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# Local Option Sales Tax Analysis for St. Louis Park, MN

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

Authored by Ryan Pesch and Michael Darger



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**December 2019**

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City of St. Louis Park

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## EXECUTIVE SUMMARY

University of Minnesota Extension conducted a study to estimate overall sales tax proceeds in 2017 and the proportion of those proceeds generated by non-St. Louis Park residents. The study was designed to understand the economic dynamics of a potential local options sales tax. 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 54.8 percent of taxable sales subject to a local option sales tax (LOST).

In 2017, total taxable sales in St. Louis Park were \$1.09 billion. However, MN Revenue analysts estimate that approximately \$1 billion would be subject to a LOST. With 54.8 percent of sales derived from non-resident spending, Extension estimated that St. Louis Park residents spent \$452 million of the total \$1 billion in taxable sales subject to a LOST.

A 0.5% or 0.25% local option sales tax would have garnered \$5 million or \$2.5 million in tax proceeds respectively if the tax were in place in 2017. St. Louis Park residents would have contributed \$2.26 million in taxes and non-residents would have contributed \$2.74 million at 0.5% rate. Based on these estimates, each St. Louis Park resident would have contributed an additional \$46.15 on average in 2017 or \$23.07 at a 0.25% rate.

The intent of this report is not to make recommendations to city officials about what actions to take, but rather to 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.

The study is based on a trade area analysis comparing actual taxable sales, based on Minnesota Revenue sales tax data<sup>1</sup> with a calculated “potential sales” amount. This amount was determined by multiplying the St. Louis Park population by the Minnesota average per capita sales and then adjusting for the city’s income factor. This initial analysis provided an estimate of retail and service purchases made by year-round St. Louis Park residents. For each merchandise group, the estimates for two types of purchasers—city residents and others—were studied and adjusted considering the area economy. These adjustments were based on informed estimates and were aimed, in part, at reducing potential overestimates of the sales tax share attributable to non-residents. Assumptions and calculations have been included for major retail and service categories so decision makers can adjust totals if they have better local insights.

Several factors and features in the St. Louis Park economy helped frame the analysis of the different merchandise categories:

- St. Louis Park’s store mix attracts residents of nearby communities to shop in the community, facilitated in part by the strong transportation network that eases travel into the city.
- Despite the local retail mix, St. Louis Park residents are pulled to other communities to shop. This is due, in part, to the number of residents that work outside of the community and the community being situated near multiple competing retail centers within reasonable driving distance.
- Because of its large job base, residents from other communities commute into St. Louis Park for work (Figure 1). We assume that these non-resident workers purchase goods and services in St. Louis Park due to convenience, especially in business categories such as groceries and general merchandise.

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1. *MN City Sales Tax Statistics*. (2017). 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 2 below shows the estimated percentage of sales —across all merchandise categories— attributable to residents and non-residents. These estimates informed the *adjusted* analysis to more accurately reflect the city’s economic and consumption circumstances. Based on these findings, we estimate permanent city residents represent 54.9 percent of all taxable retail and service sales (\$164.7 million), and the remaining 45.1 percent (\$135.3 million) are attributed to non-residents

The Minnesota Department of Revenue research division estimated the dollars that a 0.5 percent LOST would have been generated in 2017 and Extension estimated what residents would have paid compared to non-residents. These estimates are illustrated in Figure 3. Based on correspondence with analysts at the Minnesota Department of Revenue who reviewed the St. Louis Park’s 2017 sales tax statistics, approximately **\$1,000,000,000 of the total \$1,094,920 taxable sales are subject to a local option sales tax** and Extension based its estimates of projected tax proceeds on this figure.

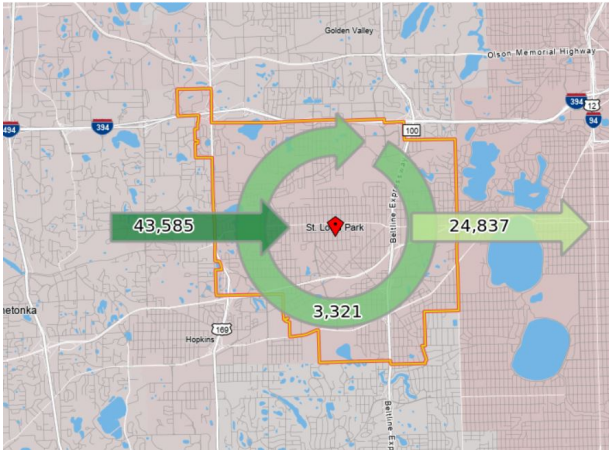
St. Louis Park would realize up to \$5 million in tax proceeds if a half-percent tax were enacted. Of this \$5 million, the estimated proportion of the tax total paid by non-residents is \$2.7 million, and the estimated proportion paid by St. Louis Park residents is \$2.3 million. At a quarter-percent tax rate, the amounts are simply half the amount (Figure 3).

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

	Total Tax Proceeds	Paid by St. Louis Park Residents	Paid by Non-Residents
@ 0.25 percent	\$2,500,000	\$1,128,881	\$1,371,118
@ 0.5 percent	\$5,000,000	\$2,257,762	\$2,742,237

The total taxable sales in the city have steadily increased from 2013 to 2017 (Figure 4). Total taxable sales grew nearly \$200 million during this time period for a 22% increase. Since tax proceeds are calculated as a percentage of total taxable sales subject to the sales tax, this variation during the past 5 years gives some sense of stability if a tax were enacted.

**Figure 1: St. Louis Park worker in-flow and out-flow**



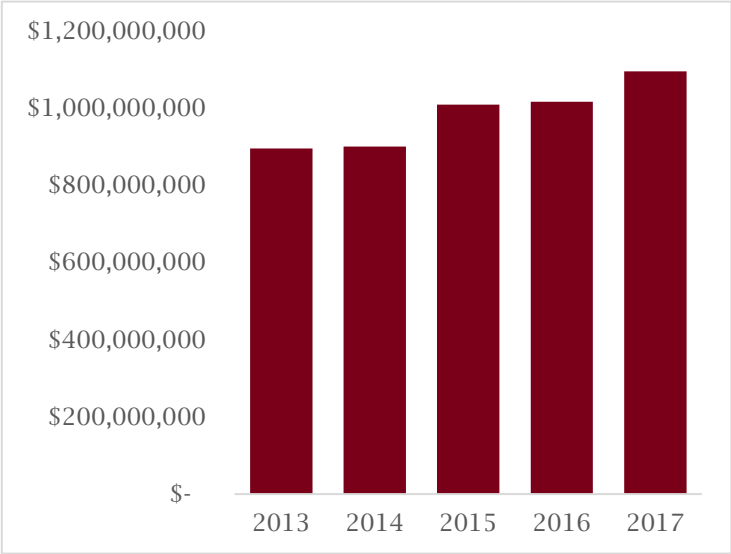
Source: 2017 U.S. Census Bureau OnTheMap application, Longitudinal-Employer Household Dynamics Program

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

	Taxable Sales Subject to LOST	Percentage
	\$millions	of Sales
St. Louis Park Residents	\$451.6	45.2%
Non-residents	\$548.4	54.8%
Totals	\$1,000.0	100%

Use taxes would also affect the estimated tax proceeds from a local option sales tax. Use taxes derive from city businesses purchasing products from out-of-state sources and in other Minnesota locations, which are often less consistent and more difficult to accurately estimate than sales taxes. Based on 2017 figures, city officials can expect an estimated additional \$123,000 or \$61,500 in use (not sales) tax proceeds at 0.5% and 0.25% tax rates respectively.

**Figure 4: Total taxable sales in St. Louis Park from 2013-17**



Source: Minnesota Department of Revenue

St. Louis Park policymakers are understandably concerned that enacting a sales tax in their community will cause a loss of consumer purchases to other jurisdictions. However, at a half a percent, a local option sales tax would add 50 cents to a \$100 purchase. Extension examined records of 11 cities that have enacted a local option sales tax since 1999 available on the Minnesota Department of Revenue website. 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 (see Appendix A). These communities may not be comparable

to St. Louis Park. All communities in the analysis are located outside of the Twin Cities metro area and may retain more shoppers than communities in the metro area where one could easily switch spending from one jurisdiction to another.

## BACKGROUND AND METHODOLOGY

Community economics educators at University of Minnesota Extension provide applied research and education to help community and business partners make better informed decisions. In recent years, Minnesota has adopted laws enabling local governments to enact a local option sales tax and Extension has assisted these administrations to estimate their potential tax proceeds and the portion of taxes paid by local residents.

This report estimates the proportion of tax proceeds generated by year-round St. Louis Park residents compared to non-residents. The most recently available state sales tax data (2017) 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 made by local residents, as well as those made by non-residents. Use tax is a much smaller portion of the total compared to sales tax proceeds. It is estimated using a different formula.

Extension calculated potential sales for the city in each merchandise category and compared this calculation to actual taxable sales from the Minnesota Department of Revenue sales tax statistics for the same category. Actual sales greater than potential sales indicates that the city attracts sales from outside its boundaries 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 city, then adjusted by the level of income in Hennepin County. Specifically, potential sales result from city 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:  
$$(T \div PMn) \times PB \times (YHC \div YMn) = \text{Potential Sales}$$

T = Total Minnesota taxable sales for a merchandise category

PMn = 2017 Population of Minnesota (5,577,487)

PB = 2017 Population of St. Louis Park (48,920)

YHC = Per capita income of Hennepin County resident (\$71,067)

YMn = Per capita income of Minnesota resident (\$54,359)



# TRADE AREA ANALYSIS BY MERCHANDISE CATEGORY

## Vehicles and Parts

2.3 percent of total taxable retail and service sales

The **11 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	\$21.66
-Potential sales	\$34.40
= \$ variance	(\$12.75)
= as % of potential	-37.0%

## Unadjusted Trade Area Analysis

Potential taxable sales to residents	\$34.40
Surplus	(\$12.75)
Total	\$21.66
Surplus percentage	-58.8%

## Analysis with Adjustments

Capture rate of St. Louis Park residents	60%
Residents' \$ share	\$20.58
Non-Residents' \$ share	\$1.08
Total	\$21.66
Non-resident share per group	5.0%

## Analysis for Vehicles and Parts

The trade area analysis estimates that the city falls short of meeting potential sales. With strong evidence that residents are shopping outside of the community in this category, Extension set the non-resident share at a modest 5% of actual sales. The rationale for this modest 5% level is that it is unreasonable to assume that non-resident spending is zero even when a community experiences a net outflow of dollars in a category.

## Furniture Stores

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

These **26 stores** sell furniture, beds, carpeting, window coverings, lamps, china, kitchenware, and wood-burning stoves.

	(\$Millions)
Actual taxable sales	\$26.88
Potential sales	\$17.34
= \$ variance	\$9.54
= as % of potential	55.0%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$17.34
Surplus	\$9.54
Total	\$26.88
Non-resident share per group	35.5%

### Analysis with Adjustments

Capture Rate of St. Louis Park Residents	85%
Residents' \$ share	\$14.78
Non-Residents' \$ share	\$12.10
Total	\$26.88
Non-resident share per group	45.0%

### Analysis for Furniture Stores

The data indicate that St. Louis Park is attracting a large contingent of non-residents with actual taxable sales \$9.5 million above potential sales. Considering the nearby competition in close proximity such as the concentration of furniture stores in Edina, Extension increased the non-resident share to 45% up from 35.5%. This adjustment set the capture rate of St. Louis Park residents' spending down to a more reasonable 85%. This level account for residents' shopping in nearby communities while still conservatively estimating the non-resident spending in the city.

## Electronics and Appliances

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

These 23 establishments primarily include household-type appliances, sewing machines, cameras, computers, and other electronic goods.

	(\$Millions)
Actual taxable sales	\$80.23
-Potential sales	\$19.08
= \$ variance	\$61.15
= as % of potential	320.6%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$19.08
Surplus	\$61.15
Total	\$80.23
Non-resident share per group	76.2%

### Analysis with Adjustments

Capture Rate of St. Louis Park Residents	84%
Residents' \$ share	\$16.05
Non-residents' \$ share	\$64.18
Total	\$80.23
Non-resident share per group	80.0%

### Analysis for Electronics and Appliances

Potential sales calculations suggest that the city brings in over three times more in taxable sales than expected based on the population of St. Louis Park and the per capita income of its residents. This surplus of 320% is extremely strong in comparison to other Minnesota communities. Key informant interviews informed Extension that the community does have some very popular stores in this category, yet not a Best Buy store. Certainly adjacent communities are pulling some portion of resident shopping outside of St. Louis Park. In this context, Extension increased the non-resident share to 80%, up from 76%.

## Building Materials

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

These **13 establishments** sell lumber, hardware, paint, wallpaper, tile, hardwood floors, roofing, fencing, ceiling fans, lawn equipment, and garden items.

	(\$Millions)
Actual taxable sales	\$124.98
Potential sales	\$67.69
= \$ variance	\$57.29
= as % of potential	84.6%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$67.69
Surplus	\$57.29
Total	\$124.98
Non-resident share per group	45.8%

### Analysis with Adjustments

Capture Rate of St. Louis Park Residents	74%
Residents' \$ share	\$49.99
Non-residents' \$ share	\$74.99
Total	\$124.98
Non-resident share per group	60.0%

### Analysis for Building Materials

Building materials is a strong category in St. Louis Park, accounting for over 13% of total retail sales. The collection of 13 establishments in this category are pulling in non-resident traffic with \$57 million more in sales than expected. Extension increased the non-local resident spending to 60 percent of building material sales. This put the capture rate of St. Louis Park residents at 74% with the assumption that some sizable portion of sales leak to other communities in part because the community hosts a Home Depot, but not a Lowe's or Menards.

## Food and Groceries

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

The **29 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	\$172.57
- Potential sales	\$45.64
= \$ variance	\$126.92
= as % of potential	278.1%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$45.64
Surplus	\$126.92
Total	\$172.57
Non-resident share per group	73.6%

### Analysis with Adjustments

Capture Rate of St. Louis Park Residents	95%
Residents' \$ share	\$43.14
Non-residents' \$ share	\$129.43
Total	\$172.57
Non-resident share per group	75.0%

### Analysis for Food and Groceries

The trade area analysis estimated a large surplus of nearly \$127 million in the food and liquor category. Key informants suggested that this category was probably the strongest in the city, which is borne out in this analysis. The strong cluster of 29 stores serves to retain local residents and attract non-residents. In this context, Extension raised the non-resident share to 75%. This set the capture rate of St. Louis Park residents at 95% and allows for some modest out-shopping by residents.

## Health & Personal Items

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

Stores selling prescription drugs, food supplements, vision supplies, cosmetics, and hearing aids are among the **24 shops** included in this merchandise group.

	(\$Millions)
Actual taxable sales	\$9.10
Potential sales	\$8.01
= \$ variance	\$1.09
= as % of potential	13.7%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$8.01
Surplus	\$1.09
Total	\$9.10
Non-resident share per group	12.0%

### Analysis with Adjustments

Capture Rate of St. Louis Park Residents	95%
Residents' \$ share	\$7.65
Non-residents' \$ share	\$1.46
Total	\$9.10
Non-resident share per group	16.0%

### Analysis for Health and Personal Items

This is a minor category in St. Louis Park, accounting for only 1 percent of total taxable sales. Despite the size, this category does attract shoppers from outside the community with \$1.1 million over the potential sales calculation. Extension set the non-resident share at 16 percent.

## Gas/Convenience Stores

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

This merchandise group covers **10 retailers** selling convenience items at a store that also sells fuel.

	(\$Millions)
Actual taxable sales	\$4.09
-Potential sales	\$14.66
= \$ variance	(\$10.57)
= as % of potential	-72.1%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$14.66
Surplus	(\$10.57)
Total	\$4.09
Non-resident share per group	-258.4%

### Analysis with Adjustments

Capture Rate of St. Louis Park Residents	27%
Residents' \$ share	\$3.88
Non-residents' \$ share	\$0.20
Total	\$4.09
Non-resident share per group	5.0%

### Analysis for Gas Station/Convenience Stores

Like other categories with a deficit, Extension set the non-resident share at 5% of total taxable sales in this category. Clearly residents are shopping outside of the community in this category and key informants confirmed this.

## Apparel/Clothing

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

This merchandise group includes **54 stores** selling new clothing and accessories, jewelry, shoes, bridal items, clocks, and luggage.

	(\$Millions)
Actual taxable sales	\$41.35
Potential sales	\$11.02
= \$ variance	\$30.33
= as % of potential	275.3%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$11.02
Surplus	\$30.33
Total	\$41.35
Non-resident share per group	73.4%

### Analysis with Adjustments

Capture Rate of St. Louis Park Residents	94%
Residents' \$ share	\$10.34
Non-residents' \$ share	\$31.01
Total	\$41.35
Non-resident share per group	75.0%

### Analysis for Apparel/Clothing

Although not a large category (4.4% of taxable sales), clothing is obviously attracting shoppers from outside of the community with almost 3 times the amount of taxable sales than Extension's potential sales calculation. Extension raised the non-resident share to 75% which set the capture rate of St. Louis Park residents' spending at 94%.



## Leisure Goods

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

The **27 firms** in this merchandise group sell sporting goods, books, music, hobby items, fabrics, and toys.

	(\$Millions)
Actual taxable sales	\$10.25
Potential sales	\$13.37
= \$ variance	(\$3.12)
= as % of potential	-23.4%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$13.37
Surplus	(\$3.12)
Total	\$10.25
Non-resident share per group	-30.5%

### Analysis with Adjustments

Capture Rate of St. Louis Park Residents	73%
Residents' \$ share	\$9.74
Non-Residents' \$ share	\$0.51
Total	\$10.25
Non-resident share per group	5.0%

### Analysis for Leisure Goods

Like other categories with a deficit, Extension set the non-resident share at 5% of total taxable sales in this category.

## General Merchandise Stores

### 9.8 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	\$91.67
potential sales	\$66.38
= \$ variance	\$25.29
= as % of potential	38.1%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$66.38
Surplus	\$25.29
Total	\$91.67
Non-resident share per group	27.6%

### Analysis with Adjustments

Capture Rate of St. Louis Park Residents	80%
Residents' \$ share	\$53.17
Non-Residents' \$ share	\$38.50
Total	\$91.67
Non-resident share per group	42.0%

### Analysis for General Merchandise Stores

With only 11 stores in this category dominated by large big box stores, St. Louis Park is clearly pulling in a fair amount of sales in this category. According to the trade area analysis, St. Louis Park general merchandise stores brought in \$25 million more in taxable sales than expected. This would mean that 28% of all taxable sales would come from outside the community. Extension set the non-resident share of sales at 42% to account for St. Louis Park residents shopping in nearby competing retail centers. For example, St. Louis Park does not have a Wal-Mart, and, although key informants suggested that St. Louis Park residents are not Wal-Mart shoppers in general, one could reasonably conclude that this important retailer alone is drawing some sales outside of the community. Residents who work outside the community (Figure 1) also reasonably pick up some goods in this convenience category near their place of work.

## Miscellaneous Retail

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

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

	(\$Millions)
Actual taxable sales	\$24.14
Potential sales	\$18.14
= \$ variance	\$6.00
= as % of potential	33.1%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$18.14
Surplus	\$6.00
Total	\$24.14
Non-resident share per group	24.9%

### Analysis with Adjustments

Capture Rate of St. Louis Park Residents	97%
Residents' \$ share	\$17.62
Non-residents' \$ share	\$6.52
Total	\$24.14
Non-resident share per group	27.0%

### Analysis for Miscellaneous Retail

The category currently brings in \$6 million more in taxable sales than one would expect. As a category with a wide mix of retail types and not a clear reason for a strong adjustment, Extension set the resident capture rate at 97% and the non-resident share at 27%.

## Amusement and Recreation

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

The 25 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	\$27.95
Potential sales	\$19.69
= \$ variance	\$8.26
= as % of potential	41.9%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$19.69
Surplus	\$8.26
Total	\$27.95
Non-resident share per group	29.5%

### Analysis with Adjustments

Capture Rate of St. Louis Park Residents	92%
Residents' \$ share	\$18.17
Non-residents' \$ share	\$9.78
Total	\$27.95
Non-resident share per group	35.0%

### Analysis for Amusement and Recreation

The 25 establishments in this relatively small category are bringing in \$8 million more than the potential sales calculation. Since key informants suggested that residents are attracted to other communities for amusement and entertainment, Extension adjusted the non-resident share to 35%, up from 30%.

## Accommodations

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

These 5 **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	\$29.37
Potential sales	\$25.88
= \$ variance	\$3.49
= as % of potential	13.5%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$25.88
Surplus	\$3.49
Total	\$29.37
Non-resident share per group	11.9%

### Analysis with Adjustments

Capture Rate of St. Louis Park Residents	11%
Residents' \$ share	\$2.94
Non-residents' \$ share	\$26.43
Total	\$29.37
Non-resident share per group	90.0%

### Analysis for Accommodations

Logically, a significant percentage of lodging sales are from non-residents visiting the area or staying overnight for business or vacation. In keeping with past LOST analysis, Extension set the non-resident share at 90% of sales to allow for resident spending for events, facility charges, and 'staycations.'

## Eating/Drinking Establishments

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

These **93 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	\$121.88
Potential sales	\$107.06
= \$ variance	\$14.82
= as % of potential	13.8%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$107.06
Surplus	\$14.82
Total	\$121.88
Non-resident share per group	12.2%

### Analysis with Adjustments

Capture Rate of St. Louis Park Residents	74%
Residents' \$ share	\$79.22
Non-residents' \$ share	\$42.66
Total	\$121.88
Non-resident share per group	35.0%

### Analysis for Eating/Drinking Establishments

The eating and drinking category—which includes all bars, restaurants, and other food service—is a significant category with \$122 million in taxable sales. St. Louis Park pulls in 14 percent more sales to the city than expected. If this \$15 million in surplus sales were assumed to be from non-residents, one would set the non-resident share of sales at 12 percent. Key informants suggested that this category in particular pulls residents to other communities to seek other dining options or simply a ‘change of scenery’ with many other dining options in close proximity. With this context, Extension set the non-resident share at 35%, up from 12%. This adjustment left the St. Louis Park capture rate at 74%.

## Repair and Maintenance

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

The **51 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, televisions, computers, copiers, appliances, lawn mowers, specialized equipment, small engines, furniture, shoes, guns, etc.

	(\$Millions)
Actual taxable sales	\$12.04
Potential sales	\$16.11
= \$ variance	(\$4.07)
= as % of potential	-25.3%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$16.11
Surplus	(\$4.07)
Total	\$12.04
Non-resident share per group	-33.8%

### Analysis with Adjustments

Capture Rate of St. Louis Park Residents	71%
Residents' \$ share	\$11.44
Non-residents' \$ share	\$0.60
Total	\$12.04
Non-resident share per group	5.0%

### Analysis for Repair and Maintenance

Like other categories with a deficit, Extension set the non-resident share at 5% of total taxable sales in this category.

## Personal Services/Laundry

1.5 percent of total taxable retail and service sales

The **110 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	\$13.69
Potential Sales	\$10.26
= \$ variance	\$3.43
= as % of potential	33.5%

## Unadjusted Trade Area Analysis

Potential sales to residents	\$10.26
Surplus	\$3.43
Total	\$13.69
Non-resident share per group	25.1%

## Analysis with Adjustments

Capture Rate of St. Louis Park Residents	97%
Residents' \$ share	\$9.99
Non-residents' \$ share	\$3.70
Total	\$13.69
Non-resident share per group	27.0%

## Analysis for Personal Services/Laundry

This category includes businesses which typically serve a local market such as barbers, hair salons, and dry-cleaning operations. Extension modestly increased the non-resident share to 27%, up from 25%.



## Retail (non-store) and Other Services

This section includes taxable sales attributed to North American Industrial Classification System categories 511-813 released by MN Revenue.

	(\$Millions)
Actual taxable sales	\$124.88
% of total taxable retail and service sales In St. Louis Park	13.3%

## Analysis with Adjustments

	(\$Millions)
Residents' \$ share	\$62.44
Non-residents' \$ share	\$62.44
Total	\$124.88
Non-resident share per group	50%

## Analysis for Retail and Other Services

This group includes non-store retailers (such as direct selling operations), healthcare, waste management, rental/lease services, administrative support, and the performing arts. Some of these categories serve primarily a local market, whereas categories like 541 (professional and technical services) serve a non-local market. This mix of business types is too diverse to run a trade area analysis, but Extension conservatively assumes an aggregate 50 percent of these sales are to non-resident customers. The categories of sales are highlighted below:

Category	Taxable Sales
454 RETL -NONSTORE RETAILERS	\$16,240,886
511 INFO -PUBLISHING INDUSTRY	\$196,023
512 INFO -MOVIES, MUSIC IND	\$9,930,100
517 INFO -TELECOMMUNICATIONS	\$10,776,115
518 INFO -INTERNET SERVICE	\$41,411
519 INFO -OTHER SERVICES	\$668,378
522 CREDIT INTERMEDIATION	\$6,009
523 SECURITIES, COMMODITIES	\$10,137
524 INSURANCE CARRIERS	\$21,095
531 REAL ESTATE	\$1,217,211
532 RENTAL, LEASING SERVICES	\$19,729,613
541 PROF,SCIENTIFIC,TECH SERV	\$35,857,408
551 MGMT OF COMPANIES	\$7,498
561 ADMIN, SUPPORT SERVICES	\$26,077,494
611 EDUCATIONAL SERVICES	\$251,162
621 HEALTH -AMBULATORY CARE	\$2,795,912
623 HEALTH -NURSING,HOME CARE	\$95,764
624 HEALTH -SOCIAL ASSISTANCE	\$25,599
711 PERF ART, SPECTATOR SPRTS	\$239,137

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

A diverse mix of businesses fall into these non-retail categories and a portion of sales are within a suppressed or non-disclosed subcategory. These industries and services generate \$158 million in taxable sales, or about 14% of total taxable sales in St. Louis Park. A significant portion of this amount would be subject to any new sales taxes, including a local option sales tax.

This category includes utilities since their sales are not broken out in the sales tax report. Utilities serve a local market and are subject to a local option sales tax. The diversity of firm types included in this category makes it difficult to understand the customer mix of these businesses; however Extension broke out each known subcategory and assigned assumptions:

Subcategory	2017 taxable sales	Non-local estimate
Construction	\$5,884,656	50%
Manufacturing	\$7,484,130	90%
Wholesale	\$134,054,550	60%
Transportation	\$2,040,989	60%
Undesignated	\$8,721,731	30%

Extension estimated that overall 60 percent of sales are to non-residents. The analysis assumes that some subcategories such as manufacturing sell primarily (90%) to non-resident customers, whereas subcategories like construction split their sales between resident and non-resident customers. Extension set the undesignated category at 30% since the category must include utilities, which are very local.

	(\$Millions)
Residents' \$ share	\$63.27
Non-residents \$ share	\$94.91
Total	\$158.19
Non-resident share	60%

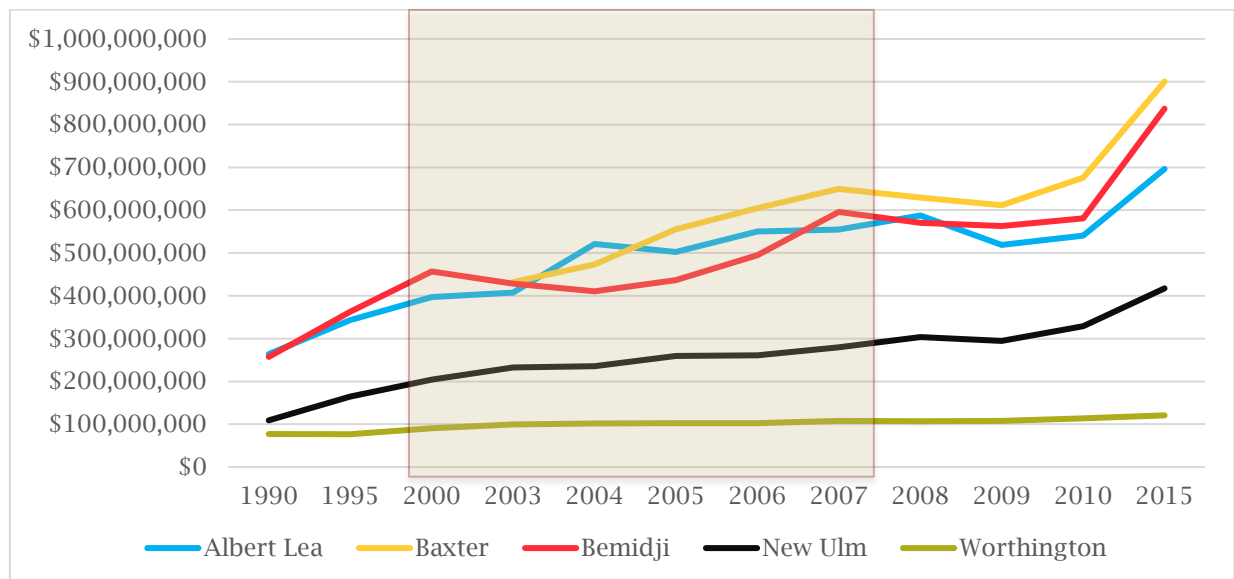
## APPENDIX A: RESEARCH ON THE EFFECTS OF LOCAL OPTION SALES TAX

Policymakers are understandably concerned that enacting a local sales tax will result in a loss of consumer purchases to neighboring communities that have not adopted the tax.

The Minnesota Department of Revenue records the tax collected from a set of Minnesota jurisdictions that have had a local sales or use tax in effect for at least eight years. Most of these cities show continued sales growth. A comparison that includes eleven Minnesota cities that have adopted a .5 percent local option sales tax is offered below (see Figures 5, 6, 7, and 8). None of the example communities are in the Twin Cities metro, however, which limits the comparison value.

Policy makers must determine the best allowable method to raise revenue from a variety of options. One option is raising property taxes, which is not directly related to a household's current income and raises the financial burden of low-income or retired homeowners. Sales taxes raise revenues based on household expenditures, which excludes the basic necessities of food and clothing. However, since a sales tax raises revenues from non-residents who shop in St. Louis Park, resident contributions to tax revenues are significantly lower than a tax generated exclusively by local residents, such as a property tax. Policymakers must carefully consider these and other factors before making a decision about enacting a local sales tax.

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



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

Town Name	2015 Population	Year LOST	90	95	00	03	04	05	06	07	08	09	10	15
Albert Lea	18,356	2006	\$264	\$344	\$397	\$407	\$521	\$502	\$551	\$555	\$588	\$519	\$541	\$696
Baxter	8,065	2006				\$432	\$473	\$556	\$605	\$650	\$630	\$612	\$676	\$900
Bemidji	11,917	2005	\$257	\$362	\$457	\$428	\$410	\$437	\$495	\$596	\$570	\$563	\$581	\$837
New Ulm	13,594	1999	\$109	\$165	\$204	\$233	\$236	\$259	\$261	\$280	\$303	\$295	\$329	\$417
Worthington	11,283	2005	\$77	\$77	\$91	\$99	\$102	\$103	\$103	\$108	\$107	\$108	\$114	\$121

Figure 7: Taxable retail and service sales by communities that began collecting a local option sales tax between 2011- 2012

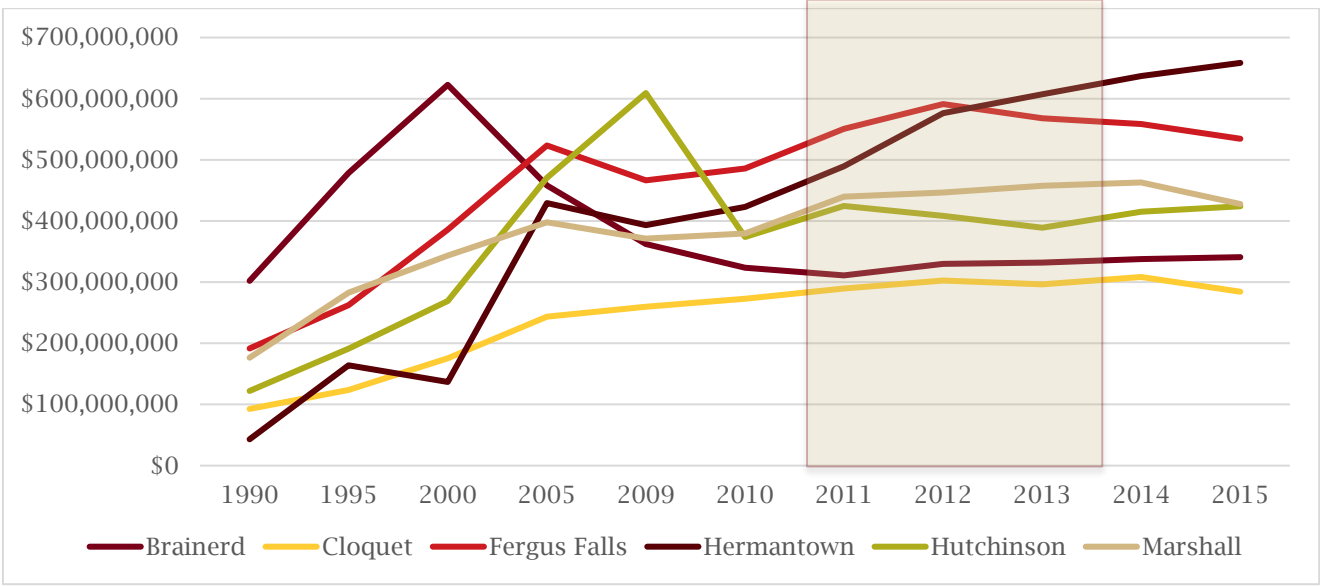


Figure 8: Data table for example communities, taxable retail and service sales (in millions)

Town Name	2015 Pop	Year LOST	90	95	00	05	09	10	11	12	13	14	15
Brainerd	13,178	2011	\$302	\$479	\$623	\$458	\$362	\$324	\$311	\$330	\$332	\$338	\$341
Cloquet	11,201	2011	\$93	\$124	\$175	\$244	\$260	\$273	\$290	\$303	\$296	\$308	\$284
Fergus Falls	13,471	2011	\$192	\$263	\$386	\$523	\$467	\$486	\$551	\$591	\$568	\$558	\$534
Hermantown	7,448	1996 - increase 2012	\$43	\$164	\$137	\$430	\$393	\$423	\$489	\$576	\$607	\$637	\$659
Hutchinson	13,080	2011	\$122	\$191	\$269	\$471	\$609	\$374	\$425	\$409	\$389	\$415	\$424
Marshall	12,735	2011	\$176	\$283	\$343	\$398	\$371	\$380	\$440	\$447	\$457	\$463	\$428

## **APPENDIX B: DEFINITIONS OF TERMS**

### **Gross Sales**

Gross sales include taxable sales and exempt businesses with sales and use tax permits. This is the most inclusive indicator of business activity for the reporting jurisdictions, but it can be misleading when used in comparisons. At times, non-taxable commodity items (e.g., gasoline) can have large price variations, creating huge swings in gross sales.

### **Taxable Sales**

Taxable sales are those sales subject to sales tax. Taxable sales exclude exempt items, items sold for resale, items sold for exempt purposes, and items sold to exempt organizations. For the purpose of this study, taxable sales were the focus of the analysis. For more information on what is taxed in Minnesota, see the "Minnesota Sales and Use Tax Instruction Booklet" available at [http://www.revenue.state.mn.us/Forms\\_and\\_Instructions/sales\\_tax\\_booklet.pdf](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 or city. It is the product of city or county population, state per capita sales, and the index of income (based on the county personal per capita income). Potential sales for counties is similar to expected sales for cities. Potential sales, however, do not utilize a measure of average pulling power (like the typical pull factor used in the expected sales equation).

### **Actual Sales**

For this study, the Minnesota Department of Revenue's 2016 sales data for City of St. Louis Park 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. All sales reported by a business is attributed to that selected NAICS category. Regardless of who makes this classification, errors are occasionally made. Also, sometimes a business will start out as one type but evolve over time to a considerably different type. Misclassifications can distort sales among business categories, especially in smaller cities. For example, a furniture store that is classified as a general merchandise store will 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.