Wayzata City Council Workshop Meeting Agenda
Wayzata City Hall Community Room, 600 Rice Street
THURSDAY, DECEMBER 16, 2021

WORKSHOP TOPICS FOR DISCUSSION:

1. Interviews for Board and Commissions Vacancies (4:00-5:40 p.m.)
2. Discussion of Legislative Priorities (6:00-6:45 p.m.)

City Council Workshop
City Council Agenda Report

MEETING DATE: December 16, 2021	**WORKSHOP AGENDA ITEM:** 1
TITLE: Interviews for Board and Commissions Vacancies (4:00-5:40 p.m.)	
PREPARED BY: Kathy Leervig, City Clerk	
REVIEWED BY: Jeffrey Dahl, City Manager	

DISCUSSION OBJECTIVE:
To listen and ask questions of the interested community members.

BACKGROUND:
This fall, the City solicited applications for vacancies on the Charter Commission, Heritage Preservation Board, Planning Commission, Parks and Trails Board, and Energy and Environment Committee, and the Housing and Redevelopment Authority and received the attached applications. This portion of the workshop will be dedicated to interviews of the applicants. City Council will attend in person while applicants will be interviewing via Zoom technology.

Then, at the regular meeting, the City Council will consider appointments to fill all of the vacancies by resolution.

ATTACHMENTS:
1. Interview Schedule

Interview Schedule
December 16, 2021

Interview Time	Candidate	Appointment	Consider for Reappointment
4:00-4:10	Bob Ambrose	HRA	X
4:10-4:20	Elaine Ambrose	Charter Commission	X
4:20-4:30	Ken Sorensen	Planning Commission	X
4:30-4:40	Laura Merriam	Planning Commission	X
4:40-4:50	Dr. Edward Chute	Energy & Environment	
4:50-5:00	Kent Howe	Charter Commission	X
5:00-5:10	Dan Day	Charter Commission	X
5:10-5:20	Dan Koch	HRA	
5:20-5:30	Merrily Babcock	Parks and Trails	X
5:30-5:40	Tory Schalkle	Parks and Trails	X

City Council Workshop
City Council Agenda Report

MEETING DATE: December 16, 2021	**WORKSHOP AGENDA ITEM:** 2
TITLE: Discussion of Legislative Priorities (6:00-6:45 p.m.)	
PREPARED BY: Jeffrey Dahl, City Manager	
REVIEWED BY: N/A	

DISCUSSION OBJECTIVE:
To review, discuss, and affirm state Legislative Priorities for the 2022 session.

BACKGROUND:
Starting a year ago, the Council reviewed Legislative Priorities with staff to ensure alignment and prioritization of the City's strategic goals. Alignment of these priorities help guide staff with the utilization of resources, such as lobbying services, as well as communication with its state elected officials.

Attached are the proposed legislative priorities for 2022. The biggest change is the elimination of the TIF Amendment request and moving further along with the exploration of a Local Option Sales Tax/Special Local Option Sales Tax. At the meeting, Ryan Pesch from the University of MN Extension will be going through the attached draft report summarizing sales tax data for Wayzata, and then staff will conclude with discussion on whether to proceed on next steps—which generally include working with our state representatives and engaging the business community.

ATTACHMENTS:
1. Draft 2022 Legislative Priorities - City of Wayzata
2. University of Minnesota Extension - Local Option Sales Tax Analysis for Wayzata
3. Minnesota Department of Revenue: Starting a Local Sales Tax

DRAFT
2022 LEGISLATIVE PRIORITIES

EXECUTIVE SUMMARY

The City of Wayzata participates in the League of Minnesota Cities and Metro Cities and generally supports their legislative platforms. This legislative agenda is intended to advocate specifically for projects and policies that support the long-term success of Wayzata community's residents and businesses.

PRIORITIES

Bonding Requests. Bonding was pursued for Panoway in 2020. Of the $10 mil requested, $4 million was secured. There is an opportunity to pursue further bonding support for future phases of Panoway or other projects. The Legislature has indicated their interest in funding multi-phase projects where funding has already been secured. A bonding request was submitted for the remaining $6 mil in summer 2021 for the 2023 Bonding Bill.

Sales Tax Exemption on Construction Materials. The City supports a sales tax exemption for the purchase of construction materials for Panoway. The City could seek a sales tax exemption on construction materials for public construction projects. There is no statewide policy to grant the exemption, but communities are able to pursue an exemption on an individual project basis.

Roadway Funding. Cities with populations under 5,000 like Wayzata do not receive Municipal State Aid (MSA) funds for roadway improvements. Instead, these city governments may receive funds through the Small Cities Assistance Program. Because Wayzata receives heavy traffic from people outside its community, the City would seek an exemption to be considered above 5,000 which will allow Wayzata to receive MSA roadway funding.

Local Option Sales Tax/Special Local Option Sales Tax. Over the past year, staff has received more info about Local Option Sales Tax in terms of the implementation process and accumulation of data which would determine if the City wanted to continue exploring implementation, which is consistent with the City's overall strategic initiative of diversifying revenues. Attached is a high-level overview of the implementation and a draft report by the University of Minnesota Extension highlighting potential sales tax revenue as well as the ratio of non-resident to resident.

UNIVERSITY OF MINNESOTA | EXTENSION

EXTENSION CENTER FOR COMMUNITY VITALITY

Local Option Sales Tax Analysis for Wayzata, MN

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

Authored by Ryan Pesch and Eric King

REPORT SPONSOR: CITY OF WAYZATA, MINNESOTA

Local Option Sales Tax Analysis for Wayzata

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

December 2021

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

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Sponsor:
City of Wayzata

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SUMMARY OF FINDINGS

University of Minnesota Extension conducted a study to estimate the proportion of sales tax proceeds attributed to both Wayzata 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 77.3 percent of taxable sales subject to a local option sales tax (LOST).**

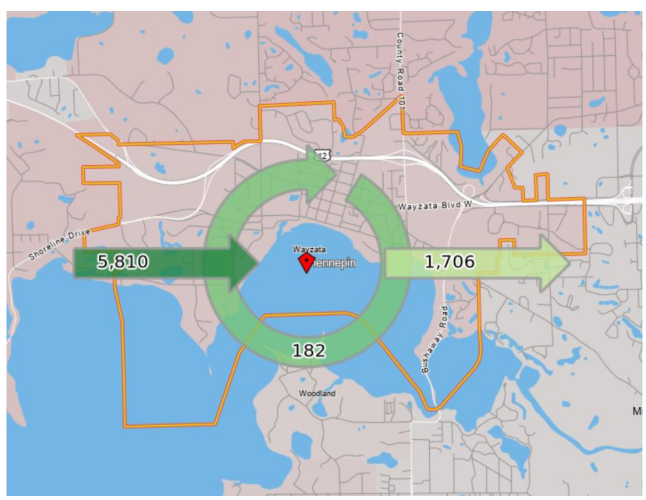
In 2019, total taxable sales in Wayzata were $171 million. However, MN Revenue analysts estimate that approximately $163 million would be subject to a LOST. With 22.7 percent of sales derived from resident spending, Extension estimated that Wayzata residents spent $37 million of the total $163 million in taxable sales subject to a LOST.

If the local option sales tax were in place in 2019, a 0.5 percent local option sales tax would have garnered $815,000 in tax proceeds. Wayzata residents would have contributed $185,000 in taxes, and non-residents would have contributed $630,000. Based on these estimates, each Wayzata resident would have paid, on average, an additional $39.66 in sales tax in 2019. In contrast, **a 0.5 percent leisure and hospitality tax would have garnered approximately $357,000 where non-residents would have contributed 90% of taxes.**

This report is based on a trade area analysis comparing actual taxable sales to potential sales. This is calculated by multiplying the Wayzata 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 Wayzata 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.

Several factors and features of Wayzata's economy helped frame the analysis for the different merchandise categories:

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



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

- The strength of niche retail and dining makes Wayzata a destination for residents of nearby communities and visitors from a wide area. As a metropolitan community adjacent to many other communities, residents can conveniently shop in those locations with more choice.
- Wayzata imports a significantly larger proportion of workers than residents which leave for work (Figure 1). This data, however, only represents wage earners and we assume a portion of Wayzata residents do leave for work who are not represented in this data such as independent contractors and self-employed entrepreneurs. We assume those who work in Wayzata would purchase some portion of goods and services in the community; likewise, those out-commuters purchase some goods outside the community which are available to their worksite.

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 Wayzata 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.

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 typically indicate the community attracts sales from outside its boundaries. Extension used the difference between potential and actual sales to set reasonable estimates of spending by residents and non-residents across all categories.

After an initial estimate of resident and non-resident spending, Extension shared results with a focus group of city staff and adjusted when appropriate based on their knowledge of businesses in operation and their relative strength of customer draw.

Potential sales calculations are based on average statewide spending by merchandise category and the population of the city, then adjusted by the level of income in its county. 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 and the capture rate for Wayzata residents, that is, the percent of resident spending by Wayzata businesses in each category. 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:

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

T = Total Minnesota taxable sales for a merchandise category

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

MG = 2019 population of Wayzata (4,672)

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

YMn = Per capita income of Minnesota resident ($44,096)

ESTIMATES OF TAX PROCEEDS

MN Revenue analysts estimated that approximately $163 million or 95% of 2019 taxable sales would be subject to a LOST. At 0.5% of taxable sales subject to the local sales tax, MN Revenue analysts estimated that the City of Wayzata would have garnered $815,000 in 2019. This estimate does not include online taxable sales, which would also be subject to the local option sales tax. Extension estimated that city residents represent 22.7 percent of all taxable retail and service sales subject to the tax ($37 million), and the remaining 77.3 percent ($126 million) are attributed to non-residents. Based on these proportions, the city residents and non-residents would have contributed $185,305 and $629,695 to the LOST respectively (see Figure 2).

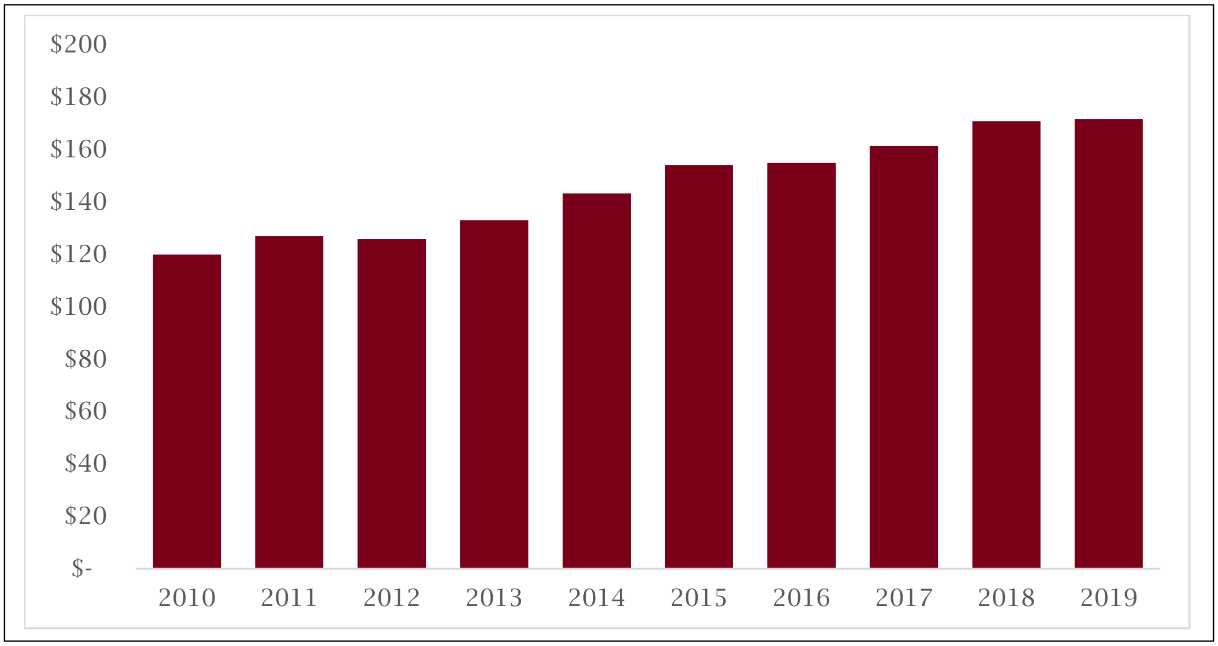
Wayzata city staff requested an estimate of tax proceeds from a hospitality tax as an alternative to the local option sales tax. A simple combination of taxable sales in the eating and drinking and amusement categories provides a conservative estimate of hospitality sales; accommodations sales would be subject to the tax, but were excluded since they were not available due to too few establishments in the community. After combining the taxable sales from the two categories, Extension multiplied the sum by 95%, keeping the same proportion of taxable sales as MN Revenue did with city-wide LOST estimates. In this way, $71.5 million in taxable sales from 40 establishments would have been subject to the tax in 2019. This would have garnered the city $357,320 in tax proceeds at a 0.5% rate and does not include any proceeds which would have come from accommodations (see Figure 2). Extension estimated that 90 percent of taxable sales had come from non-residents for the amusement and eating and drinking categories in aggregate.

Figure 2: Estimated tax proceeds for LOST and hospitality taxes by residents vs. non-residents

	LOST proceeds	Percent of sales tax	Hospitality tax proceeds	Percent of hospitality tax
City residents	$185,305	22.7%	$35,732	10%
Non-residents	$629,695	77.3%	$321,588	90%
Total	$815,000	100%	$357,320	100%

The total taxable sales in the city increased significantly over ten years (Figure 3). Total taxable sales were $120 million in 2010 and $172 million in 2019, increasing approximately by $52 million, or 43 percent, during this time period. This fact provides some sense of the stability of a LOST going forward. Extension also projected tax proceeds for 2020-2022 (see Figure 4).

Figure 3: Total taxable sales in Wayzata from 2009-2019 (in Millions)



Source: Minnesota Department of Revenue

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 $228,780 in use (not sales) tax proceeds. The city would have garnered an additional $16,639 in use taxes in 2019 if the location option sales tax were in place at a 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. 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 Wayzata. 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.

FORECAST OF TAX PROCEEDS

Extension forecasted sales tax proceeds 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 2022 to be between an upper limit of $949 thousand and a lower limit of $888 thousand.

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: Forecast of tax proceeds of local option sales tax at 0.5%

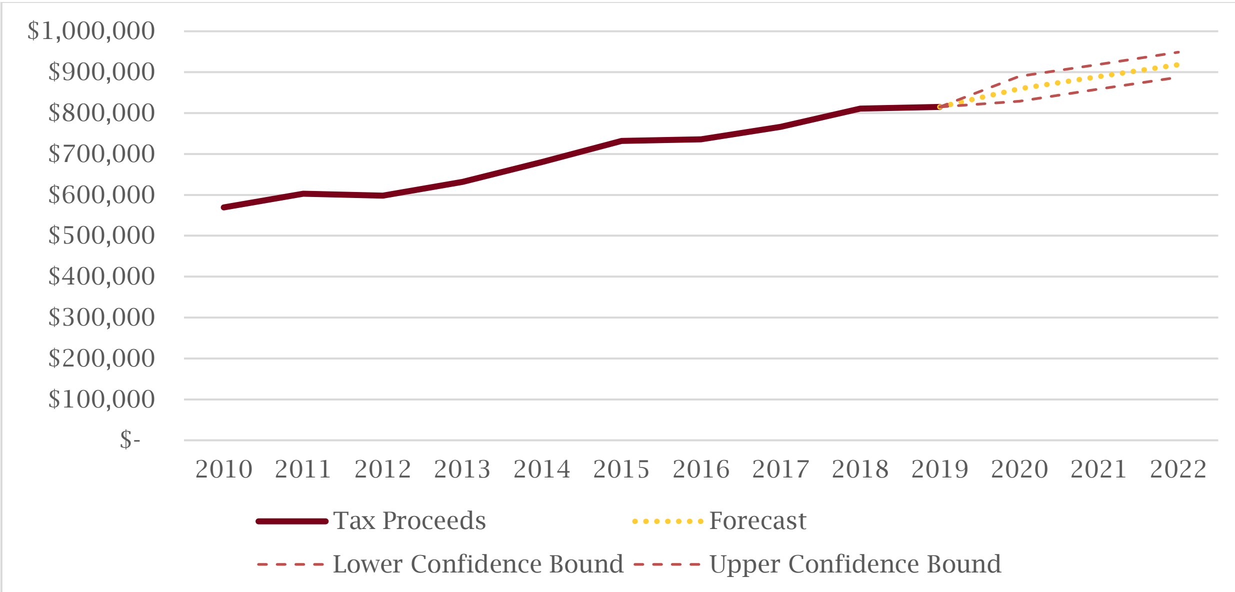


Figure 5: Forecast of local option sales tax proceeds with upper and lower bound at 95% confidence interval

	Forecast	Lower Bound	Upper Bound
2019	$815,000	$815,000	$815,000
2020	$859,289	$828,955	$889,624
2021	$888,778	$858,290	$919,267
2022	$918,268	$887,622	$948,913

TRADE AREA ANALYSIS BY MERCHANDISE CATEGORY

The following pages provide detailed analysis by merchandise category.

Vehicles and Parts

N/A percent of total taxable retail and service sales

The **N/A 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	NA
-Potential sales	$3.46
= $ variance	
= as % of potential	

Unadjusted Trade Area Analysis

Potential taxable sales to residents	
Surplus	
Total	
Surplus percentage	

Analysis with Adjustments

Capture rate of Wayzata residents	
Residents' $ share	
Non-Residents' $ share	
Total	
Non-resident share per group	

Rationale for Vehicles and Parts

Due to the small number of businesses in this category, no data are unavailable from the Department of Revenue to ensure data privacy. Sales by businesses in this category were reported in Miscellaneous Retail (see Page 18).

Furniture Stores

3.8 percent of total taxable retail and service sales

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

	($Millions)
Actual taxable sales	NA
Potential sales	$1.60
= $ 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 Wayzata residents	
Residents' $ share	
Non-Residents' $ share	
Total	
Non-resident share per group	

Rationale for Furniture Stores

Our focus group from the City of Wayzata identified some home design stores in the community which would more than likely report sales in this category. However, due to the small number of businesses, no data are unavailable from the Department of Revenue to ensure data privacy. Sales by businesses in this category were reported in Miscellaneous Retail (see Page 18).

Electronics and Appliances

N/A percent of total taxable retail and service sales

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

	($Millions)
Actual taxable sales	NA
-Potential sales	$1.76
= $ 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 Wayzata residents	
Residents' $ share	
Non-residents' $ share	
Total	
Non-resident share per group	

Rationale for Electronics and Appliances

Our focus group from the City of Wayzata could not identify any electronics stores in the community which would more than likely report sales in this category. Therefore, due to the small number or non-existence of businesses, no data are unavailable from the Department of Revenue to ensure data privacy. Sales by businesses in this category were reported in Miscellaneous Retail (see Page 18).

Building Materials

N/A percent of total taxable retail and service sales

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

	($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 Wayzata residents	
Residents' $ share	
Non-residents' $ share	
Total	
Non-resident share per group	

Rationale for Building Materials

Our focus group from the City of Wayzata could not identify any building material stores such as a hardware store or lumber yard in the community which would report sales in this category. Therefore, due to the small number or non-existence of businesses, no data are unavailable from the Department of Revenue. Sales by businesses in this category were reported in Miscellaneous Retail (see Page 18).

Food and Groceries

9.2 percent of total taxable retail and service sales

The **5 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	$13.37
- Potential sales	$4.42
= $ variance	$8.94
= as % of potential	202.2%

Unadjusted Trade Area Analysis

Potential sales to residents	$4.42
Surplus	$8.94
Total	$13.37
Non-resident share per group	66.9%

Analysis with Adjustments

Capture rate of Wayzata residents	76%
Residents' $ share	$3.34
Non-residents' $ share	$10.02
Total	$13.37
Non-resident share per group	75.0%

Rationale for Food and Groceries

Extension's trade area analysis estimated an $8.9 million surplus in the food and liquor category, even though only five establishments had reported taxable sales. Clearly these establishments are bringing in non-residents with a surplus double the potential sales. Considering that some portion of Wayzata residents would venture outside the community for food and liquor in this competitive market, Extension kept the capture rate higher than other subcategories. Oftentimes there is a loyalty effect in grocery and food shopping and focus group members thought that local resident were quite loyal to their local Lunds and Byerlys. Extension set the non-resident share at 75%, which put the Wayzata resident capture rate a conservative 76%.

Health and Personal Items

2.1 percent of total taxable retail and service sales

Stores selling prescription drugs, food supplements, vision supplies, cosmetics, and hearing aids are among the **6 shops** included in this merchandise group.

	($Millions)
Actual taxable sales	$3.10
Potential sales	$0.76
= $ variance	$2.34
= as % of potential	308.9%

Unadjusted Trade Area Analysis

Potential sales to residents	$0.76
Surplus	$2.34
Total	$3.10
Non-resident share per group	75.5%

Analysis with Adjustments

Capture rate of Wayzata residents	65%
Residents' $ share	$0.50
Non-residents' $ share	$2.60
Total	$3.10
Non-resident share per group	84.0%

Rationale for Health and Personal Items

This is a minor category in Wayzata, accounting for only 2.1 percent of total taxable sales. Even so, total sales were significantly above what would be expected. Setting the Wayzata capture rate at 65% to account for resident spending in a competitive metro marketplace, Extension set the non-resident share at 84%.

Gas/Convenience Stores

N/A percent of total taxable retail and service sales

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

	($Millions)
Actual taxable sales	NA
-Potential sales	$1.54
= $ 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 Wayzata residents	
Residents' $ share	
Non-residents' $ share	
Total	
Non-resident share per group	

Rationale for Gas/Convenience Stores

Our focus group from the City of Wayzata identified some home design stores in the community which would more than likely report sales in this category. However, due to the small number of businesses, no data are unavailable from the Department of Revenue to ensure data privacy. Sales by businesses in this category were reported in Miscellaneous Retail (see Page 18).

Apparel/Clothing

2.0 percent of total taxable retail and service sales

This merchandise group includes **19 stores** selling new clothing and accessories, jewelry, shoes, bridal items, clocks, and luggage.

	($Millions)
Actual taxable sales	$2.89
Potential sales	$0.88
= $ variance	$2.01
= as % of potential	227.9%

Unadjusted Trade Area Analysis

Potential sales to residents	$0.88
Surplus	$2.01
Total	$2.89
Non-resident share per group	69.5%

Analysis with Adjustments

Capture rate of Wayzata residents	62%
Residents' $ share	$0.55
Non-residents' $ share	$2.34
Total	$2.89
Non-resident share per group	81.0%

Rationale for Apparel/Clothing

Clothing and apparel is a smaller category (2.0 percent of taxable sales) but was also a category with a substantial surplus as a percentage of potential sales and sizeable number of stores (19 establishments). This category includes accessory stores such as jewels as well as shoe stores.

While potential sales were $0.88 million, actual taxable sales were $2.89 million. Extension assumed 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 capture rate at modest 62% and the non-resident share at 81%.

Leisure Goods

N/A percent of total taxable retail and service sales

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

	($Millions)
Actual taxable sales	NA
Potential sales	$1.10
= $ 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 Wayzata residents	
Residents' $ share	
Non-Residents' $ share	
Total	
Non-resident share per group	

Rationale for Leisure Goods

Our focus group from the City of Wayzata did think that one or two sporting goods-oriented stores in the community would more than likely report sales in this category. However, due to the small number of businesses, no data are unavailable from the Department of Revenue to ensure data privacy. Sales by businesses in this category were reported in Miscellaneous Retail (see Page 18).

General Merchandise Stores

N/A percent of total taxable retail and service sales

The **N/A 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	NA
potential sales	$6.01
= $ 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 Wayzata residents	
Residents' $ share	
Non-Residents' $ share	
Total	
Non-resident share per group	

Rationale for General Merchandise Stores

Our focus group from the City of Wayzata could not identify any general merchandise stores in the community which would more than likely report sales in this category. Therefore, due to the small number or non-existence of businesses, no data are unavailable from the Department of Revenue to ensure data privacy. Sales by businesses in this category were reported in Miscellaneous Retail (see Page 18).

Miscellaneous Retail

24.2 percent of total taxable retail and service sales

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

	($Millions)
Actual taxable sales	$35.23
Potential sales	$25.63
= $ variance	$9.60
= as % of potential	37.4%

Unadjusted Trade Area Analysis

Potential sales to residents	$25.63
Surplus	$9.60
Total	$35.23
Non-resident share per group	27.2%

Analysis with Adjustments

Capture rate of Wayzata residents	23%
Residents' $ share	$5.99
Non-residents' $ share	$29.24
Total	$35.23
Non-resident share per group	83.0%

Rationale for Miscellaneous Retail

Due to the large number of categories without published data, the miscellaneous retail taxable sales are a sizeable portion of total retail and service sales at 24.2%.

To calculate the non-resident spending, Extension first combined potential sales from all eight categories without data (vehicles, furniture, electronics, building materials, gas/convenience, leisure goods, general merchandise, and accommodations) and combined this amount with miscellaneous retail potential sales estimate. This aggregate potential sales came to $25.6 million and the actual taxable sales amount was $35.2 million, so there was a clear surplus and evidence of non-resident spending.

Considering that Wayzata has no stores or few stores in many of these categories, Extension was able to attribute all or only a small portion of sales to Wayzata residents. Most importantly, Wayzata has no store in the two largest categories, general merchandise and building materials. All $12 million of these potential sales leave the community as Wayzata residents cannot spend in a category not present in their community.

Working through the assumptions subcategory by subcategory in this fashion, Extension estimated Wayzata resident spending at less the $6 million, so non-resident spending need be at 83%, with a large portion at leisure goods and niche retail stores as informed by the city focus group.

Amusement and Recreation

10.6 percent of total taxable retail and service sales

The **8 establishment**s 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	$15.43
Potential sales	$1.90
= $ variance	$13.53
= as % of potential	711.7%

Unadjusted Trade Area Analysis

Potential sales to residents	$1.90
Surplus	$13.53
Total	$15.43
Non-resident share per group	87.7%

Analysis with Adjustments

Capture rate of Wayzata residents	65%
Residents' $ share	$1.23
Non-residents' $ share	$14.19
Total	$15.43
Non-resident share per group	92.0%

Rationale for Amusement and Recreation

Sales in this category typically amount to a small portion of taxable sales in a community, yet in Wayzata amusement and recreation accounted for over 10% of all taxable sales. Focus group members thought that boating at the marina and golfing drove the large surplus. Extension increased the non-resident portion to 92% based on the assumption that some reasonable share of Wayzata resident spending would leak to other communities simply due to proximity.

Accommodations

N/A percent of total taxable retail and service sales

These **N/A 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	NA
Potential sales	$2.52
= $ 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 Wayzata residents	
Residents' $ share	
Non-residents' $ share	
Total	
Non-resident share per group	

Rationale for Accommodations

Our focus group from the City of Wayzata identified only one hotel in the community which would report sales in this category. Therefore, due to the small number of businesses, no data are unavailable from the Department of Revenue to ensure data privacy. Sales by businesses in this category were reported in Miscellaneous Retail (see Page 18).

Eating/Drinking Establishments

41.0 percent of total taxable retail and service sales

These **32 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	$59.77
Potential sales	$10.35
= $ variance	$49.42
= as % of potential	477.5%

Unadjusted Trade Area Analysis

Potential sales to residents	$10.35
Surplus	$49.42
Total	$59.77
Non-resident share per group	82.7%

Analysis with Adjustments

Capture rate of Wayzata residents	64%
Residents' $ share	$6.57
Non-residents' $ share	$53.19
Total	$59.77
Non-resident share per group	89.0%

Rationale for Eating/Drinking Establishments

The eating and drinking category—which includes all bars, restaurants, and other food service—is a very significant category with $59.8 million in taxable sales, the highest of any category in Wayzata. This accounts for 41% of all retail and service sales in the community.

Based on the potential sales estimates, Wayzata appears to bring in 82.7% more than expected, one of the highest surpluses of any category across more than a dozen communities Extension has analyzed. Extension significantly adjusted the non-resident share up to 89% percent to account for a reasonable portion of Wayzata resident spending outside of the community.

The large cluster of 32 businesses suggests a wide variety of options to keep residents eating and drinking in the community. However, considering the close proximity of other types of food service within a reasonable drive, Extension set the local capture rate at a reasonable 64% to conservatively keep a majority of food service spending in Wayzata.

Repair and Maintenance

1.6 percent of total taxable retail and service sales

The **4 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	$2.38
Potential sales	$1.66
= $ variance	$0.72
= as % of potential	43.3%

Unadjusted Trade Area Analysis

Potential sales to residents	$1.66
Surplus	$0.72
Total	$2.38
Non-resident share per group	30.2%

Analysis with Adjustments

Capture rate of Wayzata residents	62%
Residents' $ share	$1.02
Non-residents' $ share	$1.36
Total	$2.38
Non-resident share per group	57.0%

Rationale for Repair and Maintenance

At 1.6 percent of total taxable sales, repair and maintenance is a relatively small category in Wayzata. The surplus that exists in this category suggests many non-residents elect to purchase goods and services in this category. Traditionally auto repair services are the lion's share of taxable sales in this category. Considering that the Wayzata city focus group could identify only two businesses in the auto repair industry, Extension significantly increased the non-resident share to 57% percent of total taxable sales to account Wayzata residents accessing these services elsewhere. Even with these adjustments, the capture rate came to 62% of resident spending.

Personal Services/Laundry

1.3 percent of total taxable retail and service sales

The **25 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	$4.92
Potential Sales	$1.01
=$ variance	$3.91
= as % of potential	386.6%

Unadjusted Trade Area Analysis

Potential sales to residents	$1.01
Surplus	$3.91
Total	$4.92
Non-resident share per group	79.4%

Analysis with Adjustments

Capture rate of Wayzata residents	68%
Residents' $ share	$0.69
Non-residents' $ share	$4.23
Total	$4.92
Non-resident share per group	86.0%

Rationale for Personal Services/Laundry

This category includes businesses that typically serve a local market, such as barbers, hair salons, and dry-cleaning operations. With such a large surplus (nearly $4 million in taxable sales), Extension set the non-resident share at 86 percent to account for nearby non-residents who use local services in this small category. This equated to a 68% capture rate for Wayzata residents and was in keeping with the sense of the city focus group which agreed that some of the 25 establishments in this category were a draw to non-residents and visitors.

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	$8.68
% of total taxable retail and service sales In Wayzata	6.0%

Analysis with Adjustments

	($Millions)
Residents' $ share	$3.64
Non-residents' $ share	$5.03
Total	$8.68
Non-resident share per group	58%

Rationale for Non-store 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 58 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	$606,520	60%	$363,912
511 INFO -PUBLISHING INDUSTRY	$12,990	90%	$11,691
519 INFO -OTHER SERVICES	$220,683	80%	$176,546
523 SECURITIES, COMMODITIES	$7,689	50%	$3,845
524 INSURANCE CARRIERS	$87,789	80%	$70,231
531 REAL ESTATE	$190,475	40%	$76,190
541 PROF,SCIENTIFIC,TECH SERV	$2,326,737	80%	$1,861,390
561 ADMIN, SUPPORT SERVICES	$4,510,066	40%	$1,804,026
611 EDUCATIONAL SERVICES	$277,039	40%	$110,816
621 HEALTH -AMBULATORY CARE	$360,428	50%	$180,214
711 PERF ART, SPECTATOR SPRTS	$76,777	50%	$38,389
Total	$8,070,673	58%	$4,697,249

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 $25.8 million in taxable sales, or 17.7 percent of total taxable sales in Wayzata. A significant portion of this amount would be subject to any new sales taxes, including 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. But because this category includes utilities that primarily serve a local market and are subject to a local option sales tax, Extension estimated that, overall, only 40 percent of sales are to non-residents.

Category	Taxable Sales	% non-local	$ non-local
WHOLESALE -NONDURABLE	$43,562	50%	$21,781
UNDESIGNATED/SUPPRESSED	$25,714,602	40%	$10,285,841
Total	$25,758,164	40%	$10,307,622

Analysis with Adjustments

	($Millions)
Residents' $ share	$15.45
Non-residents $ share	$10.3
Total	$25.76
Non-resident share	40%

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 A, B, C, and D). 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 Wayzata, 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 A: Taxable retail and service sales by communities that began collecting a local option sales tax between 1999-2006

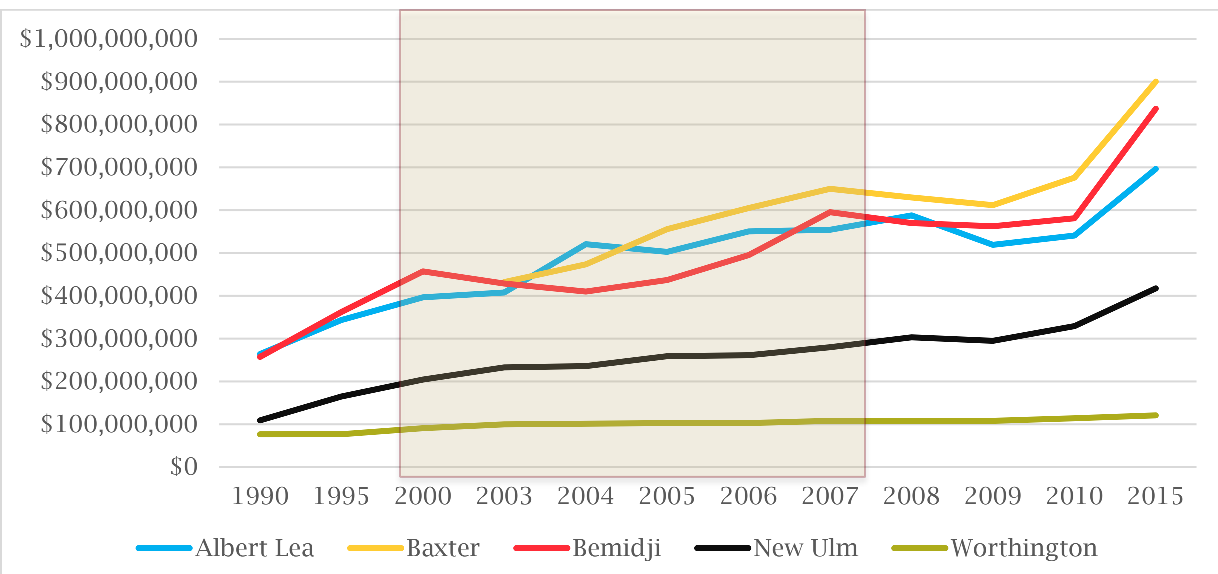


Figure B: Data table for example communities, taxable retail and service sales (in millions)

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

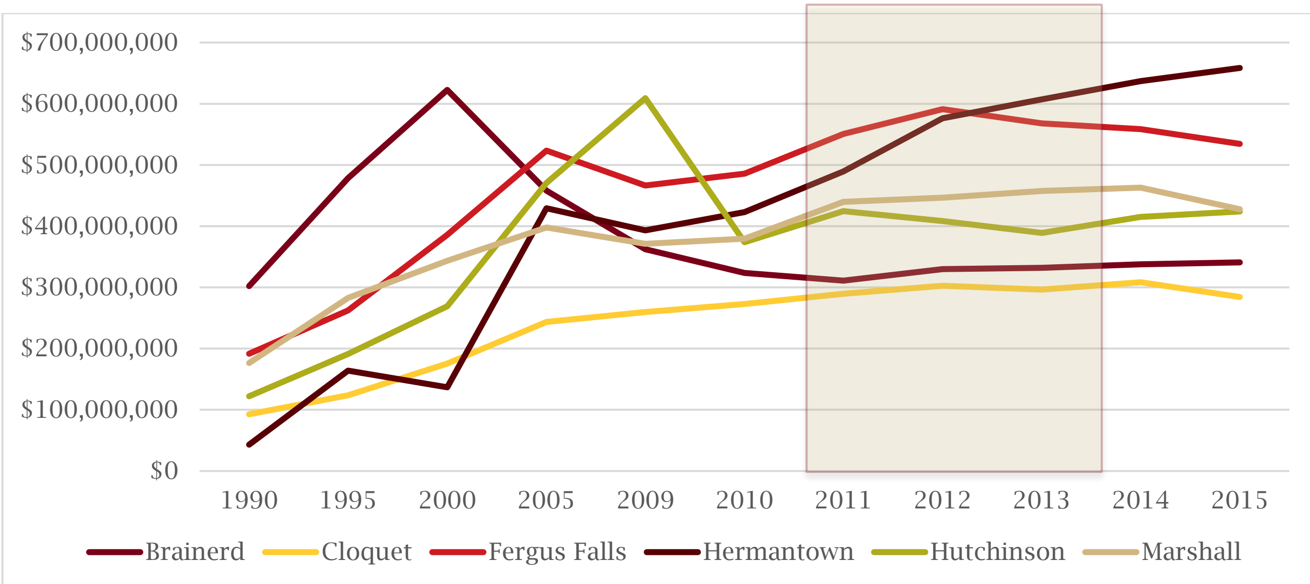


Figure D: Data table for example communities, taxable retail and service sales (in millions)

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

APPENDIX B: DEFINITIONS OF TERMS

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

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

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

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. It is the product of local 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 Wayzata 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.

DEPARTMENT OF REVENUE

Starting a Local Sales Tax

Generally, local governments must obtain approval from the Minnesota Legislature before starting any local sales and use taxes.

Local taxes administered by the Minnesota Department of Revenue follow the same tax base as provided in Minnesota Statutes. They're also subject to the same penalties, interest, and enforcement as the general rate sales tax.

General Guidelines and Steps

These are general guidelines and steps to help you start a local tax. There are three tax types, and each one has specific authorization and implementation information.

After your tax is approved, there are requirements you must follow.

General Local Tax

Authorizing a General Local Tax [–]

Revenue administers all general local sales and use taxes.

To impose a general local sales and use tax, you must receive authorization through the Minnesota Legislature. To receive this authorization, you must complete the following steps:

1. Pass a resolution that includes:
    - Proposed tax rate

   - Detailed description of up to five capital projects to be funded with the tax. A capital project includes:
      - 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
   - Documentation of how each project will provide an economic benefit to residents, businesses, and visitors from outside the jurisdiction
   - Amount of revenue to be raised for each project and the estimated time needed to raise funds
   - Total amount of revenue to be raised for all projects
   - Estimated length of time the tax will be in effect if all proposed projects are approved
2. Submit the approved resolution and supporting documents to the senate and house tax committee chairs by January 31.
3. Once legislative approval is given, revise and reaffirm your resolution. The resolution must be passed at least 90 days before a general election.
4. Pass a referendum to impose the tax:
   - Hold a vote at a general election within two years of legislative approval.
      - Each project must have a separate question for approval.
      - Voters must approve by a majority vote. If a project is not approved, the revenue and expiration date must be adjusted.
   - You cannot spend money to advertise or promote the proposed tax, but you may publicize information included in the resolution.
5. If approved, create and pass an ordinance imposing the tax.

6. File a certificate of approval and a copy of the ordinance with the Minnesota Secretary of State.
7. After you file with the Minnesota Secretary of State, you must notify us in writing to start a new local tax.

Implementing the Approved General Local Tax [–]

You must notify Revenue, in writing, at least 90 days before the anticipated begin date.

The letter must include:

- Authorizing session law or Minnesota Statute
- Date you plan to begin the tax (must begin on the first day of a calendar quarter)
- Approved tax rate
- Formal request for the Minnesota Department of Revenue to administer the new tax

You must provide us a copy of the following information:

- Resolution imposing the local tax
- Board meeting minutes approving the resolution
- Your ordinance for sales and use tax regulations
- The certificate of approval and the ordinance sent to the Minnesota Secretary of State
- Referendum questions and results
- Documentation of public informational meetings held prior to the referendum (if held)

- Meeting minutes approving the project plan or capital improvement designated for the use of revenues collected

Send the letter and supporting documents to:

Commissioner of Revenue
Minnesota Department of Revenue
Mail Station 6350
St. Paul, MN 55146

Special Local Tax

Authorizing a Special Local Tax [–]

Follow these guidelines unless your tax was authorized under Minnesota Statutes 469.190 or other special laws.

Special local sales and use taxes include food and beverage, lodging, and entertainment. You may administer special local taxes or have Revenue administer the taxes.

To impose a special local tax, you must complete the following steps:

1. Pass a resolution at least 90 days before the general election that includes:
   - Proposed tax rate
   - Intended use of the revenue (project plan)
   - Amount of revenue to be raised
   - Anticipated expiration date

2. The proposed tax must be passed by a majority vote of the local government in a general election:
    - You cannot spend money to advertise or promote the proposed tax, but you may publicize information included in the resolution.
3. If passed, file a certificate of approval and a copy of the ordinance to the Minnesota Secretary of State.
4. Contact the Minnesota Legislature.

Implementing the Approved Special Local Tax [–]

This information only applies to local taxes administered by Revenue.

You must notify us, in writing, at least 90 days before the anticipated begin date.

The letter must include:

- Authorizing session law or Minnesota Statute
- Date you plan to begin the tax (must begin on the first day of a calendar quarter)
- Approved tax rate
- Formal request for the Minnesota Department of Revenue to administer the new tax

You must provide us a copy of the following information:

- Resolution imposing the local tax
- Board meeting minutes approving the resolution
- Your ordinance for sales and use tax regulations

- The certificate of approval and the ordinance sent to the Minnesota Secretary of State
- Referendum questions and results
- Documentation of public informational meetings held prior to the referendum (if held)
- Meeting minutes approving the project plan or capital improvement designated for the use of revenues collected
    - The use of funds must be designated 90 days before the referendum.

Send the letter and supporting documents to:

Commissioner of Revenue
Minnesota Department of Revenue
Mail Station 6350
St. Paul, MN 55146

Local Transportation Tax

Authorizing a Local Transportation Tax [+]

Implementing the Approved Transportation Tax [+]

After Your Tax is Approved

You must notify the public of your new local tax, and if necessary, take our disclosure training.

Notifying the Public [+]

Local Government Disclosure Training [+]

Minnesota Department of Revenue's Responsibilities [+]

Contact Us

If you have any questions or need more information:

- Email localgovernmentservices.mdor@state.mn.us
- Call 651-556-6117

Contact Info

EMAIL

Contact form

PHONE [+]

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800-657-3777

HOURS [+]

ADDRESS [+]

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