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Local Option Sales Tax Analysis for Jackson County, MN

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

Authored by Eric King



JACKSON COUNTY
MINNESOTA

REPORT SPONSOR: JACKSON COUNTY, MINNESOTA

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April 2024

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Jackson County

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SUMMARY OF FINDINGS

University of Minnesota Extension conducted a study to estimate the proportion of sales proceeds attributed to both Jackson County residents and non-residents.

Using 2021 sales and use tax data available from the Minnesota Department of Revenue (MN Revenue), Extension estimated that non-residents account for 31.4 percent of taxable sales subject to a local option sales tax (LOST).

In 2021, total taxable sales in Jackson County were \$77.0 million. MN Revenue analysts estimate that 89.97% of taxable sales would be subject to a LOST. With 31.4 percent of sales derived from non-resident spending, Extension estimated that Jackson County residents spent \$48.02 million of the total \$70.0 million in taxable sales subject to a LOST.

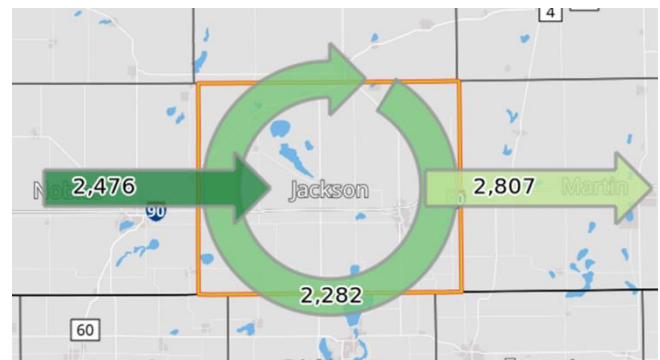
If the tax were in place in 2021, a 1.0 percent local option sales tax would have garnered \$700,000 thousand in tax proceeds according to MN Department of Revenue analysts. Jackson County residents would have contributed \$480,200 thousand in taxes, and non-residents would have contributed \$219,800 thousand. In 2021, Based on these estimates, each Jackson County resident would have paid, on average, an additional \$48.03 in sales tax in 2021.

This report is based on a trade area analysis comparing actual taxable sales to potential sales. This is calculated by multiplying the Jackson County population in 2021 (MN Demographic Center) by the Minnesota average per capita sales for each category, and then adjusting for the county's personal income factor. This initial analysis provided an estimate of retail and service purchases made by Jackson County residents. For each merchandise group, the estimates for two types of purchasers—county residents and others—were calculated 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 are included for major retail and service categories so local decision makers can adjust totals if they have more nuanced insight.

Several factors and features of Jackson County's economy helped frame the analysis for the different merchandise categories:

- Residents of nearby communities do not generally easily access Jackson County businesses. For this analysis, cross-hauling has no general effect of increasing non-resident spending as Jackson County is not a central shopping hub in the region.
- Jackson County has less workers entering the county for employment than residents who leave for work (Figure 1). In this dynamic, commuters often shop for goods and services near where they work and those commuting into the county purchase in the county.

Figure 1: Jackson County worker in-flow and out-flow



Inflow and outflow of wage earners.

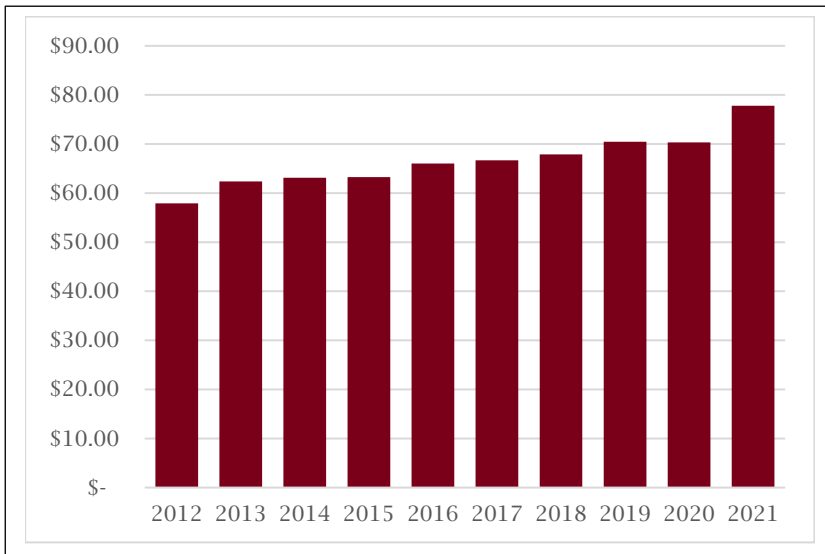
Source: 2021 U.S. Census Bureau On-The-Map

Figure 2 shows the estimated percentage of sales—across all merchandise categories—attributed to both residents and non-residents in 2021. These estimates are based on the adjusted analysis to more accurately reflect the county’s economic and consumption circumstances. Based on these findings, Extension estimates county residents represent 68.6 percent of all taxable retail and service sales subject to the tax (\$48.02 million), and the remaining 31.4 percent (\$21.98 million) are attributed to non-residents.

Figure 2: Estimated 2021 Taxable Sales Subject to LOST

	Taxable Sales	Percent of Sales
County residents	\$48,020,000	68.6%
Non-residents	\$21,980,000	31.4%

Figure 3: Total taxable sales in Jackson County from 2012-2021



Source: Minnesota Department of Revenue

The total taxable sales in the county have increased steadily from 2012 to 2021 (Figure 3). Total sales increased about 10% following the pandemic in 2020 as well. This provides some sense of the stability and trajectory of a LOST going forward.

Extension forecasted taxable sales subject to the local tax for 2022, 2023, and 2024 using a simple exponential smoothing forecast

model that employs a moving weighted average and a 95% confidence interval to provide an upper and lower bound to the estimate (Figures 5 and 6). This model estimates total tax proceeds in 2022 to be between an upper limit of \$713,681.72 thousand and a lower limit of \$651,230.37 thousand.

Considering the historic disruption of the pandemic and its uneven effect on business categories, this forecast is an unlikely scenario based only on past trends. National evidence shows that home-focused businesses like food, building materials, furniture, and general merchandise did well through the pandemic, whereas dining, accommodations, and amusement saw record sales decreases. The increase in sales in 2021 further complicates any forecast.

Figure 5: Forecast for Tax Proceeds based on Past Trends 2012 to 2021

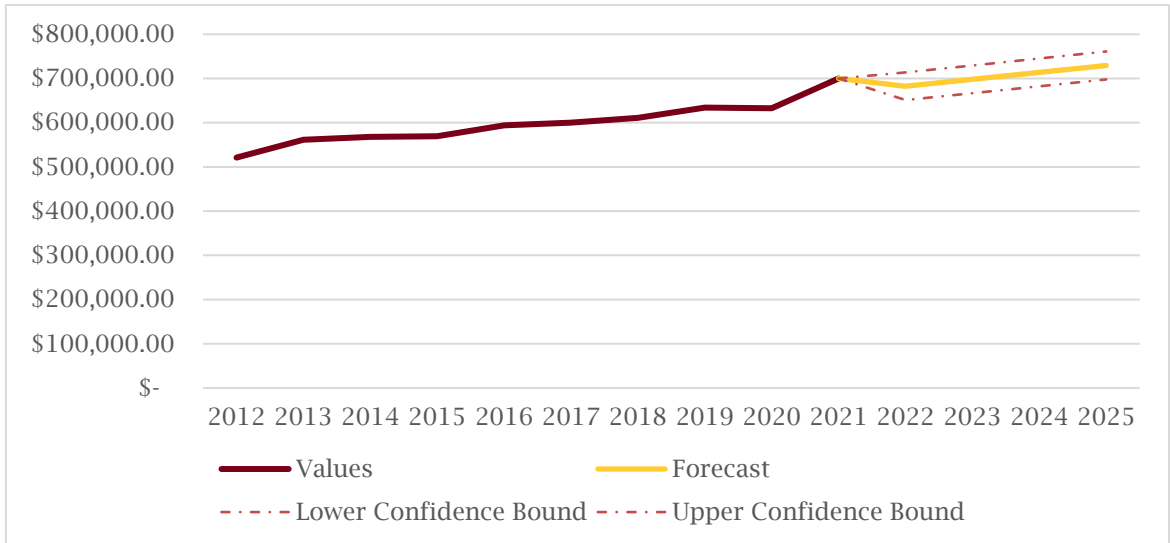


Figure 6: Forecast with Upper and Lower Bound 2022-25

	Forecast	Lower Bound	Upper Bound
2022	\$682,456.04	\$651,230.37	\$713,681.72
2023	\$698,089.99	\$666,705.45	\$729,474.52
2024	\$713,723.93	\$682,178.19	\$745,269.67
2025	\$729,357.87	\$697,648.61	\$761,067.14

Use taxes also affect the tax proceeds from a local option sales tax. Use taxes derive from county businesses purchasing products from out-of-state sources and in other Minnesota locations. Use taxes are often less consistent and more difficult to estimate accurately than sales taxes. In 2021, the county received \$164,726 in use (not sales) tax proceeds. It would have garnered \$24,404 for a LOST at the 1.0 percent rate.

Policymakers must also consider the impacts that a LOST may have on consumer purchasing behavior, particularly whether it will result in a loss of consumer purchases to other jurisdictions. Extension examined records of 11 cities that enacted a local option sales tax between 1999 and 2006 (information available on the Minnesota Department of Revenue website). 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, however, may not be comparable to Jackson County. All communities included in this analysis are located outside the Twin Cities metro area and may retain more shoppers than communities in the metro area where one can 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. Extension has assisted these administrations in estimating their potential tax proceeds and the portion of taxes paid by local residents.

This report estimates the proportion of tax proceeds generated by Jackson County residents compared to non-residents. The most recently available state sales tax data (2021) from the Minnesota Department of Revenue (MN Revenue) was 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 both local residents and non-residents. Use tax is a much smaller portion of the total collection compared to sales tax proceeds. It is also estimated using a different formula.

Extension calculated potential sales for the county 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 indicate the county attracts sales from outside its boundaries or has sales greater than one would expect from 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 Jackson County. Specifically, potential sales result from county population, state per capita taxable sales, and the index of income (see sidebar and Appendix B).

The following section 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.

Online sales have been left out of the estimates for this analysis as data for these types of transactions by jurisdiction are not available before a local option sales tax is enacted. After a local option sales tax is enacted, sales tax is collected for online sales for delivered purchases. Extension estimates about 15% of sales are done online by households.

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:

$$(T \div PMn) \times PO \times (YWC \div YMn) = \text{potential sales}$$

T = Total Minnesota taxable sales for a merchandise category

PMn = 2021 population of Minnesota (5,742,036)

PO = 2021 population of Jackson County (9,998)

YWC = Per capita income of Jackson County residents (\$63,311)

YMn = Per capita income of Minnesota residents (\$66,280)

TRADE AREA ANALYSIS BY MERCHANDISE CATEGORY

The following pages provide detailed analysis by merchandise category.

Vehicles and Parts

4.8 percent of total taxable retail and service sales

The **8 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	\$3.14
-Potential sales	\$5.63
= \$ variance	(\$2.50)
= as % of potential	-44.3%

Unadjusted Trade Area Analysis

Potential taxable sales to residents	\$5.63
Surplus	(\$2.50)
Total	\$3.14
Surplus percentage	-79.6%

Analysis with Adjustments

Capture rate of Jackson County residents	53%
Residents' \$ share	\$2.98
Non-Residents' \$ share	\$0.16
Total	\$3.14
Non-resident share per group	5.0%

Analysis for Vehicles and Parts

In Jackson County's Vehicles and Parts retail category, consisting of 8 businesses dealing with repair parts, snowmobiles, boats, trailers, and recreational vehicles, the actual taxable sales amount to \$3.14 million. This figure represents a variance of (\$2.50) million or -44.3% from the potential sales of \$5.63 million. Extension estimates a 53% capture rate of Jackson County residents, the residents' share in sales is \$2.98 million, while non-residents contribute \$0.16 million, making the total actual taxable sales still \$3.14 million. The non-resident share per group remains at 5.0%.

Furniture Stores

NA percent of total taxable retail and service sales

These NA **businesses** sell furniture, beds, carpeting, window coverings, kitchenware, and wood-burning stoves.

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

Unadjusted Trade Area Analysis

Potential sales to residents	\$ -
Surplus	\$ -
Total	\$ -
Non-resident share per group	-

Analysis with Adjustments

Capture rate of Jackson County residents	-
Residents' \$ share	\$ -
Non-Residents' \$ share	\$ -
Total	\$ -
Non-resident share per group	-

Analysis for Furniture Stores

Department of Revenue suppresses data for categories with under 4 businesses.

Electronics and Appliances

NA percent of total taxable retail and service sales*

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

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

Unadjusted Trade Area Analysis

Potential sales to residents	\$ -
Surplus	\$ -
Total	\$ -
Non-resident share per group	-

Analysis with Adjustments

Capture rate of Jackson County residents	-
Residents' \$ share	\$ -
Non-residents' \$ share	\$ -
Total	\$ -
Non-resident share per group	-

Analysis for Electronics and Appliances

Department of Revenue suppresses data for categories with under 4 businesses.

Building Materials

14.5 percent of total taxable retail and service sales*

These **6 businesses** sell lumber, hardware, paint, wallpaper, tile, hardwood floors, roofing, fencing, ceiling fans, lawn equipment, and garden items.

	(\$Millions)
Actual taxable sales	\$9.40
Potential sales	\$11.74
= \$ variance	(\$2.34)
= as % of potential	-19.9%

Unadjusted Trade Area Analysis

Potential sales to residents	\$11.74
Surplus	(\$2.34)
Total	\$9.40
Non-resident share per group	-24.9%

Analysis with Adjustments

Capture rate of Jackson County residents	76%
Residents' \$ share	\$8.93
Non-residents' \$ share	\$0.47
Total	\$9.40
Non-resident share per group	5.0%

Analysis for Building Materials

In Jackson County's Building Materials retail category, comprising 6 businesses selling various items like lumber, hardware, paint, wallpaper, tile, hardwood floors, roofing, fencing, ceiling fans, lawn equipment, and garden items, the actual taxable sales amount to \$9.40 million. This figure represents a variance of (\$2.34) million or -19.9% from the potential sales of \$11.74 million. Extension estimates a 76% capture rate of Jackson County residents, the residents' share in sales is \$8.93 million, while non-residents contribute \$0.47 million, making the total actual taxable sales still \$9.40 million. The non-resident share per group remains at 5.0%.

Food and Groceries

5.6 percent of total taxable retail and service sales

The **7 businesses** 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	\$3.61
- Potential sales	\$7.88
= \$ variance	(\$4.27)
= as % of potential	-54.2%

Unadjusted Trade Area Analysis

Potential sales to residents	\$7.88
Surplus	(\$4.27)
Total	\$3.61
Non-resident share per group	-118.2%

Analysis with Adjustments

Capture rate of Jackson County residents	44%
Residents' \$ share	\$3.43
Non-residents' \$ share	\$0.18
Total	\$3.61
Non-resident share per group	5.0%

Analysis for Food and Groceries

In Jackson County's Food and Groceries merchandise group, consisting of 7 businesses such as grocery stores, delis, bakeries, butcher shops, and liquor stores, the actual taxable sales amount to \$3.61 million. This figure represents a variance of (\$4.27) million or -54.2% from the potential sales of \$7.88 million. Extension estimates a 44% capture rate of Jackson County residents, the residents' share in sales is \$3.43 million, while non-residents contribute \$0.18 million, making the total actual taxable sales still \$3.61 million. The non-resident share per group remains at 5.0%.

Health and Personal Items

NA percent of total taxable retail and service sales

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

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

Unadjusted Trade Area Analysis

Potential sales to residents	\$ -
Surplus	\$ -
Total	\$ -
Non-resident share per group	-

Analysis with Adjustments

Capture rate of Jackson County residents	-
Residents' \$ share	\$ -
Non-residents' \$ share	\$ -
Total	\$ -
Non-resident share per group	-

Analysis for Health and Personal Items

Department of Revenue suppresses data for categories with under 4 businesses.

Gas/Convenience Stores

7.3 percent of total taxable retail and service sales

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

	(\$Millions)
Actual taxable sales	\$4.72
-Potential sales	\$2.52
= \$ variance	\$2.20
= as % of potential	87.4%

Unadjusted Trade Area Analysis

Potential sales to residents	\$2.52
Surplus	\$2.20
Total	\$4.72
Non-resident share per group	46.6%

Analysis with Adjustments

Capture rate of Jackson County residents	84%
Residents' \$ share	\$2.12
Non-residents' \$ share	\$2.59
Total	\$4.72
Non-resident share per group	55.0%

Analysis for Gas/Convenience Stores

In Jackson County's Gas/Convenience Stores merchandise group, which includes 8 businesses selling convenience items along with fuel, the actual taxable sales amount to \$4.72 million. This figure represents a variance of \$2.20 million or 87.4% from the potential sales of \$2.52 million. Extension estimates an 84% capture rate of Jackson County residents, the residents' share in sales is \$2.12 million, while non-residents contribute \$2.59 million, making the total actual taxable sales still \$4.72 million. The non-resident share per group increases to 55.0%.

Apparel/Clothing

NA percent of total taxable retail and service sales

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

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

Unadjusted Trade Area Analysis

Potential sales to residents	\$ -
Surplus	\$ -
Total	\$ -
Non-resident share per group	-

Analysis with Adjustments

Capture rate of Jackson County residents	-
Residents' \$ share	\$ -
Non-residents' \$ share	\$ -
Total	\$ -
Non-resident share per group	-

Analysis for Apparel/Clothing

Department of Revenue suppresses data for categories with under 4 businesses.

Leisure Goods

0.4 percent of total taxable retail and service sales

The **12 businesses** in this merchandise group sell sporting goods, books, music, hobby items, fabrics, and toys.

	(\$Millions)
Actual taxable sales	\$0.24
Potential sales	\$1.99
= \$ variance	(\$1.75)
= as % of potential	-88.0%

Unadjusted Trade Area Analysis

Potential sales to residents	\$1.99
Surplus	(\$1.75)
Total	\$0.24
Non-resident share per group	-736.5%

Analysis with Adjustments

Capture rate of Jackson County residents	11%
Residents' \$ share	\$0.23
Non-Residents' \$ share	\$0.01
Total	\$0.24
Non-resident share per group	5.0%

Analysis for Leisure Goods

In Jackson County's Leisure Goods merchandise group, consisting of 12 businesses selling sporting goods, books, music, hobby items, fabrics, and toys, the actual taxable sales amount to \$0.24 million. This figure represents a variance of (\$1.75) million or -88.0% from the potential sales of \$1.99 million. Extension estimates an 11% capture rate of Jackson County residents, the residents' share in sales is \$0.23 million, while non-residents contribute \$0.01 million, making the total actual taxable sales still \$0.24 million. The non-resident share per group remains at 5.0%.

General Merchandise Stores

NA percent of total taxable retail and service sales*

The NA **businesses** 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	\$ -
potential sales	\$ -
= \$ variance	\$ -
= as % of potential	-

Unadjusted Trade Area Analysis

Potential sales to residents	\$ -
Surplus	\$ -
Total	\$ -
Non-resident share per group	-

Analysis with Adjustments

Capture rate of Jackson County residents	-
Residents' \$ share	\$ -
Non-Residents' \$ share	\$ -
Total	\$ -
Non-resident share per group	-

Analysis for General Merchandise Stores

Department of Revenue suppresses data for categories with under 4 businesses.

Miscellaneous Retail

10.7 percent of total taxable retail and service sales

39 businesses are part of this group, including florists, used merchandise stores, pet supply stores, and other retailers.

	(\$Millions)
Actual taxable sales	\$6.97
Potential sales	\$20.74
= \$ variance	(\$13.78)
= as % of potential	-66.4%

Unadjusted Trade Area Analysis

Potential sales to residents	\$20.74
Surplus	(\$13.78)
Total	\$6.97
Non-resident share per group	-197.8%

Analysis with Adjustments

Capture rate of Jackson County residents	32%
Residents' \$ share	\$6.62
Non-residents' \$ share	\$0.35
Total	\$6.97
Non-resident share per group	5.0%

Analysis for Miscellaneous Retail

In Jackson County's Miscellaneous Retail group, which includes 39 businesses like florists, used merchandise stores, pet supply stores, and other retailers, the actual taxable sales amount to \$6.97 million. This figure represents a variance of (\$13.78) million or -66.4% from the potential sales of \$20.74 million. Extension estimates a 32% capture rate of Jackson County residents, the residents' share in sales is \$6.62 million, while non-residents contribute \$0.35 million, making the total actual taxable sales still \$6.97 million. The non-resident share per group remains at 5.0%.

Amusement and Recreation

1.3 percent of total taxable retail and service sales*

The 5 **businesses** 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	\$0.85
Potential sales	\$2.66
= \$ variance	(\$1.81)
= as % of potential	-68.1%

Unadjusted Trade Area Analysis

Potential sales to residents	\$2.66
Surplus	(\$1.81)
Total	\$0.85
Non-resident share per group	-213.6%

Analysis with Adjustments

Capture rate of Jackson County residents	30%
Residents' \$ share	\$0.81
Non-residents' \$ share	\$0.04
Total	\$0.85
Non-resident share per group	5.0%

Analysis for Amusement and Recreation

In Jackson County's Amusement and Recreation group, which includes 5 businesses such as 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, and roller rinks, the actual taxable sales amount to \$0.85 million. This figure represents a variance of (\$1.81) million or -68.1% from the potential sales of \$2.66 million. Extension estimates a 30% capture rate of Jackson County residents, the residents' share in sales is \$0.81 million, while non-residents contribute \$0.04 million, making the total actual taxable sales still \$0.85 million. The non-resident share per group remains at 5.0%.

Accommodations

3.6 percent of total taxable retail and service sales

These **9 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	\$2.37
Potential sales	\$1.91
= \$ variance	\$0.46
= as % of potential	24.1%

Unadjusted Trade Area Analysis

Potential sales to residents	\$1.91
Surplus	\$0.46
Total	\$2.37
Non-resident share per group	19.4%

Analysis with Adjustments

Capture rate of Jackson County residents	12%
Residents' \$ share	\$0.24
Non-residents' \$ share	\$2.13
Total	\$2.37
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. As with previous LOST analyses, Extension set the non-resident share at 90 percent of sales to allow for resident spending related to events, facility charges, and 'staycations.' A capture rate of 12 percent of Jackson County resident spending in this category was estimated.

Eating/Drinking Establishments

10.8 percent of total taxable retail and service sales

These 22 **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	\$7.01
Potential sales	\$12.35
= \$ variance	(\$5.34)
= as % of potential	-43.2%

Unadjusted Trade Area Analysis

Potential sales to residents	\$12.35
Surplus	(\$5.34)
Total	\$7.01
Non-resident share per group	-76.1%

Analysis with Adjustments

Capture rate of Jackson County residents	54%
Residents' \$ share	\$6.66
Non-residents' \$ share	\$0.35
Total	\$7.01
Non-resident share per group	5.0%

Analysis for Eating/Drinking Establishments

In Jackson County's Eating/Drinking Establishments group, which comprises 22 businesses selling food at full-service or limited-service establishments including cafeterias, bagel shops, ice cream parlors, snack bars, food service contractors, caterers, lunch wagons, street vendors, bars, taverns, and nightclubs, the actual taxable sales amount to \$7.01 million. This figure represents a variance of (\$5.34) million or -43.2% from the potential sales of \$12.35 million. Extension estimates a 54% capture rate of Jackson County residents, the residents' share in sales is \$6.66 million, while non-residents contribute \$0.35 million, making the total actual taxable sales still \$7.01 million. The non-resident share per group remains at 5.0%.

Repair and Maintenance

4.5 percent of total taxable retail and service sales

The **33 businesses** 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	\$2.93
Potential sales	\$2.62
= \$ variance	\$0.31
= as % of potential	12.0%

Unadjusted Trade Area Analysis

Potential sales to residents	\$2.62
Surplus	\$0.31
Total	\$2.93
Non-resident share per group	10.7%

Analysis with Adjustments

Capture rate of Jackson County residents	90%
Residents' \$ share	\$2.35
Non-residents' \$ share	\$0.59
Total	\$2.93
Non-resident share per group	20.0%

Analysis for Repair and Maintenance

In Jackson County's Repair and Maintenance group, which consists of 33 businesses specializing in restoring machinery, equipment, and various products (excluding plumbing or electrical repair services but including auto repair, cameras, televisions, computers, copiers, appliances, lawn mowers, specialized equipment, small engines, furniture, shoes, guns, etc.), the actual taxable sales amount to \$2.93 million. This figure represents a variance of \$0.31 million or 12.0% from the potential sales of \$2.62 million. Extension estimates a 90% capture rate of Jackson County residents, the residents' share in sales is \$2.35 million, while non-residents contribute \$0.59 million, making the total actual taxable sales still \$2.93 million. The non-resident share per group increases to 20.0%.

Personal Services/Laundry

0.4 percent of total taxable retail and service sales

The 23 businesses 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	\$0.28
Potential Sales	\$1.20
= \$ variance	(\$0.91)
= as % of potential	-76.3%

Unadjusted Trade Area Analysis

Potential sales to residents	\$1.20
Surplus	(\$0.91)
Total	\$0.28
Non-resident share per group	-321.4%

Analysis with Adjustments

Capture rate of Jackson County residents	23%
Residents' \$ share	\$0.27
Non-residents' \$ share	\$0.01
Total	\$0.28
Non-resident share per group	5.0%

Analysis for Personal Services/Laundry

In Jackson County's Personal Services/Laundry merchandise group, which encompasses 23 businesses including barber shops, beauty parlors, death care services, laundry and dry-cleaning services, as well as other personal services like pet care (excluding veterinary), photofinishing, temporary parking, and dating services, the actual taxable sales amount to \$0.28 million. This figure represents a variance of (\$0.91) million or -76.3% from the potential sales of \$1.20 million. Extension estimates a 23% capture rate of Jackson County residents, the residents' share in sales is \$0.27 million, while non-residents contribute \$0.01 million, making the total actual taxable sales still \$0.28 million. The non-resident share per group remains at 5.0%.

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	\$23.46
% of total taxable retail and service sales In Jackson County	36.1%

Analysis with Adjustments

	(\$Millions)
Residents' \$ share	\$15.25
Non-residents' \$ share	\$8.21
Total	\$23.46
Non-resident share per group	35%

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) often serve a non-local market. This mix of business types is too diverse to run a trade area analysis for, but Extension estimated an aggregate 35 percent of these sales are to non-resident customers. The categories of sales are shown below:

CATEGORY	TAXABLE SALES	% NON-LOCAL	NON-LOCAL \$
111 AG -CROP PRODUCTION	\$39,899	40%	\$15,960
112 AG -ANIMAL PRODUCTION	\$0	40%	\$0
115 AG -SUPPORT ACTIVITIES	\$105,301	40%	\$42,120
221 UTILITIES	\$14,717,655	30%	\$4,415,297
454 RETL -NONSTORE RETAILERS	\$95,469	50%	\$47,735
484 TRANSPORTATION -TRUCK	\$1,266,533	40%	\$506,613
531 REAL ESTATE	\$94,179	40%	\$37,672
532 RENTAL, LEASING SERVICES	\$1,376,402	30%	\$412,921
541 PROF,SCIENTIFIC,TECH SERV	\$542,789	40%	\$217,116
561 ADMIN, SUPPORT SERVICES	\$1,255,609	30%	\$376,683
611 EDUCATIONAL SERVICES	\$100,077	20%	\$20,015
621 HEALTH -AMBULATORY CARE	\$144,681	40%	\$57,872
623 HEALTH -NURSING,HOME CARE	\$25,904	20%	\$5,181
813 RELIGIOUS,CIVIC,PROF ORGS	\$274,620	40%	\$109,848
921 EXEC, LEGISL, OTHER GOVT	\$3,415,110	40%	\$1,366,044
TOTAL	\$23,454,228	35%	\$7,631,075

Construction, Manufacturing, Utilities, 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 \$12.83 million in taxable sales, or 16.5 percent of total taxable sales in Jackson County. A significant portion of this amount would be subject to any new sales taxes, including a local option sales tax.

This category includes utilities that primarily 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 with an assumption of whether customers paying the taxable sales were non-local:

Category	Taxable Sales	% non-local	\$ non-local
CONSTRUCTION	\$698,027	60%	\$418,816
MANUFACTURING	\$3,017,160	90%	\$2,715,444
WHOLESALE	\$5,708,309	80%	\$4,566,647
UNDESIGNATED/SUPPRESSED	\$3,405,874	50%	\$1,702,937
Total	\$12,829,370	73%	\$9,403,844

Extension estimated that, overall, 81 percent of sales are to non-residents. This analysis assumes that some subcategories, such as manufacturing sell primarily (90 percent) to non-resident customers, whereas subcategories like construction split sales between resident and non-resident customers.

Analysis with Adjustments

	(\$Millions)
Residents' \$ share	\$3.46
Non-residents \$ share	\$9.36
Total	\$12.83
Non-resident share	73%

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

Policymakers are often 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 11 Minnesota cities adopting a 0.5 percent local option sales tax is offered below (refer to Figures 4, 5, 6, and 7).

Policymakers 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, in Minnesota, excludes the basic necessities of food and clothing. However, since sales tax raises revenues from non-residents who shop in Jackson County, 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 4: Taxable retail and service sales by communities that began collecting a local option sales tax from 1999 to 2006

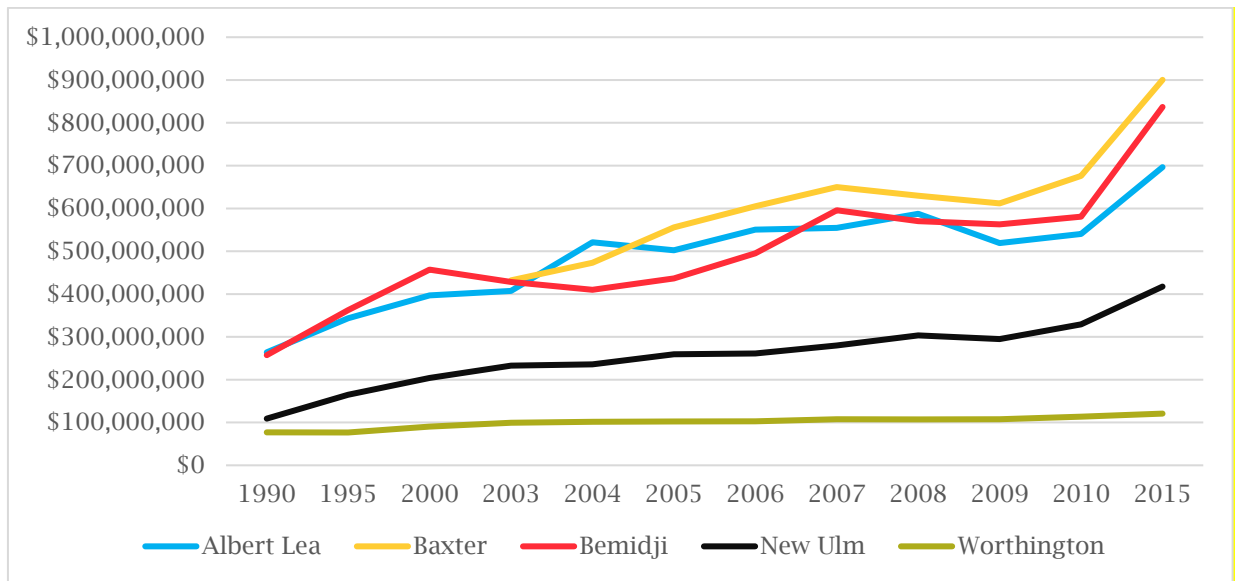


Figure 5: Data table for example communities, taxable retail and service sales (in millions)

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

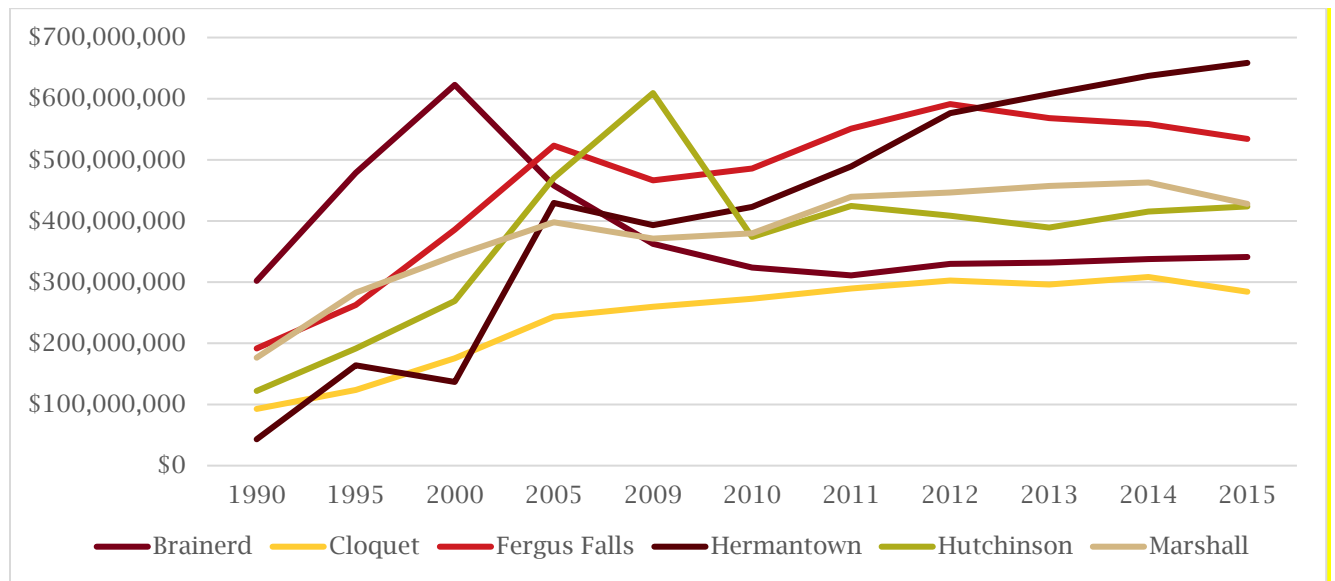


Figure 7: Data table for example communities, taxable retail and service sales (in millions)

Town Name	2015 Pop	Year LOST	90	95	00	05	09	10	11	12	13	14	15
<i>Brainerd</i>	13,178	2011	\$302	\$479	\$623	\$458	\$362	\$324	\$311	\$330	\$332	\$338	\$341
<i>Cloquet</i>	11,201	2011	\$93	\$124	\$175	\$244	\$260	\$273	\$290	\$303	\$296	\$308	\$284
<i>Fergus Falls</i>	13,471	2011	\$192	\$263	\$386	\$523	\$467	\$486	\$551	\$591	\$568	\$558	\$534
<i>Hermantown</i>	7,448	1996 - increase 2012	\$43	\$164	\$137	\$430	\$393	\$423	\$489	\$576	\$607	\$637	\$659
<i>Hutchinson</i>	13,080	2011	\$122	\$191	\$269	\$471	\$609	\$374	\$425	\$409	\$389	\$415	\$424
<i>Marshall</i>	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 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 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 <https://www.revenue.state.mn.us/minnesota-tax-handbooks>

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 county. It is the product of county population, state per capita sales, and the index of income (based on the county personal per capita income).

Actual sales

For this study, the Minnesota Department of Revenue's 2019 sales data for Jackson 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 that 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 underreport 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 county, 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 county. Whenever misreporting is discovered, the Minnesota Department of Revenue is contacted to clarify the situation.

