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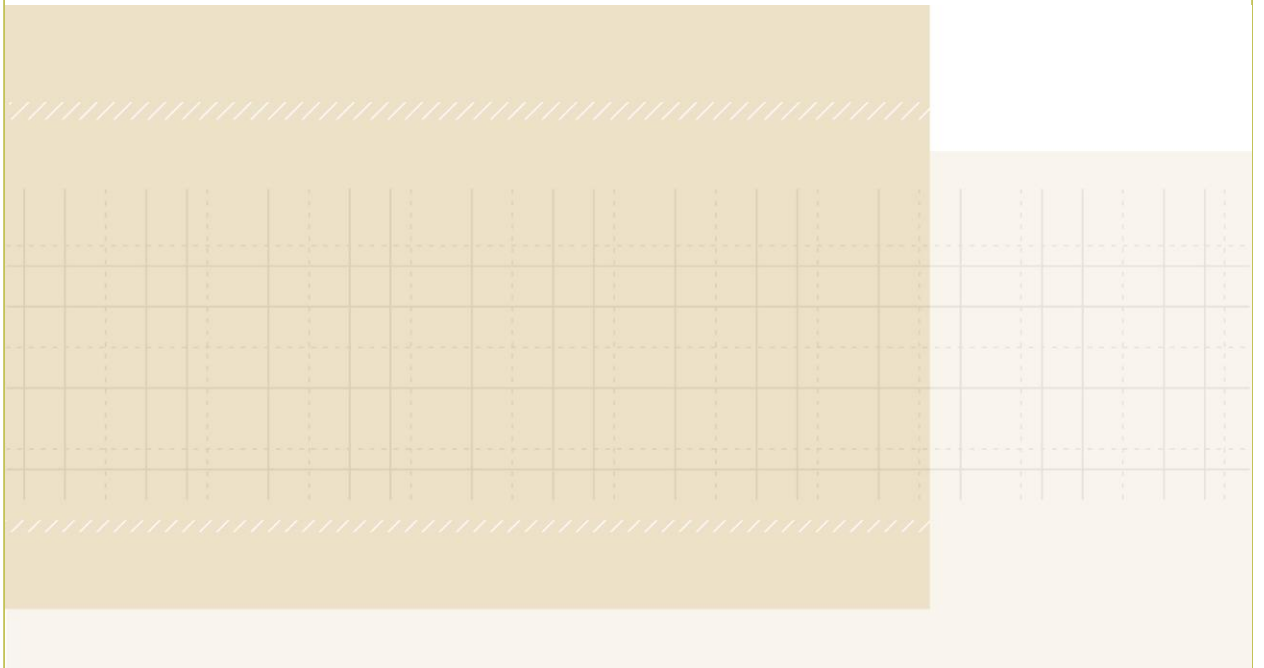


EXTENSION CENTER FOR COMMUNITY VITALITY

Local Option Sales Tax Analysis for Bloomington, MN

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

Authored by Eric King



REPORT SPONSOR: CITY OF BLOOMINGTON, MINNESOTA

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SUMMARY OF FINDINGS

University of Minnesota Extension conducted a study to estimate the proportion of sales proceeds attributed to both Bloomington 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 65.4 percent of taxable sales subject to a local option sales tax (LOST).

In 2021, total taxable sales in Bloomington were \$2,486 million. MN Revenue analysts estimate that approximately 87% would be subject to a LOST. With 65.4 percent of sales derived from non-resident spending, Extension estimated that Bloomington residents spent \$747.4 million of the total \$2,160 million in taxable sales subject to a LOST.

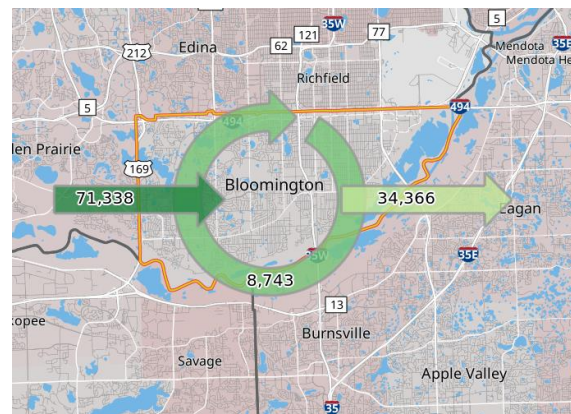
If the tax were in place in 2021, a 0.5 percent local option sales tax would have garnered \$10.8 million in tax proceeds according to MN Department of Revenue analysts. Bloomington residents would have contributed \$3.7 million in taxes, and non-residents would have contributed \$7.1 million. Based on these estimates, each Bloomington resident would have paid, on average, an additional \$41.08 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 Bloomington 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 Bloomington residents. For each merchandise group, the estimates for two types of purchasers—city 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 Bloomington's economy helped frame the analysis for the different merchandise categories:

- As a metro community with many nearby competing shopping centers, cross-hauling is a significant factor. Bloomington residents can easily shop outside of the community and residents of nearby communities can also easily access Bloomington businesses. For this analysis, cross-hauling has the net effect of increasing non-resident spending.
- Bloomington has more workers entering the city 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 city purchase in the city.

Figure 1: Bloomington worker in-flow and out-flow



Inflow and outflow of wage earners.

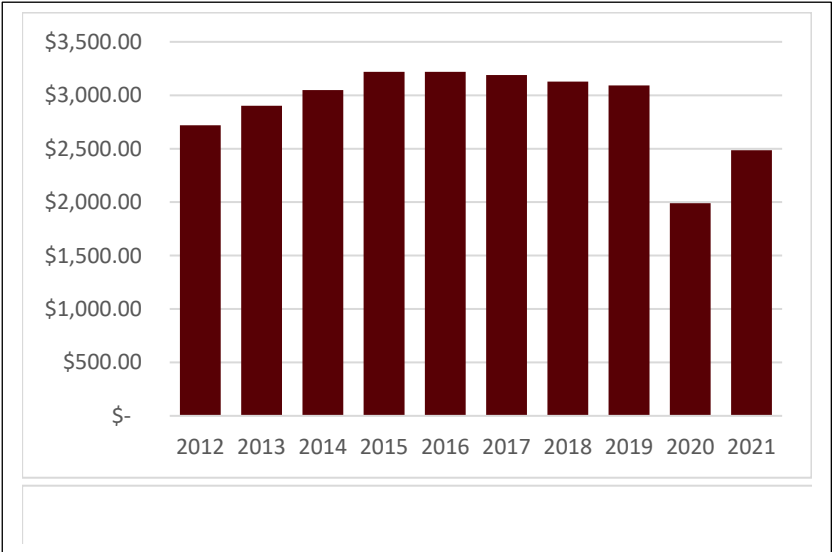
Source: 2021 U.S. Census Bureau On-The-Map

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 city’s economic and consumption circumstances. Based on these findings, Extension estimates city residents represent 34.6 percent of all taxable retail and service sales subject to the tax (\$747 million), and the remaining 65.4 percent (\$1,413 million) are attributed to non-residents.

Figure 2: Estimated 2021 Taxable Sales Subject to LOST

	Taxable Sales	Percent of Sales
City residents	\$747,360,000	34.6%
Non-residents	\$1,412,6400,000	65.4%

Figure 3: Total taxable sales in Bloomington from 2012-2021



Source: Minnesota Department of Revenue

The total taxable sales in the city rose from 2012 to 2015, after which sales remained consistent until 2019 (Figure 3). Total sales dropped during 2020 and the pandemic, while 2021 has seen total sales increase. This provides some sense of the stability of a LOST going forward, though it complicates projections with such variances in the data.

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 \$13.5 million and a lower limit of \$7.08 million.

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 sharp rebound in sales in 2021 further complicates any forecast. Although Bloomington saw an increase in service-oriented categories, loss of revenue in a non-retail category also impacts the forecast.

Figure 4: Change in Taxable Sales by Percent, 2020-2021

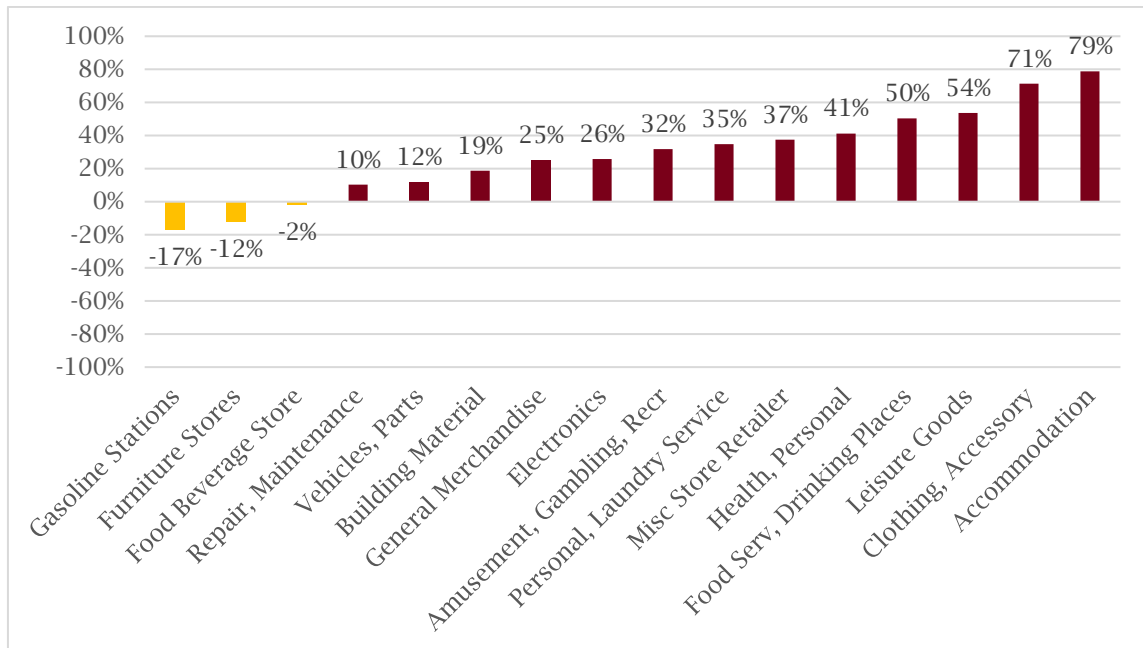


Figure 5: Forecast for Tax Proceeds based on Past Trends 2012 to 2021

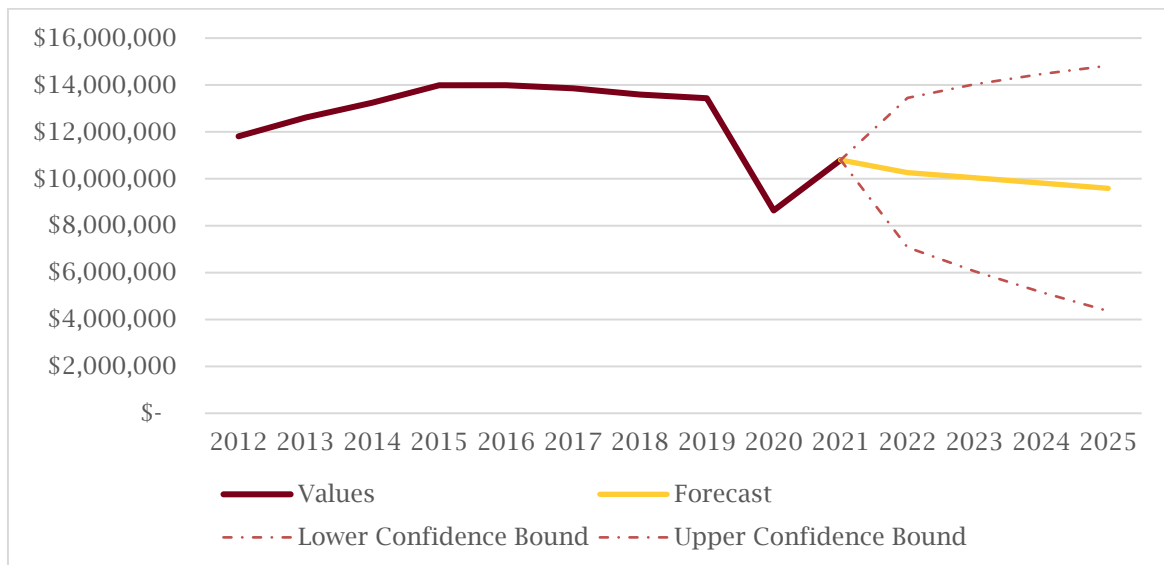


Figure 6: Forecast with Upper and Lower Bound 2022-25

	Forecast	Lower Bound	Upper Bound
2022	\$10,265,684	\$7,079,278	\$13,452,090
2023	\$10,041,187	\$6,056,267	\$14,026,107
2024	\$9,816,690	\$5,166,824	\$14,466,556
2025	\$9,592,193	\$4,359,775	\$14,824,612

Use taxes also affect the 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. Use taxes are often less consistent and more difficult to estimate accurately than sales taxes. In 2019, the city received \$9,903,330 in use (not sales) tax proceeds. It would have garnered \$733,580 for a LOST at the 0.5 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 Bloomington. 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 Bloomington 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 city in each merchandise category and compared this calculation to actual taxable sales from the Minnesota Department of Revenue sales tax statistics for the same category. Actual sales greater than potential sales 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 Bloomington. 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.

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 Bloomington (90,974)

YWC = Per capita income of Hennepin County residents (\$85,505)

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

8.1 percent of total taxable retail and service sales

The 37 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	\$146.74
-Potential sales	\$78.88
= \$ variance	\$67.86
= as % of potential	86.0%

Unadjusted Trade Area Analysis

Potential taxable sales to residents	\$78.88
Surplus	\$67.86
Total	\$146.74
Surplus percentage	46.2%

Analysis with Adjustments

Capture rate of Bloomington residents	74%
Residents' \$ share	\$58.69
Non-Residents' \$ share	\$88.04
Total	\$146.74
Non-resident share per group	60.0%

Analysis for Vehicles and Parts

Extension’s trade area analysis estimates that the city has a large surplus of sales in this category. With this large surplus, Extension estimated that 60 percent of sales were attributed to non-residents while capturing just under 75 percent of Bloomington resident spending in this category. The data indicates that this is a strong performing retail category as evident from the high surplus percentage.

Furniture Stores

6.9 percent of total taxable retail and service sales

These **25 businesses** sell furniture, beds, carpeting, window coverings, kitchenware, and wood-burning stoves.

	(\$Millions)
Actual taxable sales	\$125.54
Potential sales	\$46.36
= \$ variance	\$79.18
= as % of potential	170.8%

Unadjusted Trade Area Analysis

Potential sales to residents	\$46.36
Surplus	\$79.18
Total	\$125.54
Non-resident share per group	63.1%

Analysis with Adjustments

Capture rate of Bloomington residents	68%
Residents' \$ share	\$31.38
Non-Residents' \$ share	\$94.15
Total	\$125.54
Non-resident share per group	75.0%

Analysis for Furniture Stores

Furniture stores are a significant retail category to Bloomington with 25 businesses operating in the city. The community had a very sizeable surplus in 2021 of \$79 million. 75 percent of sales were to non-residents based on the \$79 million surplus. Extension estimated the capture rate of Bloomington resident spending at 68 percent in this category, as one would expect some portion of resident spending to leave the city with so many competitors in close proximity.

Electronics and Appliances

2.1 percent of total taxable retail and service sales*

These **39 businesses** primarily include household-type appliances, sewing machines, cameras, computers, and other electronic goods.

	(\$Millions)
Actual taxable sales	\$42.57
-Potential sales	\$44.91
= \$ variance	(\$2.34)
= as % of potential	-5.2%

Unadjusted Trade Area Analysis

Potential sales to residents	\$44.91
Surplus	(\$2.34)
Total	\$42.57
Non-resident share per group	-5.5%

Analysis with Adjustments

Capture rate of Bloomington residents	52%
Residents' \$ share	\$23.42
Non-residents' \$ share	\$19.16
Total	\$42.57
Non-resident share per group	45.0%

Analysis for Electronics and Appliances

Taxable sales are lower than expected in the electronics and appliances category, resulting in a small deficit of around 5 percent in this category. Accounting for 2 percent of all retail and service taxable sales totaling \$42.5 million, it is a smaller category within the Bloomington retail landscape. Popular electronic stores attract residents from outside the community, accounting for around 45 percent of total sales according to Extension estimates.

Building Materials

6.6 percent of total taxable retail and service sales*

These **24 businesses** sell lumber, hardware, paint, wallpaper, tile, hardwood floors, roofing, fencing, ceiling fans, lawn equipment, and garden items.

	(\$Millions)
Actual taxable sales	\$135.05
Potential sales	\$168.76
= \$ variance	(\$33.71)
= as % of potential	-20.0%

Unadjusted Trade Area Analysis

Potential sales to residents	\$168.76
Surplus	(\$33.71)
Total	\$135.05
Non-resident share per group	-25.0%

Analysis with Adjustments

Capture rate of Bloomington residents	60%
\$49Residents' \$ share	\$101.29
Non-residents' \$ share	\$33.76
Total	\$135.05
Non-resident share per group	25.0%

Analysis for Building Materials

Building materials are a moderate category in Bloomington, accounting for 6.6 percent of all retail and service taxable sales. Actual sales fell far short of potential sales estimates, equating to a \$33 million leakage or 20 percent shortage from expected. Extension set the non-resident share of taxable sales at 25 percent to account for some portion of non-resident spending in this competitive retail landscape, capturing around 60 percent of Bloomington resident spending.

Food and Groceries

5.6 percent of total taxable retail and service sales

The 52 **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	\$114.69
- Potential sales	\$86.67
= \$ variance	\$28.01
= as % of potential	32.3%

Unadjusted Trade Area Analysis

Potential sales to residents	\$86.67
Surplus	\$28.01
Total	\$114.69
Non-resident share per group	24.4%

Analysis with Adjustments

Capture rate of Bloomington residents	70%
Residents' \$ share	\$60.78
Non-residents' \$ share	\$53.90
Total	\$114.69
Non-resident share per group	47.0%

Analysis for Food and Groceries

Extension's trade area analysis estimated a moderate surplus in the food and liquor category. Extension set the non-resident share at 47 percent, primarily to allow for some reasonable portion of out-shopping by Bloomington residents. The Bloomington capture rate remains at a reasonable 70 percent in this category where customers often remain loyal to local operations even though competition abounds with many nearby groceries and specialty food retailers throughout the metro.

Health and Personal Items

2.5 percent of total taxable retail and service sales

Stores selling prescription drugs, food supplements, vision supplies, cosmetics, and hearing aids are among the 55 **businesses** included in this merchandise group.

	(\$Millions)
Actual taxable sales	\$50.36
Potential sales	\$21.25
= \$ variance	\$29.11
= as % of potential	137.0%

Unadjusted Trade Area Analysis

Potential sales to residents	\$21.25
Surplus	\$29.11
Total	\$50.36
Non-resident share per group	57.8%

Analysis with Adjustments

Capture rate of Bloomington residents	76%
Residents' \$ share	\$16.12
Non-residents' \$ share	\$34.25
Total	\$50.36
Non-resident share per group	68.0%

Analysis for Health and Personal Items

The category accounts for 2.5 percent of taxable retail and service sales in Bloomington. Taxable sales are significantly greater than would be expected for the size of the community with a \$29 million surplus. Extension set the non-resident share at a modest 68 percent. This translates into a 76 percent capture rate of local resident spending in a category where many purchases are local in nature.

Gas/Convenience Stores

1.1 percent of total taxable retail and service sales

This merchandise group covers **26 businesses** selling convenience items at a store that also sells fuel.

	(\$Millions)
Actual taxable sales	\$22.41
-Potential sales	\$32.48
= \$ variance	(\$10.08)
= as % of potential	-31.0%

Unadjusted Trade Area Analysis

Potential sales to residents	\$32.48
Surplus	(\$10.08)
Total	\$22.41
Non-resident share per group	-45.0%

Analysis with Adjustments

Capture rate of Bloomington residents	59%
Residents' \$ share	\$19.05
Non-residents' \$ share	\$3.36
Total	\$22.41
Non-resident share per group	15.0%

Analysis for Gas/Convenience Stores

Bloomington has a sizeable deficit in the gas and convenience store category, netting \$10 million less than potential sales calculations. Extension set the non-resident share at a conservative 15 percent to account for non-resident spending when traveling through on major thoroughfares. A capture rate of 59 percent for residents of Bloomington was estimated in a category where work, travel and entertainment can pull dollars from the community.

Apparel/Clothing

4.7 percent of total taxable retail and service sales

This merchandise group includes **166 businesses** selling new clothing and accessories, jewelry, shoes, bridal items, clocks, and luggage.

	(\$Millions)
Actual taxable sales	\$96.31
Potential sales	\$22.52
= \$ variance	\$73.79
= as % of potential	327.7%

Unadjusted Trade Area Analysis

Potential sales to residents	\$22.52
Surplus	\$73.79
Total	\$96.31
Non-resident share per group	76.6%

Analysis with Adjustments

Capture rate of Bloomington residents	56%
Residents' \$ share	\$12.52
Non-residents' \$ share	\$83.79
Total	\$96.31
Non-resident share per group	87.0%

Analysis for Apparel/Clothing

Extension's trade area analysis estimates that the city brings in nearly \$73 million more in taxable sales than expected, which is a 327.7 percent variance from expected sales. With 166 businesses in this category, Bloomington clearly has a niche which is drawing in customers, particularly considering the clear advantage associated with MOA. However, with nearby competition in close proximity, Extension set capture rate at 56 percent, which translated into an 87 percent non-resident share, to allow for a little more than a third of resident spending to leave the community.

Leisure Goods

7.4 percent of total taxable retail and service sales

The **70 businesses** in this merchandise group sell sporting goods, books, music, hobby items, fabrics, and toys.

	(\$Millions)
Actual taxable sales	\$152.21
Potential sales	\$34.92
= \$ variance	\$117.29
= as % of potential	335.9%

Unadjusted Trade Area Analysis

Potential sales to residents	\$34.92
Surplus	\$117.29
Total	\$152.21
Non-resident share per group	77.1%

Analysis with Adjustments

Capture rate of Bloomington residents	65%
Residents' \$ share	\$22.83
Non-Residents' \$ share	\$129.38
Total	\$152.21
Non-resident share per group	85.0%

Analysis for Leisure Goods

Extension's trade area analysis estimates that the city has a \$117 million surplus in this category which is focused on specialized retail. Extension set the non-resident share at 85 percent and a capture rate of 65 percent for Bloomington residents. The large surplus in this category suggests that people are coming from outside of Bloomington to purchase goods within the city.

General Merchandise Stores

9.5 percent of total taxable retail and service sales*

The **19 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	\$194.83
potential sales	\$160.40
= \$ variance	\$34.43
= as % of potential	21.5%

Unadjusted Trade Area Analysis

Potential sales to residents	\$160.40
Surplus	\$34.43
Total	\$194.83
Non-resident share per group	17.7%

Analysis with Adjustments

Capture rate of Bloomington residents	60%
Residents' \$ share	\$95.47
Non-Residents' \$ share	\$99.36
Total	\$194.83
Non-resident share per group	51.0%

Analysis for General Merchandise Stores

Extension estimates a small surplus in this relatively large category, which accounts for just under 10 percent of all sales in the retail/service categories in Bloomington. Taking commuting patterns into account and the general nature of metro shopping, Extension estimated 51 percent of sales in this category come from non-residents. A capture rate of 60 percent for residents was estimated to allow for leakage into other communities within close proximity, or specialized stores such as Costco, etc.

Miscellaneous Retail

2.6 percent of total taxable retail and service sales

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

	(\$Millions)
Actual taxable sales	\$53.76
Potential sales	\$47.71
= \$ variance	\$6.05
= as % of potential	12.7%

Unadjusted Trade Area Analysis

Potential sales to residents	\$47.71
Surplus	\$6.05
Total	\$53.76
Non-resident share per group	11.3%

Analysis with Adjustments

Capture rate of Bloomington residents	41%
Residents' \$ share	\$19.35
Non-residents' \$ share	\$34.41
Total	\$53.76
Non-resident share per group	64.0%

Analysis for Miscellaneous Retail

Extension's trade area analysis estimates that Bloomington had a \$6 million surplus in the miscellaneous retail category. Extension set the non-resident share to 64 percent since some miscellaneous retail such as antique shops in the community would reasonably have a large draw and would also lead to spending outside of the city by residents as well.

Amusement and Recreation

1.2 percent of total taxable retail and service sales*

The **20 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	\$24.41
Potential sales	\$42.12
= \$ variance	(\$17.71)
= as % of potential	-42.0%

Unadjusted Trade Area Analysis

Potential sales to residents	\$42.12
Surplus	(\$17.71)
Total	\$24.41
Non-resident share per group	-72.5%

Analysis with Adjustments

Capture rate of Bloomington residents	29%
Residents' \$ share	\$12.21
Non-residents' \$ share	\$12.21
Total	\$24.41
Non-resident share per group	50.0%

Analysis for Amusement and Recreation

Extension's trade area analysis estimates that the city has a deficit of potential sales in this category. Along with the MOA, Bloomington is also home to other regional attractions to draw in non-residents and visitors as well. In this case, even despite the deficit, Extension set the non-resident share at 50 percent.

Accommodations

9.2 percent of total taxable retail and service sales

These **47 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	\$187.26
Potential sales	\$36.76
= \$ variance	\$150.50
= as % of potential	409.4%

Unadjusted Trade Area Analysis

Potential sales to residents	\$36.76
Surplus	\$150.50
Total	\$187.26
Non-resident share per group	80.4%

Analysis with Adjustments

Capture rate of Bloomington residents	25%
Residents' \$ share	\$9.36
Non-residents' \$ share	\$177.90
Total	\$187.26
Non-resident share per group	95.0%

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 95 percent of sales to allow for resident spending related to events, facility charges, and 'staycations.' A capture rate of 25% of Bloomington resident spending in this category appears high, but Extension generally sets a minimum of 5 percent local spending in this category.

Eating/Drinking Establishments

16.2 percent of total taxable retail and service sales

These **233 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	\$331.50
Potential sales	\$200.26
= \$ variance	\$131.24
= as % of potential	65.5%

Unadjusted Trade Area Analysis

Potential sales to residents	\$200.26
Surplus	\$131.24
Total	\$331.50
Non-resident share per group	39.6%

Analysis with Adjustments

Capture rate of Bloomington residents	53%
Residents' \$ share	\$106.08
Non-residents' \$ share	\$225.42
Total	\$331.50
Non-resident share per group	68.0%

Analysis for Eating/Drinking Establishments

The eating and drinking category—which includes all bars, restaurants, and other food services—is a significant category with \$331 million in taxable sales and has a significant surplus of \$131.24 million. Many well-respected dining establishments that draw non-residents to the community as well as retain in-commuters who work in Bloomington. However, not unlike the general merchandise category, the community is also surrounded by a lot of other dining options and competition from nearby communities with a wide mix of types of dining, pulls residents out of Bloomington. In this context, Extension set the non-resident share to a conservative 68 percent and a local capture rate of 53 percent of spending of Bloomington residents.

Repair and Maintenance

2.4 percent of total taxable retail and service sales

The **105 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	\$48.75
Potential sales	\$37.60
= \$ variance	\$11.15
= as % of potential	29.7%

Unadjusted Trade Area Analysis

Potential sales to residents	\$37.60
Surplus	\$11.15
Total	\$48.75
Non-resident share per group	22.9%

Analysis with Adjustments

Capture rate of Bloomington residents	65%
Residents' \$ share	\$24.38
Non-residents' \$ share	\$24.38
Total	\$48.75
Non-resident share per group	50.0%

Analysis for Repair and Maintenance

At 2.4 percent of total taxable sales, repair and maintenance is a relatively small category in Bloomington, but the 105 businesses still contribute over \$48 million in actual sales. The moderate surplus that exists in this category suggests that a good share of sales coming from outside the city unless residents spend much more than the average Minnesotan in this category. A conservative 65 percent capture rate of local spending was estimated.

Personal Services/Laundry

4.1 percent of total taxable retail and service sales

The **114 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	\$83.28
Potential Sales	\$20.36
= \$ variance	\$62.92
= as % of potential	309.1%

Unadjusted Trade Area Analysis

Potential sales to residents	\$20.36
Surplus	\$62.92
Total	\$83.28
Non-resident share per group	75.6%

Analysis with Adjustments

Capture rate of Bloomington residents	74%
Residents' \$ share	\$14.99
Non-residents' \$ share	\$68.29
Total	\$83.28
Non-resident share per group	82.0%

Analysis for Personal Services/Laundry

This category includes businesses that typically serve a local market, such as barbers, hair salons, and dry-cleaning operations. Similar to the health and personal store category in Bloomington, the city is disproportionately strong in this category with 114 businesses and a \$62.92 million surplus. Clearly the community has a niche with draws in non-residents. Extension set the non-resident share at 82 percent, which translates into a 74 percent capture rate of local spending and allows for some leakage of spending from Bloomington residents outside the community.

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	\$236.23
% of total taxable retail and service sales In Bloomington	11.5%

Analysis with Adjustments

	(\$Millions)
Residents' \$ share	\$148.83
Non-residents' \$ share	\$87.41
Total	\$236.23
Non-resident share per group	37%

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 37 percent of these sales are to non-resident customers. The categories of sales are shown below:

CATEGORY	TAXABLE SALES	% NON-LOCAL	NON-LOCAL \$
454 RETL -NONSTORE RETAILERS	\$12,874,401	50%	\$6,437,201
484 TRANSPORTATION -TRUCK	\$17,611	40%	\$7,044
488 TRANSPORTATION -SUPPORT	\$573,083	40%	\$229,233
493 TRANSPORTATION -STORAGE	\$12,951	40%	\$5,180
511 INFO -PUBLISHING INDUSTRY	\$4,216,459	40%	\$1,686,584
512 INFO -MOVIES, MUSIC IND	\$2,374,988	40%	\$949,995
517 INFO -TELECOMMUNICATIONS	\$13,805,106	30%	\$4,141,532
518 INFO -DATA PROCESSING	\$22,973,397	40%	\$9,189,359
519 INFO -OTHER SERVICES	\$1,536,358	30%	\$460,907
522 CREDIT INTERMEDIATION	\$7,902,642	40%	\$3,161,057
523 SECURITIES, COMMODITIES	\$2,934,902	30%	\$880,471
524 INSURANCE CARRIERS	\$10,741	30%	\$3,222
531 REAL ESTATE	\$32,492,084	40%	\$12,996,834
532 RENTAL, LEASING SERVICES	\$38,448,217	30%	\$11,534,465
541 PROF,SCIENTIFIC,TECH SERV	\$38,320,413	40%	\$15,328,165
551 MGMT OF COMPANIES	\$1,716,950	30%	\$515,085
561 ADMIN, SUPPORT SERVICES	\$33,974,743	30%	\$10,192,423
611 EDUCATIONAL SERVICES	\$2,011,506	20%	\$402,301
621 HEALTH -AMBULATORY CARE	\$4,793,020	40%	\$1,917,208
623 HEALTH -NURSING,HOME CARE	\$524,065	20%	\$104,813
624 HEALTH -SOCIAL ASSISTANCE	\$70,664	20%	\$14,133
711 PERF ART, SPECTATOR SPRTS	\$867,312	40%	\$346,925
712 MUSEUMS, HISTORICAL SITES	\$9,590,920	40%	\$3,836,368
813 RELIGIOUS,CIVIC,PROF ORGS	\$4,189,636	40%	\$1,675,854
TOTAL	\$236,232,169	37%	\$86,016,359

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 \$439.7 million in taxable sales, or 17.7 percent of total taxable sales in Bloomington. 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	\$14,971,831	60%	\$8,983,098.60
MANUFACTURING	\$109,545,721	90%	\$98,591,148.90
WHOLESALE	\$304,731,949	80%	\$243,785,559.20
UNDESIGNATED/SUPPRESSED	\$10,476,372	50%	\$5,238,186.00
Total	\$439,725,873	81%	\$356,597,992.70

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	\$83.66
Non-residents \$ share	\$356.67
Total	\$439.73
Non-resident share	81%

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 Bloomington, 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

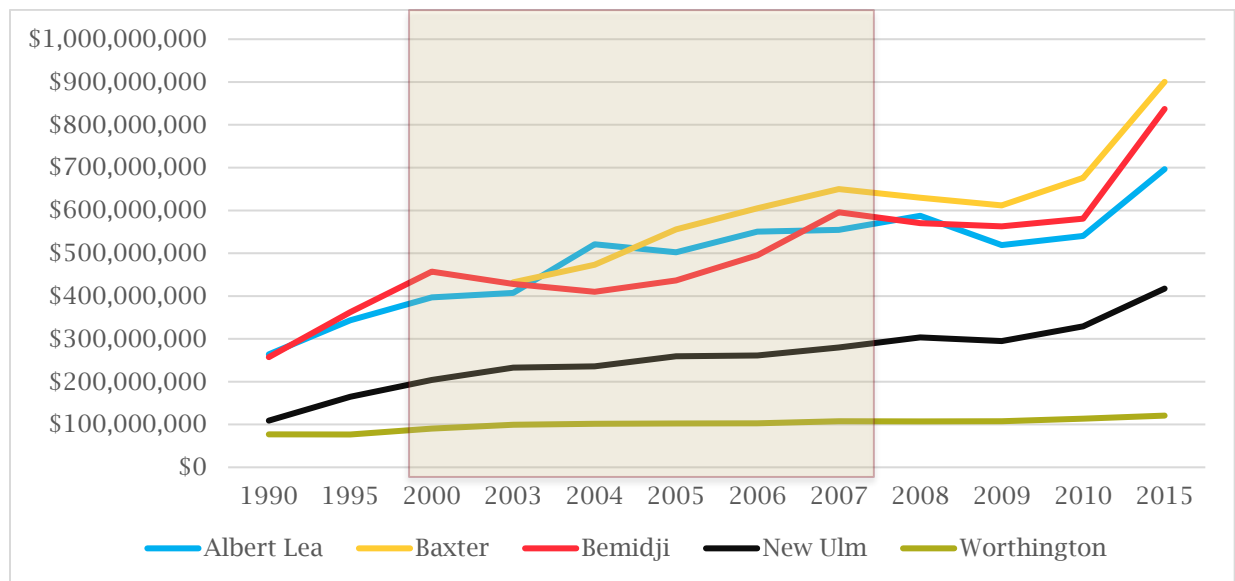


Figure 5: Data table for example communities, taxable retail and service sales (in millions)

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

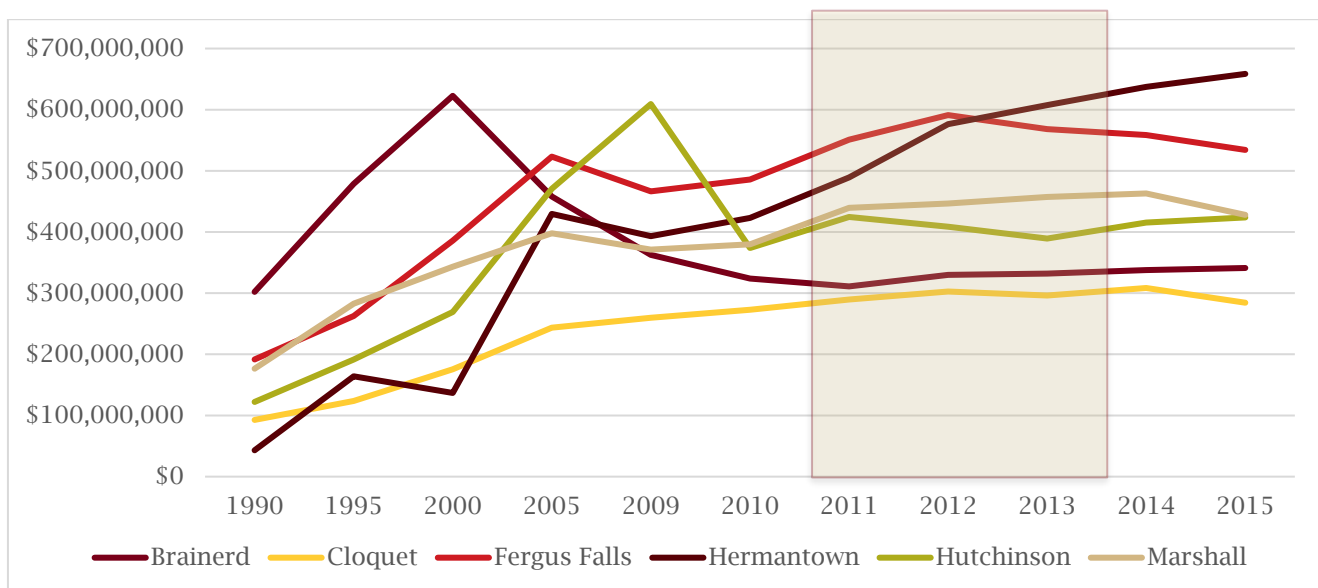


Figure 7: Data table for example communities, taxable retail and service sales (in millions)

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

APPENDIX B: DEFINITIONS OF TERMS

Gross sales

Gross sales include taxable sales and exempt businesses with sales and use tax permits. This is the most inclusive indicator of business activity for 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 Bloomington 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.