



**WORK SESSION  
RICHFIELD MUNICIPAL CENTER, BARTHOLOMEW ROOM  
DECEMBER 8, 2022  
4:00 PM**

Call to order

1. Presentation and discussion of a local sales tax.

Adjournment

**Auxiliary aids for individuals with disabilities are available upon request. Requests must be made at least 96 hours in advance to the City Clerk at 612-861-9738.**



## WORK SESSION

12/8/2022

REPORT PREPARED BY: Amy Markle, Recreation Services Director

DEPARTMENT DIRECTOR REVIEW: Amy Markle, Recreation Services Director  
12/1/2022

OTHER DEPARTMENT REVIEW:

CITY MANAGER REVIEW: Katie Rodriguez, City Manager  
12/2/2022

### **ITEM FOR WORK SESSION:**

**Presentation and discussion of a local sales tax.**

### **EXECUTIVE SUMMARY:**

During recent budget discussions, staff and City Council noted the need for additional long-term funding for future large-scale public projects. Specifically, there is a need for additional funding for the Wood Lake Nature Center building project. One way to secure additional funding at the local level for infrastructure projects would be the use of a Local Sales Tax (LST).

Per Minnesota State Statute, local governments (except for counties) are generally prohibited from imposing sales taxes. In special cases and for specific projects, the legislature, through Minn. Stat. § 297A.99, has authorized a number of local sales taxes for cities. Currently, 43 cities impose sales taxes under this law. Revenues from these local sales taxes may only be used for projects of regional significance.

A LST would place a tax on certain product sales or services within the municipality. All goods or services that are otherwise exempt from taxation are exempt from LST. This tax is generally set at 0.5% (one-half percent). The city's lobbyist recommends seeking approval for a 0.5% LST rate, as the state legislature is not likely to provide approval for a higher rate.

### **Local Area Sales Tax Analysis** (as presented at the previous LST work session)

City staff recently entered into an agreement with the University of Minnesota's Extension Center for Community Vitality to perform a LST analysis for Richfield. The Extension Center is a leader in this field of study, providing analyses for many neighboring communities including: Maple Grove, St. Louis Park, Oakdale, Bloomington, and Edina. This LST analysis provided information on future revenue and the community impact of a 0.5% local sales tax in Richfield.

This LST study evaluated several factors and provides:

- A projection for estimated taxable sales in the community.
- An estimated taxable sales generated by non-residents.
- Analysis of the City's sales tax sector distribution.
- A summary of the taxable retail and service sales by comparable communities for subsequent years once a local option sales tax was implemented.
- An estimate for the total revenue per year from a LST in Richfield.

The LST analysis estimates the non-residents portion of revenue would account for 54.5% of taxable sales subject to a LST. In 2019, the most recent year with available data, the total taxable sales in Richfield were \$652M. Of that amount, Minnesota Department of Revenue estimates approximately \$500M would have been subject to a LST. The analysis estimated that Richfield residents spent \$228M of the total \$500M in taxable sales.

If a 0.5% LST was in place in 2019, Richfield would have collected an additional \$2.5M in tax proceeds that year. Of that amount, non-residents would have contributed a majority of the revenue, roughly \$1.35M, while Richfield residents would have contributed \$1.14M. Based on these estimates, each Richfield resident would have paid, on average, an additional \$30.77 in sales tax in 2019. During this work session, staff hopes to explore further projects the Council may wish to undertake with this new funding source.

### **Implementing a Local Area Sales Tax**

If Council is interested in continuing to pursue a LST, the city would submit a request for approval by the legislature to implement the LST. Approval from the legislature does not obligate the city to implement the tax, but does provide the option. The city must submit a detailed list of the proposed projects to the legislature as part of the LST approval process.

The first step for implementing a LST for Richfield will be to include a request in the city's 2023 Legislative priorities. In order to proceed with pursuing a tax, the Council must seek and receive authority from the legislature. A resolution from the Council must be submitted to the chairs and ranking members of the House and Senate Tax Committees by January 31 of the year of the proposed authorization.

The resolution must include:

- A detailed description of no more than five capital projects (see definition below) to be funded by the proposed tax;
- Documentation of the regional significance of each project, including the share of the benefit to, or use of each project by, persons other than local residents; and
- The amount of revenue from the local sales tax that would be used for each project and the estimated time needed to raise that amount.

The city will need to work with a local legislator to enact a special law approving the tax. Coordinating this will be part of the city lobbyists work for 2023. If approved by the legislature, the city may choose to proceed with creating a local tax through a sales tax referendum.

The city is required to bring the proposed tax to the voters for approval at a general election within two years (2024) after receiving legislative approval. We have asked for guidance from legislative counsel on the definition of general election. The House staff has reviewed the legislative history and is of the opinion that, when drafting this law, legislators did not want referenda to be conducted at a "special election," and the referendum could be conducted at any November election. That would allow the city to host a referendum on a LST as early as 2023.

The ballot must contain a separate question for each proposed project with a maximum of five projects. Only projects that receive a majority "yes" vote will be funded with the proposed tax. If there are projects not approved by the voters, the total revenue raised, and the duration of the tax must be reduced by an amount proportional to the cost and timeframe of the failed initiative.

### **Terms of a Local Area Sales Tax**

The city may identify up to five specific capital projects of regional significance to fund through a LST. Minn. Stat. § 297A.99 defines a "capital project" or "project" as:

- A single building or structure including associated infrastructure needed to safely access or use the building or structure;
- Improvements within a single park or named recreation area;
- A contiguous trail.

Examples of recent projects seeking funding from LST are funding for park improvements (Edina), a community center expansion and renovation (Maple Grove), roadway and pedestrian facility improvements (Roseville), and police station and public works facility updates (Oakdale). The city must also provide documentation of how each project will provide an economic or use benefit to residents, businesses, and visitors from outside their jurisdiction. Staff currently proposes to fund the Wood Lake Nature Center building project with revenue from a local sales tax.

The city must also determine the length of time the tax will be in effect if all proposed projects are approved. Terms of a LST generally run the length of the time it takes to raise the requested capital for the projects; this typically ranges from 15 to 30 years. Some cities have extended, by subsequent referendum, the period significantly beyond the original timeframe of the approval. A summary of surrounding cities' terms for their local sales tax is attached to this report. The extensions estimated an annual LST collection of \$2.8M to \$3.4M.

### **Administering a Local Area Sales Tax**

The tax shall apply to any sales taxable under this chapter made within the political subdivision. The area covered shall be imposed in the zip code area, 55423, specific to Richfield.

The commissioner of revenue will collect the taxes accrued through the LST as outlined in state statute. The commissioner may collect and remit to the city the special tax with the standard state sales and use tax.

### **Potential Projects**

Staff has prepared a list of possible projects that meet the requirements for funding by LST. The list is preliminary and represents many projects that must be done in the next 5-10 years in order to continue providing these amenities to residents. There is not currently a sufficient alternate revenue source for the rehabilitation of these park and recreation assets.

#### **Wood Lake Nature Center**

- Estimated Project Timeline: 2025-2026
- Total Project Cost (Option 1): \$14M (with \$12M in partner funding for building)
- Total Project Cost (Option 2): \$24M (without partner funding for building)
- Includes new building, trail improvements and garage facilities

#### **Veterans Park Complex**

- Estimated Project Timeline: 2026-2030
- Total Project Cost: \$7.0M to \$8.6M
- Includes improvements to aquatics, ice arena, park, band shell, picnic pavilion, and mini-golf building.

#### **Donaldson Park Improvements**

- Estimated Project Timeline: 2026-2028
- Total Project Cost: \$5.0M
- Includes upgrades to park, fields, building, parking lots

#### **Taft Park Improvements**

- Estimated Project Timeline: 2028-2030
- Total Project Cost (Option 1): \$9.53M (without dome)
- Total Project Cost (Option 2): \$13.53M (with dome)
- Includes upgrades to park, fields, building, parking lots, construction of dome (option)

#### **Park Trail System Improvements**

- Estimated Project Timeline: 2031-2035
- Total Project Cost: \$4.23M
- Includes solar lighting, cohesive signage, trail resurfacing, vegetation plantings and improvements

#### **Richfield Community Center Upgrades and Improvements**

- Estimated Project Timeline: 2025-2026
- Total Project Cost (renovation): \$8.7M

- Total Project Cost (new building): \$47.7M-\$63.4M
- Includes general building improvements, ADA upgrades, or new building (option)

Current sales tax projections over the 20 year period total about \$90M. Most projects would need to be funded with bonds which adds approximately 30-70% in financing costs depending on the term. Therefore, the maximum amount of projects costs is approximately \$51M-\$68M. This is a very rough estimate and we will need to work with our financial advisor to refine the estimates following council direction on the potential projects.

The City Council should review the information presented and provide staff feedback regarding the next steps in pursuing local sales tax authority for Richfield. Up to five proposed projects will need to be selected to bring to the legislature that fit within the LST budget. There are three options for next steps:

1. Proceed with pursuing a LST. This includes adding local sales tax to the list of legislative priorities and council will pass a resolution in late 2022. The resolution will be sent to the House and Senate Tax Committees by January 31 of 2023. If the city is granted LST authority the council would need to decide whether to place the referendum on the ballot, either November 2023 or November 2024.
2. Proceed with pursuing a LST at the legislature in 2024. Local sales tax will be added to the list of legislative priorities and council must pass a resolution to be sent to the House and Senate Tax Committees by January 31 of 2024. The referendum could be placed on the ballot for the November 2024 or November 2025 general election.
3. Do not pursue authority for a local sales tax.

It is important to note that the above is the current local sales tax authorization process, but that could change with the new legislature in 2023.

### **DIRECTION NEEDED:**

**Staff request City Council input on initiating the process to pursuing local sales tax authority. If City Council is interested in requesting local sales tax authority, staff would also need input on the possible projects so a resolution can be adopted in early January 2023.**

### **BACKGROUND INFORMATION:**

#### **A. HISTORICAL CONTEXT**

Included in the Executive Summary

#### **B. POLICIES (resolutions, ordinances, regulations, statutes, etc):**

N/A

#### **C. CRITICAL TIMING ISSUES:**

The City must submit a resolution to the legislature asking for LST authority by January 31 in order for the request to be considered during the legislative session.

#### **D. FINANCIAL IMPACT:**

See summary above.

#### **E. LEGAL CONSIDERATION:**

State statute guides this process.

### **ALTERNATIVE(S):**

Included in the Executive Summary.

### **PRINCIPAL PARTIES EXPECTED AT MEETING:**

Glenn Waguespack, Architect at HGA

### **ATTACHMENTS:**

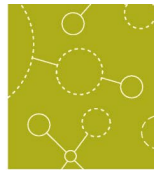
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EXTENSION CENTER FOR COMMUNITY VITALITY

# Local Option Sales Tax Analysis for Richfield, MN

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

Authored by Ryan Pesch, Eric King, and John Bennett



REPORT SPONSOR: CITY OF RICHFIELD, MINNESOTA





# Local Option Sales Tax Analysis for Richfield

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

March, 2022

Authored by Ryan Pesch, Eric King, and John Bennett, Extension Educators  
University of Minnesota Extension Center for Community Vitality

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### Sponsor:

City of Richfield

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## SUMMARY OF FINDINGS

University of Minnesota Extension (Extension) conducted a study to estimate the proportion of sales proceeds attributed to both Richfield residents and 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 54.5 percent of taxable sales subject to a local option sales tax (LOST).

In 2019, total taxable sales in Richfield were \$652 million. However, MN Revenue analysts estimate that approximately \$500 million would be subject to a LOST. With 54.5 percent of sales derived from non-resident spending, Extension estimated that Richfield residents spent \$228 million of the total \$500 million in taxable sales subject to a LOST.

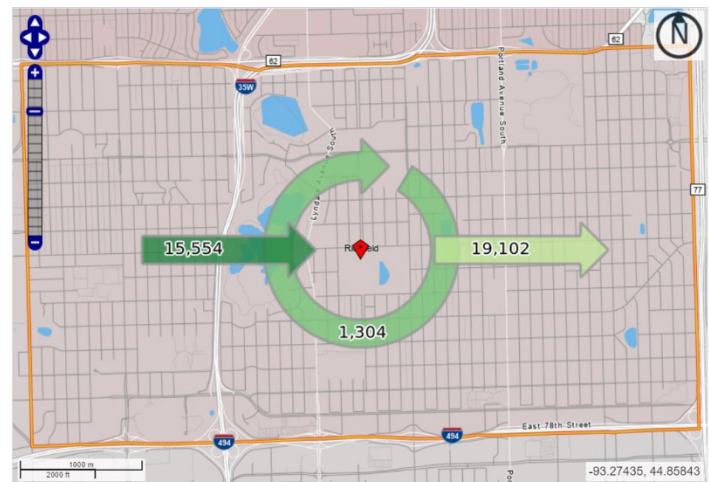
If the tax were in place in 2019, a 0.5 percent local option sales tax would have garnered \$2,500,000 in tax proceeds. Richfield residents would have contributed \$1.14 million in taxes, and non-residents would have contributed \$1.36 million. Based on these estimates, each Richfield resident would have paid, on average, an additional \$30.77 in sales tax in 2019.

This report is based on a trade area analysis comparing actual taxable sales to potential sales. This is calculated by multiplying the Richfield population by the Minnesota average per capita sales for each category, and then adjusting for the county's income factor. This initial analysis provided an estimate of retail and service purchases made by Richfield 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 Richfield's economy helped frame the analysis for the different merchandise categories:

- As a metropolitan community adjacent to many other communities, residents can conveniently shop in those locations with more choice and vice-versa. This is even more significant for Richfield than other metro communities as a first-ring suburb with a strong network of highways traversing the city including 35W and 494.
- Richfield is has a large proportion of its residents leave for work and imports an equally large number of workers (Figure 1). In this dynamic, commuters often shop for goods and services near where they work.

**Figure 1: Richfield worker in-flow and out-flow**



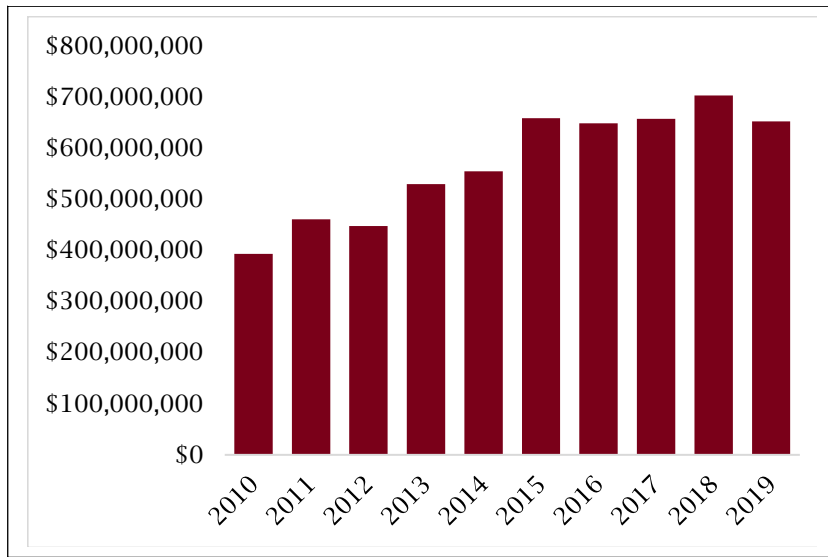
Source: 2019 U.S. Census Bureau On-The-Map

Figure 2 shows the estimated percentage of sales—across all merchandise categories— attributed to both residents and non-residents in 2019. These estimates are based on the adjusted analysis to more accurately reflect the county’s economic and consumption circumstances. Based on these findings, Extension estimates city residents represent 45.5 percent of all taxable retail and service sales subject to the tax (\$228 million) and the remaining 54.5 percent (\$272 million) are attributed to non-residents.

**Figure 2: Estimated 2019 Taxable Sales Subject to LOST**

	Taxable Sales	Percent of Sales
City residents	\$227,680,669	45.5%
Non-residents	\$272,319,331	54.5%

**Figure 3: Total taxable sales in Richfield from 2010-2019**



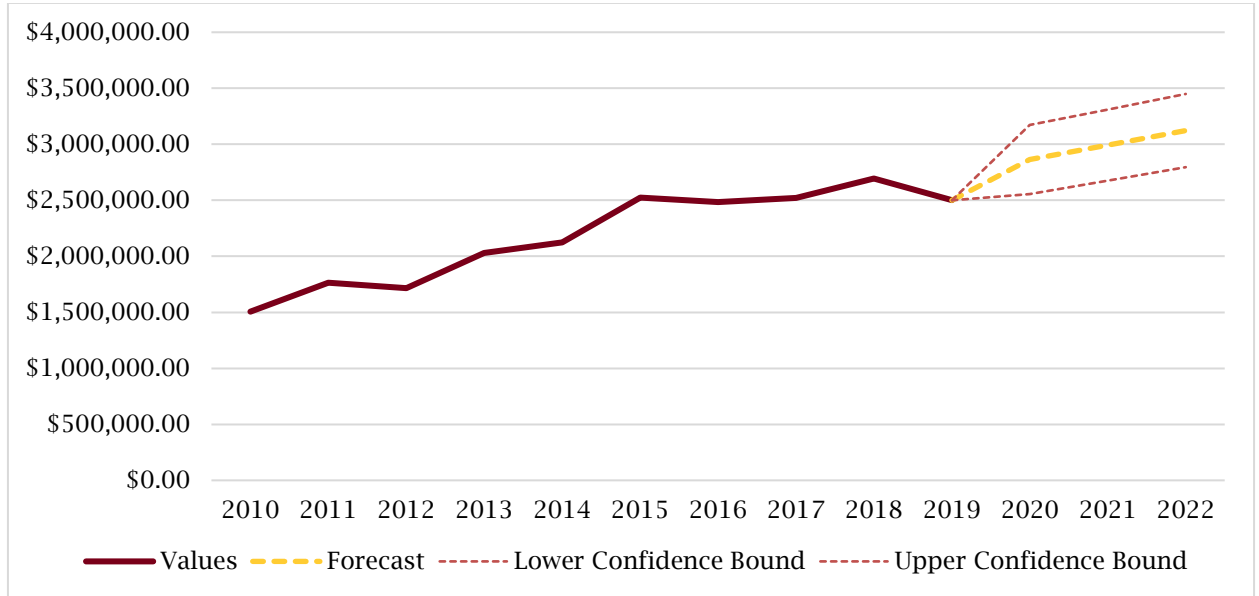
The total taxable sales in the city increased significantly over ten years (Figure 3). Total taxable sales were \$393 million in 2010 and \$652 million in 2019, increasing approximately by \$259 million, or 66 percent. After an increase from 2010 to 2014, taxable sales have been consistently near \$650 million. This fact provides some sense of the stability of a LOST going forward.

Extension forecasted taxable sales subject to the local tax for 2020, 2021, and 2022

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 4 and 5). This model estimates total tax proceeds in 2020 to be between an upper limit of \$3.4 million and a lower limit of \$2.8 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, general merchandise, and furniture did well through the pandemic, whereas dining, accommodations, and personal services saw record sales decreases. The sharp rebound in sales in 2021 further complicates any forecast.

**Figure 4: Projection of LOST proceeds**



**Figure 5: Forecast with Upper and Lower Bound, 2019-22**

	Forecast	Lower Bound	Upper Bound
2019	\$2,500,000	\$2,500,000	\$2,500,000
2020	\$2,864,457	\$2,556,599	\$3,172,314
2021	\$2,993,442	\$2,676,035	\$3,310,849
2022	\$3,122,428	\$2,795,677	\$3,449,178

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 \$6,408,937 in use (not sales) tax proceeds. The city would have collected an additional \$466,000 if a 0.5 percent LOST rate was in effect.

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 Richfield. 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 entities 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 Richfield residents compared to non-residents. The most recently available state sales tax data (2019) from the Minnesota Department of Revenue (MN Revenue) was used.

### Trade Area Analysis and Calculations

Extension conducted a trade area analysis of retail and service sales in select merchandise categories, estimating the amount of taxable sales subject to sales taxes made by both local residents and non-residents. Use tax is a much smaller portion of the total collection compared to sales tax proceeds. It is also estimated using a different formula.

Extension calculated potential sales for the county in each merchandise category and compared this calculation to actual taxable sales from the Minnesota Department of Revenue sales tax statistics for the same category. Actual sales greater than potential sales indicate the county attracts sales from outside its boundaries, or has sales greater than one would expect from its residents. Extension used the difference between potential and actual sales to set reasonable estimates of spending by residents and non-residents across all categories. These estimates also helped inform adjustments for each category.

Potential sales calculations are based on average statewide spending by merchandise category and the population of the county, then adjusted by the level of income in Richfield. 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:

$$(T \div PMn) \times MG \times (YHC \div YMn) = \text{potential sales}$$

T = Total Minnesota taxable sales for a merchandise category

PMn = 2019 population of Minnesota (5,639,632)

PR = 2019 population of Richfield (36,993)

YHC = Per capita income of Hennepin County resident (\$76,552)

YMn = Per capita income of Minnesota resident (\$58,834)

## TRADE AREA ANALYSIS BY MERCHANDISE CATEGORY

The following pages provide detailed analysis by merchandise category.

### Vehicles and Parts

#### 3.5 percent of total taxable retail and service sales

The **14 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	\$22.50
-Potential sales	\$27.37
= \$ variance	(\$4.87)
= as % of potential	-17.8%

### Unadjusted Trade Area Analysis

Potential taxable sales to residents	\$27.37
Surplus	(\$4.87)
Total	\$22.50
Surplus percentage	-21.6%

### Analysis with Adjustments

Capture rate of Richfield residents	70%
Residents' \$ share	\$19.13
Non-Residents' \$ share	\$3.38
Total	\$22.50
Non-resident share per group	15.0%

### Analysis for Vehicles and Parts

Extension's trade area analysis estimates that the city falls short of potential sales in part because the community only has auto parts stores and not any recreational, trailer, or other vehicle sales. Yet, even in a category with a deficit, Extension attributes some portion of sales to non-residents. In this case, Extension set the non-resident share at 15 percent to lower the Richfield resident capture rate since residents are clearly leaving the community for vehicle purchases. Reasonably, some nearby non-residents may likely visit the community for these ten businesses that supply vehicle and parts due to convenience alone.

## Furniture Stores

### 0.7 percent of total taxable retail and service sales

These **10 stores** sell furniture, beds, carpeting, window coverings, lamps, chinaware, kitchenware, and wood-burning stoves.

	(\$Millions)
Actual taxable sales	\$4.34
Potential sales	\$12.69
= \$ variance	(\$8.35)
= as % of potential	-65.8%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$12.69
Surplus	(\$8.35)
Total	\$4.34
Non-resident share per group	-192.4%

### Analysis with Adjustments

Capture rate of Richfield residents	31%
Residents' \$ share	\$3.91
Non-Residents' \$ share	\$0.43
Total	\$4.34
Non-resident share per group	10.0%

### Analysis for Furniture Stores

Furniture stores are a minor category for Richfield at 0.7 percent of total taxable sales. Extension's trade area analysis estimates that the city falls short of potential sales. Yet, even in a category with a deficit, Extension attributes some portion of sales to non-residents. In this case, Extension set the non-resident share at a modest 10 percent. The assumption is that it is unrealistic to think that there would be no non-residents that shopped in the community for goods in this category.



## Electronics and Appliances

17.8 percent of total taxable retail and service sales\*

These 22 **establishments** primarily include household-type appliances, sewing machines, cameras, computers, and other electronic goods.

	(\$Millions)
Actual taxable sales	\$114.47
-Potential sales	\$13.95
= \$ variance	\$100.53
= as % of potential	720.8%

## Unadjusted Trade Area Analysis

Potential sales to residents	\$13.95
Surplus	\$100.53
Total	\$114.47
Non-resident share per group	87.8%

## Analysis with Adjustments

Capture rate of Richfield residents	90%
Residents' \$ share	\$12.59
Non-residents' \$ share	\$101.88
Total	\$114.47
Non-resident share per group	89.0%

## Analysis for Electronics and Appliances

The electronics and appliances category is an extremely large in Richfield, bringing in over \$100 million more in sales than expected. This category accounts for nearly 18% of all taxable sales in the city, making it the largest single category. Focus group members inferred these significant sales come from Best Buy's flagship retail location in the city. To account for such a large surplus, Extension set the non-resident share at 89%, which translated into a resident capture rate of 90%.

## Building Materials

### 12.7 percent of total taxable retail and service sales\*

These **8 establishments** sell lumber, hardware, paint, wallpaper, tile, hardwood floors, roofing, fencing, indoor ventilation and lighting, lawn equipment, and garden items.

	(\$Millions)
Actual taxable sales	\$81.98
Potential sales	\$47.20
= \$ variance	\$34.78
= as % of potential	73.7%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$47.20
Surplus	\$34.78
Total	\$81.98
Non-resident share per group	42.4%

### Analysis with Adjustments

Capture rate of Richfield residents	83%
Residents' \$ share	\$39.35
Non-residents' \$ share	\$42.63
Total	\$81.98
Non-resident share per group	52.0%

### Analysis for Building Materials

At 12.7%, Building Materials are another major category of sales and revenue in Richfield, having the third most total sales of all categories. Extension's analysis suggests that this category captures a large number of Richfield residents. This conclusion is based on the assumption that such a strong building material presence would capture local dollars and building materials are often purchased close to home.

## Food and Groceries

### 4.2 percent of total taxable retail and service sales

The **23 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	\$26.81
- Potential sales	\$35.01
= \$ variance	(\$8.20)
= as % of potential	-23.4%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$35.01
Surplus	(\$8.20)
Total	\$26.81
Non-resident share per group	-30.6%

### Analysis with Adjustments

Capture rate of Richfield residents	69%
Residents' \$ share	\$24.13
Non-residents' \$ share	\$2.68
Total	\$26.81
Non-resident share per group	10.0%

### Analysis for Food and Groceries

Extension's trade area analysis estimated \$8 million deficit in the food and liquor category, the sixth largest of any category in Richfield. This large cluster of 23 stores includes Aldi, a Lunds and Byerly', as well as Lakewinds Co-op. Importantly, Richfield does not have a large mainline grocer such as Rainbow or Cub foods, so resident shopper who prefer that format more than likely shop elsewhere. With its mix of grocery stores and multiple liquor stores, one would assume that Richfield attracts a wide clientele, especially with its number of in-commuters. Extension, however, left non-resident spending at a conservative 10% of sales.

## Health and Personal Items

### 1.3 percent of total taxable retail and service sales

Stores selling prescription drugs, food supplements, vision supplies, cosmetics, and hearing aids are among the **14 shops** included in this merchandise group.

	(\$Millions)
Actual taxable sales	\$8.54
Potential sales	\$6.00
= \$ variance	\$2.53
= as % of potential	42.2%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$6.00
Surplus	\$2.53
Total	\$8.54
Non-resident share per group	29.7%

### Analysis with Adjustments

Capture rate of Richfield residents	73%
Residents' \$ share	\$4.35
Non-residents' \$ share	\$4.18
Total	\$8.54
Non-resident share per group	49.0%

### Analysis for Health and Personal Items

This is a minor category in Richfield, accounting for only 1.3 percent of total taxable sales. Even so, total sales are above what would be expected. Extension assumes a large share of residents will purchase items within the city and has set the capture rate at 73% accordingly. In a situation where many non-residents commute into the community for work and a sizeable proportion of residents out-commute, Extension set the non-resident share at 49 percent.

## Gas/Convenience Stores

1.0 percent of total taxable retail and service sales

This merchandise group covers **17 retailers** selling convenience items at a store that also sells fuel.

	(\$Millions)
Actual taxable sales	\$6.56
-Potential sales	\$12.17
= \$ variance	(\$5.61)
= as % of potential	-46.1%

## Unadjusted Trade Area Analysis

Potential sales to residents	\$12.17
Surplus	(\$5.61)
Total	\$6.56
Non-resident share per group	-85.6%

## Analysis with Adjustments

Capture rate of Richfield residents	48%
Residents' \$ share	\$5.90
Non-residents' \$ share	\$0.66
Total	\$6.56
Non-resident share per group	10.0%

## Analysis for Gas/Convenience Stores

Richfield has a sizeable deficit in the gas and convenience store category, bringing in \$5.6 million less than potential sales calculations. In a category with a deficit such as this, Extension set the non-resident share at a larger than expected 10% to account for a portion of spending of travelers through and shoppers to the city. Clearly, however, as many Richfield residents work outside the community, this is pulling resident sales elsewhere, along with the small number of stations in operation in Richfield.

## Apparel/Clothing

### 1.0 percent of total taxable retail and service sales

This merchandise group includes **22 stores** selling new clothing and accessories, jewelry, shoes, bridal items, clocks, and luggage.

	(\$Millions)
Actual taxable sales	\$6.71
Potential sales	\$6.97
= \$ variance	(\$0.27)
= as % of potential	-3.8%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$6.97
Surplus	(\$0.27)
Total	\$6.71
Non-resident share per group	-4.0%

### Analysis with Adjustments

Capture rate of Richfield residents	58%
Residents' \$ share	\$4.02
Non-residents' \$ share	\$2.68
Total	\$6.71
Non-resident share per group	40.0%

### Analysis for Apparel/Clothing

Clothing and apparel is a smaller category (1 percent of taxable sales) and 22 establishments.

While potential sales were \$6.97 million, actual taxable sales were \$6.71 million. Extension assumes that in a category that is competitive as apparel and clothing, a reasonable number of residents would spend their dollars outside of the city, setting the resident capture rate at 58%.

## Leisure Goods

### 3.0 percent of total taxable retail and service sales

The **16 firms** in this merchandise group sell sporting goods, books, music, hobby items, fabrics, and toys.

	(\$Millions)
Actual taxable sales	\$19.28
Potential sales	\$8.75
= \$ variance	\$10.54
= as % of potential	120.5%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$8.75
Surplus	\$10.54
Total	\$19.28
Non-resident share per group	54.6%

### Analysis with Adjustments

Capture rate of Richfield residents	82%
Residents' \$ share	\$7.13
Non-Residents' \$ share	\$12.15
Total	\$19.28
Non-resident share per group	63.0%

### Analysis for Leisure Goods

Like the clothing category, leisure goods are performing far above expectations. The city is home to a number of specialty shops that reasonably pull in non-residents and residents alike with 16 firms. Like the clothing category, Extension set the non-resident share higher at 63%, which highlights that the majority of spending in both clothing and leisure goods are from non-resident spending.

## General Merchandise Stores

7.0 percent of total taxable retail and service sales\*

The 4 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	\$44.85
potential sales	\$47.61
= \$ variance	(\$2.75)
= as % of potential	-5.8%

## Unadjusted Trade Area Analysis

Potential sales to residents	\$47.61
Surplus	(\$2.75)
Total	\$44.85
Non-resident share per group	-6.1%

## Analysis with Adjustments

Capture rate of Richfield residents	66%
Residents' \$ share	\$31.40
Non-Residents' \$ share	\$13.46
Total	\$44.85
Non-resident share per group	30.0%

## Analysis for General Merchandise Stores

The 4 firms in this category account for a decent share of taxable sales (7%) in Richfield. This category includes all large big box general merchandise store such as Target, Walmart, and department stores like Kohls. Richfield does host a popular Target, yet, without a Walmart in such a competitive environment it's reasonable that over a quarter of Richfield residents' sales go outside the city. Therefore, Extension set the resident capture rate at 66% accordingly, and the non-resident share at 30% of total spending in this category.



## Miscellaneous Retail

7 percent of total taxable retail and service sales

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

	(\$Millions)
Actual taxable sales	\$45.66
Potential sales	\$13.29
= \$ variance	\$32.37
= as % of potential	243.5%

## Unadjusted Trade Area Analysis

Potential sales to residents	\$13.29
Surplus	\$32.37
Total	\$45.66
Non-resident share per group	70.9%

## Analysis with Adjustments

Capture rate of Richfield residents	69%
Residents' \$ share	\$9.13
Non-residents' \$ share	\$36.52
Total	\$45.66
Non-resident share per group	80.0%

## Analysis for Miscellaneous Retail

This mix of retail that does not fall in other categories pulled in more traffic than it lost. With clear evidence of non-residents shopping in the community, Extension set the non-resident share at 80%, which equated to the 69% capture rate of residents' shopping in this category.

## Amusement and Recreation

### 1.2 percent of total taxable retail and service sales\*

The **9 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	\$7.60
Potential sales	\$15.05
= \$ variance	(\$7.45)
= as % of potential	-49.5%

## Unadjusted Trade Area Analysis

Potential sales to residents	\$15.05
Surplus	(\$7.45)
Total	\$7.60
Non-resident share per group	-98.0%

## Analysis with Adjustments

Capture rate of Richfield residents	45%
Residents' \$ share	\$6.84
Non-residents' \$ share	\$0.76
Total	\$7.60
Non-resident share per group	10.0%

## Analysis for Amusement and Recreation

Sales in this category account are minor; with 1.2% of total revenue, and a fairly significant deficit. Yet, even in a category with a deficit, Extension attributes some portion of sales to non-residents. In this case, Extension set the non-resident share at a modest 10 percent. The assumption is that it is unrealistic to think that there would be no non-residents that shopped in the community for goods in this category.

## Accommodations

### 1.1 percent of total taxable retail and service sales

These **4 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	\$6.98
Potential sales	\$19.95
= \$ variance	(\$12.97)
= as % of potential	-65.0%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$19.95
Surplus	(\$12.97)
Total	\$6.98
Non-resident share per group	-185.8%

### Analysis with Adjustments

Capture rate of Richfield residents	3%
Residents' \$ share	\$0.70
Non-residents' \$ share	\$6.28
Total	\$6.98
Non-resident share per group	90.0%

### Analysis for Accommodations

Logically, a significant percentage of lodging sales are from non-residents visiting the area or staying overnight for business or vacation. As with previous LOST analyses, Extension set the non-resident share at 90 percent of sales to allow for resident spending related to events, facility charges, and 'staycations.'

## Eating/Drinking Establishments

### 13 percent of total taxable retail and service sales

These **82 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	\$84.29
Potential sales	\$81.94
= \$ variance	\$2.34
= as % of potential	2.9%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$81.94
Surplus	\$2.34
Total	\$84.29
Non-resident share per group	2.8%

### Analysis with Adjustments

Capture rate of Richfield residents	69%
Residents' \$ share	\$56.47
Non-residents' \$ share	\$27.81
Total	\$84.29
Non-resident share per group	33.0%

### Analysis for Eating/Drinking Establishments

The eating and drinking category—which includes all bars, restaurants, and other food service—is a significant category with \$84.29 million in taxable sales, the second highest of any category in Richfield. Based on the potential sales estimates, Richfield appears to bring in 2.9% more than expected. Extension significantly adjusted the non-resident share to 33 percent, to account for people visiting Richfield for shopping, recreation and dining specifically. Furthermore, with such a large percentage of the population entering the city for work, it's reasonable to increase the non-resident share with the assumption that in-commuters for work will buy lunch while in town. The large cluster of 82 firms suggests a wide variety of options for residents as well, with a capture rate of 69%. Residents who work and travel out of town for events and shopping would be expected to spend some portion of their dollars outside the community near their work.

## Repair and Maintenance

### 1.8 percent of total taxable retail and service sales

The **28 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	\$11.79
Potential sales	\$13.17
= \$ variance	(\$1.37)
= as % of potential	-10.4%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$13.17
Surplus	(\$1.37)
Total	\$11.79
Non-resident share per group	-11.6%

### Analysis with Adjustments

Capture rate of Richfield residents	76%
Residents' \$ share	\$10.02
Non-residents' \$ share	\$1.77
Total	\$11.79
Non-resident share per group	15.0%

### Analysis for Repair and Maintenance

At 1.8 percent of total taxable sales, repair and maintenance is a relatively small category in Richfield. The small deficit that exists in this category and the smaller share of total spending coming from non-residents suggests many non-residents elect to purchase goods and services in this category locally as do Richfield residents. Extension set the non-resident share at a modest 15 percent of total taxable sales in this category to account for some portion of non-local sales.

## Personal Services/Laundry

0.7 percent of total taxable retail and service sales

The 58 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	\$4.59
Potential Sales	\$8.00
= \$ variance	(\$3.41)
= as % of potential	-42.6%

### Unadjusted Trade Area Analysis

Potential sales to residents	\$8.00
Surplus	(\$3.41)
Total	\$4.59
Non-resident share per group	-74.3%

### Analysis with Adjustments

Capture rate of Richfield residents	52%
Residents' \$ share	\$4.17
Non-residents' \$ share	\$0.41
Total	\$4.59
Non-resident share per group	9.0%

### Analysis for Personal Services/Laundry

This category includes businesses that typically serve a local market, such as barbers, hair salons, and dry-cleaning operations. With a small deficit, Extension set the non-resident share at a modest 9 percent to account for nearby non-residents who use the services in this small category. This equates to a 52% capture rate for Richfield residents.

### 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	\$147.52
% of total taxable retail and service sales In Richfield	22.9%

### Analysis with Adjustments

	(\$Millions)
Residents' \$ share	\$53.84
Non-residents' \$ share	\$93.68
Total	\$147.52
Non-resident share per group	64%

### Analysis for Retail and Other Services

This group includes non-store retailers (such as direct selling operations and online retailers), 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 64 percent of these sales are to non-resident customers. The primary driver of such a high non-resident percentage is the non-store retail category. In this instance, one possibility is that online sales through Best Buy may be reported in this category. The categories of sales are shown below:

Category	Taxable Sales	% non-local	\$ non-local
454 RETL -NONSTORE RETAILERS	\$121,061,955	70%	\$84,743,369
517 INFO -TELECOMMUNICATIONS	\$2,681,797	10%	\$268,180
531 REAL ESTATE	\$249,148	10%	\$24,915
532 RENTAL, LEASING SERVICES	\$5,222,730	50%	\$2,611,365
541 PROF,SCIENTIFIC,TECH SERV	\$3,350,674	60%	\$2,010,404
561 ADMIN, SUPPORT SERVICES	\$10,603,139	30%	\$3,180,942
611 EDUCATIONAL SERVICES	\$41,590	30%	\$12,477
621 HEALTH -AMBULATORY CARE	\$883,079	50%	\$441,540
624 HEALTH -SOCIAL ASSISTANCE	\$12,564	30%	\$3,769
711 PERF ART, SPECTATOR SPRTS	\$158,051	50%	\$79,026
813 RELIGIOUS,CIVIC,PROF ORGS	\$3,255,221	10%	\$325,522
Total	\$147,519,948	63.5%	\$93,701,507

**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 \$7.8 million in taxable sales, or only 1.2 percent of total taxable sales in Richfield. 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:

Category	Taxable Sales	% non-local	\$ non-local
CONSTRUCTION	\$4,052,635	50%	\$2,026,317.50
MANUFACTURING	\$1,036,764	80%	\$829,411.20
WHOLESALE	\$1,070,531	50%	\$535,265.50
UNDESIGNATED/SUPPRESSED	\$1,639,431	30%	\$491,829.30
Total	\$7,799,361	50%	\$3,882,823.50

Extension estimated that, overall, 50 percent of sales are to non-residents. This analysis assumes that some subcategories, such as manufacturing sell primarily (80 percent) to non-resident customers, whereas subcategories like construction split sales between resident and non-resident customers.

**Analysis with Adjustments**

	(\$Millions)
Residents' \$ share	\$3.92
Non-residents \$ share	\$3.88
Total	\$7.80
Non-resident share	50%



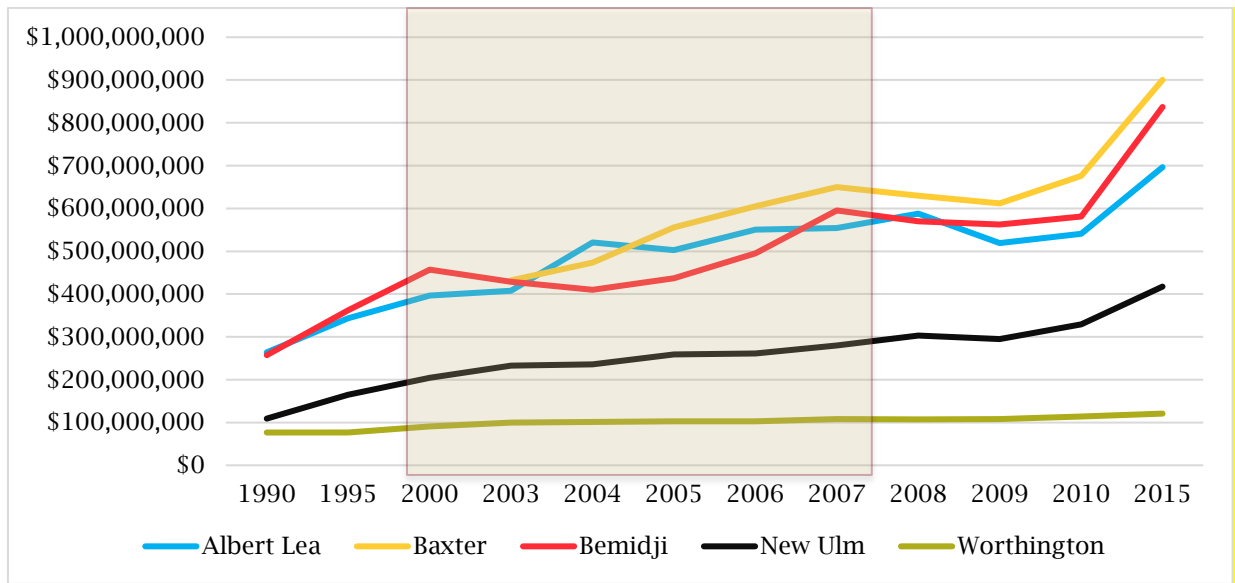
## APPENDIX A: RESEARCH ON THE EFFECTS OF A LOCAL OPTION SALES TAX

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). None of the example communities are in the Twin Cities metro, however, which limits the comparison value.

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 excludes the basic necessities of food and clothing. However, since a sales tax raises revenues from non-residents who shop in Richfield, 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.

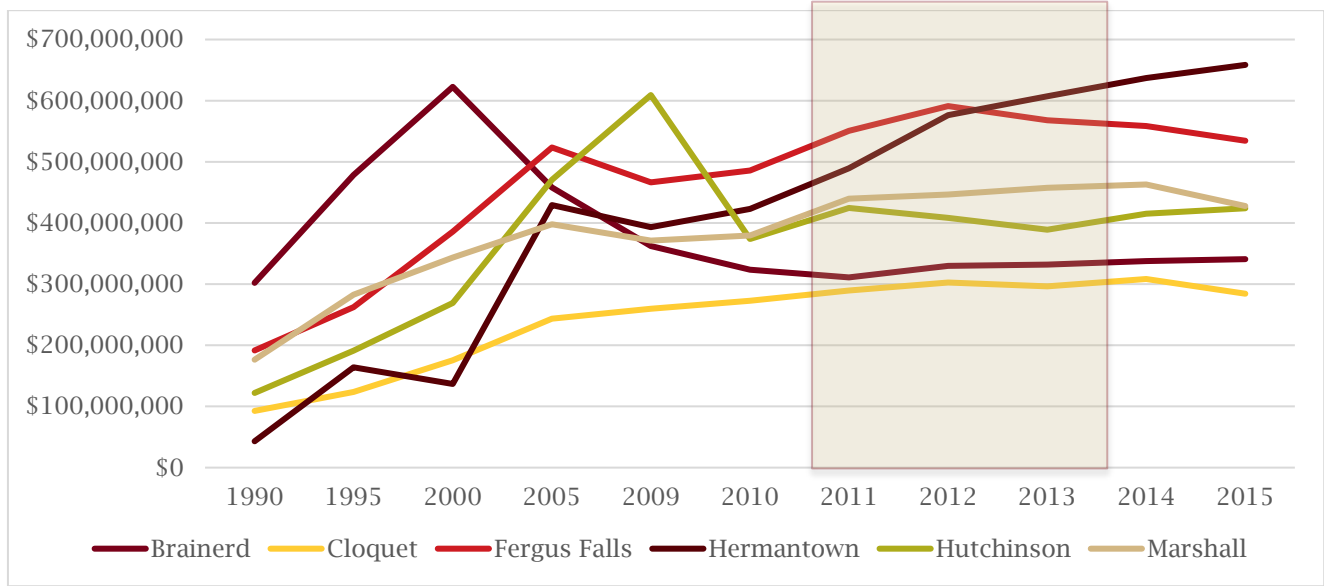
**Figure 4: Taxable retail and service sales by communities that began collecting a local option sales tax between 1999-2006**



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

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



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

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

## **APPENDIX B: DEFINITIONS OF TERMS**

### **Gross sales**

Gross sales include taxable sales and exempt businesses with sales and use tax permits. This is the most inclusive indicator of business activity for reporting jurisdictions, but it can be misleading when used in comparisons. At times, non-taxable commodity items (e.g., gasoline) can have large price variations, creating huge swings in gross sales.

### **Taxable sales**

Taxable sales are sales subject to sales tax. Taxable sales exclude exempt items, items sold for resale, items sold for exempt purposes, and items sold to exempt organizations. For the purpose of this study, taxable sales were the focus of the analysis. For more information on what is taxed in Minnesota, see the "Minnesota Sales and Use Tax Instruction Booklet" available at <https://www.revenue.state.mn.us/minnesota-tax-handbooks>

### **Taxable retail and service sales**

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

### **Current and constant dollar sales**

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

### **Number of businesses**

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

### **Index of income**

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

### **Potential sales**

Potential sales are an estimate of the amount of money spent on retail goods and services by residents of a county or county. It is the product of county population, state per capita sales, and the index of income (based on the county personal per capita income). Potential sales for counties 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).

### **Actual sales**

For this study, the Minnesota Department of Revenue's 2019 sales data for Richfield 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 are 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.