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# Local Option Sales Tax Analysis for Isanti County

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

Authored by Ryan Pesch and Liz Templin



PROGRAM SPONSORS: ISANTI COUNTY, MINNESOTA



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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 Isanti County residents. These results were compared to non-residents, using the most recent sales and use tax data available from the Minnesota Department of Revenue (MN Revenue).

The intent of this report was not to make recommendations to county officials about what actions to take but rather determine the estimated sales tax proceeds from a local option tax program and what proportion of those dollars will likely be paid by year-round county residents versus non-residents.

Extension initially generated a trade area analysis comparing actual taxable sales, based on Minnesota Revenue sales tax data<sup>1</sup> with a calculated “expected sales” amount. This amount was determined by multiplying the Isanti County population by the Minnesota average per capita sales and then adjusting for the county’s income factor. Doing so provided an estimate of retail and service purchases made by year-round Isanti County residents. For each merchandise group, the estimates for two types of purchasers—year-round county residents and others—were considered and adjusted considering the area economy. Adjustments were also made in categories showing a consistent difference between the average per capita sales in Greater Minnesota and the state average. These adjustments involved informed estimates and were aimed, in part, at reducing what otherwise might have been overestimates of the sales tax share falling to non-residents. Assumptions and calculations are shown for major retail and service categories so decision makers can adjust totals to accommodate local considerations.

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

- Cambridge is a regional hub for retail purchases. A cluster of high traffic stores along Highways 95 and 65 attracts regional residents to shop in the community.
- The county has few seasonal residents or pass-through visitors (for example, people driving to cabins on northern lakes), so they are not a measurable segment of customers. Instead, retail and service spending is driven by local residents, nearby regional residents, and area employees.
- Because of its location, some residents of Isanti County commute to the Twin Cities Metro for work. This traffic pattern will likely cause a loss of some retail and service sales within the community. More than 5,000 people enter the county to work, but 13,500 leave to work primarily to the south in the Twin Cities Metro Area (Figure 1).

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1. *MN County 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: 2014 Isanti County primary job worker in-flow and out-flow (Source: 2017 U.S. Census Bureau OnTheMap application, Longitudinal-Employer Household Dynamics Program, <http://onthemap.ces.census.gov/>)**

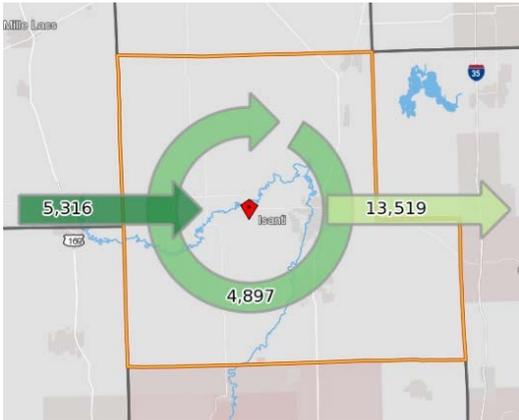


Figure 2 below shows the estimated percentage breakout—across all merchandise categories—for the *adjusted* analysis to more accurately reflect the county’s economic and consumption circumstances. Based on these findings, we estimate 73 percent of all taxable retail and service sales would be made by permanent county residents, and the remaining 27 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>Isanti County Residents</b>	\$272.4	72.6%
<b>Non-residents</b>	\$102.6	27.4%
<b>Totals</b>	\$375.0	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. Isanti County could realize sizable tax proceeds to support designated community projects— as much as \$1.87 million if the full half percent tax was enacted. If the county does realize \$1.87 million, the proportion of the tax total paid by non-residents is estimated to be \$513,000, and the proportion paid by year-round Isanti residents is estimated to be \$1.36 million.

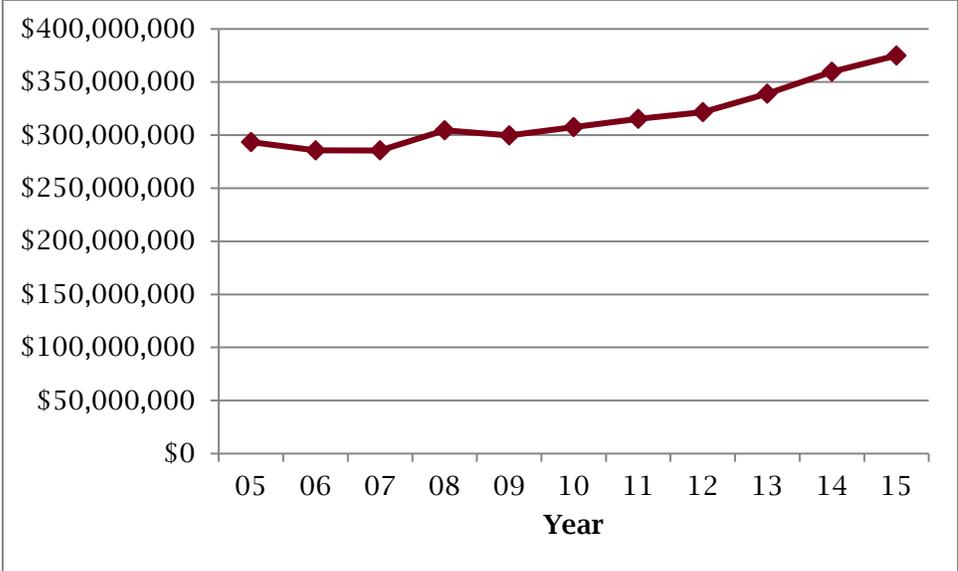
**Figure 3: Estimated tax proceeds and who pays in dollars**

	Total Tax Proceeds	Dollars Paid By Isanti Residents	Dollars Paid By Non- Residents
<b>ESTIMATED</b>			
<b>TAX PROCEEDS</b>			
@ 1/8th of a Percent	\$468,713	\$340,480	\$128,232
@ 1/4th of a Percent	\$937,426	\$680,961	\$256,465
@ 3/8ths of a Percent	\$1,406,138	\$1,021,441	\$384,697
@ 1/2 of a Percent	\$1,874,851	\$1,361,922	\$512,929

Total Taxable Sales:  
\$374,970,207.00

The total taxable sales in the county has increased 28 percent from 2005 to 2015 from \$294 million to \$375 million. Since tax proceeds are calculated as a simple percentage of total taxable sales, this increase during the past 10 years gives some sense of stability if the tax were enacted.

**Figure 4: Total taxable sales in Isanti County from 2005 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, county officials can expect an estimated additional \$13,300 in use (not sales) tax proceeds derived from city businesses purchasing products from out-of-state sources. County officials can also anticipate some additional use tax proceeds, but there is no way to accurately estimate this number. The amount will result from purchases made by local businesses in other Minnesota locations.

Isanti County policymakers are understandably concerned that enacting a sales tax in their community will cause a loss of consumer purchases to other counties. However, at its highest potential application of half a percent, a local option sales tax would add 50 cents to a \$100 purchase. Records available on the Minnesota Department of Revenue website (Appendix A) show the tax collected from 23 Minnesota jurisdictions that have enacted some type of local sales or use tax within the last nine years. The records do not indicate a major purchasing change due to the additional sales tax, and most of the jurisdictions have shown continued sales growth.

## BACKGROUND AND METHODOLOGY

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

Proceeds must be dedicated exclusively for:

- A specific transportation project or improvement
- Capital for, or operation of, a specific transit project
- Capital for a Safe Routes to School project<sup>2</sup>

This report estimates the proportion of tax proceeds generated by year-round Isanti County residents compared to non-residents. The most recently available state sales tax data (2015) from the Minnesota Department of Revenue (MN Revenue) is used.

### Trade Area Analysis and Calculations

Extension conducted a trade area analysis of retail and service sales in select merchandise categories, estimating the amount of taxable sales subject to sales taxes that were made by local residents, as well as those made by non-residents. Use tax is insignificant compared to sales tax proceeds and is calculated differently.

Extension calculated potential sales for the county in each merchandise category and compared this calculation to actual taxable sales, as found in Minnesota Department of Revenue sales tax statistics for the same category. Actual sales greater than potential sales indicate the county attracts sales from outside the county or has sales greater than one would expect from only its residents. Extension used the difference between potential and actual sales to set reasonable estimates of spending by residents and non-residents across all categories. These estimates also helped inform adjustments for each category.

Potential sales calculations are based on average statewide spending by merchandise category and the population of the county, then adjusted by the level of income in Isanti County. Specifically, potential sales result from county population, state per capita taxable sales, and the index of income (see sidebar and Appendix B).

The section that follows, “Trade Area Analysis by Merchandise Category,” details the initial and adjusted trade area calculations for all merchandise categories. The sections labeled “Analysis with Adjustments” lists the final estimate of sales generated by non-residents. A rationale for adjustments and conclusions is also included.

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

Potential sales are calculated by the following formula:

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

T = Total Minnesota taxable sales for a merchandise category

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

PCW = Population of Isanti County  
(38,521)

YCW = Per capita income of Isanti County  
resident (\$38,905)

YMn = Per capita income of Minnesota  
resident (\$50,871)

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

## TRADE AREA ANALYSIS BY MERCHANDISE CATEGORY

### Vehicles and Parts

4.6 percent of total taxable retail  
and service sales

The **23 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	\$11.70
-Potential sales	\$14.54
= \$ variance	(\$2.84)
= as % of potential	-19.5%

### Unadjusted Trade Area Analysis

Potential taxable sales to residents	\$14.54
Surplus (local preference and non-residents)	(\$2.84)
Total	\$11.70
Surplus percentage	-24.2%

### Analysis with Adjustments

Residents' \$ share	\$11.35
Non-Residents' \$ share	\$0.35
Total	\$11.70
Non-resident share per group	3.0%

### Analysis and Recommendations for Vehicles and Parts

The trade area analysis predicts approximately 24 percent of taxable sales leak outside the county. The county's 23 firms in this category, however, are pulling in some outside sales, even though Isanti residents as a whole out-shop more than in-shop. Extension set non-resident share at a conservative 3 percent of taxable sales.

## Furniture Stores

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

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

	(\$Millions)
Actual taxable sales	\$0.69
Potential sales	\$7.89
= \$ variance	(\$7.20)
= as % of potential	-91.3%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$7.89
Surplus (local preference and non-residents)	(\$7.20)
Total	\$0.69
Non-resident share per group	-1049.9%

### Analysis with Adjustments

Residents' \$ share	\$0.65
Non-Residents' \$ share	\$0.03
Total	\$0.69
Non-resident share per group	5.0%

### Analysis and Recommendations for Furniture Stores

For the trade area analysis, calculated potential may be overestimated, as the area is mostly rural and furniture sales are lower per capita than for the state—\$166 per person compared to \$250, respectively. Since furniture stores are often located in regional retail centers, sales frequently leak to other communities. Though Isanti residents shop for furniture outside the county, some residents from neighboring small towns would likely be attracted to this cluster of seven furniture stores. Extension set the non-resident share at 5 percent of taxable sales.

## Electronics and Appliances

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

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

	(\$Millions)
Actual taxable sales	\$6.36
-Potential sales	\$8.66
= \$ variance	(\$2.31)
= as % of potential	-26.6%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$8.66
Surplus (local preference and non-residents)	(\$2.31)
Total	\$6.36
Non-resident share per group	-36.3%

### Analysis with Adjustments

Residents' \$ share	\$6.04
Non-residents' \$ share	\$0.32
Total	\$6.36
Non-resident share per group	5.0%

### Analysis and Recommendations for Electronics and Appliances

The average Minnesota business sells \$264 per capita in this category, although residents of Greater Minnesota spend only about half as much. Potential sales calculations suggest that more than 25 percent of sales leave the county. Again, although Isanti residents leave the county for some of these purchases, it is reasonable to assume residents from neighboring counties still make some purchases. We estimate the non-resident portion at 5 percent, with residents and non-residents generating sales of \$6.04 million and \$320,000, respectively.

## Building Materials

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

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

	(\$Millions)
Actual taxable sales	\$51.55
Potential sales	\$29.66
= \$ variance	\$21.89
= as % of potential	73.8%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$29.66
Surplus (local preference and non-residents)	\$21.89
Total	\$51.55
Non-resident share per group	42.5%

### Analysis with Adjustments

Residents' \$ share	\$25.78
Non-residents' \$ share	\$25.78
Total	\$51.55
Non-resident share per group	50.0%

### Analysis and Recommendations for Building Materials

Like the general merchandise category, building materials account for a significant amount of total taxable sales (20 percent). The surplus size calculated in the trade area analysis estimates that 43 percent of sales are to non-residents. Since it is unrealistic to assume that local residents purchase all their building material locally, Extension increased the non-local resident spending to 50 percent of building material sales.

## Food and Groceries

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

The **14 stores** in this merchandise group include grocery stores, delis, bakeries, and butcher shops that sell food to be prepared at home. Liquor stores are also included in this group.

	(\$Millions)
Actual taxable sales	\$17.02
- Potential sales	\$19.79
= \$ variance	(\$2.77)
= as % of potential	-14.0%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$19.79
Surplus (local preference and non-residents)	(\$2.77)
Total	\$17.02
Non-resident share per group	-16.3%

### Analysis with Adjustments

Residents' \$ share	\$16.17
Non-residents' \$ share	\$0.85
Total	\$17.02
Non-resident share per group	5.0%

### Analysis and Recommendations for Food and Groceries

The trade area analysis indicates an estimated \$2 million in food sales leaks to other counties. Although local residents account for the majority of food and liquor sales, the purchase of goods and services in other categories also draws some customers to buy food locally. Extension set the non-resident share of grocery and liquor sales at 5 percent.

## Health & Personal Items

0.8 percent of total taxable retail and service sales

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

	(\$Millions)
Actual taxable sales	\$1.98
Potential sales	\$3.70
= \$ variance	(\$1.72)
= as % of potential	-46.4%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$3.70
Surplus (local preference and non-residents)	(\$1.72)
Total	\$1.98
Non-resident share per group	-86.5%

### Analysis with Adjustments

Residents' \$ share	\$1.89
Non-residents' \$ share	\$0.10
Total	\$1.98
Non-resident share per group	5.0%

### Analysis and Recommendations for Health and Personal Items

These stores sell items that most people buy locally, so county residents are likely to dominate the marketplace, accounting for 100 percent of sales. Though a fair amount of sales leak outside of Isanti, we expect some sales from non-residents to increase their share to a modest 5 percent.

## Gas/Convenience Stores

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

This merchandise group covers **12 retailers** selling convenience items at a store that also sells fuel.

	(\$Millions)
Actual taxable sales	\$6.72
-Potential sales	\$6.43
= \$ variance	\$0.30
= as % of potential	4.6%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$6.43
Surplus (local preference and non-residents)	\$0.30
Total	\$6.72
Non-resident share per group	4.4%

### Analysis with Adjustments

Residents' \$ share	\$6.05
Non-residents' \$ share	\$0.67
Total	\$6.72
Non-resident share per group	10.0%

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

The initial trade area analysis indicates that non-residents account for 4 percent of sales. Considering the through traffic along Highways 95 and 65, Extension recommends increasing the non-resident sales to 10 percent.

## Apparel/Clothing

0.3 of total taxable retail and service sales

This merchandise group includes **11 stores** selling new clothing and accessories, jewelry, shoes, bridal items, clocks, and luggage.

	(\$Millions)
Actual taxable sales	\$0.84
Potential sales	\$5.30
= \$ variance	(\$4.47)
= as % of potential	-84.2%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$5.30
Surplus (local preference and non-residents)	(\$4.47)
Total	\$0.84
Non-resident share per group	-533.9%

### Analysis with Adjustments

Residents' \$ share	\$0.79
Non-residents' \$ share	\$0.04
Total	\$0.84
Non-resident share per group	5.0%

### Analysis and Recommendations for Apparel/Clothing

The trade area analysis shows that sales leak outside of Isanti, indicating that local residents either spend less than the average Minnesotan on these items, or they make their purchases elsewhere, including on the internet. Assuming clothing stores in Isanti County would still attract in some sales with traffic brought in for general merchandise, Extension set the non-resident share at 5%.

## Leisure Goods

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

The **28 firms** in this merchandise group sell sporting goods, books, music, hobby items, fabrics, and toys.

	(\$Millions)
Actual taxable sales	\$1.14
Potential sales	\$6.98
= \$ variance	(\$5.83)
= as % of potential	-83.6%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$6.98
Surplus (local preference and non-residents)	(\$5.83)
Total	\$1.14
Non-resident share per group	-510.8%

### Analysis with Adjustments

Residents' \$ share	\$1.09
Non-Residents' \$ share	\$0.06
Total	\$1.14
Non-resident share per group	5.0%

### Analysis and Recommendations for Leisure Goods

As with health, personal, and clothing items, it is likely local purchasers will demand leisure goods more than non-residents. With local boating and hunting activities popular in the area, it is also likely sporting good sales are higher for Isanti residents than the Minnesota average. Considering these factors, we raised the share of non-resident spending to 5 percent, despite the county experiencing an overall loss of sales in this category.

## General Merchandise Stores

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

The **11 stores** in this category sell general merchandise and are unique because they have the equipment and staff needed to sell a large variety of goods from a single location. This includes department stores, superstores, dollar stores, and variety stores.

	(\$Millions)
Actual taxable sales	\$83.40
potential sales	\$30.97
= \$ variance	\$52.43
= as % of potential	169.3%
% of total taxable retail and service sales	33.0%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$30.97
Surplus (local preference and non-residents)	\$52.43
Total	\$83.40
Non-resident share per group	62.9%

### Analysis with Adjustments

Residents' \$ share	\$26.69
Non-Residents' \$ share	\$56.71
Total	\$83.40
Non-resident share per group	68.0%

### Analysis and Recommendations for General Merchandise Stores

Stores in this category significantly impact total taxable sales, accounting for a full third of the total. The initial analysis suggests that non-residents comprise 62 percent of general merchandise sales. Assuming the county loses some local spending to other counties but captures 85 percent of the local market, Extension increased the share of non-resident sales to 68 percent.

## Miscellaneous Retail

### 2.2 of total taxable retail and service sales

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

	(\$Millions)
Actual taxable sales	\$5.63
Potential sales	\$8.50
= \$ variance	(\$2.87)
= as % of potential	-33.7%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$8.50
Surplus (local preference and non-residents)	(\$2.87)
Total	\$5.63
Non-resident share per group	-50.9%

### Analysis with Adjustments

Residents' \$ share	\$5.35
Non-residents' \$ share	\$0.28
Total	\$5.63
Non-resident share per group	5.0%

### Analysis and Recommendations for Miscellaneous Retail

The category currently brings in 34 percent less sales than one would expect. We recommend setting the non-resident share to 5 percent, especially considering the large number of establishments in this category, some of which are specialized enough to draw outside traffic.

## Amusement and Recreation

0.7 percent of total taxable retail and service sales

The **14 establishments** in this group include casinos, bowling lanes, water parks, amusement parks, arcades, bingo halls, golf courses, ski slopes, marinas, dance or fitness centers, recreational clubs, ice rinks, swimming pools, roller rinks, etc.

	(\$Millions)
Actual taxable sales	\$1.76
Potential sales	\$8.84
= \$ variance	(\$7.08)
= as % of potential	-80.1%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$8.84
Surplus (local preference and non-residents)	(\$7.08)
Total	\$1.76
Non-resident share per group	-401.4%

### Analysis with Adjustments

Residents' \$ share	\$1.68
Non-residents' \$ share	\$0.09
Total	\$1.76
Non-resident share per group	5.0%

### Analysis and Recommendations for Amusement and Recreation

Greater Minnesota per capita sales in this category are much lower than the state average. Extension set the non-resident share at 5 percent of total sales.

## 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.

	(\$Millions)
Actual taxable sales	NA
Potential sales	\$11.34
= \$ variance	
= as % of potential	
# of firms	NA
% of total taxable retail and service sales	

## Unadjusted Trade Area Analysis

Potential sales to residents	
Surplus (local preference and non-residents)	\$0.00
Total	\$0.00
Non-resident share per group	

## Analysis with Adjustments

Residents' \$ share	
Non-residents' \$ share	
Total	NA
Non-resident share per group	90.0%

## Analysis and Recommendations for Accommodations

Since less than four facilities reported sales in Isanti County, data are not available. Sales from these establishments are added to the last sales category presented in this report.

## Eating/Drinking Establishments

12.6 percent of total taxable retail and service sales

These **58 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	\$31.93
Potential sales	\$46.35
= \$ variance	(\$14.42)
= as % of potential	-31.1%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$46.35
Surplus (local preference and non-residents)	(\$14.42)
Total	\$31.93
Non-resident share per group	-45.2%

### Analysis with Adjustments

Residents' \$ share	\$30.97
Non-residents' \$ share	\$0.96
Total	\$31.93
Non-resident share per group	3.0%

### Analysis and Recommendations for Eating/Drinking Establishments

According to market potential estimates, Isanti leaks a portion of sales outside the county. Extension may be overestimating local resident sales, however, since Greater Minnesota sales are lower per capita than the state average. Considering both residents and non-residents, restaurants and bars certainly serve a local clientele. Since some residents shop outside the county and another portion also works outside the county, at best the Isanti retains 80 percent of its spending on food and drink. Factoring in the non-local traffic along Highways 95 and 65, we recommend that a conservative 3 percent of total sales in this category are non-resident.

## Repair and Maintenance

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

The **85 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	\$10.20
Potential sales	\$7.36
= \$ variance	\$2.84
= as % of potential	38.5%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$7.36
Surplus (local preference and non-residents)	\$2.84
Total	\$10.20
Non-resident share per group	27.8%

### Analysis with Adjustments

Residents' \$ share	\$8.16
Non-residents' \$ share	\$2.04
Total	\$10.20
Non-resident share per group	20.0%

### Analysis and Recommendations for Repair and Maintenance

For this category, non-metro average spending is more than statewide average spending (Twin Cities included). We believe the trade area analysis model does not reflect the significant role year-round Isanti County residents would play in this market, increasing the local share to 80 percent.

## Personal Services/Laundry

0.5 percent of total taxable retail and service sales

The 52 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	\$1.38
Potential sales	\$4.55
= \$ variance	(\$3.18)
= as % of potential	-69.7%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$4.55
Surplus (local preference and non-residents)	(\$3.18)
Total	\$1.38
Non-resident share per group	-230.6%

### Analysis with Adjustments

Residents' \$ share	\$1.34
Non-residents' \$ share	\$0.04
Total	\$1.38
Non-resident share per group	3.0%

### Analysis and Recommendations for Personal Services/Laundry

As with similar merchandise categories, local residents will likely comprise the majority of buyers. Therefore, the non-resident share is estimated to be a modest 3 percent 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	\$20.65
% of total taxable retail and service sales	8.2%

**Analysis with Adjustments**

Residents' \$ share	\$18.59
Non-residents' \$ share	\$2.07
Total	\$20.65
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 utilities, manufacturing-related firms, agriculture-related construction, building construction, wholesale services, rental/lease services, administrative support, and the performing arts. This mix of business types is too diverse to run a trade area analysis, but we assume 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 \$113.8 million of taxable sales. This amount will be subject to any new sales taxes, including a local option sales tax supporting county transportation projects and operations. Much of the data are suppressed because there are less than four firms in the business category. Since it is difficult to understand the customer mix of these businesses, Extension estimated 90 percent of sales would be local. This estimate was used to approximate the portion of residential and non-residential tax collected.

Residents' \$ share	\$109.81
Non-residents \$ share	\$12.20
Total	\$122.01
Non-resident share	10%

## ESTIMATES OF PROJECTED SALES TAX REVENUE

The table below shows sales tax revenue for designated transportation projects and/or operations in Isanti County at one-eighth percent intervals up to half a percent. This is 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 Isanti County residents, along with the estimates for tax dollars likely to be paid by non-residents. These estimates include all merchandise categories, based on the adjusted trade area analysis.

**Figure 5: Estimated Tax Proceeds**

<b>ESTIMATED</b>	<b>Total</b>	<b>Dollars</b>	<b>Dollars</b>
<b>TAX PROCEEDS</b>	<b>Tax</b>	<b>Paid By</b>	<b>Paid By</b>
	<b>Proceeds</b>	<b>Isanti</b>	<b>Non-</b>
		<b>Residents</b>	<b>Residents</b>
@ 1/8th of a Percent	\$468,713	\$340,480	\$128,232
@ 1/4th of a Percent	\$937,426	\$680,961	\$256,465
@ 3/8ths of a Percent	\$1,406,138	\$1,021,441	\$384,697
@ 1/2 of a Percent	\$1,874,851	\$1,361,922	\$512,929
Total Taxable Sales:			
	\$374,970,207.00		

The total sales figure of \$375 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, county officials can expect an estimated additional \$13,300 in use (not sales) tax proceeds derived from county businesses purchasing products from out-of-state sources. (This is based on the 6.875 percent use tax rate applied to out-of-state purchases).
2. County officials can also anticipate additional use (not sales) tax proceeds, but there is no way to accurately estimate this number. The amount, however, will be from purchases made by local businesses in other Minnesota locations.

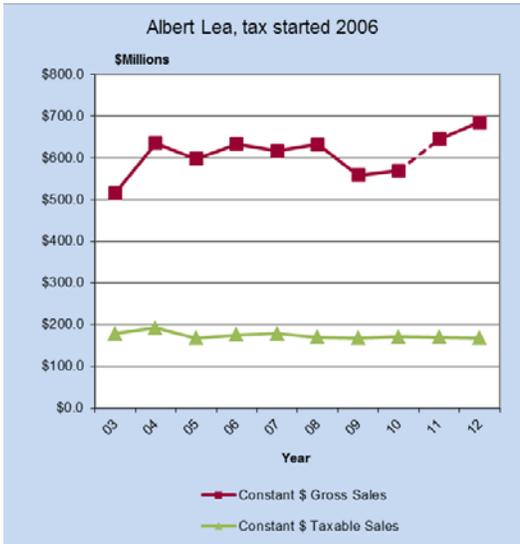
## **APPENDIX A: RESEARCH ON THE EFFECTS OF A LOCAL OPTION SALES TAX**

Isanti County 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 only 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 0.5 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.

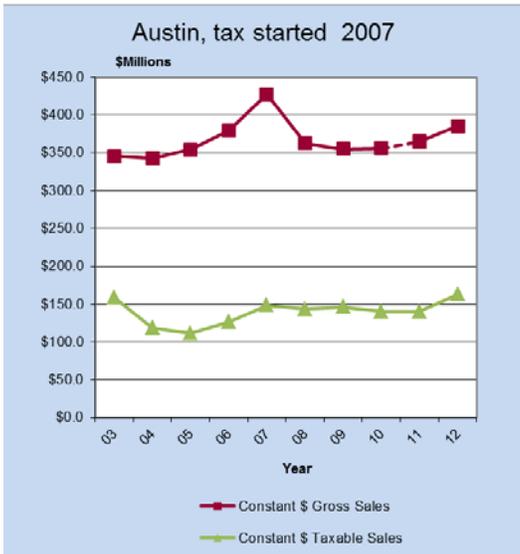
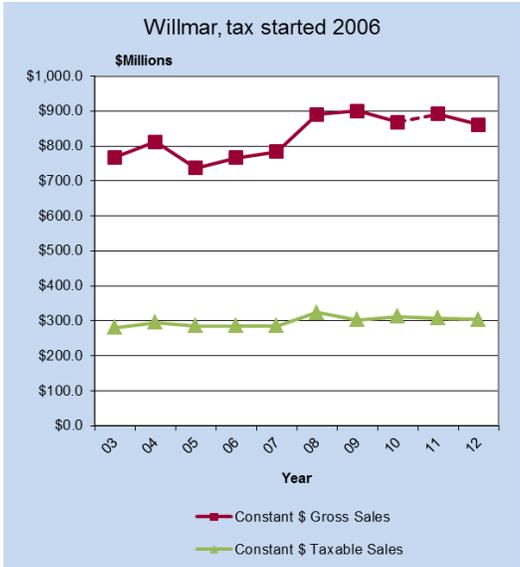
County decision-makers should decide on the best method to raise revenue for transportation projects— either an increase in property taxes or a .5 percent sales tax. Property taxes do not include a household's current income, which raises the financial burden of low-income or retired homeowners. Sales 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 Isanti County. County 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 .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 Isanti 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		
	State	Non-Metro	State	Non-Metro	Cambridge
<b>RETAIL TRADE</b>					
441 Vehicles, Parts	2,008	1,459	\$495.15	\$486.19	\$962.20
442 Furniture Stores	3,225	3,143	\$288.60	\$176.68	NA
443 Electronics	4,187	4,225	\$295.00	\$143.13	\$724.07
444 Building Materials	2,769	1,855	\$1,010.15	\$1,106.89	NA
445 Food and Beverage Stores	1,603	1,419	\$673.77	\$557.88	NA
446 Health, Personal Stores	3,118	3,383	\$126.06	\$79.52	\$233.61
447 Gas/Convenience Stores	2,755	2,001	\$218.84	\$266.49	\$377.07
448 Clothing & Accessory Stores	1,611	1,934	\$180.58	\$84.01	\$96.68
451 Leisure Goods	1,585	1,417	\$237.58	\$168.91	\$69.56
452 General Merchandise	4,733	3,538	\$1,054.45	\$1,134.99	\$968.87
453 Miscellaneous Merchandise	520	434	\$289.42	\$219.61	\$7,123.74
454 Non-store Retail	968	914	\$99.38	\$87.10	\$27.21
Retail Total			\$4,948.97	\$4,511.40	\$19,302.02
<b>INFORMATION</b>					
511 Publishing Industry	10,330	12,717	\$3.90	\$1.41	
512 Movie & Recording Industry	11,081	18,787	\$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	\$32.82	\$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	4,480	\$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	\$2.98	\$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	NA
<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	\$2,226.99
<b>OTHER SERVICES</b>					
811 Repair, Maintenance	651	468	\$250.79	\$264.03	\$454.93
812 Personal, Laundry Service	636	566	\$155.04	\$54.26	\$106.62
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>			\$9,033.73	\$7,339.34	