



# Board of County Commissioners Agenda Request

3A  
Agenda Item #

**Requested Meeting Date:** May 8, 2018

**Title of Item:** Local Option Sales Tax Presentation

<input checked="" type="checkbox"/> REGULAR AGENDA <input type="checkbox"/> CONSENT AGENDA <input type="checkbox"/> INFORMATION ONLY	<b>Action Requested:</b> <input type="checkbox"/> Approve/Deny Motion <input type="checkbox"/> Adopt Resolution (attach draft)	<input type="checkbox"/> Direction Requested <input checked="" type="checkbox"/> Discussion Item <input type="checkbox"/> Hold Public Hearing* <i>*provide copy of hearing notice that was published</i>
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<b>Submitted by:</b> Jessica Seibert, County Administrator	<b>Department:</b> Administration
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<b>Presenter (Name and Title):</b> Jessica Seibert, County Administrator	<b>Estimated Time Needed:</b> 15 minutes
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**Summary of Issue:**

Merritt Bussiere, Community Economics Educator, with the Center for Community Vitality at the University of Minnesota Extension office will be present to discuss the results of the Local Option Sales Tax review. A copy of the findings is attached.

**Alternatives, Options, Effects on Others/Comments:**

**Recommended Action/Motion:**  
Discussion only.

**Financial Impact:**

Is there a cost associated with this request?       Yes       No

What is the total cost, with tax and shipping? \$

Is this budgeted?       Yes       No      *Please Explain:*

# UNIVERSITY OF MINNESOTA

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March 22, 2018

**To:** Jessica Seibert, County Administrator  
Aitkin County Board

**From:** Merritt Bussiere and Ryan Pesch  
Extension Educators, Community Economics

**Re:** Estimate of Local option sales Tax paid by Residents of Aitkin County, MN

Minnesota law enables non-metro county boards, following a public hearing, to create a local option sales tax of up to a ½ percent and then use proceeds from that tax to fund designated transportation projects and programs. Per our signed March 1, 2018 service agreement, this memo outlines an estimate by Extension's Community Economics Program of the total tax that might be raised by a local option sales tax dedicated to transportation projects and programs, as well as the percentage of that tax likely to be paid by permanent county residents as compared with visitors and travelers.

Ryan Pesch, our Retail Analysis & Development Program Manager, prepared this memo in consultation with Merritt Bussiere, Extension Educator serving Central Minnesota counties, including Aitkin County. Community Economics has prepared over 250 retail trade studies in the last 10 years, including many local option sales tax analyses. Our goal, in preparing these and other technical studies, is to provide credible, conservative estimates and analyses supporting more informed discussions and decisions by our local, county and regional partners. In preparing this analysis, we used 2015 sales tax data, the most current available from the Minnesota Department of Revenue.

**Data/Study Limitations.** The data, analysis and findings described in this report are specific to the geography, time frame and project requirements of Aitkin County. Findings are not transferable to other jurisdictions. Extension neither approves nor endorses the use or application of findings and other contents in this report by other jurisdictions.

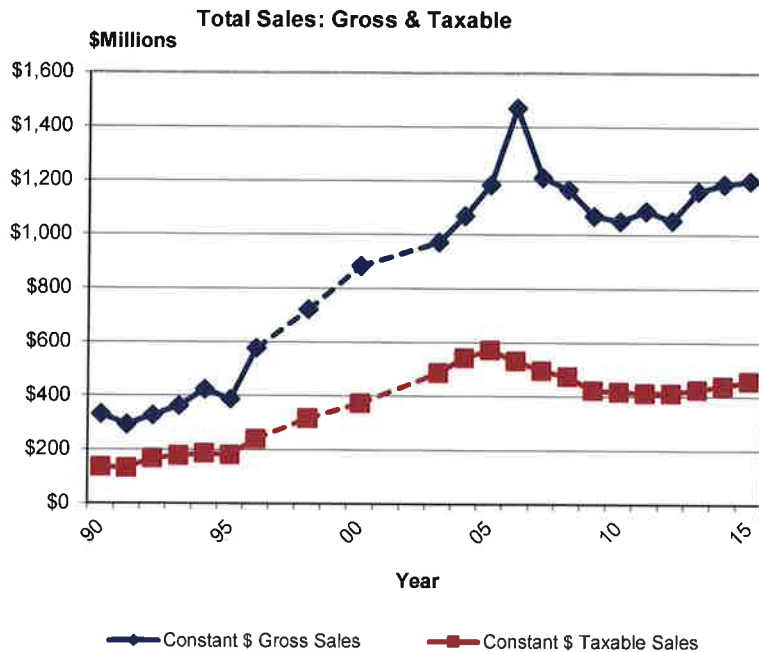
## **Total Tax Collected**

There are two sources of local option sales tax revenue: 1) the taxable sales made by businesses in the county and 2) the taxable items delivered to Aitkin County addresses. This analysis first estimates the local option sales tax revenue made by businesses in the county because sales data are available.

In 2015, there were over \$109.9 million in taxable sales made via Aitkin County businesses. This includes over \$99 million in retail and service sales, and nearly \$11 million in other businesses (detailed in the non-retail sales section below).

A simple calculation of 0.5 percent suggests that about \$549,519 in local sales tax would have been collected in 2015. Recently, taxable sales in constant dollars have been fairly stable since the end of the great recession, increasing 5% from 2011 to 2015 (see Figure 1). At a 1% annual rate of increase, this translates to a \$5,000 increase in the local option sales tax collected each year IF the trend continues. Based on past performance, constant taxable sales have grown since 1990, however Aitkin County experienced a marked setback with the great recession (Figure 1).

Figure 1: Constant Gross and Taxable Sales trend in Aitkin County, 1990-2015



Businesses and residents that order taxable items to be delivered to an Aitkin County address will be charged the local option sales tax even though it wasn't purchased from an Aitkin County business. If a business purchases supplies in another county and brings those supplies to Aitkin County themselves, they need to submit a use tax unless the county where the purchase was made had a local option sales tax (the Minnesota Department of Revenue Fact Sheet 164 lists locations that have adopted a local sales tax). Based on 2015 use tax collected, it is reasonable estimate to assume that a local option sales tax of half a percent would have brought in a fairly small amount of use tax proceeds in addition to the larger amount of sales tax proceeds.

**Retail and Service Sales Methodology**

Using the 2015 actual sales made by the 379 Aitkin County retail and service businesses reported to the Minnesota Department of Revenue, we made the following adjustments:

- Potential sales: This estimates the total retail and service sales based on the year round population of the county. This was calculated by multiplying the county population by the Minnesota average per capita sales and adjusting for county income.
- Adjusted Potential sales: This narrows expected sales to those made in the county by residents. Adjustments were made for the percent of rural per capital sales compared to the state average. (For example, there are more clothing sales in Twin Cities than rural counties, suggesting that residents travel to metro areas for some clothing shopping or metro residents spend more per capita on clothing.)
- Variance: Spending by visitors was estimated by subtracting adjusted potential sales from actual sales across 17 merchandise categories.

The resulting estimated retail and service sales to non-residents of \$28.8 million, calculated by totaling the variance in all retail and service merchandise categories. Three categories showed clear evidence of non-resident spending since their actual sales were greater than their potential sales: gasoline/convenience, vehicles and parts, miscellaneous retail, and food/grocery stores. Because accommodation businesses almost exclusively host visitors, we added 90% of their sales as coming from non-residents (accommodations sales account for 4.0% of all retail and service sales in Aitkin County).

According to the 5-year averages from the American Community Survey, seasonal residents occupy 49% (7,970) of Aitkin County's total housing units (16,218), the highest proportion in the state. Sales to these residents are already calculated in the numbers we are providing. Where actual sales were less than the adjusted potential sales, we estimated and added 10% of the actual sales coming from seasonal residents and related visitors.

### **Non-Retail and Service Sales Methodology**

The other retail or services taxable sales are in categories like waste management, real estate, health care, and categories suppressed due to there being less than 4 businesses (furniture and electronics in Aitkin County). Since most of these business categories serve a local market, we estimated 10% of sales in those categories are to non-residents. Total taxable sales in those categories in 2015 totaled nearly \$32 million for an estimated \$3.2 million in non-resident sales.

We estimate 50% of the taxable sales in all remaining categories are to non-residents. This includes crop production, construction, manufacturing and wholesale trade among others. With such a wide range of business types, an estimate is difficult, however some categories clearly sell primarily to non-resident customers and the importance of non-resident housing to the county would impact the construction trades significantly. These categories generated nearly \$10.9 million in total taxable sales in 2015, with an estimated \$5.4 million coming from non-residents.

### **Best Estimate of Local Option Sales Tax Collection from Residents and Non-Residents**

Taking the factors listed above along with the experience of community economics team members, a conservative estimate for the sales tax collection from people and businesses that are not in Aitkin County on a permanent basis is 26% or \$144,000.

Therefore approximately \$549,500 in local sales taxes would have been collected from residents in 2015. Using the 2015 county population number of 15,715 residents, this calculates to \$26 per year-round resident. To account for a reasonable margin of error of 10%, we estimate the upper amount at \$28 per year-round resident in 2018.

### **Impact on Aitkin County Sales**

Records available from the Minnesota Department of Revenue website shows the tax collected from 23 Minnesota jurisdictions that have enacted some type of local sales or use tax within the last ten years. Most of these jurisdictions show continued sales growth.

### **Conclusion**

Based on the above calculations, a conservative estimate of local option sales tax revenue at a tax rate of 0.5 percent in 2018 would be \$550,000 - \$575,000. Our conservative analysis suggests 74% would be paid by residents, and 26% would be paid by seasonal residents, other visitors, and travelers.