

# UNIVERSITY OF MINNESOTA

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March 28, 2014

To: Tom Pagel  
City Administrator, Grand Rapids, Minnesota  
420 North Pokegama Avenue  
Grand Rapids, MN 55744-2662

From: John Bennett  
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In 2013, the University of Minnesota Extension Center for Community Vitality produced a Retail Trade Analysis for the city of Grand Rapids, Minnesota. Per your request, this letter is an explanation and clarification regarding the estimate of sales tax collected from residents living outside Grand Rapids city limits as indicated in the 2011 Retail Trade Analysis Grand Rapids and Itasca County Report.

In 2011, the average Minnesotan spent \$9,322 in state sales taxable purchases, excluding taxes earned on two purchase exclusions, gasoline and new cars, which goes into special funds. Personal income in Itasca County is 81% of the state average. Therefore, we expect that the total average purchases by Itasca County residents would be lower than \$9,322, and possibly as low as \$7,550. Note: the average non-metro figure of total average purchases is \$6,439. For our calculation, we will use \$8,436 as the per capita taxable expenditure for Grand Rapids residents. The estimated 2012 population of Grand Rapids was 10,906. Therefore,  $10,906 \text{ residents} \times \$8,436 = \$92,003,016$  of expected taxable purchases in Grand Rapids.

The actual taxable sales in Grand Rapids were approximately \$216,950,000 in retail and services. The estimate of residents' portion of those sales taxes would be 42.4%. Therefore, we will estimate that 57.6% of the tax came from people living outside of Grand Rapids city limits.

I anticipate that if Grand Rapids implemented a new local option sales tax, the percentage paid from non-residents will be less than 57.6%. The exact figure cannot be calculated at this time, however, because there will be additional sales taxes collected from businesses within Grand Rapids that made purchases in Minnesota, but not in Grand Rapids, and we currently have no way of estimating how many taxable purchases Grand Rapids companies are making outside of Grand Rapids.

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To illustrate this issue, imagine that in 2010, Grand Rapids-based Company X bought \$500,000 of office supplies from Company Y in St. Cloud. Company X paid Minnesota sales tax and this figure appears in St. Cloud's sales tax report. Now, if a new local sales tax goes into effect, and Company X makes the same purchase, it will now also need to pay the local sales tax for the office supplies it brought into Grand Rapids and this figure will appear on the Grand Rapids sales tax report. Based on the above calculations, a fair estimate of the percentage of the local option sales tax that will be collected from customers from outside Grand Rapids city limits will be between 50 and 55%.

Additional information about retail sales information can be found within the 2011 Retail Trade Analysis Grand Rapids and Itasca County.



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