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# Local Option Sales Tax Analysis for Elk River

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

Authored by Ryan Pesch and Neil Linscheid



PROGRAM SPONSORS: CITY OF ELK RIVER, MINNESOTA



# Local Option Sales Tax Analysis for Elk River

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

**May 2018**

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City of Elk River

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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 Elk River residents. Comparing these results to non-residents using the most recent sales and use tax data available from the Minnesota Department of Revenue (MN Revenue), Extension estimated that non-residents account for 45.5% of taxable sales. This equated to \$177 million out of a total of \$388.7 million in taxable sales in 2015 for \$44.12 per Elk River resident on average.

The intent of this report was not to make recommendations to city 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 city residents versus non-residents.

Extension generated a trade area analysis comparing actual taxable sales, based on Minnesota Revenue sales tax data<sup>1</sup> with a calculated estimated sales amount. This amount was determined by multiplying the Elk River population by the Minnesota average per capita sales and then adjusting for income and typical pulling power of similar-sized cities. Doing so provided an estimate of retail and service purchases made by year-round Elk River residents. For each merchandise group, the estimates for two types of purchasers—year-round city residents and others—were considered and adjusted considering the area economy. These adjustments were also informed by interviews conducted with retail operators in the city. 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 Elk River economy helped frame our analysis of the different merchandise categories:

- A significant proportion of residents are employed outside the city which facilitates out-shopping for retail goods and services (see Figure 1), however an equally large number of individuals commute into Elk River for work which facilitates in-shopping.
- Elk River is situated near large retail concentrations in greater Minneapolis/St. Paul which compete for shoppers. Maple Grove and Albertville in particular are in close proximity and have a wide mix of retail and service providers.
- Interviews with local retailer managers pointed to difficulty identifying whether shoppers are local or non-local due to high volume of traffic and mobility of workers and residents in this area of competing retail centers.
- Industries other than retail and services are a significant portion of total taxable sales in the city (32% in 2015). This mix of industries includes construction, manufacturing, wholesale trade, and agriculture. It is reasonable to assume a sizable portion of sales from these industries are to customers outside of Elk River, but the proportion is difficult to measure.
- Elk River is the largest retail concentration in Sherburne County, and, as such, pulls in shoppers from nearby communities.

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1. *MN Sales Tax Statistics*. (2015). Minnesota Department of Revenue. Retrieved from [http://www.revenue.state.mn.us/research\\_stats/Pages/Sales-and-Use-Tax-Statistics-and-Annual-Reports.aspx](http://www.revenue.state.mn.us/research_stats/Pages/Sales-and-Use-Tax-Statistics-and-Annual-Reports.aspx)



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

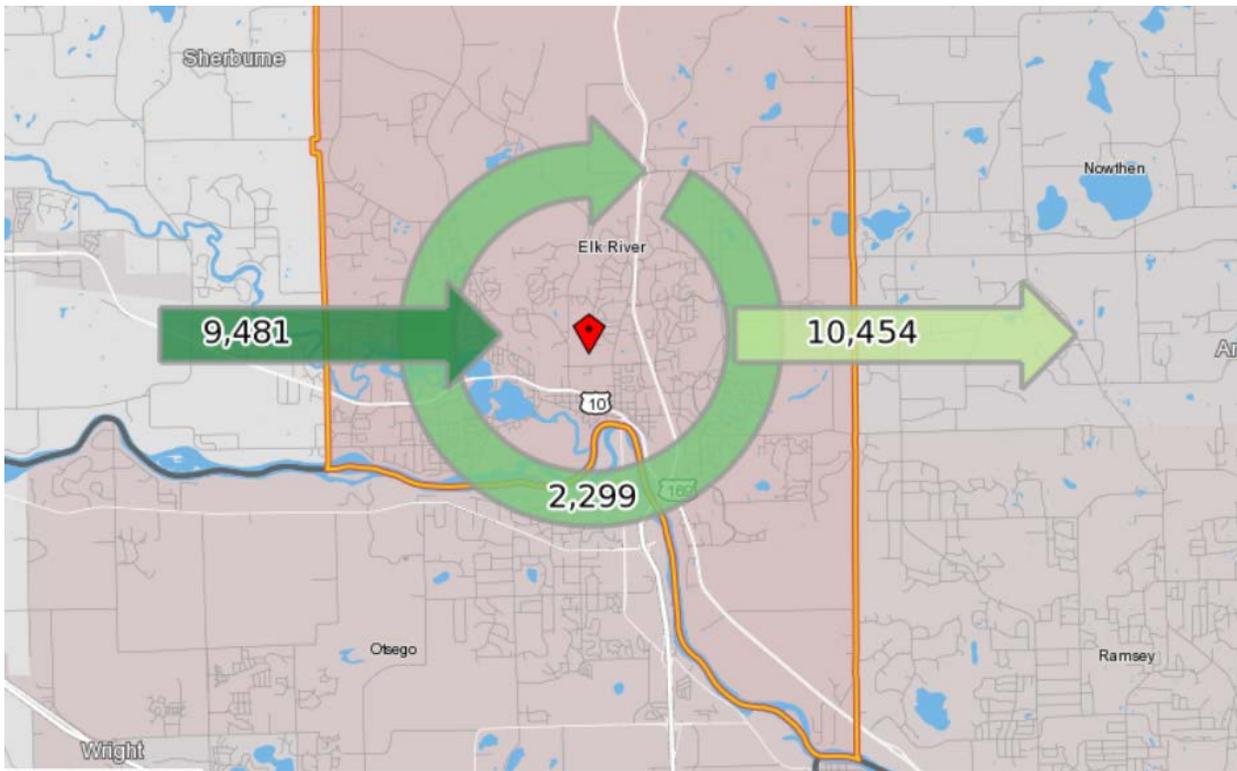


Figure 2 below shows the estimated percentage breakout—across all merchandise categories—for the *adjusted* analysis to more accurately reflect the city’s economic and consumption circumstances. Based on these findings, we estimate 54.5 percent of all taxable retail and service sales would be made by permanent city residents, and the remaining 45.5 percent of taxable sales would be by non-residents.

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

	Taxable Sales \$millions	Percentage of Sales
<b>Elk River Residents</b>	\$211.7	54.5%
<b>Non-residents</b>	\$177.0	45.5%
<b>Totals</b>	\$388.7	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.

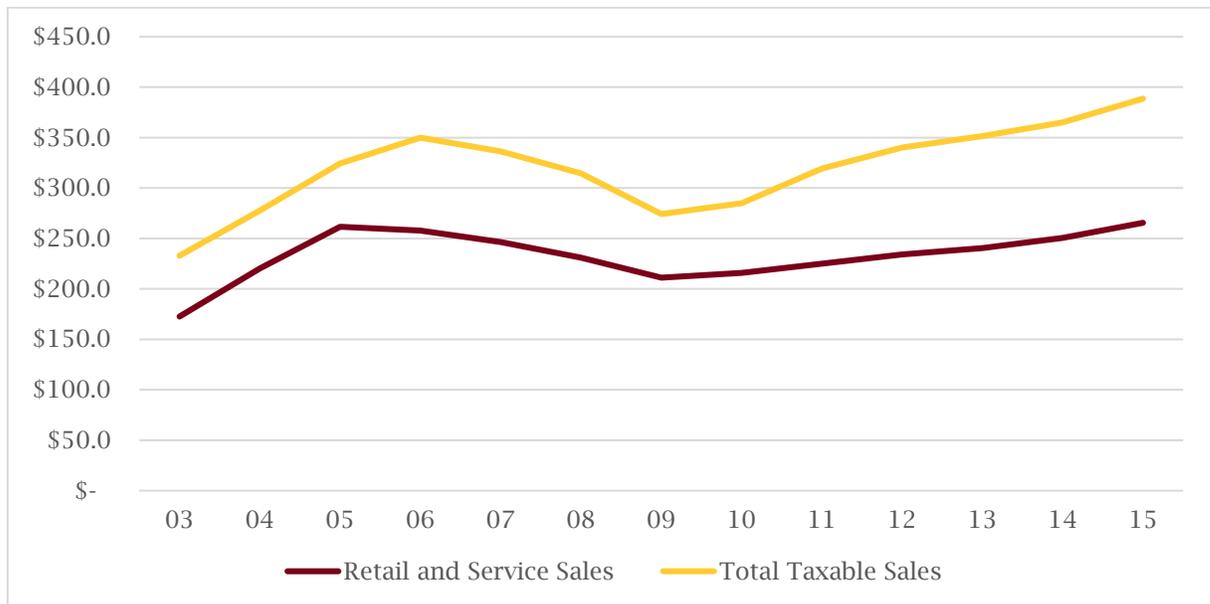
Elk River would have realized as much as \$1.94 million in tax proceeds if the full half percent tax were enacted in 2015. If the city does realize \$1.94 million, the proportion of the tax total paid by non-residents is estimated to be \$885,000, and the proportion paid by year-round city residents is estimated to be \$1.06 million.

**Figure 3: Estimated tax proceeds and who pays in dollars based on 2015 data**

<b>ESTIMATED TAX PROCEEDS</b>	<b>Total Tax Proceeds</b>	<b>Dollars Paid By Elk River Residents</b>	<b>Average Per Elk River Resident</b>	<b>Dollars Paid By Non-Residents</b>
@ 1/8th of a Percent	\$485,834	\$264,602	\$11.03	\$221,232
@ 1/4th of a Percent	\$971,668	\$529,204	\$22.06	\$442,464
@ 3/8ths of a Percent	\$1,457,501	\$793,805	\$33.09	\$663,696
@ 1/2 of a Percent	\$1,943,335	\$1,058,407	\$44.12	\$884,928
Total Taxable Sales:	\$388,667,017			

The total taxable sales in the city has increased 42 percent from 2009 to 2015 from \$274 million to \$389 million. Retail and service taxable sales, however, have increased 20% during the same timeframe. Since tax proceeds are calculated as a simple percentage of total taxable sales, the trend during the past 12 years gives some sense of stability if the tax were enacted. Clearly the downturn in taxable sales during the great recession impacted sales tax collections (see Figure 4). Although the city has experienced significant growth in taxable sales since the end of great recession, this trend is not assured.

**Figure 4: Total taxable and total taxable retail and service sales (in millions) in Elk River from 2003 to 2015 (source: Minnesota Department of Revenue)**



Proceeds from *use* taxes would also be added to the estimated tax proceeds from sales taxes. Based on 2015 figures, for each one-eighth of a percent enacted, city officials can expect an estimated additional \$19,200 in use (not sales) tax proceeds derived from city businesses purchasing products from out-of-state sources. City officials can also anticipate some additional use tax proceeds, but there is no way to accurately estimate this number. The amount will result from purchases made by local businesses in other Minnesota locations.

City of Elk River 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 23 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.

Minnesota has adopted laws enabling cities to enact a local option sales tax dedicated exclusively to pay for construction and improvement of a civic and community center and recreational facilities.

This report estimates the proportion of tax proceeds generated by year-round Elk River residents compared to non-residents. The most recently available state sales tax data (2015) 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 City of Elk River. 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 expected sales for the city 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 expected sales indicate the city attracts sales from outside the city 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.

Expected sales calculations are based on average statewide spending by merchandise category and the population of the city, then adjusted by the level of income in Sherburne County and the typical pulling power of similar-sized cities. Specifically, expected sales result from city population, state per capita taxable sales, index of income, and average pull factor for cities within 20% of Elk River's population (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.

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

Expected sales are calculated by the following formula:  
 $(T \div PMn) \times PER \times (YSC \div YMn) \times \text{Typical Pull Factor} = \text{Expected Sales}$

T = Total Minnesota taxable sales for a merchandise category

PMn = Population of Minnesota (5,485,238)

PER = Population of Elk River (23,987)

YSC = Per capita income of Sherburne County residents (\$41,396)

YMn = Per capita income of Minnesota resident (\$50,912)

Typical Pull Factor = Average per capita sales for communities within 20% of the population of Elk River for a merchandise category  $\div$  per capita sales in MN for same merchandise category



## TRADE AREA ANALYSIS BY MERCHANDISE CATEGORY

### Vehicles and Parts

7.5 percent of total taxable retail  
and service sales

The **13 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	\$19.96
-Potential sales	\$9.98
= \$ variance	\$9.98
= as % of potential	100.0%

### Unadjusted Trade Area Analysis

Potential taxable sales to residents	\$9.98
Surplus (local preference and non-residents)	9.98
Total	\$19.96
Surplus percentage	50.0%

### Analysis with Adjustments

Residents' \$ share	\$8.98
Non-Residents' \$ share	\$10.98
Total	\$19.96
Non-resident share per group	55.0%

### Analysis and Recommendations for Vehicles and Parts

The trade area analysis predicts approximately twice the amount of taxable sales than expected, The city's 13 firms in this category, however, are clearly pulling in sales from outside the community. Since it is unrealistic to expect all residents to get all their product needs in Elk River in this category, Extension set non-resident share at a conservative 55 percent of taxable sales.

## Furniture Stores

### 2.3 percent of total 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	\$6.07
Potential sales	\$5.13
= \$ variance	\$0.94
= as % of potential	18.4%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$5.13
Surplus (local preference and non-residents)	\$0.94
Total	\$6.07
Non-resident share per group	15.5%

### Analysis with Adjustments

Residents' \$ share	\$4.86
Non-Residents' \$ share	\$1.21
Total	\$6.07
Non-resident share per group	20.0%

### 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. In the case of Elk River, the trade area analysis shows that the city brought in 18% more than expected. Assuming that some portion of residents are drawn to competing retail centers, Extension increased the non-resident share to 20 percent of taxable sales, up from 15.5%.

## Electronics and Appliances

0.4 percent of total taxable retail and service sales

These **4 establishments** primarily include household-type appliances, sewing machines, cameras, computers, and other electronic goods.

	(\$Millions)
Actual taxable sales	\$0.96
-Potential sales	\$3.36
= \$ variance	(\$2.39)
= as % of potential	-71.3%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$3.36
Surplus (local preference and non-residents)	(\$2.39)
Total	\$0.96
Non-resident share per group	-248.4%

### Analysis with Adjustments

Residents' \$ share	\$0.92
Non-residents' \$ share	\$0.05
Total	\$0.96
Non-resident share per group	5.0%

### Analysis and Recommendations for Electronics and Appliances

Potential sales calculations suggest that more than 70 percent of sales leave the city. Although residents leave the city for a majority of these purchases, it is reasonable to assume residents from neighboring communities still make some minor purchases. We estimate the non-resident portion at 5 percent, with residents bringing in a modest \$50,000 in sales.

## Building Materials

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

These **12 establishments** sell lumber, hardware, paint, wallpaper, tile, hardwood floors, roofing, fencing, ceiling fans, lawn equipment, and garden items.

	(\$Millions)
Actual taxable sales	\$78.88
Potential sales	\$43.46
= \$ variance	\$35.42
= as % of potential	81.5%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$43.46
Surplus (local preference and non-residents)	\$35.42
Total	\$78.88
Non-resident share per group	44.9%

### Analysis with Adjustments

Residents' \$ share	\$35.50
Non-residents' \$ share	\$43.38
Total	\$78.88
Non-resident share per group	55.0%

### 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 (30 percent of all retail and service sales for the city). The trade area analysis estimates that the city 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. In this context with nearby competing retail centers. Extension set the non-local resident spending share at 55 percent of building material sales, up from 46% as calculated by the trade area analysis.

## Food and Groceries

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

The **17 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	\$18.91
- Potential sales	\$15.52
= \$ variance	\$3.39
= as % of potential	21.9%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$15.52
Surplus (local preference and non-residents)	\$3.39
Total	\$18.91
Non-resident share per group	17.9%

### Analysis with Adjustments

Residents' \$ share	\$14.18
Non-residents' \$ share	\$4.73
Total	\$18.91
Non-resident share per group	25.0%

### Analysis and Recommendations for Food and Groceries

The trade area analysis estimates a surplus of \$3.4 million more than expected in the food and liquor category. Clearly the 17 stores in this category are drawing in some non-resident traffic. With such a large portion of the city's workforce working outside of Elk River, it is reasonable to expect that those workers pick up some portion of grocery and liquor near their place of work. These are convenience goods and often 'picked up' when needed. Therefore, Extension increased the non-resident share to 25% from 18%.

## Health & Personal Items

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

Stores selling prescription drugs, food supplements, vision supplies, cosmetics, and hearing aids are among the **4 shops** included in this merchandise group.

	(\$Millions)
Actual taxable sales	\$3.31
Potential sales	\$2.54
= \$ variance	\$0.76
= as % of potential	30.0%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$2.54
Surplus (local preference and non-residents)	\$0.76
Total	\$3.31
Non-resident share per group	23.1%

### Analysis with Adjustments

Residents' \$ share	\$2.45
Non-residents' \$ share	\$0.86
Total	\$3.31
Non-resident share per group	26.0%

### Analysis and Recommendations for Health and Personal Items

Surprisingly, this category which includes only four stores has a surplus of 30% more than expected. Similar to the rationale in other categories related to nearby retail competition and worker flows, Extension increased the proportion from non-residents to 26% from 23%.

## Gas/Convenience Stores

2.4 percent of total taxable retail and service sales

This merchandise group covers **8 retailers** selling convenience items at a store that also sells fuel.

	(\$Millions)
Actual taxable sales	\$6.28
-Potential sales	\$4.95
= \$ variance	\$1.32
= as % of potential	26.7%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$4.95
Surplus (local preference and non-residents)	\$1.32
Total	\$6.28
Non-resident share per group	21.1%

### Analysis with Adjustments

Residents' \$ share	\$4.65
Non-residents' \$ share	\$1.63
Total	\$6.28
Non-resident share per group	26.0%

### Analysis and Recommendations for Gas Station/Convenience Stores

The initial trade area analysis indicates that non-residents account for 21 percent of sales. Having heard from retailers about the importance of visitor traffic in the summer and the clear uptick in traffic in the summer, Extension increased the non-resident sales to 26 percent

## Apparel/Clothing

### 0.4 of total taxable retail and service sales

This merchandise group includes **10 stores** selling new clothing and accessories, jewelry, shoes, bridal items, clocks, and luggage.

	(\$Millions)
Actual taxable sales	\$1.14
Potential sales	\$1.27
= \$ variance	(\$0.13)
= as % of potential	-10.0%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$1.27
Surplus (local preference and non-residents)	(\$0.13)
Total	\$1.14
Non-resident share per group	-11.1%

### Analysis with Adjustments

Residents' \$ share	\$0.97
Non-residents' \$ share	\$0.17
Total	\$1.14
Non-resident share per group	15.0%

### Analysis and Recommendations for Apparel/Clothing

The trade area analysis shows that Elk River brought in slightly less taxable sales than expected in clothing. Since Elk River is the retail hub for the county, it would be reasonable to expect that some portion of sales comes from non-residents, if only other Sherburne residents who live outside the city limits yet are attracted to Elk River for general shopping. In this context, Extension set the non-resident share at 15%.

## Leisure Goods

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

The **16 firms** in this merchandise group sell sporting goods, books, music, hobby items, fabrics, and toys.

	(\$Millions)
Actual taxable sales	\$4.68
Potential sales	\$2.65
= \$ variance	\$2.03
= as % of potential	76.4%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$2.65
Surplus (local preference and non-residents)	\$2.03
Total	\$4.68
Non-resident share per group	43.3%

### Analysis with Adjustments

Residents' \$ share	\$2.34
Non-Residents' \$ share	\$2.34
Total	\$4.68
Non-resident share per group	50.0%

### Analysis and Recommendations for Leisure Goods

Elk River brought in 76% more in taxable sales in the leisure goods category than expected. Clearly the city has a niche as a regional center in the area in this relatively small retail category. Extension set the non-resident share at 50%, up from 43%.

## General Merchandise Stores

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

The **14 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	\$42.80
potential sales	\$32.95
= \$ variance	\$9.85
= as % of potential	29.9%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$32.95
Surplus (local preference and non-residents)	\$9.85
Total	\$42.80
Non-resident share per group	23.0%

### Analysis with Adjustments

Residents' \$ share	\$29.96
Non-Residents' \$ share	\$12.84
Total	\$42.80
Non-resident share per group	30.0%

### Analysis and Recommendations for General Merchandise Stores

The initial analysis shows a significant surplus in this large category, which accounts for 16 percent of all retail and service taxable sales. Interviews with managers of these general merchandise store in Sherburne County led Extension to conclude that some non-resident shopping is happening, especially in the summer months due to increased traffic. With this context in mind, Extension set non-resident spending at 30%, up from 23%

## Miscellaneous Retail

4.7 percent of total taxable retail and service sales

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

	(\$Millions)
Actual taxable sales	\$12.44
Potential sales	\$13.07
= \$ variance	(\$0.62)
= as % of potential	-4.7%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$13.07
Surplus (local preference and non-residents)	(\$0.62)
Total	\$12.44
Non-resident share per group	-5.0%

### Analysis with Adjustments

Residents' \$ share	\$11.20
Non-residents' \$ share	\$1.24
Total	\$12.44
Non-resident share per group	10.0%

### Analysis and Recommendations for Miscellaneous Retail

The category brought in five percent less in taxable sales than one would expect. Extension set the non-resident share to 10 percent, especially considering the large number of establishments in this category, some of which are specialized enough to draw in outside traffic.

## Amusement and Recreation

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

The **11 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	\$3.26
Potential sales	\$5.19
= \$ variance	(\$1.93)
= as % of potential	-37.2%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$5.19
Surplus (local preference and non-residents)	(\$1.93)
Total	\$3.26
Non-resident share per group	-59.3%

### Analysis with Adjustments

Residents' \$ share	\$3.09
Non-residents' \$ share	\$0.16
Total	\$3.26
Non-resident share per group	5.0%

### Analysis and Recommendations for Amusement and Recreation

Local residents likely comprise the vast majority of buyers in this category where nearly 40% of sales leave the city. Therefore, the non-resident share is estimated to be a minimal five percent of total taxable sales

## Accommodations

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

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.

	(\$Millions)
Actual taxable sales	NA
Potential sales	\$2.60
= \$ variance	
= as % of potential	

### Unadjusted Trade Area Analysis

Potential sales to residents	\$2.60
Surplus (local preference and non-residents)	NA
Total	
Non-resident share per group	NA

### Analysis with Adjustments

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

### Analysis and Recommendations for Accommodations

Since there are few businesses or in this category in Elk River, the Department of Revenue does not disclose the data, making it impossible to estimate sales by resident and non-resident in this category. The sales from this category are included in 'undisclosed' category later in the report.

## Eating/Drinking Establishments

15.0 percent of total taxable retail and service sales

These **41 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	\$39.80
Potential sales	\$37.03
= \$ variance	\$2.77
= as % of potential	7.5%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$37.03
Surplus (local preference and non-residents)	\$2.77
Total	\$39.80
Non-resident share per group	7.0%

### Analysis with Adjustments

Residents' \$ share	\$33.83
Non-residents' \$ share	\$5.97
Total	\$39.80
Non-resident share per group	15.0%

### Analysis and Recommendations for Eating/Drinking Establishments

According to expected sales estimates, Elk River brought in 7.5% more in taxable sales than expected. Considering the high proportion of workers leaving the community for work weekly, Extension set the non-resident share of spending in this category at 15%, up from 7%.

## Repair and Maintenance

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

The **40 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	\$8.79
Potential sales	\$5.73
= \$ variance	\$3.06
= as % of potential	53.4%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$5.73
Surplus (local preference and non-residents)	\$3.06
Total	\$8.79
Non-resident share per group	34.8%

### Analysis with Adjustments

Residents' \$ share	\$5.27
Non-residents' \$ share	\$3.51
Total	\$8.79
Non-resident share per group	40.0%

### Analysis and Recommendations for Repair and Maintenance

The initial trade area analysis identifies a surplus and estimates non-resident spending at 35%. Assuming Elk River as a commuter community, Extension expects that residents would spend more on car repair than Minnesota residents as a whole. As such, Extension conservatively increased the share of non-resident sales to 40%.

## Personal Services/Laundry

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

The **30 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	\$1.85
Potential sales	\$2.56
= \$ variance	(\$0.70)
= as % of potential	-27.5%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$2.56
Surplus (local preference and non-residents)	(\$0.70)
Total	\$1.85
Non-resident share per group	-37.9%

### Analysis with Adjustments

Residents' \$ share	\$1.76
Non-residents' \$ share	\$0.09
Total	\$1.85
Non-resident share per group	5.0%

### Analysis and Recommendations for Personal Services/Laundry

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

## Retail (non-store) and Other Services

(\$Millions)

Actual taxable sales	\$16.44
% of total taxable retail and service sales	6.2%

### Analysis with Adjustments

Residents' \$ share	\$14.80
Non-residents' \$ share	\$1.64
Total	\$16.44
Non-resident share per group	10%

### Analysis and Recommendations for Retail and Other Services

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

## Agricultural Production, Forestry, Construction, Manufacturing, Wholesale Operations, Transportation, Civic and Professional Organizations, Government, and Sales Information Suppressed for Business Confidentiality

The above industries and services generate a significant portion of total taxable sales in Elk River (32%), a proportion greater than other communities for which Extension has conducted a LOST analysis. This amount will be subject to any new sales taxes, including a local option sales tax.

A diverse mix of businesses fall into these non-retail categories and a large portion of sales are within a suppressed or non-disclosed subcategory. This diversity makes it difficult to understand the customer mix of these businesses, however Extension broke out each known major subcategory and assigned assumptions according to their business type:

Subcategory	2015 Taxable Sales
Construction	\$4,539,053
Manufacturing	\$62,492,218
Wholesale	\$12,683,470
Undesignated	\$42,552,699

Extension estimated that overall 70 percent of sales are to non-residents. Extension assumed that some subcategories such as agriculture and manufacturing sell primarily (90%) to non-resident customers, whereas less construction, wholesale, and undesignated businesses split their sales between resident and non-resident customers. This is conservative consider that all lodging sales are in the undesignated category, the vast majority of which are to non-residents. However, since it is impossible to know the exact breakdown of business types in 'undesignated,' Extension set at a conservative 50%.

Residents' \$ share	\$36.9
Non-residents \$ share	\$86.2
Total	\$123.1
Non-resident share	70%

## ESTIMATES OF PROJECTED SALES TAX REVENUE

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

**Figure 5: Estimated Tax Proceeds Based on 2015 Sales Tax Data**

ESTIMATED TAX PROCEEDS	Total Tax Proceeds	Dollars Paid By Elk River Residents	Average Per Elk River Resident	Dollars Paid By Non- Residents
@ 1/8th of a Percent	\$485,834	\$264,602	\$11.03	\$221,232
@ 1/4th of a Percent	\$971,668	\$529,204	\$22.06	\$442,464
@ 3/8ths of a Percent	\$1,457,501	\$793,805	\$33.09	\$663,696
@ 1/2 of a Percent	\$1,943,335	\$1,058,407	\$44.12	\$884,928
Total Taxable Sales:	\$388,667,017			

The total sales figure of \$389 million is based on 2015 Minnesota Department of Revenue data.

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

1. For each one-eighth of a percent enacted, city officials can expect an estimated additional \$19,200 in use (not sales) tax proceeds derived from city businesses purchasing products from out-of-state sources. (This is based on the 6.875 percent use tax rate applied to out-of-state purchases).
2. City officials can also anticipate additional use (not sales) tax proceeds, but there is no way to accurately estimate this number. The amount, however, will be from purchases made by local businesses in other Minnesota locations.

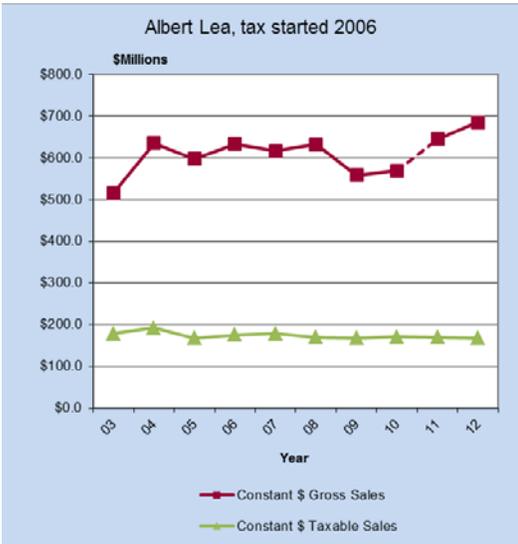
## **APPENDIX A: RESEARCH ON THE EFFECTS OF A LOCAL OPTION SALES TAX**

City of Elk River policymakers are understandably concerned that enacting a local sales tax will result in a loss of consumer purchases to neighboring counties 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.

The Minnesota Department of Revenue (shown below) records the tax collected from 23 Minnesota jurisdictions that have enacted a local sales or use tax within the last 10 years. Most of these cities show continued sales growth.

A more specific comparison that includes three Minnesota cities that have adopted a .5 percent local option sales tax is also offered below. It is important to note that the tax does not add much to a consumer's purchase.

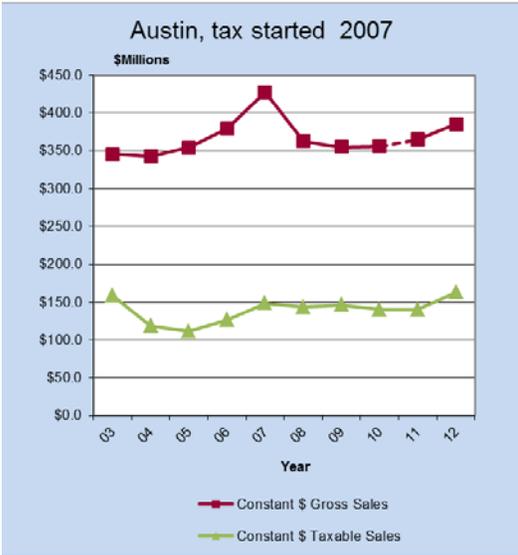
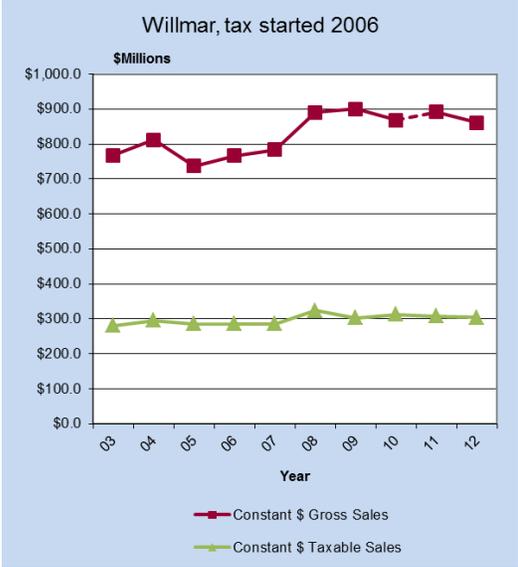
Decision-makers should decide on the best method to raise revenue— either an increase in property taxes or a 0.5 percent sales tax. Property taxes do not include a household's current income, which raises the financial burden of low-income or retired homeowners. Sales taxes raise revenues based on household expenditures, which excludes the basic necessities of food and clothing. In addition, a sales tax raises revenues from non-residents who shop in Elk River. Policymakers should carefully consider each of the above factors before making a decision about enacting a local sales tax.



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

Each city installed a 0.5 percent local option sales tax. Factors other than the tax appear to most affect 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. For example, 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 cont.**

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

Local Entity	2005	2006	2007	2008	2009	2010	2011	2012	2013
<a href="#">Albert Lea</a>		\$672,514	\$1,193,643	\$1,295,287	\$1,302,397	\$1,417,881	\$1,385,185	\$1,361,956	\$1,371,727
<a href="#">Austin</a>			824,839	1,306,244	1,415,665	1,521,493	1,602,890	1,654,987	1,626,125
<a href="#">Baxter</a>		269,460	1,907,480	1,817,395	1,814,425	1,812,195	1,842,188	2,003,212	2,120,411
<a href="#">Bemidji</a>		1,423,560	1,690,976	1,688,220	1,749,687	1,846,889	1,962,085	1,962,300	2,189,580
<a href="#">Brainerd</a>			556,740	830,840	850,614	829,980	839,153	883,124	881,244
<a href="#">Clearwater</a>				16,142	143,050	170,377	301,999	182,010	188,439
<a href="#">Cloquet</a>									695,762
<a href="#">Duluth</a>		11,398,159	12,225,979	12,194,936	11,641,832	12,084,658	12,708,709	13,068,224	13,685,071
<a href="#">Fergus Falls</a>								1,019,239	1,189,756
<a href="#">Hermantown</a>	\$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
<a href="#">Hutchinson</a>								1,193,556	1,432,169
<a href="#">Lanesboro</a>								47,126	79,416
<a href="#">Mankato</a>	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
<a href="#">Marshall</a>									894,350
<a href="#">Medford</a>									81,810
<a href="#">Minneapolis</a>	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
<a href="#">New Ulm</a>	843,201	886,988	939,425	933,519	939,757	993,663	1,022,880	1,062,888	1,233,243
<a href="#">North Mankato</a>				49,057	393,426	463,065	488,382	568,365	614,733
<a href="#">Owatonna</a>			1,240,622	1,946,356	2,092,829	1,886,147	1,224,809	15,330	7,459
<a href="#">Proctor</a>	126,570	151,315	132,581	130,167	154,416	150,941	151,106	162,363	213,830
<a href="#">Rochester</a>	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
<a href="#">St. Cloud Area</a>	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
<a href="#">St. Paul</a>	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
<a href="#">Two Harbors</a>	240,134	265,108	270,767	254,739	229,402	265,545	311,437	284,653	270,934
<a href="#">Willmar</a>		1,475,634	1,794,419	1,751,563	1,733,787	1,753,486	1,870,799	2,064,924	429,176
<a href="#">Worthington</a>					414,264	717,875	804,606	802,609	842,602
<a href="#">Cook Co</a>	1,074,550	1,079,651	1,181,755	443,333	996	767,942	1,145,291	1,258,563	1,444,164
<a href="#">Hennepin Co</a>			24,573,566	29,082,574	28,030,758	28,864,673	31,063,329	32,344,624	34,249,703
<a href="#">Metro Area Transit</a>				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 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](http://www.revenue.state.mn.us/Forms_and_Instructions/sales_tax_booklet.pdf)

### Taxable Retail and Service Sales

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

### Current and Constant Dollar Sales

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

### Number of Businesses

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

### Index of Income

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

### Potential Sales

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

### Actual Sales

For this study, the Minnesota Department of Revenue's 2015 sales data for Sherburne County provides the actual sales numbers used.



### **Variance between Actual and Potential Sales**

The variance between actual and expected sales is the difference in sales from the “norm” (i.e., the amount above or below the standard established by the expected sales formula). When actual sales exceed expected sales, the county has a “surplus” of retail sales. When actual sales fall short of expected sales, the county has a retail sales “leakage.” Discrepancies between expected and actual sales occur for a variety of reasons. For this study, we use potential sales per merchandise group to create a first-cut estimate of residents’ purchase activities.

### **Cautions**

#### **Gross Sales**

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

#### **Misclassification**

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

#### **Suppressed Data**

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

#### **Consolidated Reporting**

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



## APPENDIX C: SALES PER CAPITA AND THRESHOLD LEVELS

### State of Minnesota Per Capita Taxable Retail Sales & Threshold Levels for Selected Goods and Services 2015

*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		Elk River
	State	Non-Metro	State	Non-Metro	
<b>RETAIL TRADE</b>					
441 Vehicles, Parts	2,008	1,459	\$495.15	\$486.19	\$832.31
442 Furniture Stores	3,225	3,143	\$268.60	\$176.68	\$253.16
443 Electronics	4,187	4,225	\$295.00	\$143.13	\$40.16
444 Building Materials	2,769	1,855	\$1,010.15	\$1,106.89	\$3,288.49
445 Food and Beverage Stores	1,603	1,419	\$673.77	\$557.88	\$788.30
446 Health, Personal Stores	3,118	3,383	\$126.06	\$79.52	\$137.80
447 Gas/Convenience Stores	2,755	2,001	\$218.84	\$266.49	\$261.74
448 Clothing & Accessory Stores	1,611	1,934	\$180.58	\$84.01	\$47.61
451 Leisure Goods	1,585	1,417	\$237.58	\$168.91	\$195.10
452 General Merchandise	4,733	3,538	\$1,054.45	\$1,134.99	\$1,784.35
453 Miscellaneous Merchandise	520	434	\$289.42	\$219.61	\$518.81
454 Non-store Retail	968	914	\$99.38	\$87.10	\$113.96
Retail Total			\$4,948.97	\$4,511.40	\$8,261.79
<b>INFORMATION</b>					
511 Publishing Industry	10,330	12,717	\$3.90	\$1.41	
512 Movie & Recording Industry	11,081	18,767	\$35.89	\$24.37	
515 Broadcasting	46,094	29,174	\$13.63	\$8.76	
516 Info -Internet Publ/Brcst	8,452		\$357.50	\$0.00	
517 Telecommunications	8,452	8,350	\$357.50	\$235.89	
518 Internet Service	13,782	25,831	\$18.23	\$1.17	
519 Other Information Services	5,388	5,701	\$48.26	\$41.22	
<b>FINANCE AND INSURANCE</b>					
522 Credit Intermediation	8,400	6,794	\$28.39	\$7.30	
523 Securities, Commodities	18,044	33,511	\$2.53	\$0.71	
524 Insurance Carriers	10,589	14,849	\$0.78	\$0.49	
525 Funds, Trusts	156,721	165,321	\$0.76	\$0.46	
<b>REAL ESTATE AND RENTAL AND LEASING</b>					
531 Real Estate	2,424	3,006	\$35.53	\$30.96	
532 Rental, Leasing Services	3,669	3,285	\$162.88	\$70.42	
533 Lessors Nonfinancial Assets	249,329	309,977	\$0.32	\$0.29	
<b>PROFESSIONAL, SCIENTIFIC, AND TECHNICAL SERVICES</b>					
541 Prof, Scientific, Technical Services	479	731	\$172.88	\$80.31	
Mgmt Of Companies	26,757	48,624	\$32.62	\$4.30	
<b>ADMINISTRATIVE &amp; SUPPORT; WASTE MGMT &amp; REMEDIATION SVCS</b>					
561 Admin, Support Services	575	599	\$275.59	\$141.88	
562 Waste Mgmt, Remediation	13,645	9,538	\$2.58	\$2.25	
<b>EDUCATIONAL SVCS; HEALTH &amp; SOCIAL ASSISTANCE</b>					
611 Educational Services	4,149	4,460	\$18.94	\$15.52	
621 Health -Ambulatory Care	1,049	1,300	\$18.76	\$15.05	
622 Health -Hospitals	37,315	25,049	\$16.41	\$15.29	
623 Health -Nursing,Residential Care	10,468	8,406	\$2.96	\$2.89	
624 Health -Social Assistance	11,015	11,221	\$3.08	\$4.68	
<b>ARTS, ENTERTAINMENT &amp; RECREATION</b>					
711 Performing Art, Spectator Sports	2,221	2,610	\$71.06	\$12.64	
712 Museums, Historical Sites	30,305	20,326	\$4.29	\$1.79	
713 Amusement, Gambling, Recr	2,396	1,945	\$301.18	\$143.54	\$135.74
<b>ACCOMMODATION &amp; FOOD SERVICES</b>					
721 Accommodation	2,170	1,196	\$386.21	\$369.99	NA
722 Food Services, Drinking Places	487	473	\$1,578.36	\$1,173.73	\$1,659.40
<b>OTHER SERVICES</b>					
811 Repair, Maintenance	651	468	\$250.79	\$264.03	\$366.30
812 Personal, Laundry Service	636	566	\$155.04	\$54.26	\$77.28
813 Religious, Civic, Professional Orgs	2,643	2,138	\$33.86	\$37.29	
814 Private Households	88,472	95,378	\$0.20	\$0.16	
921 Exec., Legisla., Other Govt	7,704	4,460	\$51.12	\$64.81	
<b>TOTAL RETAIL AND SERVICES</b>			<b>\$9,033.73</b>	<b>\$7,339.34</b>	