



Local Option Sales Tax Analysis for Hibbing, MN

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

Authored by Eric King

REPORT SPONSOR: CITY OF HIBBING, MINNESOTA

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City of Hibbing

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SUMMARY OF FINDINGS

University of Minnesota Extension conducted a study to estimate the proportion of sales proceeds attributed to both Hibbing 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 50.1 percent of taxable sales subject to a local option sales tax (LOST).

In 2021, total taxable sales in Hibbing were \$206.76 million. MN Revenue analysts estimate that 96.7 percent of taxable sales would be subject to a LOST. With 50.1 percent of sales derived from non-resident spending, Extension estimated that Hibbing residents spent \$99.8 million of the total \$200 million in taxable sales subject to a LOST.

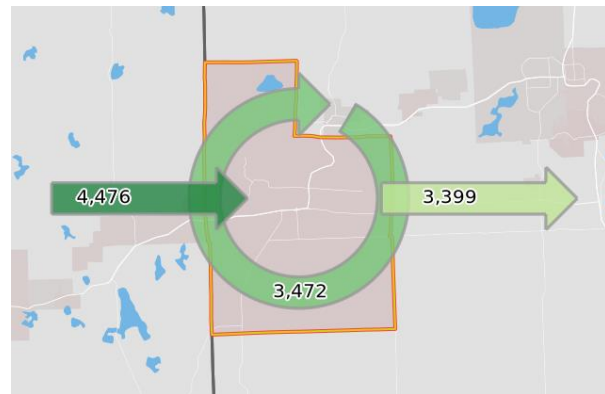
If the tax were in place in 2021, a 0.5 percent local option sales tax would have garnered \$1,000,000 million in tax proceeds according to MN Department of Revenue analysts. Hibbing residents would have contributed \$499,000 in taxes, and non-residents would have contributed \$501,000. Based on these estimates, each Hibbing resident would have paid, on average, an additional \$31.06 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 Hibbing 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 Hibbing 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 Hibbing's economy helped frame the analysis for the different merchandise categories:

- Residents of nearby communities can easily access Hibbing businesses. For this analysis, cross-hauling has the net effect of increasing non-resident spending as Hibbing is a central shopping hub in the region.
- Hibbing 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: Hibbing worker in-flow and out-flow



Inflow and outflow of wage earners.

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

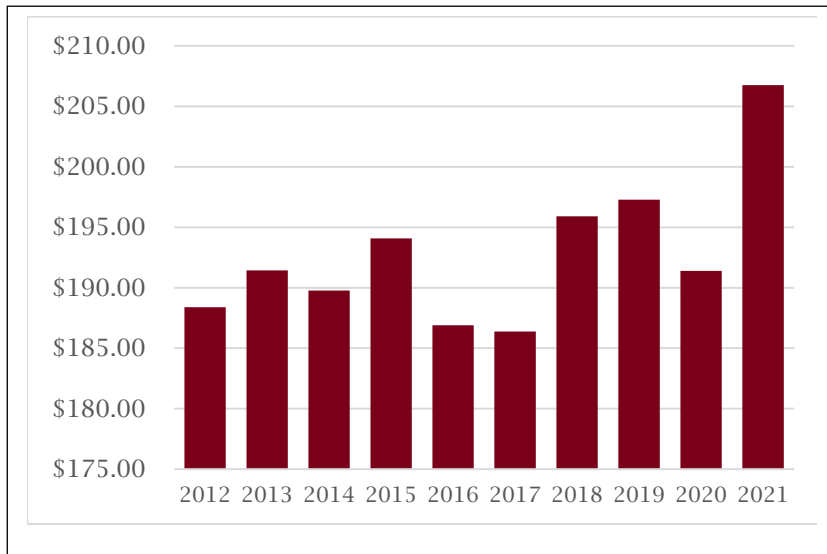
Figure 2 shows the estimated percentage of sales—across all merchandise categories—attributed to both residents and non-residents in 2021. These estimates are based on the adjusted analysis to more accurately reflect the city’s economic and consumption

circumstances. Based on these findings, Extension estimates city residents represent 49.9 percent of all taxable retail and service sales subject to the tax (\$99.8 million), and the remaining 50.1 percent (\$100.2 million) are attributed to non-residents.

Figure 2: Estimated 2021 Taxable Sales Subject to LOST

	Taxable Sales	Percent of Sales
City residents	\$99,800,000	49.9%
Non-residents	\$100,200,000	50.1%

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



Source: Minnesota Department of Revenue

The total taxable sales in the city increased steadily from 2012 to 2015, after which sales dropped in 2016 and 2017 (Figure 3). Total sales decreased from during the pandemic in 2020 before rebounding in 2021 to over \$206 million. This provides some sense of the stability of a LOST going forward.

Extension forecasted taxable sales subject to the local tax for 2022-2025 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 \$1.02 million and a lower limit of \$927,134.

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.

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

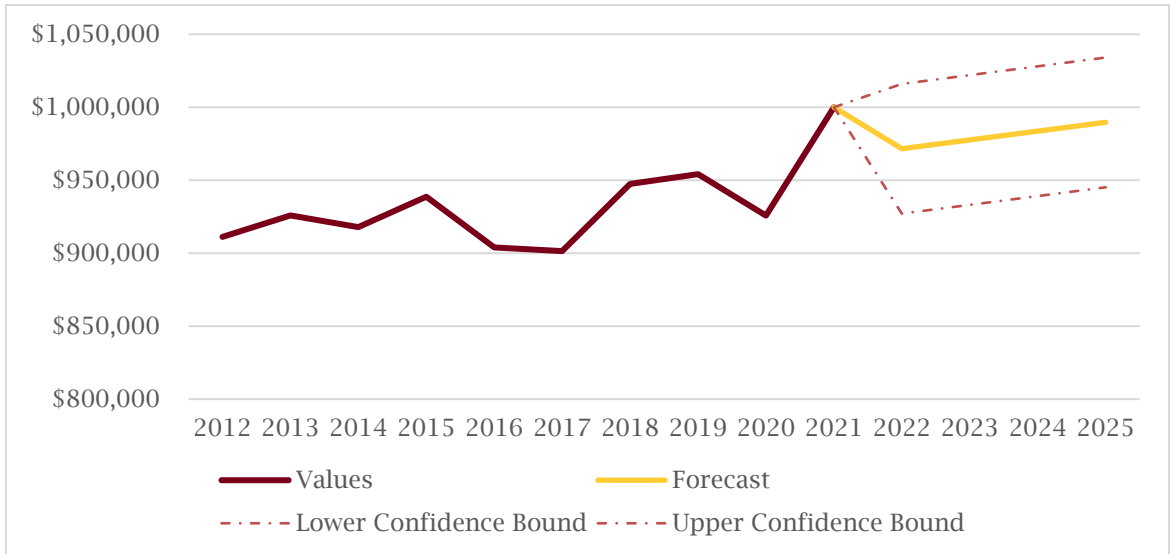


Figure 6: Forecast with Upper and Lower Bound 2022-25

	Forecast	Lower Bound	Upper Bound
2022	\$971,572	\$927,134	\$1,016,011
2023	\$977,597	\$933,158	\$1,022,036
2024	\$983,622	\$939,183	\$1,028,060
2025	\$989,646	\$945,207	\$1,034,086

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 2021, the city received \$453,851 in use (not sales) tax proceeds. It would have garnered \$33,619 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 Hibbing. 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 Hibbing 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 Hibbing. 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 Hibbing (16,064)

YWC = Per capita income of Saint Louis County residents (\$55,303)

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

TRADE AREA ANALYSIS BY MERCHANDISE CATEGORY

The following pages provide detailed analysis by merchandise category.

Vehicles and Parts

4.4 percent of total taxable retail and service sales

The **12 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	\$6.73
-Potential sales	\$7.90
= \$ variance	(\$1.17)
= as % of potential	-14.9%

Unadjusted Trade Area Analysis

Potential taxable sales to residents	\$7.90
Surplus	(\$1.17)
Total	\$6.73
Surplus percentage	-17.5%

Analysis with Adjustments

Capture rate of Hibbing residents	81%
Residents' \$ share	\$6.39
Non-Residents' \$ share	\$0.34
Total	\$6.73
Non-resident share per group	5.0%

Analysis for Vehicles and Parts

The Vehicles and Parts category accounts for 4.4% of total taxable retail and service sales in Hibbing. This includes 12 businesses specializing in repair parts, snowmobiles, boats, trailers, and recreational vehicles (excluding cars). The analysis reveals actual taxable sales of \$6.73 million, with a variance of -\$1.17 million, or -14.9% below the potential of \$7.90 million. Extension estimates a capture rate of 81% among Hibbing residents, and a total contribution of \$6.39 million, while non-residents contribute \$0.34 million. The adjusted non-resident share per group is 5.0%. This analysis provides insights into the performance of the Vehicles and Parts category in Hibbing, suggesting areas for improvement and potential strategies for growth.

Furniture Stores

1.1 percent of total taxable retail and service sales

These 5 **businesses** sell furniture, beds, carpeting, window coverings, kitchenware, and wood-burning stoves.

	(\$Millions)
Actual taxable sales	\$1.64
Potential sales	\$3.67
= \$ variance	(\$2.03)
= as % of potential	-55.3%

Unadjusted Trade Area Analysis

Potential sales to residents	\$3.67
Surplus	(\$2.03)
Total	\$1.64
Non-resident share per group	-123.8%

Analysis with Adjustments

Capture rate of Hibbing residents	42%
Residents' \$ share	\$1.56
Non-Residents' \$ share	\$0.08
Total	\$1.64
Non-resident share per group	5.0%

Analysis for Furniture Stores

Furniture Stores contribute 1.1% to the total taxable retail and service sales in Hibbing, represented by 5 businesses selling furniture, beds, carpeting, window coverings, kitchenware, and wood-burning stoves. The financial analysis indicates actual taxable sales of \$1.64 million, with a variance of -\$2.03 million, equivalent to -55.3% below the potential sales of \$3.67 million. Extension estimates a capture rate of 42% among Hibbing residents, contributing \$1.56 million, with non-residents contributing \$0.08 million. The adjusted non-resident share per group is 5.0%. This analysis sheds light on the performance of Furniture Stores in Hibbing, emphasizing potential areas for improvement and strategies for enhancing market presence.

Electronics and Appliances

0.0 percent of total taxable retail and service sales*

These **0 businesses** primarily include household-type appliances, sewing machines, cameras, computers, and other electronic goods.

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

Unadjusted Trade Area Analysis

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

Analysis with Adjustments

Capture rate of Hibbing residents	0%
Residents' \$ share	\$0.00
Non-residents' \$ share	\$0.00
Total	\$0.00
Non-resident share per group	0.0%

Analysis for Electronics and Appliances

Categories with less than 4 businesses are suppressed by Department of Revenue to ensure privacy.

Building Materials

25.9 percent of total taxable retail and service sales*

These 7 **businesses** sell lumber, hardware, paint, wallpaper, tile, hardwood floors, roofing, fencing, ceiling fans, lawn equipment, and garden items.

	(\$Millions)
Actual taxable sales	\$39.58
Potential sales	\$16.47
= \$ variance	\$23.11
= as % of potential	140.2%

Unadjusted Trade Area Analysis

Potential sales to residents	\$16.47
Surplus	\$23.11
Total	\$39.58
Non-resident share per group	58.4%

Analysis with Adjustments

Capture rate of Hibbing residents	94%
Residents' \$ share	\$15.44
Non-residents' \$ share	\$24.14
Total	\$39.58
Non-resident share per group	61.0%

Analysis for Building Materials

Building Materials constitute a significant portion, contributing 25.9% to the total taxable retail and service sales in Hibbing, represented by 7 businesses selling a range of items including lumber, hardware, paint, wallpaper, tile, hardwood floors, roofing, fencing, ceiling fans, lawn equipment, and garden items. The analysis reveals actual taxable sales of \$39.58 million, surpassing potential sales of \$16.47 million for a surplus of \$23.11 million, equivalent to 140.2% of the potential. Extension estimates a capture rate of 94% among Hibbing residents, contributing \$15.44 million, while non-residents play a substantial role, contributing \$24.14 million. The adjusted non-resident share per group is 61.0%. This data underscores the strong performance of Building Materials in Hibbing, with potential opportunities for further engagement and market growth through targeted strategies.

Food and Groceries

9.3 percent of total taxable retail and service sales

The **9 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	\$14.23
- Potential sales	\$11.06
= \$ variance	\$3.18
= as % of potential	28.7%

Unadjusted Trade Area Analysis

Potential sales to residents	\$11.06
Surplus	\$3.18
Total	\$14.23
Non-resident share per group	22.3%

Analysis with Adjustments

Capture rate of Hibbing residents	93%
Residents' \$ share	\$10.25
Non-residents' \$ share	\$3.99
Total	\$14.23
Non-resident share per group	28.0%

Analysis for Food and Groceries

Food and Groceries play a substantial role, contributing 9.3% to the total taxable retail and service sales in Hibbing, encompassing 9 businesses, including grocery stores, delis, bakeries, butcher shops, and liquor stores. The analysis indicates actual taxable sales of \$14.23 million, surpassing potential sales of \$11.06 million, equivalent to 28.7% of the potential. Extension estimates a capture rate of 93% among Hibbing residents, contributing \$10.25 million, while non-residents play a significant role, contributing \$3.99 million. The adjusted non-resident share per group is 28.0%. This data highlights the robust performance of the Food and Groceries sector in Hibbing, emphasizing potential opportunities for further growth and engagement with both local and non-resident patrons.

Health and Personal Items

1.6 percent of total taxable retail and service sales

Stores selling prescription drugs, food supplements, vision supplies, cosmetics, and hearing aids are among the 5 **businesses** included in this merchandise group.

	(\$Millions)
Actual taxable sales	\$2.48
Potential sales	\$1.48
= \$ variance	\$1.00
= as % of potential	67.3%

Unadjusted Trade Area Analysis

Potential sales to residents	\$1.48
Surplus	\$1.00
Total	\$2.48
Non-resident share per group	40.2%

Analysis with Adjustments

Capture rate of Hibbing residents	95%
Residents' \$ share	\$1.41
Non-residents' \$ share	\$1.07
Total	\$2.48
Non-resident share per group	43.0%

Analysis for Health and Personal Items

Health and Personal Items contribute 1.6% to the total taxable retail and service sales in Hibbing, involving 5 businesses specializing in prescription drugs, food supplements, vision supplies, cosmetics, and hearing aids. The analysis reveals actual taxable sales of \$2.48 million, surpassing potential sales of \$1.48 million by a substantial variance of \$1.00 million, representing 67.3% of the potential. Extension estimates a capture rate of 95% among Hibbing residents, showing their contribution as \$1.41 million, while non-residents play a notable role, contributing \$1.07 million. The adjusted non-resident share per group is 43.0%. This data highlights the strong performance of the Health and Personal Items sector in Hibbing, suggesting potential opportunities for further growth and engagement with both local and non-resident patrons.

Gas/Convenience Stores

6.4 percent of total taxable retail and service sales

This merchandise group covers **13 businesses** selling convenience items at a store that also sells fuel.

	(\$Millions)
Actual taxable sales	\$9.79
-Potential sales	\$3.53
= \$ variance	\$6.26
= as % of potential	177.1%

Unadjusted Trade Area Analysis

Potential sales to residents	\$3.53
Surplus	\$6.26
Total	\$9.79
Non-resident share per group	63.9%

Analysis with Adjustments

Capture rate of Hibbing residents	94%
Residents' \$ share	\$3.33
Non-residents' \$ share	\$6.46
Total	\$9.79
Non-resident share per group	66.0%

Analysis for Gas/Convenience Stores

Gas/Convenience Stores contribute significantly to the total taxable retail and service sales in Hibbing, constituting 6.4% of the market with 13 businesses selling convenience items and fuel. The analysis shows actual taxable sales of \$9.79 million, surpassing potential sales by a substantial margin of \$6.26 million, representing 177.1% of the potential. Extension estimates a capture rate of 94% among Hibbing residents, contributing \$3.33 million, while non-residents play a pivotal role, contributing \$6.46 million. The adjusted non-resident share per group is 66.0%. This data underscores the thriving nature of Gas/Convenience Stores in Hibbing, indicating opportunities for continued growth and engagement with both local and non-resident patrons.

Apparel/Clothing

0.0 percent of total taxable retail and service sales

This merchandise group includes **0 businesses** selling new clothing and accessories, jewelry, shoes, bridal items, clocks, and luggage.

	(\$Millions)
Actual taxable sales	\$0.00
Potential sales	\$1.62
= \$ variance	(\$1.62)
= as % of potential	-100.0%

Unadjusted Trade Area Analysis

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

Analysis with Adjustments

Capture rate of Hibbing residents	0%
Residents' \$ share	\$0.00
Non-residents' \$ share	\$0.00
Total	\$0.00
Non-resident share per group	0.0%

Analysis for Apparel/Clothing

Categories with less than 4 businesses are suppressed by Department of Revenue to ensure privacy.

Leisure Goods

1.0 percent of total taxable retail and service sales

The **14 businesses** in this merchandise group sell sporting goods, books, music, hobby items, fabrics, and toys.

	(\$Millions)
Actual taxable sales	\$1.58
Potential sales	\$2.80
= \$ variance	(\$1.21)
= as % of potential	-43.3%

Unadjusted Trade Area Analysis

Potential sales to residents	\$2.80
Surplus	(\$1.21)
Total	\$1.58
Non-resident share per group	-76.5%

Analysis with Adjustments

Capture rate of Hibbing residents	48%
Residents' \$ share	\$1.35
Non-Residents' \$ share	\$0.24
Total	\$1.58
Non-resident share per group	15.0%

Analysis for Leisure Goods

Leisure Goods contribute to the total taxable retail and service sales in Hibbing, constituting 1.0% of the market with 14 businesses selling sporting goods, books, music, hobby items, fabrics, and toys. The analysis indicates actual taxable sales of \$1.58 million, falling short of potential sales of \$2.80 million by \$1.21 million, representing -43.3% of the potential. Extension estimates a capture rate of 48% among Hibbing residents, contributing \$1.35 million, while non-residents contribute \$0.24 million. The adjusted non-resident share per group is 15.0%. This data highlights challenges in the Leisure Goods category in Hibbing, suggesting potential areas for improvement and targeted efforts to enhance local engagement.

General Merchandise Stores

22.3 percent of total taxable retail and service sales*

The **4 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	\$34.01
potential sales	\$14.81
= \$ variance	\$19.20
= as % of potential	129.6%

Unadjusted Trade Area Analysis

Potential sales to residents	\$14.81
Surplus	\$19.20
Total	\$34.01
Non-resident share per group	56.4%

Analysis with Adjustments

Capture rate of Hibbing residents	92%
Residents' \$ share	\$13.60
Non-Residents' \$ share	\$20.41
Total	\$34.01
Non-resident share per group	60.0%

Analysis for General Merchandise Stores

General Merchandise Stores play a significant role in Hibbing's total taxable retail and service sales, constituting 22.3% of the market with four businesses offering a diverse range of goods from a single location. The analysis indicates robust performance, with actual taxable sales reaching \$34.01 million, exceeding potential sales of \$14.81 million by a substantial margin of \$19.20 million, representing 129.6% of the potential. Extension estimates a 92% capture rate among Hibbing residents while contributing \$13.60 million to the total. Non-residents play a substantial role, contributing \$20.41 million. The adjusted non-resident share per group remains high at 60.0%. This data underscores the thriving nature of General Merchandise Stores in Hibbing, indicating opportunities for continued growth and engagement with both local and non-resident patrons.

Miscellaneous Retail

3.5 percent of total taxable retail and service sales

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

	(\$Millions)
Actual taxable sales	\$5.32
Potential sales	\$3.99
= \$ variance	\$1.33
= as % of potential	33.3%

Unadjusted Trade Area Analysis

Potential sales to residents	\$3.99
Surplus	\$1.33
Total	\$5.32
Non-resident share per group	25.0%

Analysis with Adjustments

Capture rate of Hibbing residents	80%
Residents' \$ share	\$3.19
Non-residents' \$ share	\$2.13
Total	\$5.32
Non-resident share per group	40.0%

Analysis for Miscellaneous Retail

Miscellaneous Retail contributes 3.5% to Hibbing's total taxable retail and service sales, with 31 businesses offering a variety of products such as flowers, used merchandise, and pet supplies. The analysis indicates a positive performance, with actual taxable sales reaching \$5.32 million, surpassing potential sales of \$3.99 million by \$1.33 million, representing 33.3% of the potential. Extension estimates a capture rate among Hibbing residents of 80% while contributing \$3.19 million to the total. Non-residents also play a significant role, contributing \$2.13 million. The adjusted non-resident share per group is 40.0%. This data highlights the positive performance of Miscellaneous Retail in Hibbing, suggesting opportunities for continued growth and engagement with both local and non-resident customers.

Amusement and Recreation

1.2 percent of total taxable retail and service sales*

The **9 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	\$1.76
Potential sales	\$3.73
= \$ variance	(\$1.97)
= as % of potential	-52.7%

Unadjusted Trade Area Analysis

Potential sales to residents	\$3.73
Surplus	(\$1.97)
Total	\$1.76
Non-resident share per group	-111.6%

Analysis with Adjustments

Capture rate of Hibbing residents	35%
Residents' \$ share	\$1.32
Non-residents' \$ share	\$0.44
Total	\$1.76
Non-resident share per group	25.0%

Analysis for Amusement and Recreation

Amusement and Recreation contribute 1.2% to Hibbing's total taxable retail and service sales, encompassing nine businesses offering a variety of recreational activities such as casinos, bowling lanes, water parks, and fitness centers. The analysis indicates actual taxable sales of \$1.76 million, falling short of potential sales of \$3.73 million by \$1.97 million, representing - 52.7% of the potential. Extension estimates a capture rate among Hibbing residents of 35% while contributing \$1.32 million to the total. Non-residents contributions are less significant, totaling \$0.44 million. The adjusted non-resident share per group is 25.0%. This data suggests a potential area for improvement and strategic planning within the Amusement and Recreation sector in Hibbing.

Accommodations

0.0 percent of total taxable retail and service sales

These **0 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	\$0.00
Potential sales	\$2.68
= \$ variance	(\$2.68)
= as % of potential	-100.0%

Unadjusted Trade Area Analysis

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

Analysis with Adjustments

Capture rate of Hibbing residents	0%
Residents' \$ share	\$0.00
Non-residents' \$ share	\$0.00
Total	\$0.00
Non-resident share per group	0.0%

Analysis for Accommodations

Categories with less than 4 businesses are suppressed by Department of Revenue to ensure privacy.

Eating/Drinking Establishments

13.6 percent of total taxable retail and service sales

These 34 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	\$20.73
Potential sales	\$17.34
= \$ variance	\$3.39
= as % of potential	19.6%

Unadjusted Trade Area Analysis

Potential sales to residents	\$17.34
Surplus	\$3.39
Total	\$20.73
Non-resident share per group	16.4%

Analysis with Adjustments

Capture rate of Hibbing residents	72%
Residents' \$ share	\$12.44
Non-residents' \$ share	\$8.29
Total	\$20.73
Non-resident share per group	40.0%

Analysis for Eating/Drinking Establishments

Eating/Drinking Establishments contribute significantly to Hibbing's total taxable retail and service sales, constituting 13.6% of the market. This diverse category includes 34 businesses offering a range of dining experiences, from full-service to limited-service establishments, including cafeterias, bagel shops, ice cream parlors, and bars. The analysis indicates actual taxable sales amount to \$20.73 million, surpassing potential sales of \$17.34 million by \$3.39 million, representing a positive variance of 19.6%. Extension estimates a capture rate among Hibbing residents of 72% while contributing \$12.44 million to the total. Non-residents also play a significant role, contributing \$8.29 million. The adjusted non-resident share per group is 40.0%. This data emphasizes the thriving nature of Eating/Drinking Establishments in Hibbing and suggests potential for continued growth and engagement with both local and non-resident patrons.

Repair and Maintenance

2.5 percent of total taxable retail and service sales

The **32 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	\$3.77
Potential sales	\$3.67
= \$ variance	\$0.10
= as % of potential	2.6%

Unadjusted Trade Area Analysis

Potential sales to residents	\$3.67
Surplus	\$0.10
Total	\$3.77
Non-resident share per group	2.6%

Analysis with Adjustments

Capture rate of Hibbing residents	95%
Residents' \$ share	\$3.51
Non-residents' \$ share	\$0.26
Total	\$3.77
Non-resident share per group	7.0%

Analysis for Repair and Maintenance

Repair and Maintenance services constitute 2.5% of Hibbing's total taxable retail and service sales, involving 32 businesses that restore machinery, equipment, and various products. This category excludes plumbing or electrical repair services but encompasses auto repair, electronics, appliances, furniture, and more. The analysis reveals actual taxable sales amounting to \$3.77 million, with potential sales close at \$3.67 million, resulting in a minimal surplus of \$0.10 million, equivalent to 2.6% of potential. Extension estimates a capture rate among Hibbing residents of 95% while contributing \$3.51 million to the total. Non-residents play a minimal role, contributing \$0.26 million. The adjusted non-resident share per group is 7.0%. This data suggests that Repair and Maintenance services are primarily driven by local demand in Hibbing.

Personal Services/Laundry

0.4 percent of total taxable retail and service sales

The 32 **businesses** in this merchandise group include barber shops and beauty parlors, death care services, laundry and dry-cleaning services, and a wide range of other personal services, such as pet care (except veterinary), photofinishing, temporary parking, and dating services.

	(\$Millions)
Actual taxable sales	\$0.62
Potential Sales	\$1.68
= \$ variance	(\$1.06)
= as % of potential	-63.0%

Unadjusted Trade Area Analysis

Potential sales to residents	\$1.68
Surplus	(\$1.06)
Total	\$0.62
Non-resident share per group	-170.3%

Analysis with Adjustments

Capture rate of Hibbing residents	35%
Residents' \$ share	\$0.59
Non-residents' \$ share	\$0.03
Total	\$0.62
Non-resident share per group	5.0%

Analysis for Personal Services/Laundry

Personal Services/Laundry accounts for 0.4% of total taxable retail and service sales in Hibbing, encompassing 32 businesses offering diverse services such as barber shops, beauty parlors, death care services, laundry and dry-cleaning services, as well as pet care, photofinishing, temporary parking, and dating services. The analysis reveals actual taxable sales totaling \$0.62 million, while potential sales are higher at \$1.68 million, resulting in a notable negative variance of -\$1.06 million, representing a -63.0% deviation from the potential. Extension estimates a capture rate among Hibbing residents of 35% while contributing \$0.59 million to the total. Non-residents play a minimal role, contributing \$0.03 million. The adjusted non-resident share per group is 5.0%. This data suggests that Personal Services/Laundry businesses in Hibbing rely predominantly on local residents for their sales.

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	\$10.38
% of total taxable retail and service sales In Hibbing	6.8%

Analysis with Adjustments

	(\$Millions)
Residents' \$ share	\$7.16
Non-residents' \$ share	\$3.22
Total	\$10.38
Non-resident share per group	31%

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 31 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	\$285,442	50%	\$142,721
524 INSURANCE CARRIERS	\$0	30%	\$0
531 REAL ESTATE	\$22,649	40%	\$9,060
532 RENTAL, LEASING SERVICES	\$7,844,552	30%	\$2,353,366
541 PROF,SCIENTIFIC,TECH SERV	\$719,900	40%	\$287,960
561 ADMIN, SUPPORT SERVICES	\$1,220,733	30%	\$366,220
611 EDUCATIONAL SERVICES	\$201,910	20%	\$40,382
621 HEALTH -AMBULATORY CARE	\$21,273	40%	\$8,509
711 PERF ART, SPECTATOR SPRTS	\$60,556	40%	\$24,222
TOTAL	\$10,377,015	31%	\$3,232,440

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 \$54.13 million in taxable sales, or 26.2 percent of total taxable sales in Hibbing. 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	\$500,006	60%	\$300,003.60
MANUFACTURING	\$5,363,378	90%	\$4,827,040.20
WHOLESALE	\$11,360,397	80%	\$9,088,317.60
UNDESIGNATED/SUPPRESSED	\$36,904,720	50%	\$18,452,360.00
Total	\$54,128,501	60%	\$32,667,721.40

Extension estimated that, overall, 60 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	\$21.66
Non-residents \$ share	\$32.48
Total	\$54.13
Non-resident share	60%

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 Hibbing, resident contributions to tax revenues are significantly lower than a tax generated exclusively by local residents, such as a property tax. Policymakers must carefully consider these and other factors before making a decision about enacting a local sales tax.

Figure 4: Taxable retail and service sales by communities that began collecting a local option sales tax from 1999 to 2006

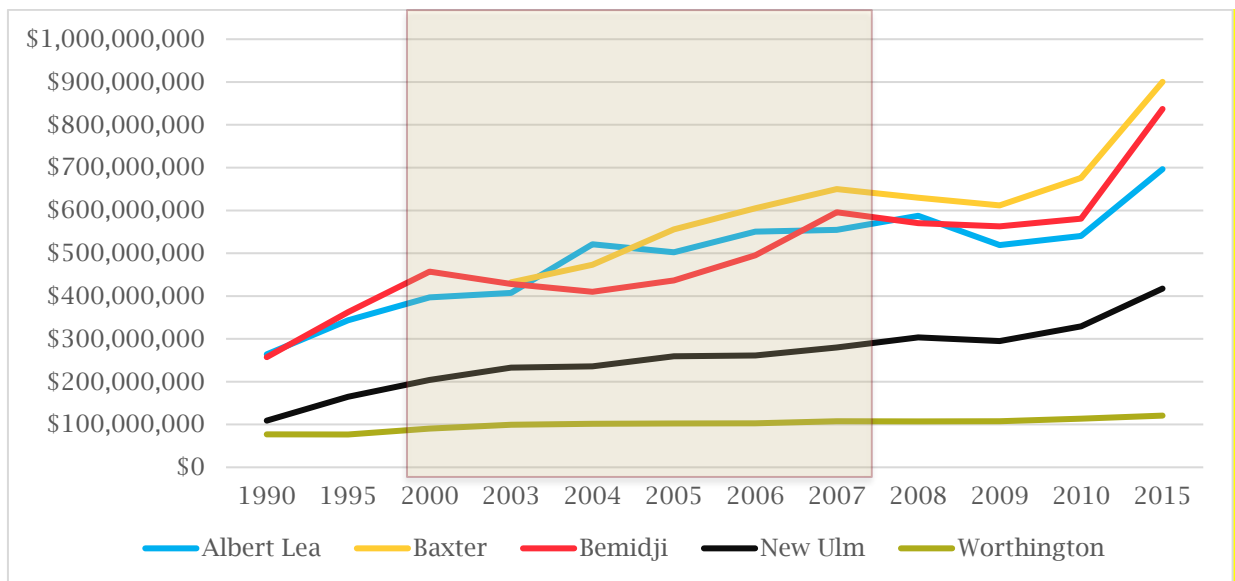


Figure 5: Data table for example communities, taxable retail and service sales (in millions)

Town Name	2015 Population	Year LOST	90	95	00	03	04	05	06	07	08	09	10	15
Albert Lea	18,356	2006	\$264	\$344	\$397	\$407	\$521	\$502	\$551	\$555	\$588	\$519	\$541	\$696
Baxter	8,065	2006				\$432	\$473	\$556	\$605	\$650	\$630	\$612	\$676	\$900
Bemidji	11,917	2005	\$257	\$362	\$457	\$428	\$410	\$437	\$495	\$596	\$570	\$563	\$581	\$837
New Ulm	13,594	1999	\$109	\$165	\$204	\$233	\$236	\$259	\$261	\$280	\$303	\$295	\$329	\$417
Worthington	11,283	2005	\$77	\$77	\$91	\$99	\$102	\$103	\$103	\$108	\$107	\$108	\$114	\$121

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

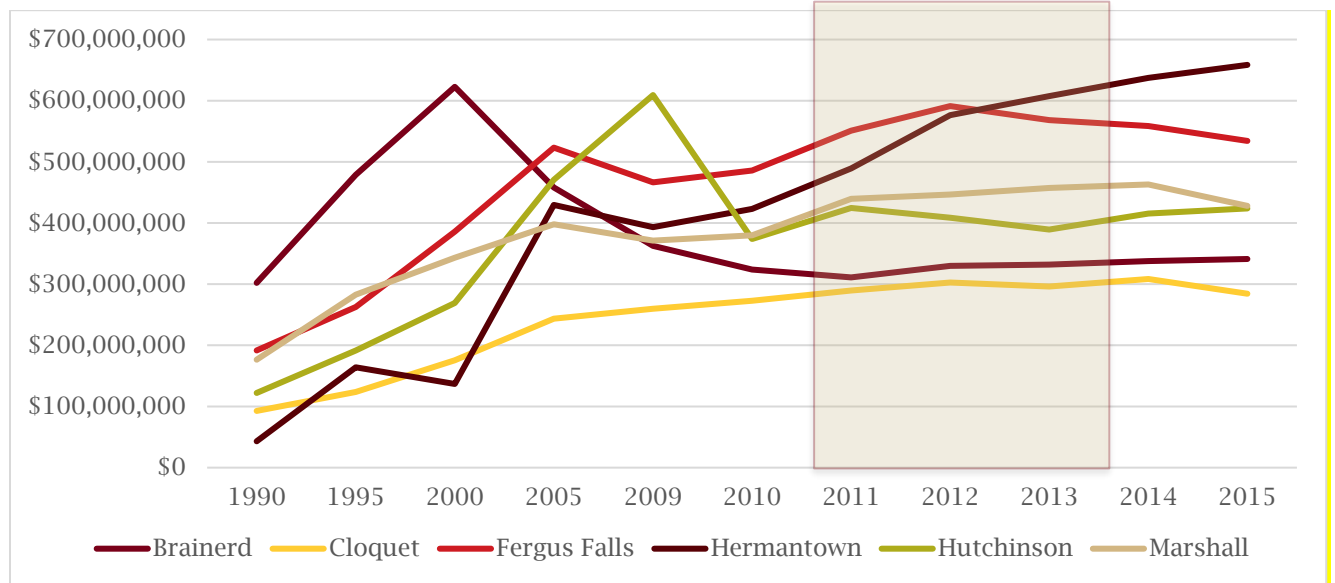


Figure 7: Data table for example communities, taxable retail and service sales (in millions)

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

APPENDIX B: DEFINITIONS OF TERMS

Gross sales

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

Taxable sales

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

Taxable retail and service sales

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

Current and constant dollar sales

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

Number of businesses

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

Index of income

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

Potential sales

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

Actual sales

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