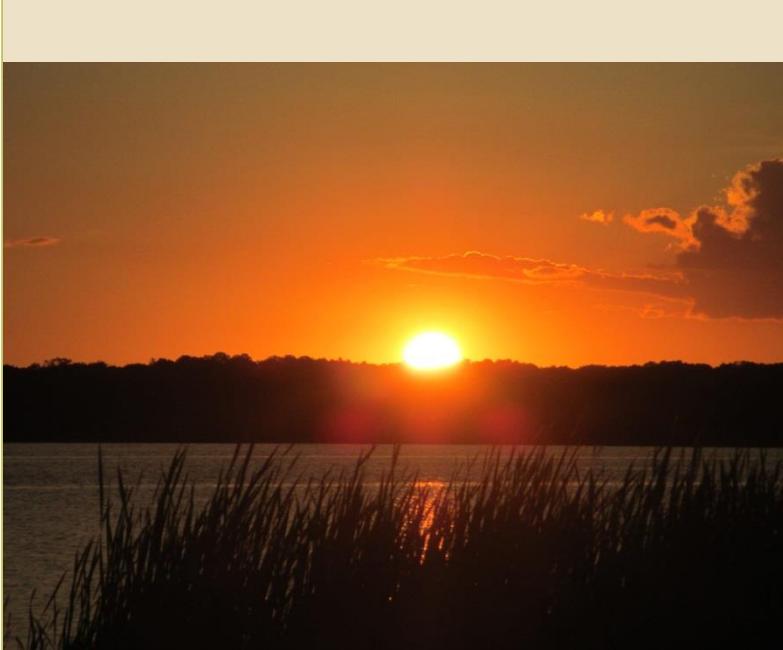


EXTENSION CENTER FOR COMMUNITY VITALITY

Local Option Sales Tax Analysis for Crow Wing County

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

Authored by Merritt Bussiere and Bruce Schwartau



Red Sand Lake, Baxter Photo Credit: Denise Stromme

PROGRAM SPONSORS: HIGHWAY DEPARTMENT, CROW WING COUNTY, MN

Local Option Sales Tax Analysis for Crow Wing County

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

February 27, 2015

Authored by Merritt Bussiere and Bruce Schwartau, Extension Educators, University of Minnesota Extension Center for Community Vitality

Editors:

Elyse Paxton, Senior Editor, University of Minnesota Extension Center for Community Vitality
Matt Kane, State Program Leader, Community Economics, University of Minnesota Extension Center for Community Vitality

Report Reviewers:

Chet Bodin, Regional Analyst, Minnesota Department of Employment & Economic Development

Partners/Sponsors:

Highway Department, Crow Wing County, MN

© 2015 Regents of the University of Minnesota. All rights reserved. University of Minnesota Extension is an equal opportunity educator and employer. In accordance with the Americans with Disabilities Act, this material is available in alternative formats upon request. Direct requests to 612-625-8233.
🖨 Printed on recycled and recyclable paper with at least 10 percent postconsumer waste material.



EXECUTIVE SUMMARY

Minnesota has adopted laws enabling non-metro county boards, following a public hearing, to create a local option sales tax of up to a $\frac{1}{2}$ percent to fund transportation projects. This report details the results of a study conducted by University of Minnesota Extension to estimate the total potential sales tax proceeds and estimate the proportion of tax proceeds generated by sales to year-round Crow Wing County residents. These results are compared to proceeds generated by seasonal residents, travelers, visitors, and other non-residents, using sales tax data from the Minnesota Department of Revenue (MN Revenue).

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

Extension initially generated a retail trade area analysis that compared actual taxable sales, based on MN Revenue sales tax data¹, with a calculated "expected sales" amount that is created by multiplying the Crow Wing County population by the Minnesota average per capita sales and adjusting for a county income factor. This provided an estimate of retail and service purchases made by year-round Crow Wing County residents. For each merchandise group, the estimates for two types of purchasers—year-round county residents and others—were considered and adjusted in light of the area economy and lifestyle. Lifestyle aspects include, for example, the increased ownership of boats, snowmobiles, and other off-road vehicles, as well as the appropriate leisure goods and services used with them. Within the area economy, Crow Wing County has a regional retail and service hub that draws residents from neighboring counties on a regular basis for certain retail purchases.

Adjustments were also made in categories where there has been a consistent difference between the average per capita sales in Greater Minnesota and the state average. These adjustments involved informed guesswork and were aimed, in part, at reducing what otherwise might have been overestimates of the sales tax share falling to non-residents. We interviewed 24 business managers in selected merchandise groups to check some of our assumptions. A Regional Analyst based in Brainerd with the state Department of Employment and Economic Development reviewed the report. The assumptions and the calculations are shown for the major retail and service categories so that decision makers can adjust the totals if they have more precise local information.

The table below shows the estimated percentage breakout—across all merchandise categories—for the *adjusted* analysis to more accurately reflect economic and consumption circumstances in the county. Based on this research process, we estimate that 48.7 percent of all taxable retail and service sales would be made by permanent county residents, while the remaining estimated 51.3 percent of taxable sales would be by non-residents.

1. *MN County Sales Tax Statistics* (2012). Minnesota Department of Revenue. NOTE: Adjusted for inflation, 2012 total taxable sales for Crow Wing County is within 1 percent of average sales for the last 5 years. 2012 data, the most recent available, reflect a unique year and total taxable retail and service sales in future years may look different as, e.g., the area recovers from the recent recession.

	Taxable Sales \$millions	Percentage of Sales
Crow Wing County Residents	\$407.1	48.7%
Non-residents	\$428.9	51.3%
Totals	\$836.0	100%

Figure 1. Estimated taxable sales to residents and non-residents using an adjusted trade area analysis.

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

Crow Wing County has the potential to realize substantial tax proceeds to support designated transportation projects and operations, reaching as much as an estimated \$4.18 million if the full $\frac{1}{2}$ percent tax were to be enacted. At the \$4.18 million level, the proportion of the tax total to be paid by non-residents is estimated to be \$2.14 million, and the proportion to be paid by year-round Crow Wing County residents is estimated to be \$2.04 million.

Non-residents would bear a relatively larger share of the tax in Crow Wing County for two basic reasons. Unlike many Minnesota counties, Crow Wing has a regional retail hub (Brainerd/Baxter) that brings shoppers from other counties. In addition, Crow Wing County draws tens of thousands of second homeowners and other visitors each year; these part-time residents play a role in the county economy.

Tax Rate	Total Annual Tax	Dollars Paid By CWC Residents	Dollars Paid By Non- Residents
	Proceeds		
@ 1/8th of a percent	\$1,045,000	\$508,915	\$536,085
@ 1/4th of a percent	\$2,090,000	\$1,017,830	\$1,072,170
@ 3/8ths of a percent	\$3,135,000	\$1,526,745	\$1,608,255
@ 1/2 of a percent	\$4,180,000	\$2,035,660	\$2,144,340
Total Taxable Sales:			
\$836,000,000			

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

There are two other likely sources of tax proceeds that would be added to the estimated tax proceeds in the table above:

1. For each $\frac{1}{8}$ of a percent enacted, county officials can expect an estimated additional \$39,000 in use (not sales) tax proceeds derived from county businesses purchasing products from out-of-state sources.
2. County officials can also anticipate \$50,000 to \$150,000 in additional use (not sales) tax proceeds, but there is no way to accurately estimate this number. This will be from purchases made by local businesses in other Minnesota locations. The experience of Brainerd and Baxter with their use tax proceeds from local option programs indicates this is a factor. If Crow Wing County officials enact a local option sales tax, they will have a better idea after a year of experience what this amount will be in the future.



Crow Wing County policymakers are understandably concerned that enacting a sales tax in their county when neighboring counties have not adopted the tax will result in the loss of consumer purchases to these other counties. However, at its highest potential application of $\frac{1}{2}$ of a percent, this local option sales tax would add just 50 cents to a \$100 purchase. Records available from the Minnesota Department of Revenue website (Appendix A) shows the tax collected from 23 Minnesota jurisdictions that have enacted some type of local sales or use tax within the last 9 years. Most of these jurisdictions show continued sales growth. This Extension report also looks at sales before and after a local option sales tax was enacted in three Minnesota cities. Many factors influence retail sales, but these records do not indicate a major purchasing change due to the additional sales tax.

ABOUT THE STUDY AND REPORT

This report is divided into five parts:

- Executive Summary, Page 2
- About the Study and Report, Page 4
- Trade Area Analysis of Retail Sales & Estimation of Resident & Non-Resident Purchase Share by Merchandise Group, Page 5
- Estimates of Projected Sales Tax Revenue, Page 22
- Does Enacting a Local Option Sales Tax Shift Retail Purchases to Other Counties?, Page 23
- Appendixes, Page 25

The Community Economics educators at University of Minnesota Extension provide applied research and education to help community and business partners make better informed decisions. In recent years, Minnesota has adopted laws enabling non-metro county boards to enact a local option sales tax of up to a $\frac{1}{2}$ percent to fund transportation projects and operations. The sales tax is enacted on a per project basis and must end once sufficient funds are raised for a specified project.

Proceeds must be dedicated exclusively for:

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

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

Specifically, Extension carried out a trade area analysis of retail and service sales in selected merchandise categories, estimating the amount of taxable sales that were made by local residents, as well as those outside Crow Wing County. Other research items addressed in this study include a) estimates of total projected sales tax revenues to be realized in $\frac{1}{8}$ of a percent increments up to $\frac{1}{2}$ of a percent, and b) whether or not, in general, adoption of such a tax shifts retail goods purchases away from the geographical area that imposes the tax, with examples offered of such jurisdictions.

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



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

Vehicles & Parts

	(\$Millions)
Actual Taxable Sales	\$50.26
- Potential Sales	\$18.25
= \$ Variance	\$32.01
= As % of Potential	175.4%
# of Firms	62
% of Total Taxable Retail & Service Sales	7.0%

Unadjusted Trade Area Analysis

Potential Taxable Sales to Residents	\$18.25
Surplus (local preference & non-residents)	\$32.01
Total	\$50.26
Surplus percentage	63.7%

Analysis with Adjustments

Residents' \$ Share	\$27.38
Non-Residents' \$ Share	\$22.88
Totals	\$50.26
Non-Resident Share per Group	45.5%

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

Potential sales are calculated by the following formula:

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

T = Total MN taxable sales for a merchandise category

PMn = Population of MN

PCW = Population of Crow Wing County

YCW = Average income of Crow Wing County resident

YMn = Average income of MN resident

Analysis & Recommendations for Vehicles & Parts

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

The trade area analysis predicts that county residents' share of vehicle and parts purchases would be \$18.3 million, or about 36 percent of total purchases made in Crow Wing County within this merchandise group. The average Minnesota business sold \$399 (taxable) per resident in this category in 2012. In the Lakes District, it is likely that residents own more boats, snowmobiles, and recreational vehicles than the average Minnesotan. Therefore, actual local purchases are likely greater than the \$18.3 million in expected sales. To account for this, we estimated the residents' share of these purchases in the county to be 50 percent above the expected level—for a total of \$27.4 million.

The Brainerd/Baxter area serves as a retail hub for Central Minnesota, attracting shoppers from neighboring counties. Large numbers of seasonal residents, visitors, and travelers in the warmer months are also a likely factor in strong non-resident sales of these types of items. (Second homes account for 42 percent of all housing units in Aitkin, Cass, and Crow Wing Counties.)



Furniture Stores

	(\$Millions)
Actual Taxable Sales	\$12.59
- Potential Sales	\$11.31
= \$ Variance	\$1.28
= As % of Potential	11.3%
# of Firms	35
% of Total Taxable Retail & Service Sales	1.5%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$11.31
Surplus (local preference & non-residents)	\$1.28
Totals	\$12.59
Non-Resident Share per Group	10.2%

Analysis with Adjustments

Residents' \$ Share	\$10.07
Non-Residents' \$ Share	\$2.52
Totals	\$12.59
Non-Resident Share per Group	20.0%

Analysis and Recommendations for Furniture Stores

These stores sell furniture, beds, carpeting, window coverings, lamps, china, kitchenware, and wood-burning stoves. In the trade area analysis, the calculated potential may be overestimated, as this is a mostly rural area. The analysis also predicts that county residents would account for more than \$11 million in furniture and related sales, or about 90 percent of all sales, with outsiders paying 10 percent. Because of the Brainerd/Baxter area role as a retail and service hub, residents of nearby counties are likely responsible for most of the non-resident sales for these types of retail items, but second homeowners may play some part as well, especially for larger items. This additional demand created by outside buyers suggests that the non-resident proportion of total sales should be increased to 20 percent, or \$2.52 million.



Electronics

	(\$Millions)
Actual Taxable Sales	\$19.70
- Potential Sales	\$13.41
= \$ Variance	\$6.29
= As % of Potential	46.9%
# of Firms	20
% of Total Taxable Retail & Service Sales	2.7%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$13.41
Surplus (local preference & non-residents)	\$6.29
Totals	\$19.70
Non-Resident Share per Group	31.9%

Analysis with Adjustments

Residents' \$ Share	\$9.85
Non-Residents' \$ Share	\$9.85
Totals	\$19.70
Non-Resident Share per Group	50.0%

Analysis and Recommendations for Electronics & Appliances

These establishments primarily engage in retailing household-type appliances, sewing machines, cameras, computers, and other electronic goods. The average Minnesota business sells \$273 per capita in this category, although residents of greater Minnesota spend only about half that much. The trade area analysis predicts that year-round residents of Crow Wing County would make more than two-thirds of electronics and appliance purchases. Again, residents in neighboring counties and owners of second homes, cabins, and resorts would likely create higher demand than the initial analysis suggests. Brainerd/Baxter serves as a retail hub for more than just Crow Wing County, and short-term visitors are less likely to be a factor in the local market. Our recommendation is to increase the non-resident portion from 32 percent to 50 percent, with residents and non-residents each generating sales of \$9.85 million.



Building Materials

	(\$Millions)
Actual Taxable Sales	\$117.68
- Potential Sales	\$40.83
= \$ Variance	\$76.85
= As % of Potential	188.2%
# of Firms	41
% of Total Taxable Retail & Service Sales	16.3%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$40.83
Surplus (local preference & non-residents)	\$76.85
Totals	\$117.68
Non-Resident Share per Group	65.3%

Analysis with Adjustments

Residents' \$ Share	\$64.72
Non-Residents' \$ Share	\$52.96
Totals	\$117.68
Non-Resident Share per Group	45.0%

Analysis and Recommendations for Building Materials

These establishments sell lumber, hardware, paint, wallpaper, tile, hardwood floors, roofing, fencing, ceiling fans, lawn equipment, and garden items. The trade area analysis estimates that local sales would account for just a third of all building materials sales. This likely understates the role of local purchasers. We know that per capita sales for building materials is about 10 percent higher at \$969 for the average non-metro resident than the \$878 per capita for the whole state, so outstate spending should reflect these numbers. We believe that resorts and other local businesses will buy local lumber and other materials, so the local share of building materials spending is increased from about 35 percent to 55 percent.



Food & Groceries

	(\$Millions)
Actual Taxable Sales	\$44.54
- Potential Sales	\$27.65
= \$ Variance	\$16.89
= As % of Potential	61.1%
# of Firms	42
% of Total Taxable Retail & Service Sales	6.2%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$27.65
Surplus (local preference & non-residents)	\$16.89
Totals	\$44.54
Non-Resident Share per Group	37.9%

Analysis with Adjustments

Residents' \$ Share	\$25.00
Non-Residents' \$ Share	\$19.54
Totals	\$44.54
Non-Resident Share per Group	43.9%

Analysis and Recommendations for Food & Groceries

This merchandise group includes grocery stores, delis, bakeries, and butcher shops that sell food to be prepared at home. Liquor stores are also included in this group. The trade area analysis estimates that about 62 percent of grocery sales are accounted for by Crow Wing County residents. Local residents account for the majority of food and liquor sales, but given factors cited for previous merchandise categories, seasonal residents, visitors, travelers, and people in neighboring counties will play a larger role than the initial analysis indicated. Local store managers point to a stronger role for non-Crow Wing County buyers, as well as significantly stronger sales during the warmer months. We recommend an increase of the non-resident share of grocery and liquor sales from 38% to about 45%.



Health & Personal Items

	(\$Millions)
Actual Taxable Sales	\$5.95
- Potential Sales	\$5.56
= \$ Variance	\$0.39
= As % of Potential	7.0%
# of Firms	30
% of Total Taxable Retail & Service Sales	0.8%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$5.56
Surplus (local preference & non-residents)	\$0.39
Totals	\$5.95
Non-Resident Share per Group	6.6%

Analysis with Adjustments

Residents' \$ Share	\$5.36
Non-Residents' \$ Share	\$0.59
Totals	\$5.95
Non-Resident Share per Group	10.0%

Analysis and Recommendations for Health & Personal

Stores selling prescription drugs, food supplements, vision supplies, cosmetics, and hearing aids are among the shops included in this merchandise group. These stores sell the types of items that most people buy locally, so county residents are likely to dominate the marketplace as they do in the trade area analysis, accounting for more than 90 percent of sales. We believe this slightly understates the Brainerd/Baxter area's role as a regional retail hub with stores offering these types of products. Therefore, we suggest that non-residents' share of health and personal sales be increased to 10 percent.



Gas/Convenience Stores

	(\$Millions)
Actual Taxable Sales	\$17.47
- Potential Sales	\$8.64
= \$ Variance	\$8.83
= As % of Potential	102.2%
# of Firms	37
% of Total Taxable Retail & Service Sales	2.4%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$8.64
Surplus (local preference & non-residents)	\$8.83
Totals	\$17.47
Non-Resident Share per Group	50.5%

Analysis with Adjustments

Residents' \$ Share	\$8.64
Non-Residents' \$ Share	\$8.83
Totals	\$17.47
Non-Resident Share per Group	50.5%

Analysis and Recommendations for Gas Station/Convenience Stores

This merchandise group, which covers retailers selling convenience items at a store also selling fuel, is a good example of spending that could potentially be more driven by travelers and visitors instead of the approximately 50/50 breakout shown in the initial trade area analysis. A number of factors support this including: Firms locate convenience stores on major through routes in order to capture local and non-local customers. Minnesota Department of Transportation (MN DOT) data for Hwy 371 shows summer traffic along some stretches that is 70 percent above annual average daily traffic counts (AADT). Our initial recommendation was to adjust the gas/convenience store sales breakout to 40 percent for Crow Wing County permanent residents and 60 percent for non-residents, but local store managers informed us of the opposite; they believe the breakout is likely 60/40, so we recommend leaving the sales breakout as-is at 50/50.



Clothing

	(\$Millions)
Actual Taxable Sales	\$7.35
- Potential Sales	\$8.26
= \$ Variance	(\$0.91)
= As % of Potential	-11.0%
# of Firms	37
% of Total Taxable Retail & Service Sales	1.0%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$8.26
Surplus (local preference & non-residents)	(\$0.91)
Totals	\$7.35
Non-Resident Share per Group	-12.4%

Analysis with Adjustments

Residents' \$ Share	\$6.25
Non-Residents' \$ Share	\$1.10
Totals	\$7.35
Non-Resident Share per Group	15.0%

Analysis and Recommendations for Apparel/Clothing

This merchandise group includes stores selling new clothing and accessories, jewelry, shoes, bridal items, clocks, and luggage. Negative variances in the analysis indicate that either local residents spend less than the average Minnesotan on these items, or they make their purchases elsewhere or on the internet. It is unlikely that all sales in Crow Wing County were made to residents. Factors to consider: The Brainerd/Baxter area serves as retail hub for the larger region, so customers from Aitkin, southern Cass, and other counties shop here. We know from recent Extension research that seasonal residents focus their stays from May-September. We also considered MN DOT summer traffic counts, as well as the fact that local clothing store managers saw non-residents playing a bigger role in sales. With this input, we raised the non-local sales proportion to 15 percent.



Leisure Goods

(\$Millions)	
Actual Taxable Sales	\$17.06
- Potential Sales	\$11.03
= \$ Variance	\$6.03
= As % of Potential	54.7%
# of Firms	89
% of Total Taxable Retail & Service Sales	2.4%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$11.03
Surplus (local preference & non-residents)	\$6.03
Totals	\$17.06
Non-Resident Share per Group	35.3%

Analysis with Adjustments

Residents' \$ Share	\$13.00
Non-Residents' \$ Share	\$4.06
Totals	\$17.06
Non-Resident Share per Group	23.8%

Analysis and Recommendations for Leisure Goods

This merchandise group includes stores selling sporting goods, books, music, hobby items, fabrics, and toys. As with health, personal, and clothing items, it is likely that demand for these products will come mostly from local purchasers rather than non-residents. With local boating and hunting popular activities in the area, it is likely that sales to local residents in sporting goods stores are higher than the Minnesota average. Interviews with managers of different types of local leisure goods stores suggest that at least two-thirds are generated by county year-round residents, or perhaps more. One manager noted less seasonal variation in sales than one might assume and that local and neighboring holiday shoppers were central to a given year's success. Given these factors, and the importance of hunting and fishing for many in the Lakes District of Minnesota, we recommend increasing the local share of leisure goods sales to 76 percent, resulting in a non-resident share of 24 percent.



General Merchandise Stores

	(\$Millions)
Actual Taxable Sales	\$134.22
- Potential Sales	\$47.17
= \$ Variance	\$87.05
= As % of Potential	184.5%
# of Firms	17
% of Total Taxable Retail & Service Sales	18.6%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$47.17
Surplus (local preference & non-residents)	\$87.05
Totals	\$134.22
Non-Resident Share per Group	64.9%

Analysis with Adjustments

Residents' \$ Share	\$47.17
Non-Residents' \$ Share	\$87.05
Totals	\$134.22
Non-Resident Share per Group	64.9%

Analysis and Recommendations for General Merchandise Stores

Stores in this category sell general merchandise and are unique in that they have the equipment and staff capable of retailing a large variety of goods from a single location. This includes department stores, superstores, dollar stores, and variety stores. The initial analysis suggests that non-residents account for 65 percent of general merchandise sales, and seems accurate. Brainerd and Baxter are retail hubs for the region, and seasonal residents, visitors, and travelers have easy access to Target or Walmart along major highways. Interviews with local managers confirmed the initial analysis. They noted a large increase in sales during the warmer months when more seasonal residents and tourists are shopping. There does not appear to be any local lifestyle preferences that would require higher or lower tendencies to shop at general merchandise stores. We recommend leaving the estimate for general merchandise stores as is.



Miscellaneous Retail

	(\$Millions)
Actual Taxable Sales	\$21.47
- Potential Sales	\$14.42
= \$ Variance	\$7.05
= As % of Potential	48.9%
# of Firms	257
% of Total Taxable Retail & Service Sales	3.0%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$14.42
Surplus (local preference & non-residents)	\$7.05
Totals	\$21.47
Non-Resident Share per Group	32.8%

Analysis with Adjustments

Residents' \$ Share	\$14.42
Non-Residents' \$ Share	\$7.05
Totals	\$21.47
Non-Resident Share per Group	32.8%

Analysis and Recommendations for Miscellaneous Retail

Establishments such as florists, used merchandise stores, pet supply stores, and other retailers are found in this group. We recommend leaving the initial trade area analysis as is with year-round Crow Wing County residents, as they account for 67 percent of miscellaneous retail sales; non-residents are responsible for 33 percent.



Amusement & Recreation

	(\$Millions)
Actual Taxable Sales	\$10.83
- Potential Sales	\$13.55
= \$ Variance	(\$2.72)
= As % of Potential	-20.1%
# of Firms	36
% of Total Taxable Retail & Service Sales	1.5%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$13.55
Surplus (local preference & non-residents)	(\$2.72)
Totals	\$10.83
Non-Resident Share per Group	-25.1%

Analysis with Adjustments

Residents' \$ Share	\$6.50
Non-Residents' \$ Share	\$4.33
Totals	\$10.84
Non-Resident Share per Group	40.0%

Analysis and Recommendations for Amusement & Recreation

Establishments in this group include casinos, bowling lanes, water parks, amusement parks, arcades, bingo halls, golf courses, ski slopes, marinas, dance or fitness centers, recreational clubs, ice rinks, swimming pools, roller rinks, etc. Greater Minnesota per capita sales in this category are much lower than the state average. This is likely especially true in an area like Crow Wing County where people enjoy the water, woods, and bike trails compared to constructed recreational facilities. As with the clothing and apparel category, local residents do not account for 100 percent of all amusement and recreation sales. Some of these establishments experience stronger sales during the months when seasonal residents and visitors are present, and others close during the months when these important customers are not around. Initially, we believed a 50/50 local/non-local split might be close to the mark, but interviews with facility managers underscored the importance of the local customer. We therefore recommend a 60 percent local/40 percent non-local breakout.



Accommodations

	(\$Millions)
Actual Taxable Sales	\$61.77
- Potential Sales	\$14.85
= \$ Variance	\$46.92
= As % of Potential	316.0%
# of Firms	105
% of Total Taxable Retail & Service Sales	8.6%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$14.85
Surplus (Local Preference & Non-Residents)	\$46.92
Totals	\$61.77
Non-Resident Share per Group	76.0%

Analysis with Adjustments

Residents' \$ Share	\$6.70
Non-Residents' \$ Share	\$55.07
Totals	\$61.77
Non-Resident Share per Group	89.2%

Analysis and Recommendations for Accommodations

These businesses provide lodging or short-term accommodations for travelers, vacationers, and others. Included are hotels, motels, lodges, bed & breakfasts, campgrounds, fraternities, boarding houses, and dormitories. We believe the trade area analysis model understates the role of non-residents in this market. Logically, a large majority of lodging sales will include visitors from outside the county. It is possible that non-resident share could be as high as 97%. No local owners or managers were interviewed from this merchandise group.



Eating/Drinking Establishments

	(\$Millions)
Actual Taxable Sales	\$98.93
- Potential Sales	\$63.45
= \$ Variance	\$35.48
= As % of Potential	55.9%
# of Firms	189
% of Total Taxable Retail & Service Sales	13.7%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$63.45
Surplus (local preference & non-residents)	\$35.48
Totals	\$98.93
Non-Resident Share per Group	35.9%

Analysis with Adjustments

Residents' \$ Share	\$65.29
Non-Residents' \$ Share	\$33.64
Totals	\$98.93
Non-Resident Share per Group	34.0%

Analysis & Recommendations for Eating & Drinking

These businesses sell food at full-service or limited-service establishments. The group includes cafeterias, bagel shops, ice cream parlors, snack bars, food service contractors, caterers, lunch wagons, and street vendors. It also includes bars, taverns, and nightclubs. Interviews with managers at area eating and drinking establishments either confirmed the 64/36 breakout, or they said it was too low on the local demand side. Balancing this, again, against Brainerd/Baxter as a regional economic hub, the influx of non-residents from May to September—and increasingly in winter—we believe that a slightly adjusted 66/34 breakout is an appropriate estimate. One factor that may suggest Extension is overestimating the local resident sales is that Greater Minnesota sales are lower per capita than the state average.



Repair & Maintenance

	(\$Millions)
Actual Taxable Sales	\$12.80
- Potential Sales	\$10.14
= \$ Variance	\$2.66
= As % of Potential	26.2%
# of Firms	130
% of Total Taxable Retail & Service Sales	1.8%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$10.14
Surplus (local preference & non-residents)	\$2.66
Totals	\$12.80
Non-Resident Share per Group	20.8%

Analysis with Adjustments

Residents' \$ Share	\$11.52
Non-Residents' \$ Share	\$1.28
Totals	\$12.80
Non-Resident Share per Group	10.0%

Analysis and Recommendations for Repair & Maintenance

Stores in the Repair and Maintenance group restore machinery, equipment, and other products. This group does not include plumbing or electrical repair services. It does include, however, repairs to autos, cameras, radio, television, computers, copiers, appliances, lawn mowers, specialized equipment, small engines, furniture, shoes, guns, etc. Local residents own more items with small engines that require maintenance. Non-metro average spending is stronger than statewide average spending (Twin Cities included). We believe the trade area analysis model reflects the strong role that year-round Crow Wing County residents would play in this market, increasing the local/non-local shares to 90/10.



Personal Services, Laundry

	(\$Millions)
Actual Taxable Sales	\$5.30
- Potential Sales	\$6.98
= \$ Variance	(\$1.68)
= As % of Potential	-24.1%
# of Firms	124
% of Total Taxable Retail & Service Sales	0.7%

Unadjusted Trade Area Analysis

Potential Sales to Residents	\$6.98
Surplus (local preference & non-residents)	(\$1.68)
Totals	\$5.30
Non-Resident Share per Group	-31.7%

Analysis with Adjustments

Residents' \$ Share	\$4.50
Non-Residents' \$ Share	\$0.80
Totals	\$5.30
Non-Resident Share per Group	15.1%

Analysis and Recommendations for Personal Services, Laundry

This merchandise group includes barber shops and beauty parlors, death care services, laundry and dry-cleaning services, and a wide range of other personal services, such as pet care (except veterinary), photofinishing, temporary parking, and dating services. As with similar merchandise categories, local residents will likely be the dominant buyers but, of course, not accounting for 100% of sales. Therefore, the non-resident share is estimated to be 15% of total taxable sales.



**Retail (Non-store) and Other Services
(North American Industrial
Classification System 511-812 sales
amounts released by MN Revenue)**

	(\$Millions)
Actual Taxable Sales	\$84.06
% of Total Taxable Retail & Service Sales	11.6%

Analysis with Adjustments

Residents' \$ Share	\$58.84
Non-Residents' \$ Share	\$25.22
Totals	\$84.06
Non-Resident Share per Group	30.0%

Analysis & Recommendations for All Other Retail & Service Sales:

The rest of retail and service sales will be largely local. This group includes utilities, manufacturing-related firms, agriculture-related construction, building construction, wholesale services, rental/lease services, administrative support, and performing arts. This mix of business types is too diverse in which to run the trade area analysis. We assume that 70 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.

There are \$113.8 million of taxable sales generated by the above industries and services. This amount will be subject to any new sales taxes, including a local option sales tax supporting county transportation projects and operations. Many of the specifics are suppressed because there are less than four firms in the business category within the county. For purposes of estimating the residential and non-residential portion of the tax collected, Extension uses an estimate of 20% local resident sales.

Residents' \$ Share	\$ 22.8
Non-Residents \$ Share	\$ 91.0
Totals	\$113.8
Non-Resident Share	80%



ESTIMATES OF PROJECTED SALES TAX REVENUE

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

ESTIMATED	TAX PROCEEDS	Multiplier	Dollars		Dollars Paid By Non- Residents
			Total	Paid By	
			Tax	CWC	
@ 1/8th of a Percent	0.00125	\$1,045,000	\$508,915	\$536,085	
@ 1/4th of a Percent	0.0025	\$2,090,000	\$1,017,830	\$1,072,170	
@ 3/8ths of a Percent	0.00375	\$3,135,000	\$1,526,745	\$1,608,255	
@ 1/2 of a Percent	0.005	\$4,180,000	\$2,035,660	\$2,144,340	
Total Taxable Sales:					
\$836,000,000					

SOURCE: Total sales figure of \$836 million is based on MN Revenue 2012 data.

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

1. For each $\frac{1}{8}$ of a percent enacted, county officials can expect an estimated additional \$39,000 in use (not sales) tax proceeds derived from county businesses purchasing products from out of state sources. (This is based the 6.5 percent use tax rate.)
2. County officials can also anticipate \$50,000 to \$150,000 in additional use (not sales) tax proceeds, but there is no way to accurately estimate this number. This will be from purchases made by local businesses in other Minnesota locations. The experience of Brainerd and Baxter with their use tax proceeds from a local option sales tax program indicates that this is a factor. If Crow Wing County officials enact a local option sales tax, they will have a better idea after a year of experience what this amount will be in the future.



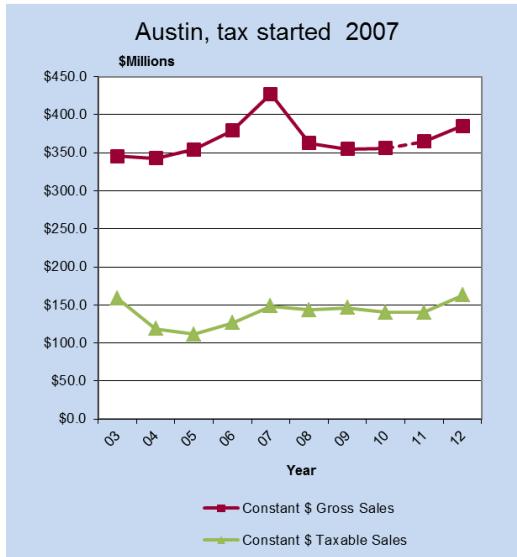
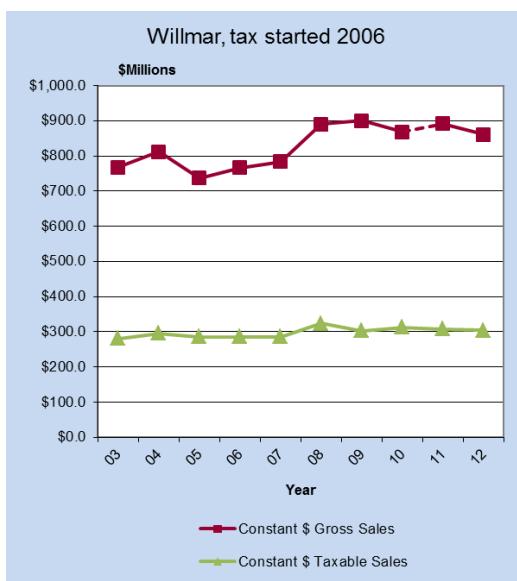
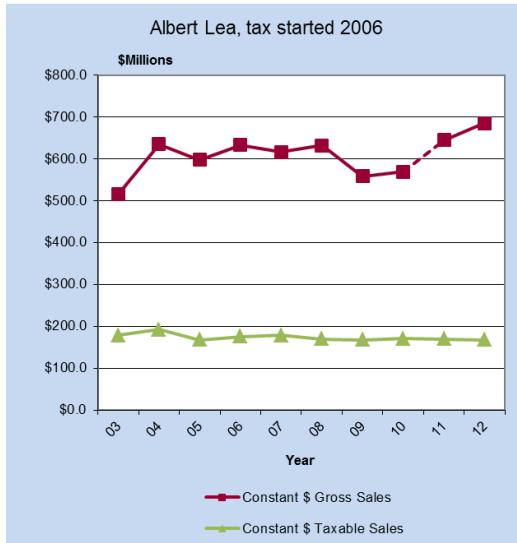
DOES ENACTING A LOCAL OPTION SALES TAX SHIFT CONSUMER PURCHASES TO OTHER COUNTIES?

Crow Wing County policymakers are understandably concerned that enacting a local sales tax in their county, when neighboring counties have not adopted the tax, will result in the loss of consumer purchases to these other counties. However, at its highest potential application of $\frac{1}{2}$ of a percent, this local option sales tax would add just 50 cents to a \$100 purchase.

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

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





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

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

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



APPENDIX A.

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

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

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



APPENDIX B.

Definitions of Terms

Gross Sales

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

Taxable Sales

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

Taxable Retail and Service Sales

In this report and other retail trade analysis reports written by the University of Minnesota Extension, the term "taxable retail and service sales" refer to the North American Industry Classification System (NAICS) numbers of 441 to 454 (retail) and 511 to 812 (most service industries) that are released by the Minnesota Department of Revenue for a geographic area.

Current and Constant Dollar Sales

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

Number of Businesses

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

Index of Income

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

Potential Sales

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

Actual Sales

For this study, MN Revenue's 2012 sales data for Crow Wing County provides the actual sales numbers used.



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

Cautions

Gross Sales

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

Misclassification

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

Suppressed Data

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

Consolidated Reporting

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



APPENDIX C.

State of Minnesota Per Capita Taxable Retail Sales & Threshold Levels for Selected Goods and Services 2012

Threshold level refers to the number of *people per business*, which can be used as a general guide for determining the "critical mass" necessary to support a business. These are broad averages for the state as a whole and do not reflect differences in income, tourism, agglomeration, establishment, etc. Further, the business counts are based on the number of sales tax returns filed and are converted to "full-time equivalents." Multiplying *people per business* by *sales per capita* yields average sales per firm. In addition to state averages, averages for the non-metropolitan regions were calculated by excluding the seven county Minneapolis-St. Paul metropolitan region.

Business Activity / Store Type NAICS	People Per Business		Sales Per Capita		
	State	Non-Metro	State	Non-Metro	Crow Wing
RETAIL TRADE					
441 Vehicles, Parts	1,988	1,436	\$399.07	\$401.26	\$799.34
442 Furniture Stores	2,963	2,881	\$234.55	\$163.15	\$200.22
443 Electronics	3,824	3,942	\$272.95	\$133.34	\$313.34
444 Building Materials	2,623	1,758	\$877.52	\$968.84	\$1,871.56
445 Food and Beverage Stores	1,556	1,355	\$609.76	\$510.66	\$708.43
446 Health, Personal Stores	3,278	3,351	\$117.54	\$76.56	\$94.61
447 Gas/Convenience Stores	2,654	1,946	\$191.84	\$232.71	\$277.90
448 Clothing & Accessory Stores	1,550	1,789	\$175.36	\$86.88	\$116.96
451 Leisure Goods	1,473	1,294	\$237.80	\$169.30	\$271.28
452 General Merchandise	4,917	3,602	\$1,043.06	\$1,106.53	\$2,134.71
453 Miscellaneous Merchandise	478	404	\$289.45	\$211.45	\$341.40
454 Non-store Retail	957	912	\$92.00	\$85.27	\$80.96
Retail Total			\$4,540.91	\$4,145.94	\$7,210.70
INFORMATION					
511 Publishing Industry	10,486	12,947	\$4.18	\$1.47	
512 Movie & Recording Industry	12,814	20,672	\$30.41	\$20.59	
515 Broadcasting	44,372	31,948	\$11.58	\$6.87	
516 Info -Internet Publ/Brcst	214,759	307,496	\$0.02	\$0.02	
517 Telecommunications	9,419	8,692	\$363.92	\$306.38	
518 Internet Service	12,286	23,207	\$17.62	\$1.31	
519 Other Information Services	4,894	5,157	\$93.30	\$41.17	
FINANCE AND INSURANCE					
522 Credit Intermediation	8,337	6,631	\$26.76	\$6.06	
523 Securities, Commodities	24,294	39,677	\$2.09	\$0.65	
524 Insurance Carriers	11,697	17,083	\$0.98	\$0.72	
525 Funds, Trusts	178,966	189,229	\$0.43	\$0.57	
REAL ESTATE AND RENTAL AND LEASING					
531 Real Estate	2,921	3,790	\$31.12	\$24.20	
532 Rental, Leasing Services	3,813	3,565	\$142.12	\$55.49	
533 Lessors Nonfinancial Assets	412,998	351,424	\$0.35	\$0.62	
PROFESSIONAL, SCIENTIFIC, AND TECHNICAL SERVICES					
541 Prof, Scientific, Technical Services	505	766	\$160.43	\$71.53	
551 Mgmt Of Companies	29,179	49,199	\$30.36	\$4.31	
ADMINISTRATIVE & SUPPORT; WASTE MGMT & REMEDIATION SVCS					
561 Admin, Support Services	576	610	\$16.57	\$127.63	
562 Waste Mgmt, Remediation	13,422	9,354	\$14.38	\$1.34	
EDUCATIONAL SVCS; HEALTH & SOCIAL ASSISTANCE					
611 Educational Services	4,616	4,881	\$16.57	\$16.09	
621 Health-Ambulatory Care	1,152	1,423	\$14.38	\$9.92	
622 Health-Hospitals	36,774	25,361	\$14.55	\$14.35	
623 Health-Nursing, Residential Care	12,544	8,945	\$2.33	\$2.49	
624 Health-Social Assistance	14,831	15,279	\$2.75	\$3.84	
ARTS, ENTERTAINMENT & RECREATION					
711 Performing Art, Spectator Sports	2,724	3,237	\$57.97	\$10.44	
712 Museums, Historical Sites	32,539	21,770	\$4.33	\$1.32	
713 Amusement, Gambling, Recr	2,458	1,943	\$297.31	\$138.17	\$172.25
ACCOMMODATION & FOOD SERVICES					
721 Accommodation	2,158	1,204	\$330.30	\$317.62	\$982.43
722 Food Services, Drinking Places	481	458	\$1,401.45	\$1,048.42	\$1,573.48
OTHER SERVICES					
811 Repair, Maintenance	628	453	\$219.31	\$232.08	\$203.51
812 Personal, Laundry Service	649	559	\$137.49	\$49.88	\$84.33
TOTAL RETAIL AND SERVICES			\$9,669.66	\$6,766.64	