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Local Option Sales Tax Analysis for Edina, MN

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

Authored by Ryan Pesch and Michael Darger



PROGRAM SPONSORS: CITY OF EDINA, MINNESOTA

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EXECUTIVE SUMMARY

University of Minnesota Extension recently conducted a study to estimate overall tax proceeds and the proportion of tax proceeds generated by Edina residents. Comparing these results to non-residents 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 59.7 percent of taxable sales subject to a local option sales tax (LOST).

Total taxable sales were \$918 million in 2017, but MN Revenue analysts estimate that \$820 million would be subject to a LOST. With 59.7 percent of sales derived from non-resident spending, Extension estimated that Edina residents spent \$331 million of total taxable sales subject to a LOST. Edina residents would have contributed \$1.65 million in taxes out of the total \$4.1 million if the tax were in place in 2017. That would have required each resident to contribute \$31.48 on average in 2017.

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

Extension initially generated a trade area analysis comparing actual taxable sales, based on Minnesota Revenue sales tax data¹ with a calculated “potential sales” amount. This amount was determined by multiplying the Edina population by the Minnesota average per capita sales and then adjusting for the city’s income factor. Doing so provided an estimate of retail and service purchases made by year-round Edina residents. For each merchandise group, the estimates for two types of purchasers—city residents and others—were considered and adjusted considering the area economy. These adjustments involved informed estimates and were aimed, in part, at reducing what otherwise might have been overestimates of the sales tax share falling to non-residents. Assumptions and calculations are shown for major retail and service categories so decision makers can adjust totals to accommodate local considerations.

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

- The strength of Edina’s niche store mix attracts a significant number of regional residents to shop in the community. Select niche business categories are also strong enough to retain a majority of Edina residents’ spending for these particular goods and services.
- Because of its job base, a large contingent of residents from other communities commute into Edina for work. We assume that these non-resident workers purchase goods and services in Edina due to convenience, especially in convenience businesses such as groceries and general merchandise.
- We assume that Edina residents are pulled to other communities to shop, despite the strong retail mix in Edina. This is in part due to the number of residents that work outside of the community (nearly 20,000 according to Census figures) and the close proximity of competing shopping areas (Figure 1).

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

Figure 1: Edina worker in-flow and out-flow (Source: 2016 U.S. Census Bureau OnTheMap application, Longitudinal-Employer Household Dynamics Program, <http://onthemap.ces.census.gov/>)

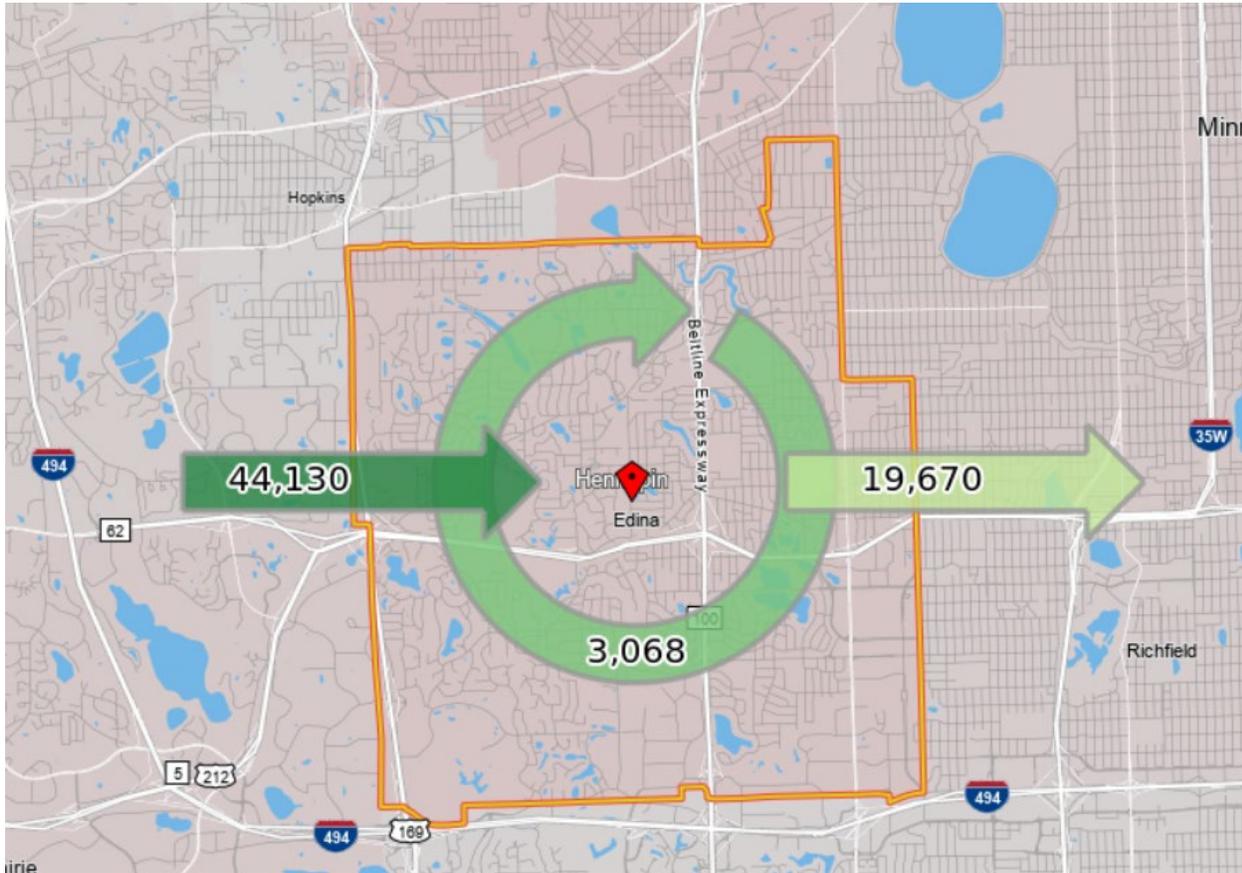


Figure 2 below shows the estimated percentage breakout—across all merchandise categories—for the *adjusted* analysis to more accurately reflect the city’s economic and consumption circumstances. Based on these findings, we estimate 40.3percent of all taxable retail and service sales would be made by permanent city residents, and the remaining 59.7 percent of taxable sales would be by non-residents.

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

	Taxable Sales Subject to LOST	Percentage
	\$millions	of Sales
Edina Residents	\$330.5	40.3%
Non-residents	\$489.5	59.7%
Totals	\$820.0	100%

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 (Figure 3). Based on correspondence with analysts at the Minnesota Department of Revenue who reviewed the Edina’s 2017 sales tax statistics, **approximately \$820,000,000 of the total \$918,260,233 taxable sales are subject to a local option sales tax and Extension based its estimates of projected tax proceeds on this figure.**

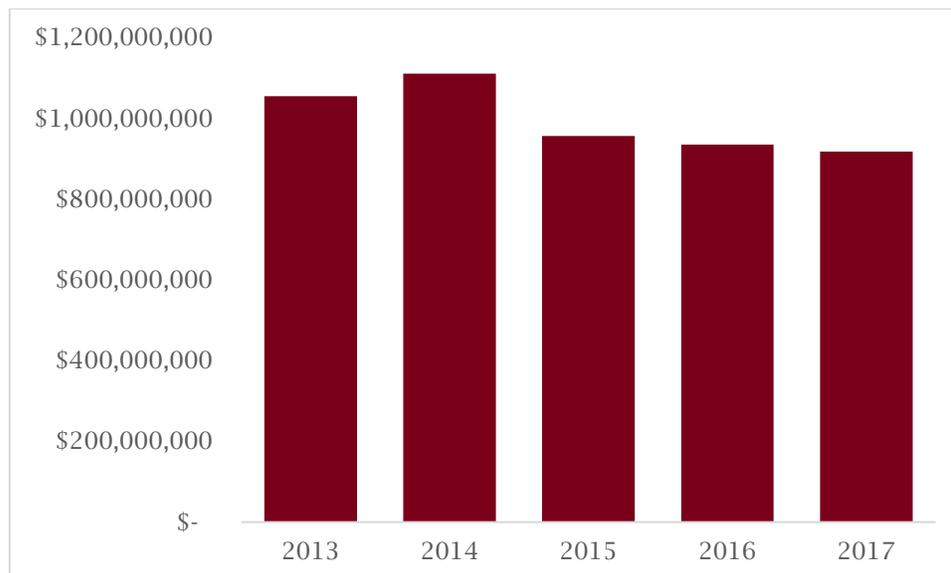
Edina could realize as much as \$4,100,000 in tax proceeds if a half percent tax were enacted. If the city does realize \$4,100,000, the proportion of the tax total paid by non-residents is estimated to be \$2.4million, and the proportion paid by Edina residents is estimated to be \$1.65 million.

Figure 3: Estimated tax proceeds and who pays in dollars

	Total	Dollars	Dollars
ESTIMATED	Tax	Paid By	Paid By
TAX PROCEEDS	Proceeds	Edina	Non-
@ 1/2 of a Percent	\$4,100,000	Residents	Residents
		\$1,652,748	\$2,447,252
Total Taxable Sales subject to LOST:			
\$820,000,000			

The total taxable sales in the city has decreased 13 percent from 2013 to 2017 from \$1.1billion to \$918 million. Since tax proceeds are calculated as a percentage of total taxable sales subject to the sales tax, this trend during the past 5 years gives some sense of stability if a tax were enacted.

Figure 4: Total taxable sales in Edina from 2013 to 2017 (source: Minnesota Department of Revenue)



Proceeds from *use* taxes would also be added to 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 \$260,000 in use (not sales) tax proceeds.

Edina policymakers are understandably concerned that enacting a sales tax in their community will cause a loss of consumer purchases to other counties. 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), although these communities may not be comparable to Edina. All communities in the analysis reside outside of the Twin Cities metro area and may retain shoppers than in a competitive retail environment in the metro area where one could easily switch spending from one community 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 Edina 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 that were made by local residents, as well as those made by non-residents. Use tax is insignificant compared to sales tax proceeds and is calculated differently.

Extension calculated potential sales for the city in each merchandise category and compared this calculation to actual taxable sales, as found in Minnesota Department of Revenue sales tax statistics for the same category. Actual sales greater than potential sales indicate the city attracts sales from outside the city 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 Edina (52,479)

YHC = Per capita income of Hennepin County resident (\$71,210)

YMn = Per capita income of Minnesota resident (\$54,351)

TRADE AREA ANALYSIS BY MERCHANDISE CATEGORY

Vehicles and Parts

0.7 percent of total taxable retail
and service sales

The **6 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	\$5.53
-Potential sales	\$37.00
= \$ variance	(\$31.47)
= as % of potential	-85.1%

Unadjusted Trade Area Analysis

Potential taxable sales to residents	\$37.00
Surplus	(\$31.47)
Total	\$5.53
Surplus percentage	-569.3%

Analysis with Adjustments

Capture rate of Edina residents	13%
Residents' \$ share	\$4.98
Non-Residents' \$ share	\$0.55
Total	\$5.53
Non-resident share per group	10.0%

Analysis and Recommendations for Vehicles and Parts

The trade area analysis estimates that the city falls far short of meeting expected sales. With this strong evidence that residents are shopping outside of the community in this category, Extension set the non-resident share at a modest 10% of actual sales, considering the number of non-residents who work in the city and the general cross-hauling of consumer spending in the metro region.

Furniture Stores

12.4 percent of total taxable retail and service sales

These 37 stores sell furniture, beds, carpeting, window coverings, lamps, china, kitchenware, and wood-burning stoves.

	(\$Millions)
Actual taxable sales	\$100.36
Potential sales	\$18.65
= \$ variance	\$81.71
= as % of potential	538.1%

Unadjusted Trade Area Analysis

Potential sales to residents	\$18.65
Surplus	\$81.71
Total	\$100.36
Non-resident share per group	81.4%

Analysis with Adjustments

Capture Rate of Edina Residents	70%
Residents' \$ share	\$13.05
Non-Residents' \$ share	\$87.32
Total	\$100.37
Non-resident share per group	87.0%

Analysis and Recommendations for Furniture Stores

Clearly, Edina is a destination for furniture, drawing in \$82 million more than expected from our potential sales calculation. With such a niche in furniture, surely a majority of local residents would shop within Edina for this good. Extension assumes that other nearby and competing stores pull some portion of local residents outside of the community. Extension set the non-resident share at 87 percent of taxable sales, which has the city capturing 70 percent of local residents' spending in this category.

Electronics and Appliances

5.0 percent of total taxable retail and service sales

These **20 establishments** primarily include household-type appliances, sewing machines, cameras, computers, and other electronic goods.

	(\$Millions)
Actual taxable sales	\$40.95
-Potential sales	\$20.52
= \$ variance	\$20.43
= as % of potential	99.6%

Unadjusted Trade Area Analysis

Potential sales to residents	\$20.52
Surplus	\$20.43
Total	\$40.95
Non-resident share per group	49.9%

Analysis with Adjustments

Capture Rate of Edina Residents	50%
Residents' \$ share	\$10.24
Non-residents' \$ share	\$30.71
Total	\$40.95
Non-resident share per group	75.0%

Analysis and Recommendations for Electronics and Appliances

Potential sales calculations suggest that the city brings in \$20 million more in taxable sales than expected from potential sales based on the population of Edina and the per capita income of its residents. This surplus is 50% of total taxable sales in this category, a proportion that we can safely assume is from non-residents. Some significant portion of resident spending in this category must go outside of Edina in the competitive metropolitan economy, especially when major big box electronic store are outside the community. Extension increased the non-resident share to 75% of total taxable sales.

Building Materials

2.0 percent of total taxable retail and service sales

These **11 establishments** sell lumber, hardware, paint, wallpaper, tile, hardwood floors, roofing, fencing, ceiling fans, lawn equipment, and garden items.

	(\$Millions)
Actual taxable sales	\$16.63
Potential sales	\$72.80
= \$ variance	(\$56.17)
= as % of potential	-77.2%

Unadjusted Trade Area Analysis

Potential sales to residents	\$72.80
Surplus	(\$56.17)
Total	\$16.63
Non-resident share per group	-337.8%

Analysis with Adjustments

Capture Rate of Edina Residents	21%
Residents' \$ share	\$14.96
Non-residents' \$ share	\$1.66
Total	\$16.63
Non-resident share per group	10.0%

Analysis and Recommendations for Building Materials

Building materials is one of the categories in which Edina has less in actual sales than potential sales. Obviously local residents are attracted to other communities to shop for these goods because the city only houses hardware stores focused on convenience and has no large big box retailers or lumber yard. Extension set the non-local resident spending at 10 percent of building material sales.

Food and Groceries

5.4 percent of total taxable retail and service sales

The **25 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	\$44.23
- Potential sales	\$49.09
= \$ variance	(\$4.85)
= as % of potential	-9.9%

Unadjusted Trade Area Analysis

Potential sales to residents	\$49.09
Surplus	(\$4.85)
Total	\$44.23
Non-resident share per group	-11.0%

Analysis with Adjustments

Capture Rate of Edina Residents	72%
Residents' \$ share	\$35.39
Non-residents' \$ share	\$8.85
Total	\$44.23
Non-resident share per group	20.0%

Analysis and Recommendations for Food and Groceries

The trade area analysis estimates a modest surplus of \$5 million less than expected in the food and liquor category. Key informants observed that major grocers are on the city border with Minneapolis and certainly attract non-Edina residents. Coupled with the large number of non-residents who work in Edina who would likely purchase convenience goods in this category, Extension set the non-resident share at 20 percent.

Health & Personal Items

3.8 percent of total taxable retail and service sales

Stores selling prescription drugs, food supplements, vision supplies, cosmetics, and hearing aids are among the **42 shops** included in this merchandise group.

	(\$Millions)
Actual taxable sales	\$30.56
Potential sales	\$8.61
= \$ variance	\$21.94
= as % of potential	254.8%

Unadjusted Trade Area Analysis

Potential sales to residents	\$8.61
Surplus	\$21.94
Total	\$30.56
Non-resident share per group	71.8%

Analysis with Adjustments

Capture Rate of Edina Residents	71%
Residents' \$ share	\$6.11
Non-residents' \$ share	\$24.45
Total	\$30.56
Non-resident share per group	80.0%

Analysis and Recommendations for Health and Personal Items

There is clear evidence that a very large portion of total spending comes from non-residents. This category pulls in over \$22 million more than expected based on a potential sales calculation. Extension set the sales from non-residents at 80 percent of total sales.

Gas/Convenience Stores

0.5 percent of total taxable retail and service sales

This merchandise group covers **6 retailers** selling convenience items at a store that also sells fuel.

	(\$Millions)
Actual taxable sales	\$3.77
-Potential sales	\$15.76
= \$ variance	(\$11.99)
= as % of potential	-76.0%

Unadjusted Trade Area Analysis

Potential sales to residents	\$15.76
Surplus (local preference and non-residents)	(\$11.99)
Total	\$3.77
Non-resident share per group	-317.5%

Analysis with Adjustments

Capture Rate of Edina Residents	19%
Residents' \$ share	\$3.02
Non-residents' \$ share	\$0.75
Total	\$3.77
Non-resident share per group	20.0%

Analysis and Recommendations for Gas Station/Convenience Stores

The trade area analysis indicates that Edina loses a large portion of its taxable sales to nearby communities, in part due to few establishments in this category. Considering the significant portion of working-age adults who commute outside of the community for work and the large portion of non-residents working and shopping in Edina, Extension set the non-resident sales at 20 percent for this minor category.

Apparel/Clothing

10.4 of total taxable retail and service sales

This merchandise group includes **109 stores** selling new clothing and accessories, jewelry, shoes, bridal items, clocks, and luggage.

	(\$Millions)
Actual taxable sales	\$84.76
Potential sales	\$11.85
= \$ variance	\$72.91
= as % of potential	615.3%

Unadjusted Trade Area Analysis

Potential sales to residents	\$11.85
Surplus (local preference and non-residents)	\$72.91
Total	\$84.76
Non-resident share per group	86.0%

Analysis with Adjustments

Capture Rate of Edina Residents	72%
Residents' \$ share	\$8.48
Non-residents' \$ share	\$76.28
Total	\$84.76
Non-resident share per group	90.0%

Analysis and Recommendations for Apparel/Clothing

With 109 stores and merchandise that lends itself to comparative shopping in a cluster of stores, clothing is a category that clearly attracts non-residents to Edina. The trade area analysis estimates that nearly 86 percent of total taxable clothing sales are from non-residents. Considering that it's unrealistic to think that the city captures even 80 percent of residents' clothing spending with nearby competition, Extension set the non-resident share at 90%.

Leisure Goods

1.7 percent of total taxable retail and service sales

The 33 firms in this merchandise group sell sporting goods, books, music, hobby items, fabrics, and toys.

	(\$Millions)
Actual taxable sales	\$13.76
Potential sales	\$14.38
= \$ variance	(\$0.62)
= as % of potential	-4.3%

Unadjusted Trade Area Analysis

Potential sales to residents	\$14.38
Surplus (local preference and non-residents)	(\$0.62)
Total	\$13.76
Non-resident share per group	-4.5%

Analysis with Adjustments

Capture Rate of Edina Residents	67%
Residents' \$ share	\$9.63
Non-Residents' \$ share	\$4.13
Total	\$13.76
Non-resident share per group	30.0%

Analysis and Recommendations for Leisure Goods

Leisure goods, like clothing, are the kinds of goods that attract shoppers to districts or areas where they can compare goods across many stores, brands, and price points. With 33 firms, this category nearly breaks even, but may have a niche in a competitive landscape that would still bring in non-residents. Key informants pointed to some sporting goods stores that concentrate on hockey equipment that pull in non-residents to shop. Considering these factors, Extension raised the share of non-resident spending to 30 percent.

General Merchandise Stores

7.5 percent of total taxable retail and service sales

The **6 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	\$61.15
potential sales	\$71.39
= \$ variance	(\$10.24)
= as % of potential	-14.3%

Unadjusted Trade Area Analysis

Potential sales to residents	\$71.39
Surplus (local preference and non-residents)	(\$10.24)
Total	\$61.15
Non-resident share per group	-16.7%

Analysis with Adjustments

Capture Rate of Edina Residents	69%
Residents' \$ share	\$48.92
Non-Residents' \$ share	\$12.23
Total	\$61.15
Non-resident share per group	20.0%

Analysis and Recommendations for General Merchandise Stores

With only six stores in this category dominated by large big box stores like Wal-mart and Target, Edina is losing a portion of its sales to nearby competition. However, like the grocery category where it's a safe assumption to think that non-resident workers and others are making purchases for these convenience goods in the city even as Edina residents are pulled elsewhere. Extension set the non-resident share at 20 percent, conservatively assuming that this small base of store retains nearly 70 percent of local residents' spending.

Miscellaneous Retail

3.3 percent of total taxable retail and service sales

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

	(\$Millions)
Actual taxable sales	\$26.63
Potential sales	\$19.51
= \$ variance	\$7.12
= as % of potential	36.5%

Unadjusted Trade Area Analysis

Potential sales to residents	\$19.51
Surplus	\$7.12
Total	\$26.63
Non-resident share per group	26.7%

Analysis with Adjustments

Capture Rate of Edina Residents	68%
Residents' \$ share	\$13.31
Non-residents' \$ share	\$13.31
Total	\$26.63
Non-resident share per group	50.0%

Analysis and Recommendations for Miscellaneous Retail

The category currently brings in approximately \$7 million more in taxable sales than one would expect. Non-residents must make up at least 27 percent of the taxable sales to explain such a large surplus. Extension increased the non-resident share to 50 percent, considering the metro-wide competition for some of these goods and the out-commuting of many working-age adults.

Amusement and Recreation

3.4 percent of total taxable retail and service sales

The **21 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	\$27.65
Potential sales	\$21.18
= \$ variance	\$6.47
= as % of potential	30.6%

Unadjusted Trade Area Analysis

Potential sales to residents	\$21.18
Surplus	\$6.47
Total	\$27.65
Non-resident share per group	23.4%

Analysis with Adjustments

Capture Rate of Edina Residents	46%
Residents' \$ share	\$9.68
Non-residents' \$ share	\$17.97
Total	\$27.65
Non-resident share per group	65.0%

Analysis and Recommendations for Amusement and Recreation

The 21 establishments in this category are bringing in a surplus of taxable sales, 23 percent more than expected. Based on interviews with key informants, there reason to assume a strong niche in this category with notable businesses including the Edina Country Club and Minnesota Made Hockey. These destination amusement facilities attract many non-residents in a metro region where specialization in retail and services allows for significant cross-hauling. With this as context, Extension set the share for non-resident sales at 65 percent.

Accommodations

2.3 percent of total taxable retail and service sales

These 7 **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	\$18.76
Potential sales	\$27.83
= \$ variance	(\$9.06)
= as % of potential	-32.6%

Unadjusted Trade Area Analysis

Potential sales to residents	\$27.83
Surplus	(\$9.06)
Total	\$18.76
Non-resident share per group	-48.3%

Analysis with Adjustments

Capture Rate of Edina Residents	7%
Residents' \$ share	\$1.88
Non-residents' \$ share	\$16.89
Total	\$18.76
Non-resident share per group	90.0%

Analysis and Recommendations for Accommodations

Logically, a vast majority of lodging sales are from non-residents visiting area attractions, traveling from MSP airport, or in town for business. Extension has set the non-resident share at 90% of sales in past communities to allow for resident spending for events, facility charges, and 'staycations.'

Eating/Drinking Establishments

22.2 percent of total taxable retail and service sales

These 125 **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	\$179.90
Potential sales	\$115.14
= \$ variance	\$64.76
= as % of potential	56.2%

Unadjusted Trade Area Analysis

Potential sales to residents	\$115.14
Surplus	\$64.76
Total	\$179.90
Non-resident share per group	36.0%

Analysis with Adjustments

Capture Rate of Edina Residents	70%
Residents' \$ share	\$80.96
Non-residents' \$ share	\$98.95
Total	\$179.90
Non-resident share per group	55.0%

Analysis and Recommendations for Eating/Drinking Establishments

According to the potential sales estimates, Edina pulls in 56 percent more sales into the city than expected. With such a large contingent (125 businesses) this mass of operations attracts guests from outside the community and feeds visitors to the retail businesses concentrated in the city. Since such a large percentage of workers commute outside of the city for work, Extension decreased the resident share of sales in the category down and increased non-resident share up to 55 percent of taxable sales..

Repair and Maintenance

1.2 percent of total taxable retail and service sales

The **28 stores** in this group restore machinery, equipment, and other products. The group does not include plumbing or electrical repair services but does encompass auto repair, cameras, radio, television, computers, copiers, appliances, lawn mowers, specialized equipment, small engines, furniture, shoes, guns, etc.

	(\$Millions)
Actual taxable sales	\$9.82
Potential sales	\$17.32
= \$ variance	(\$7.50)
= as % of potential	-43.3%

Unadjusted Trade Area Analysis

Potential sales to residents	\$17.32
Surplus	(\$7.50)
Total	\$9.82
Non-resident share per group	-76.5%

Analysis with Adjustments

Capture Rate of Edina Residents	51%
Residents' \$ share	\$8.83
Non-residents' \$ share	\$0.98
Total	\$9.82
Non-resident share per group	10.0%

Analysis and Recommendations for Repair and Maintenance

Many of the businesses in this category typically serve a very local market. With a significant deficit at 43 percent lower than potential sales, residents are spending elsewhere in this relatively minor category. Even with a deficit, Extension set the non-resident share at 10 percent due to the proximity of these businesses to nearby communities.

Personal Services/Laundry

3.3 percent of total taxable retail and service sales

The **125 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	\$26.46
Potential sales	\$11.03
= \$ variance	\$15.43
= as % of potential	139.9%

Unadjusted Trade Area Analysis

Potential sales to residents	\$11.03
Surplus	\$15.43
Total	\$26.46
Non-resident share per group	58.3%

Analysis with Adjustments

Capture Rate of Edina Residents	79%
Residents' \$ share	\$8.73
Non-residents' \$ share	\$17.73
Total	\$26.46
Non-resident share per group	67.0%

Analysis and Recommendations for Personal Services/Laundry

Much like the preceding repair and maintenance category, many of the services in this category such as salons and laundromats typically serve a very local market. In this case, however, the 125 businesses must have created a niche in this category within the region. Actual sales are 140 percent higher than potential sales, so, obviously, non-residents are attracted to the community. Key informants pointed to the many salons and spas that complement retail in Edina as explanation for this niche. Extension increased the non-resident share to 67 percent, which set the local capture rate at nearly eighty percent.

**Retail (non-store) and Other Services
(North American Industrial
Classification System 511-813 Sales
Amounts Released by MN Revenue)**

	(\$Millions)
Actual taxable sales	\$120,840,498
% of total taxable retail and service sales	14.9%

Analysis with Adjustments

	(\$Millions)
Residents' \$ share	\$48.43
Non-residents' \$ share	\$72.64
Total	\$121.06
Non-resident share per group	60%

Analysis and Recommendations 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 assumes and aggregate 60 percent of these sales are to non-resident customers.

Category	Taxable Sales
454 RETL -NONSTORE RETAILERS	\$5,126,536
511 INFO -PUBLISHING INDUSTRY	\$26,358
512 INFO -MOVIES, MUSIC IND	\$11,055,599
517 INFO -TELECOMMUNICATIONS	\$6,001,952
518 INFO -INTERNET SERVICE	\$3,500,362
519 INFO -OTHER SERVICES	\$2,538,533
522 CREDIT INTERMEDIATION	\$12,138,873
523 SECURITIES, COMMODITIES	\$0
524 INSURANCE CARRIERS	\$345,633
531 REAL ESTATE	\$2,279,694
532 RENTAL, LEASING SERVICES	\$15,204,695
541 PROF,SCIENTIFIC,TECH SERV	\$34,974,233
551 MGMT OF COMPANIES	\$0
561 ADMIN, SUPPORT SERVICES	\$20,816,599
611 EDUCATIONAL SERVICES	\$1,477,064
621 HEALTH -AMBULATORY CARE	\$5,082,819
623 HEALTH -NURSING,HOME CARE	\$77,864
624 HEALTH -SOCIAL ASSISTANCE	\$57,655
711 PERF ART, SPECTATOR SPRTS	\$136,029

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

The above industries and services generate \$106.3 million in taxable sales, a measurable portion of total taxable sales in Edina (11.6%). A significant portion of this amount will be subject to any new sales taxes, including a local option sales tax.

A diverse mix of businesses fall into these non-retail categories and a portion of sales are within a suppressed or non-disclosed subcategory, although utilities must be within this category 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. This diversity 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	\$7,504,391	60%
Manufacturing	\$10,227,489	90%
Wholesale	\$26,244,420	70%
Undesignated	\$62,295,116	50%
Total	\$106,271,416	59%

Extension estimated that overall 59 percent of sales are to non-residents. Extension assumed that some subcategories such as manufacturing sell primarily (90%) to non-resident customers, whereas subcategories like undesignated and construction split their sales between resident and non-resident customers.

	(\$Millions)
Residents' \$ share	\$43.57
Non-residents \$ share	\$62.70
Total	\$106.27
Non-resident share	59%

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

City of Edina 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 Minnesota jurisdictions that have enacted a local sales or use tax within the last 10 years. Most of these cities show continued sales growth. A comparison that includes eleven Minnesota cities that have adopted a .5 percent local option sales tax is offered below (see Figures 7, 8, 9, and 10). None of the example communities are in the Twin Cities metro, however, which limits the comparison.

Decision-makers should decide on the best allowable method to raise revenue. 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 Edina, local contributions to tax revenues are significantly lower than a tax generated exclusively by local residents. Policymakers should carefully consider each of the above 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 1999-2007

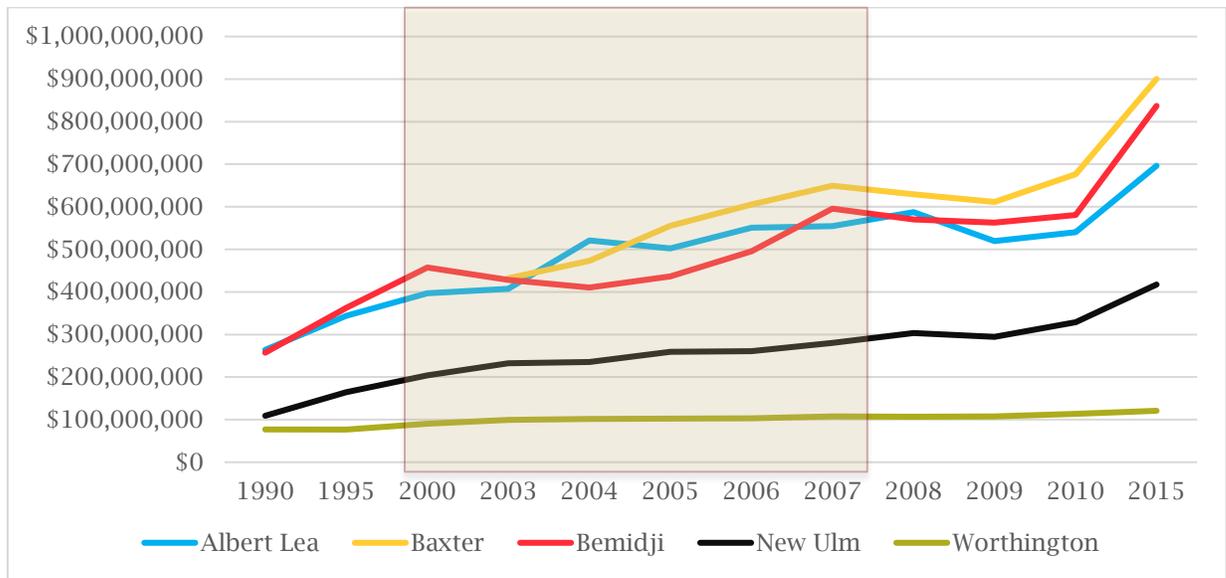


Figure 6: Data table for example communities, taxable retail and service sales (in millions)

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

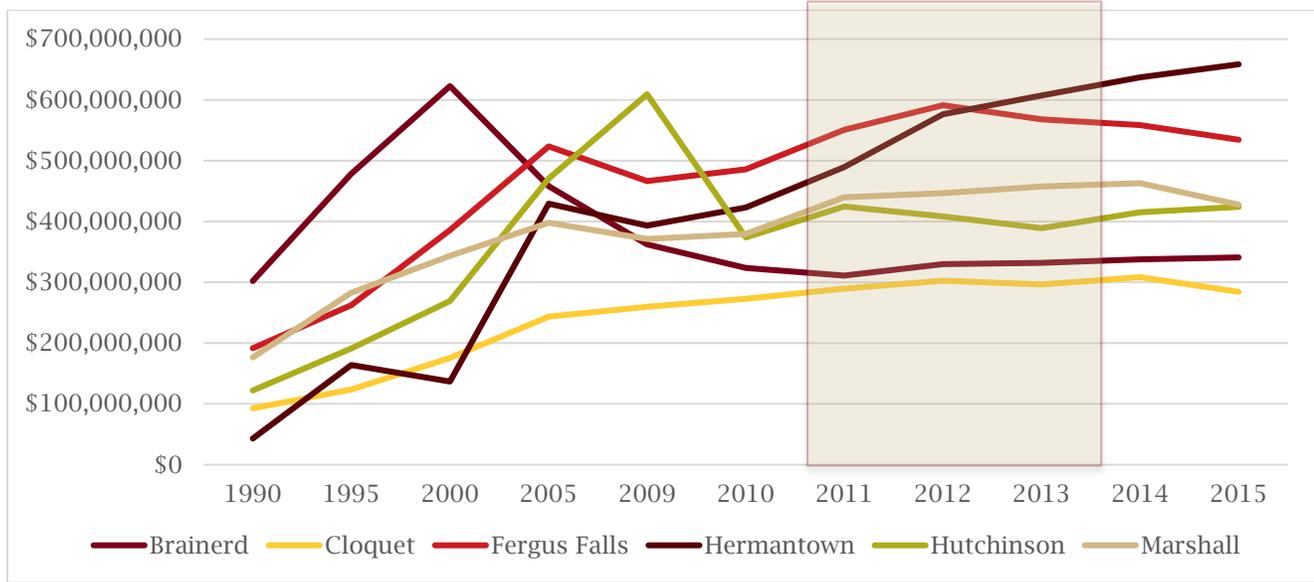


Figure 8: Data table for example communities, taxable retail and service sales (in millions)

Town Name	2015 Pop	Year LOST	90	95	00	05	09	10	11	12	13	14	15
<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 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

Taxable Retail and Service Sales

In this study and other retail trade analyses conducted by University of Minnesota Extension, the term "taxable retail and service sales" refers to the North American Industry Classification System (NAICS) numbers of 441 to 454 (retail) and 511 to 812 (most service industries) released by the Minnesota Department of Revenue for a geographic area.

Current and Constant Dollar Sales

Current dollar (or "nominal dollar") sales are those reported by the state. No adjustment has been made for price inflation. In general, this measure of sales is not satisfactory for comparisons over long periods of time since it does not account for changes in population, inflation, or the state's economy. Constant dollar (or "real dollar") sales reflect changes in price inflation by adjusting current dollar sales according to the Consumer Price Index (CPI). Constant dollar sales indicate the real sales level with respect to a base year. This is a more realistic method of evaluating sales over time than current dollar comparisons, but it still does not take into consideration changes in population or the state's economy.

Number of Businesses

The number of sales and use tax permit holders who filed one or more tax returns for the year.

Index of Income

This index provides a relative measure of income, calculated by dividing local per capita income by state per capita income. The base is 1.00. For example, a 1.20 index of income indicates that per capita income in the area is 20 percent above the state average.

Potential Sales

Potential sales are an estimate of the amount of money spent on retail goods and services by residents of a county. It is the product of county population, state per capita sales, and the index of income. Potential sales for counties is similar to expected sales for cities. Potential sales, however, do not utilize a measure of average pulling power (like the typical pull factor used in the expected sales equation). Since a county is a relatively large region where retail business takes place, counties are compared without adjustments for trade area size.

Actual Sales

For this study, the Minnesota Department of Revenue's 2017 sales data for City of Edina provides the actual sales numbers used.

Variance between Actual and Potential Sales

The variance between actual and expected sales is the difference in sales from the “norm” (i.e., the amount above or below the standard established by the expected sales formula). When actual sales exceed expected sales, the county has a “surplus” of retail sales. When actual sales fall short of expected sales, the county has a retail sales “leakage.” Discrepancies between expected and actual sales occur for a variety of reasons. For this study, we use potential sales per merchandise group to create a first-cut estimate of residents’ purchase activities.

Cautions

Gross Sales

Gross sales are a comprehensive measure of business activity, but it should be noted the numbers in this report are self-reported. Furthermore, gross sales are not audited by the State of Minnesota. It is believed gross sales figures are generally reliable, but there is the possibility of distortions, especially in smaller cities where misreporting may have occurred.

Misclassification

Holders of sales and use tax permits select the North American Industry Classification System (NAICS) category that best fits their business. Regardless of who makes this classification, errors are occasionally made. Also, sometimes a business will start out as one type but evolve over time to a considerably different type. Misclassifications can distort sales among business categories, especially in smaller cities. For example, a furniture store that is classified as a general merchandise store will under-report sales in the furniture store category and over-report sales in the general merchandise category.

Suppressed Data

The sales data for merchandise categories that have less than four reporting firms are not reported. This is a measure taken by most states to protect the confidentiality of sales tax permit holders. Sales for suppressed retail categories are placed into the miscellaneous retail category (NAICS 999) and included in total sales but not total sales of a typical retail trade analysis. For this report, however, all taxable sales—including NAICS 999—are part of calculating the amount of special taxes collected.

Consolidated Reporting

Vendors with more than one location in Minnesota have the option of filing a separate return for each location or filing one consolidated return for all locations. The consolidated return shows sales made, tax due, and location by city and county for each business. Data for consolidated filers are combined with data for single-location filers to produce the figures in this report. Occasionally, consolidated reports may not be properly deconstructed, and all sales for a company may be reported for one town or city. Whenever misreporting is discovered, the Minnesota Department of Revenue is contacted to clarify the situation.