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Local Option Sales Tax Analysis for Crow Wing County

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

Authored by Merritt Bussiere and Bruce Schwartau



Red Sand Lake, Baxter, MN; Photo credit: Denise Stromme

PROGRAM SPONSORS: HIGHWAY DEPARTMENT, CROW WING COUNTY, MN

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March 4, 2015

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EXECUTIVE SUMMARY

Minnesota law allows non-metro county boards, following a public hearing, to create a local option sales tax of up to a ½ percent to fund transportation projects. This report details the results of a study conducted by University of Minnesota’s Extension Center for Community Vitality to estimate the total potential sales tax proceeds and the proportion of tax proceeds generated by sales to year-round Crow Wing County residents. These results are compared to proceeds generated by seasonal residents, travelers, visitors, and other non-residents, using sales tax data from the Minnesota Department of Revenue (MN Revenue).

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

Extension initially generated a retail trade area analysis that compared actual taxable sales, based on MN Revenue sales tax data¹, with a calculated “expected sales” amount that is created by multiplying the Crow Wing County population by the Minnesota average per capita sales and adjusting for a county income factor. This provided an estimate of retail and service purchases made by year-round Crow Wing County residents. For each merchandise group, the estimates for two types of purchasers—year-round county residents and others—were considered and adjusted in light of the area economy and lifestyle. Lifestyle aspects include, for example, the increased ownership of boats, snowmobiles, and other off-road vehicles, as well as the appropriate leisure goods and services used with them. Within the area economy, Crow Wing County has a regional retail and service hub that draws residents from neighboring counties on a regular basis for certain retail purchases. Adjustments were also made in categories where there has been a consistent difference between the average per capita sales in Greater Minnesota and the state average. These adjustments involved informed guesswork and were aimed, in part, at reducing what otherwise might have been overestimates of the sales tax share falling to non-residents. We interviewed 24 business managers in select merchandise groups to check some of our assumptions. A Regional Analyst based in Brainerd with the state Department of Employment and Economic Development reviewed the report. Assumptions and calculations are shown for the major retail and service categories so that decision makers can adjust the totals if they have more precise local information.

The table below shows the estimated percentage breakout—across all merchandise categories—for the *adjusted* analysis to more accurately reflect economic and consumption circumstances in the county. Based on this research process, we estimate that 48.7 percent of all taxable retail and service

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

sales would be made by permanent county residents, while the remaining estimated 51.3 percent of taxable sales would be made by non-residents.

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

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

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

Crow Wing County has the potential to realize substantial tax proceeds to support designated transportation projects and operations, reaching as much as an estimated \$4.18 million if the full ½ percent tax were to be enacted. At the \$4.18 million level, the proportion of the tax total to be paid by non-residents is estimated to be \$2.14 million, and the proportion to be paid by year-round Crow Wing County residents is estimated to be \$2.04 million.

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

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

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

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

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

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

ABOUT THE STUDY AND REPORT

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

Proceeds must be dedicated exclusively for:

- A specific transportation project or improvement
- Capital for operation of a specific transit project
- Capital for a Safe Routes to School project²

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

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

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