



**HERMANTOWN ECONOMIC DEVELOPMENT AUTHORITY
AGENDA**

**Thursday, February 23, 2023 at 5:00 PM Central
Council Chambers, City Hall - Hermantown Governmental Services Building
5105 Maple Grove Rd
Hermantown, MN 55811**

1. **CALL TO ORDER**
2. **ROLL CALL**
3. **MINUTES**
 - 3.A. Approve January 26, 2023 HEDA Minutes 2
4. **MOTIONS**
5. **RESOLUTIONS**

Roll call will be taken only on items required by law and items requiring 4/5's votes, all others can be done by voice vote.
6. **WORK SESSION (Project Updates)**
 - 6.A. Business Retention & Expansion Survey Results Presentation 5
 - 6.B. Engwall's P&R Development Discussion 28
7. **RECESS**

HERMANTOWN ECONOMIC DEVELOPMENT AUTHORITY

AGENDA

Thursday, January 26, 2023 at 5:00 p.m.

Council Chambers

Governmental Services Building

ROLL CALL: Commissioners Geissler, Hjelle, LeBlanc, Ronchetti, Mayor Boucher

CITY STAFF: John Mulder, City Administrator; Eric Johnson, Community Development Director; Joe Wicklund, Communications & Community Engagement Director, Steve Overom, Attorney

ABSENT: Commissioner Haapanen

VISITORS: Heidi Timm-Bijold in person, & Jeff Miller via Zoom

MINUTES

Motion by Commissioner Ronchetti, seconded by Commissioner Hjelle to approve the minutes of the October 27, 2022 HEDA meeting. Motion passed unanimously on a voice vote: 5-0. Commissioner Haapanen absent.

MOTIONS

Motion made by Commissioner Geissler, seconded by Commissioner Ronchetti, to set the meeting dates for 2023. Meetings will be at 5:00 p.m. on the fourth Thursday of the month with the two exceptions listed below:

- June 29, 2023 last Thursday (the fourth Thursday is the League of MN Cities Conference)
- November 30, 2023 last Thursday (the fourth Thursday is Thanksgiving)

Motion passed unanimously on a voice vote: 5-0. Commissioner Haapanen absent.

RESOLUTIONS

WORK SESSION

John Mulder gave the following updates:

Evolution of the Marketplace: John Mulder explained the changes in the Marketplace since 2013 when the idea was first discussed and summarized the lessons learned as

- Have a vision
- Get out of the way for private development (changed the zoning code to get what we wanted, and let developers move forward)
- Be good at your core services (infrastructure)

- Use tools wisely (Tax abatement & Tax increment to fund public infrastructure)

Broad overview of projects: John Mulder gave a brief overview of the current HEDA projects.

- Hwy 53 Business Park
- Marketplace Destination
- Business Retention & Expansion
- The Greenhouse Housing project (P&R)
- Branding
- Broadband (city)
- Comprehensive Planning (city)

Comprehensive Plan Discussion: Jeff Miller of HKGI was present via Zoom to talk about the comprehensive plan and reviewed the following: The team and process, the maps they have created to show existing conditions, current trends impacting the community, and ended with some discussion questions to get feedback from the HEDA Board on important trends, key challenges, and issues & opportunities.

Comments included:

Long Term Trends:

- Affordability of housing
- Desire for greater services & financing those services
- Revenue sources – does development pay for additional services
- Urban pressure on rural history
- Accessibility and affordability for housing
- Ability for schools to handle growth

Key Challenges:

- In fill development
- Make zoning regulations straight forward; make process simple to navigate
- Make incentives for storefront improvements to certain standards
- Dealing with wetlands
- Improved broadband – it is an essential utility
- City Center/ Downtown mixed-use district

Issues & Opportunities:

- Density corridors
- Road standards to deal with density related issues
- Pedestrian friendly designs
- Other utilities – growth of natural gas system
- Housing for all phases of life – (including empty nesters)

RECESS

Next meeting is set for **February 23, 2023 at 5:00 p.m.**

Hermantown Economic Development Authority

January 26, 2023

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Motion by Commissioner Geissler, second by Commissioner Hjelle to recess the Hermantown Economic Development Authority meeting at 7:05 p.m. Motion passed unanimously on a voice vote: 5-0. Commissioner Haapanen, absent.

Recorded by:

John Mulder, City Administrator

TO: HEDA Members
FROM: John Mulder, Executive Director



DATE: February 16, 2023 **Meeting Date:** 2/23/2023
SUBJECT: Business Retention & **Agenda Item:**
Expansion Survey

REQUESTED ACTION

No action necessary = discussion only

BACKGROUND

During 2022, HEDA contracted with Northspan to conduct a Business Retention & Expansion Survey with a set of Hermantown Business. Representatives from Northspan will be present to review the report.

SOURCE OF FUNDS (if applicable)

ATTACHMENTS

Final Report

HERMANTOWN BUSINESS RETENTION AND EXPANSION VISIT REPORT

PREPARED FOR HERMANTOWN ECONOMIC DEVELOPMENT AUTHORITY

by

The Northspan Group, Inc.

January 2023



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EXECUTIVE SUMMARY

Northspan Group, Inc. completed 21 business visits over the course of six months on behalf of the City of Hermantown Economic Development Authority (HEDA). The visits sought to gain an overview of conditions for businesses in Hermantown and looked to provide recommendations on how HEDA can best assist them. While not a comprehensive overview, the visits provided valuable insights on the perceptions businesses have of HEDA and the amenities in the community.

The report reaches the following conclusions about Hermantown businesses:

- 95% of the interviewed businesses are locally owned.
- Overall, interviewed businesses have weathered the upheaval caused by COVID, with most experiencing stable or increasing revenue and profitability.
- Location on highway 53 is imperative to many Hermantown businesses. Maintenance, repair, and adequate traffic signal and turn lanes are necessary for business success.
- Hermantown businesses communicate affection and pride for their community.
- Perceptions of city accessibility and helpfulness are mixed.
- For myriad reasons, scheduling business visits proved unexpectedly challenging. Despite extensive engagement efforts, high demand for goods and services, workforce shortages, and feelings of guardedness all seemed to contribute to the limited engagement.

We make these recommendations based on the feedback we compiled:

- As Highway 53 is central to many of Hermantown businesses, consider access and safety a priority and gather input on business needs.
- Carefully review any sales tax plans, gather community input, and communicate transparently and thoughtfully throughout the process.
- Future city planning should include an exploration of a city central park and gathering place.
- Focus on building relationships with businesses through both face to face and mediated communication.
- Implement communication strategies using meetings, social media, and print.

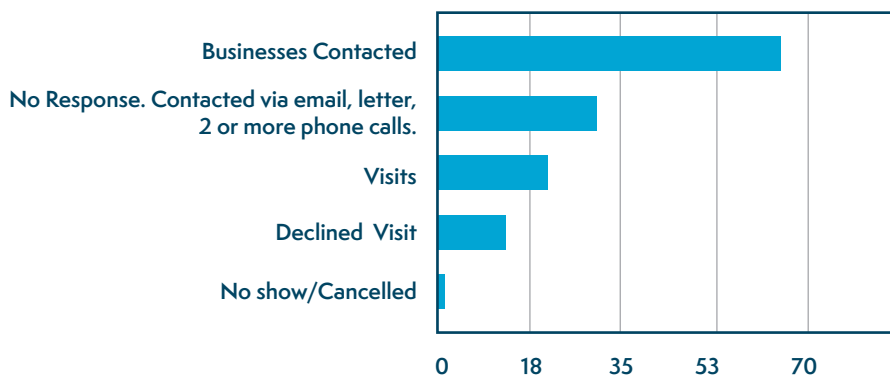


INTRODUCTION

Consultants from Northspan Group, Inc. completed 21 visits with Hermantown businesses over six months. These visits aimed to gauge businesses’ current operations; perceptions of the business climate, broader community conditions, and the positives and challenges of doing business in Hermantown; and suggestions businesses would make to the City.

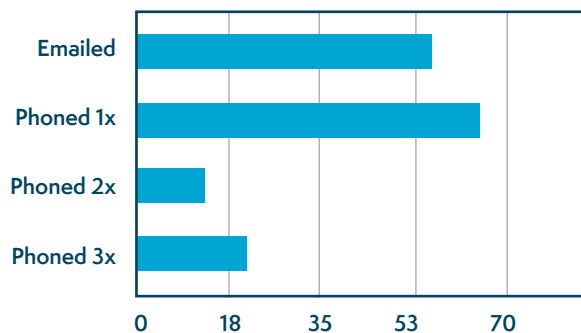
Over six months, between April 2022 and October 2022, 66 businesses were contacted via phone calls, emails, and a letter from HEDA. Of these, nearly 1/3 (32%) of businesses scheduled a visit with Northspan. Of those contacts, 20% declined the visit. Nearly half (46%) of the businesses did not respond to Northspan’s voicemails and messages.

FIGURE 1: Business Response to Scheduling Requests



After contact had been attempted for all 66 businesses at least once (in some cases twice), HEDA sent a letter to the selected businesses describing the Business, Retention and Expansion (BRE) visits and introducing Northspan. Northspan then made additional attempts via phone and email to schedule business visits. Approximately 20% were phoned thrice, 7% twice, and 39% once. For the 51 businesses where email addresses could be located, multiple email attempts were also sent.

FIGURE 2: Contact Attempts by Businesses with No Response



While the survey did not provide a statistically valid survey of Hermantown businesses, the process allowed Northspan to glean important information from businesses in the community. As noted in Understanding Sample Sizes, “Survey sampling can still give you valuable answers without having a sample size that represents the general population. Customer feedback is one of the surveys that does so, regardless of whether or not you have a statistically significant sample size. Listening to customer thoughts will give you valuable perspectives on how you can improve your business” (momentive.ai, n.d.).

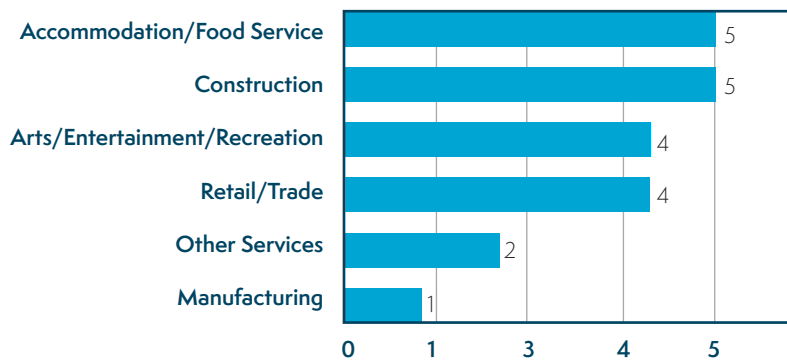
BUSINESS OPERATIONS

The first set of questions in the visits focused on general business operations. These questions have been adapted from the Minnesota Chamber of Commerce's Grow Minnesota! program and results were entered in its anonymous database.

GENERAL BUSINESS CHARACTERISTICS

The surveyed businesses come from six of the ten major private sector classifications: Accommodation/Food Services, Arts/Entertainment/Recreation, Construction, Manufacturing, Other Services and Retail Trade. Businesses in the remaining sectors (Finance/Insurance, Health Care/Social Assistance, Mining, Utilities) were not targeted because they are either tied to broader trends or have little to no footprint in Hermantown. Of the surveyed businesses, 95% are locally owned. The industries served include residential, commercial, and tourism, to heavy industry, education, and healthcare. Just over 52% of the businesses are Hermantown Chamber of Commerce members, while only 5% are members of the Minnesota Chamber of Commerce.

FIGURE 3: Visits by Industry Type



BUSINESS OWNER/MANAGER CHARACTERISTICS

Of the 21 owners/managers interviewed, 11 live in Hermantown, while ten do not. When asked what they like most about living in Hermantown, Hermantown-dwelling interviewees describe the "easiness" of living in the community. One noted that Hermantown is "handy to everything. (My) dentist is right down the road. (I) love when the Blue Angels are performing. Best view in my own yard." Multiple respondents shared that they grew up in Hermantown and were staying to raise a family. Hermantown was described as "big enough and small enough" with a sufficient number of "things to do" to keep folks in the community. One phrased it this way: Hermantown is the "community I love." For those businesses owned by locals, Hermantown's established sense of community played an important role in establishing or maintaining a business in their home community.

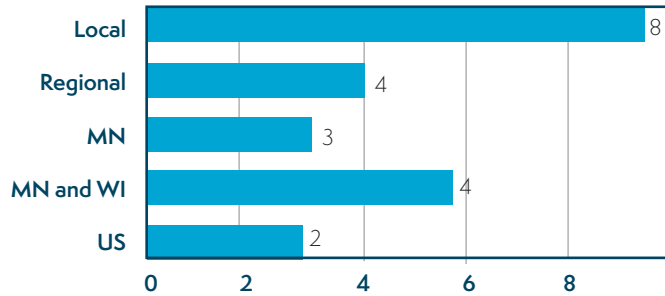
BUSINESS LIFE STAGE

About half of the businesses included in the sample were established before 2000. The median age of the businesses is 30 years, with the oldest business surveyed opening in 1954 and the newest one purchased in 2021.

MARKET REACH

While most surveyed businesses (38%) primarily serve local customers, 20% considered their business regional, and an additional 20% shared that their geographic market includes Minnesota and Wisconsin. Thus, over half of the businesses surveyed consider their primary geographic market to be the state of Minnesota or beyond. Approximately 20% said their market included all the US. None of the surveyed businesses currently export.

FIGURE 4: Geographic Market of Visited Businesses



CURRENT FACILITIES

When looking at Hermantown facility ownership, 16 of the businesses own their facilities, and five are leased. Ten of these businesses had additional locations outside of Hermantown. These other locations include Carlton, Duluth, Cloquet, Proctor, Grand Rapids (MN), New Brighton, and Rochester. One business had two locations within Hermantown.

INVESTMENT PLANS

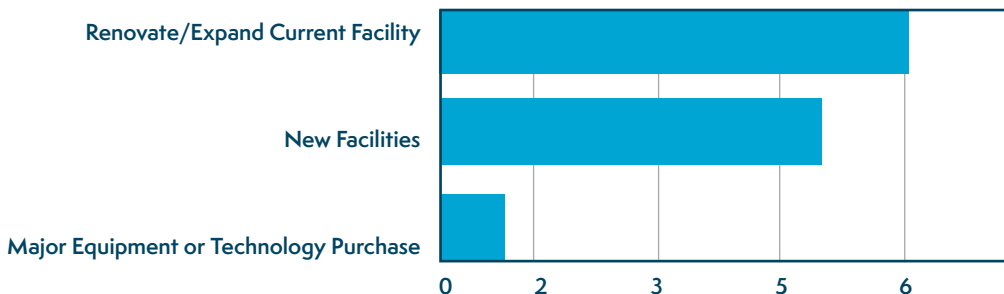
In terms of plans for major expansions or capital investments, 12 reported that they had plans for one or both. For 75% of these businesses, the location of this investment was at their current (Hermantown) site. These investments include renovating or expanding the existing facility, building new facilities, and/or major equipment or technology purchases.

When asked if there was another location outside of Hermantown that offers a better environment for the company to grow and expand, five businesses responded in the affirmative. When asked why, one noted a need for ease of transportation and said they would like a site on Interstate 35 in West Duluth.

Another stated a need for greater population or customer base. At their current location, they have maximized their target market. A third said they would locate to anywhere seeking housing, and a fourth said they would consider moving to Pike Lake if the sales tax proposal passed.

Finally, one member stated there were double standards, and they would not move another business to Hermantown (more on this in “Community Opportunities and Challenges”). One respondent suggested that for Hermantown to improve and be a more advantageous location for businesses to expand and grow, Hermantown should improve lot sizes, provide shovel ready sites, and build business park infrastructure.

FIGURE 5: Types of Planned New Investment



WORKFORCE

Workforce is a challenge for a majority Hermantown businesses, with 70% of interviewees saying they were currently hiring. Virtually all the surveyed businesses said they post their job openings on indeed.com. Some were utilizing creative recruitment methods like offering referral bonuses, “we like your service” cards provided to customer service folks out in the community, and employee retention perks (e.g., small monthly gifts). One business stated that the future workforce in the service industry will be diverse, and Hermantown needs to be ready for that and support the change.

REVENUE TRENDS AND PROFITABILITY

When asked to describe their revenue over the past year, eight respondents said it had increased, eight said it was stable, and five said their revenue decreased. Projecting into the upcoming year, 14 businesses expected revenue to be stable, and six expected an increase in revenue.

FIGURE 6: Business Revenue Over the Past Year

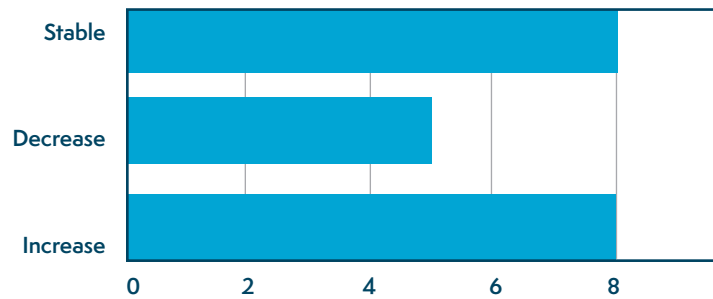
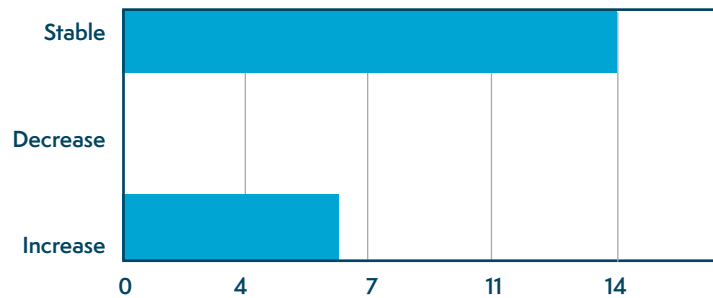


FIGURE 7: Revenue Expected in the Upcoming Year



Regarding profitability in the past year, nine businesses said they had been stable, six increased in profitability, and six decreased. In the upcoming year, 14 projected their company’s profitability would be stable, with three expecting an increase and two a decrease. When asked what factors were affecting changes in profitability, most noted the increase in prices for goods, fuel/shipping, and staffing.

FIGURE 8: Profitability Over the Past Year

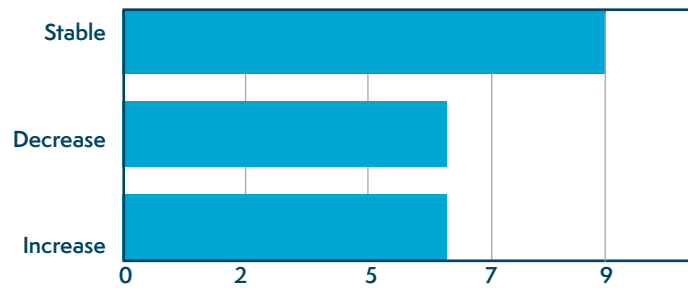
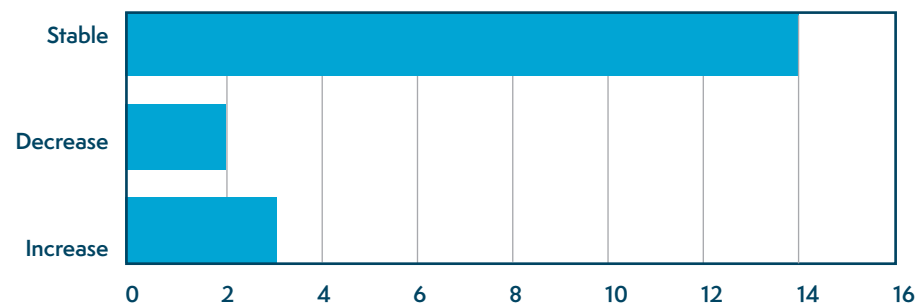


FIGURE 9: Profitability Expected in the Upcoming Year



In fact, the cost drivers posting the biggest barriers to growth include:

- Fuel fees on top of delivery fees (2).
- Labor (2)
- Inflation, supply chain (2), inventory shortages, and backorders.
- Water quality not meeting Minnesota Department of Health standards and the required investment of \$30,000 for a filtration system.
- Water costs six times higher in Hermantown than their other locations per a business with multiple locations around the state.
- Dry goods being less expensive online compared to purchase through their wholesaler.

Seven businesses noted an increase in expenses over the last year, and nine expected increases in expenses in the upcoming year.

WATCHING LEGISLATION

Businesses were asked if there was any legislation they were following. Some of the businesses were very interested in local legislation. Multiple businesses (5) mentioned a concern about a Hermantown sales tax and the large impacts it would have. As one respondent noted, they have concern over a “0.5% sales tax for arena, inflation and its impacts on tenants on a fixed income.” Another respondent expressed concerns of “raising taxes to keep pace with Duluth.”

In multiple instances the “stormwater fees” were mentioned. In most cases, the fee was noted with consternation. In one, the fact that it did not apply was a shared as a relief to the business.

COMMUNITY OPPORTUNITIES & CHALLENGES

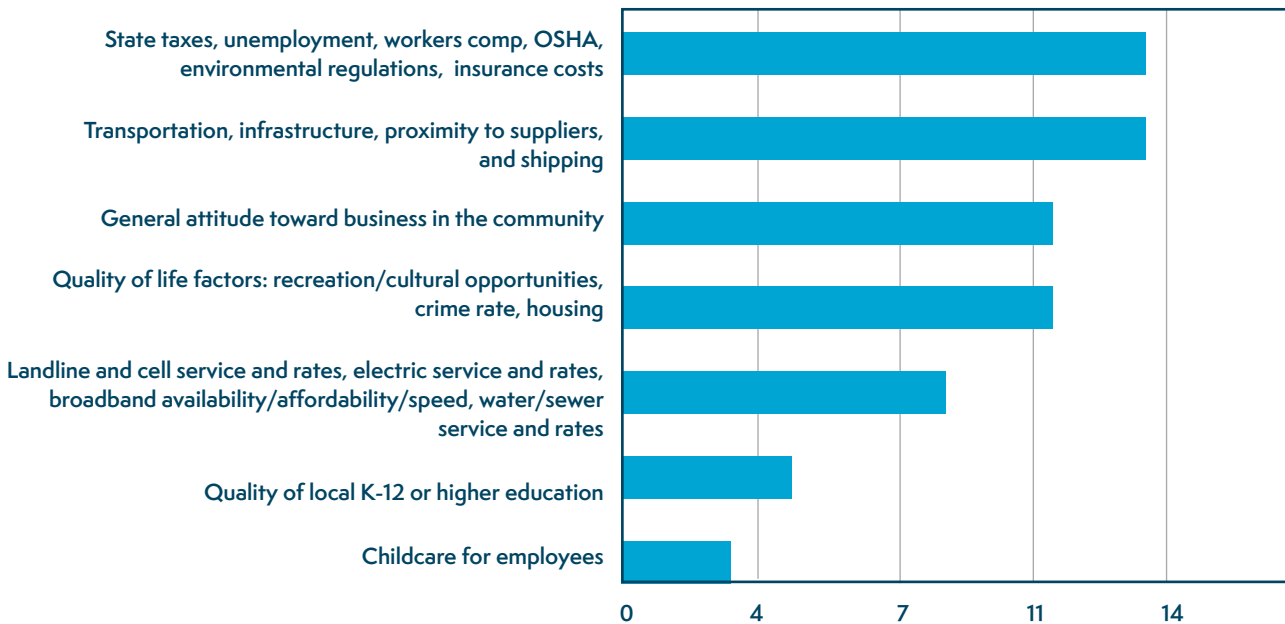
In the second set of questions, interviewees were invited to share their broader perceptions of Hermantown as a place to work and live.

The first question asked respondents how important the following aspects of the community were most important to or affect the success of their business:

- Transportation, infrastructure, proximity to suppliers, and shipping
- State taxes, unemployment, workers comp, OSHA, environmental regulations, insurance costs
- General attitude toward business in the community and support from local business groups
- Landline and cell service and rates; electric service and rates; broadband availability, affordability, speed; water and sewer service and rates
- Quality of life factors: recreation/cultural opportunities, crime rate, housing
- Quality of local K-12 or higher education; and childcare for employees

The aspects (categories) of the Hermantown which received the highest valuation of importance included “transportation, infrastructure, proximity to suppliers, and shipping,” and “state taxes, unemployment, workers comp, OSHA, environmental regulations, insurance costs.” A close third was “general attitude toward business in the community and support from local business groups.”

FIGURE 10: Which Aspects of the Community are Most Important to, or Most Affect, the Success of Your Business?



Because the questions each included multiple attributes on which to comment, interviewees were invited to comment on specific categories. Those comments follow:

TRANSPORTATION, INFRASTRUCTURE, PROXIMITY TO SUPPLIERS, AND SHIPPING

Multiple respondents commented on the importance of Highway 53. Good roadways are important, as is proximity to the airport. Comments included:

- Proximity to suppliers and shipping important. Being on the highway is good.
- COVID: shipping issues. Cost of shipping and fuel surcharges challenging.
- 13th largest trucking business; need good roadways.
- Access to airport. Companies bring in suppliers, trainees, etc.
- Near major road.
- Location on Hwy 53 has lots of potential.

A few of the interviewees discussed water (both the quality and cost), as well as the storm water tax:

- Water is too expensive. Chlorine level does not meet MDH requirements. Water bill 6x higher compared to company's other [business type redacted]! Insurance costs important.
- Storm water tax is a huge expense. Rate increases.
- Water/sewer: Storm runoff. Fees keep increasing.

STATE TAXES, UNEMPLOYMENT, WORKERS COMP, OSHA, ENVIRONMENTAL REGULATIONS, INSURANCE COSTS

Overall, taxes and associated business costs were a significant issue. As one business noted, taxes are an "ongoing concern."

- All state taxes, unemployment, workers comp, OSHA, environmental regs, insurance important.
- Unemployment [insurance] used to be high, but that was when employees were seasonal and laid off for 9 months of the year. That is no longer the case.
- Workers comp.
- Taxes ongoing concern.
- All taxes too high.

GENERAL ATTITUDE TOWARD BUSINESS IN THE COMMUNITY AND SUPPORT FROM LOCAL BUSINESS GROUPS

Some of the interviewees were happy with Hermantown and felt that the city was pro-business. Numerous times participants shared they were glad to be operating in Hermantown versus Duluth (specifically).

- The building inspections are good. Pro-business in Hermantown. Happy to be in Hermantown, not Duluth or Superior.
- Overall, a lot of support here.
- The general attitude toward business is pretty good.
- Dissatisfied with support from city government. Satisfied with local business groups.

A couple of people shared they were dissatisfied with the Hermantown Chamber. Comments included:

- Chamber director never came in to say hello. Done with the chamber.
- Don't feel that Chamber does/did a lot (when we were members in the past).

LANDLINE AND CELL SERVICE AND RATES, ELECTRIC SERVICE AND RATES, BROADBAND AVAILABILITY/AFFORDABILITY/SPEED, WATER/SEWER SERVICE AND RATES

Regarding utilities, comments were general, speaking to the importance of them but not any specifics on the utilities in Hermantown:

- Broadband availability improved.
- Cell services. State taxes, unemployment, worker's comp, OSHA, environmental regulations, insurance costs all greatly affect business.
- All landline/cell/electric/broadband and water/sewer are important to business success.
- 5 years ago, got hooked up to sewer. Haven't seen big increases.
- Utilities are important.

Under a separate question, however, the water quality not meeting MDH standards was of great concern.

QUALITY OF LIFE FACTORS: RECREATION/CULTURAL OPPORTUNITIES, CRIME RATE, HOUSING

Safety and crime were commented upon when asked about this area. The general sentiment is that Hermantown is safe and law enforcement is doing well:

- Crime rate is important. Dark at 4 PM.
- Happy with the service they get from police and first responders.
- Guests feeling safe in the community unlike downtown Duluth.

A couple of people noted the need for housing in the community:

- Housing is a challenge; [our] employee can't find a place to live in Hermantown.
- Need housing.

QUALITY OF LOCAL K-12 OR HIGHER EDUCATION

Interestingly, with those who participated in BRE visits, the quality of local K-12 and higher education was not perceived as a priority when linked to their business success, even though in one instance a business had worked with the local community college and recruited a good employee through them:

- Not affected by k-12/higher ed, although new welder was hired through LSC and is excellent.
- Quality of education is important; draws people into the area who buy their products/services.

CHILDCARE FOR EMPLOYEES

Also, atypical when compared to the region, state and country, few of the businesses commented on a need for childcare. This could be attributed to the size of the businesses (small) and age of employees.

- All employees are single, so childcare is not an issue.
- With older employees, childcare is not an issue.

COMMUNITY POSITIVES

The final portion of the survey focused on the perceived positives and negatives of operating a business in Hermantown. Questions were asked in a variety of ways to elicit input on what works and what is challenging for businesses in the community.

In the first question, interviewees were asked they liked most about operating a business in Hermantown. Far and away location came up as a top positive for Hermantown:

- Location works.
- The location, people that come into the store.
- Miller Trunk HWY access: Iron Range folks go by. Easy access for Twin Cities folks.
- Location, amenities like shopping and dining.
- Easy to get to. Centrally located. Close to Superior, the Iron Range.
- Close to the airport; at the time they built it was an easy process working with the city.
- Access to the city. Can get anything done today.
- City building department is good to work with.
- Centrally located.
- Comfortable, location - accessible roads, can avoid county road restrictions for heavy equipment.

Numerous comments were made about the quality of life in Hermantown, a community where “everyone knows everyone,” “you know your customers,” and it “feels safe.”

- Positive word of mouth; everyone knows everyone.
- Cheap rent. No traffic. Police response is good.
- Growing, small town feel, easier to work with.
- The people, (give) people a place to gather.
- People support youth programs, tight knit community, low crime, good relationships with Hermantown PD.
- Community support.
- Small town feel – you know your customers.
- Less crime compared to downtown Duluth.
- More space - customers can test ride bikes; (I like) being on top of the hill, with less concern about thefts, destination.

Multiple comments were made comparing Hermantown to Duluth, voicing a preference for Hermantown.

One interviewee noted that they had been raised here, and chose raising their family here; now their grandkids are here. Two interviewees shared their perception that “Hermantown has a better handle on things than Duluth.”

They noted Hermantown is more of a small town with no sales tax (unlike Duluth) and bigger lots.

Another positive was the perceived attitude toward business in the city offices of Hermantown.

Four interviewees commented positively on working with the city:

- Not anti-business.
- Hermantown poised to do well and not overregulate; rental licensing cheaper than Duluth; Jim/Eric city staff helping to solve problems.
- Always open and accessible. Someone picks up the phone.
- Relationships with city staff.

CHALLENGES

Alternatively, interviewees were asked what their biggest challenges were doing business in Hermantown. While three respondents said they did not have challenges, other responses ran the gamut from a lack of community center (e.g., downtown/park/etc.), to taxes, fees, and regulations, to lack of population and workforce.

NO CENTER AND MASS TRANSIT

- Not centralized.
- Hard for employees to get to location. No bus.

ECONOMIC STATUS

- General economic status; always a depressed economy.
- Inflation.
- Need industries that create revenue.

TAXES

- Against the .5% increase in sales tax. 6.87% State, 1% Hermantown, 1% County--up to 95. Why would people keep coming here? Pays \$12,000/ year in real estate taxes. People who move here are used to a lot of stuff. Pushing out locals. When building, the city was a little slow on giving okay to build.
- Taxes, rising fees.
- Taxes.
- Rising taxes.
- Taxes.
- New stormwater fees/credit systems not great for businesses, slow internet, seeking more advocacy from the city for business owners wanting to do projects
- Lots of regulations. For example, renewal of liquor and operation licenses you must fill out the whole thing every year. In Duluth it is a renewal with previous information already inserted.

HIGHWAY 53 ISSUES

- No left turn out of facility. Must do a U turn. No turn lane into facility.
- Dangerous entering and exiting the highway.
- Misconceptions about Hermantown/53 corridor businesses being "too far" or out of the way.

POPULATION AND WORKFORCE

- Small population. Hermantown has grown further west (good). Need customer base to grow.
- Need employees. Want young people involved.
- Labor shortage.

DEVELOPMENT ISSUES

- Hard to go through expansion projects - paperwork/bureaucracy, sales taxes.
- Expansion and development.
- Hard to compete in rural communities when people don't want to deal with union wage stuff, not a lot of competition in the Northland for [business type redacted].
- Getting proper zoning approved quickly, financing quickly.
- Housing/lack of affordable housing.

HERMANTOWN AS A PLACE

Every community has history and personality with unique community attributes valued by residents. Interviewees were asked what they would want to keep as Hermantown changes over time. Participants noted the friendliness of Hermantown, keeping and growing small businesses, the current work of the city and made suggestions for future city foci. Respondents also shared that Hermantown lacked a center—a downtown or park—that grounds the community.

Folks noted the friendliness of the people and Hermantown's small-town feel.

- Everybody's friendly.
- Don't change it a lot. It's too much like a bedroom community. People are getting squeezed out.
- Small town: everyone knows everyone.
- "It's where we've always been," seems like a stronger community - tight knit.
- Grew up here - feels like home naturally.
- Hockey/sports legacy.
- Older folks are moving out and keeping community connections with new residents.

They also commented on the importance of keeping and growing small businesses and a rural element as the city evolved:

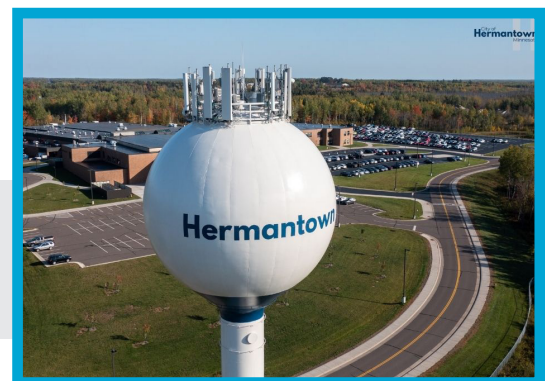
- Small and local options. Little strip malls. A design standard implemented to help the community keep small town feel.
- Keep small businesses.
- Small businesses.
- Regular customers, feels like a little community, more businesses would be great.
- Rural.

Here the idea of a needed city center was referenced:

- Wish there was more of a town. No downtown.
- School. There's no main street.
- Skyline is the unofficial community center/business owner gathering place.

People commented on the current and future work of the city:

- Doing a lot; wellness center on Lavaque is good. It seems nice (the community). Not run down. Forward thinking.
- Not congested; easy to get around and out of chaos. Feels more positive than Duluth.
- Access to the city. The relationships the city has with business (is easy). Easiness of it all.
- Managing green space, schools and athletic amenities
- "Glen the city utility guy!"
- More round-abouts needed.



THREATS

Businesses were asked about the greatest threats to Hermantown. Taxes and regulation came to the forefront, with many interviewees expressing their concerns, particularly over property taxes and the possibility of a sales tax:

- Property taxes (high).
- Economic climate.
- Taxes.
- Rising cost of land and houses on that land. Fees.
- Taxes are high.
- Taxes. Cost of living.
- Property taxes.
- Perceptions about high costs, rising sales tax proposals - staying competitive with Duluth, property tax increases.
- Taxes increase.
- Overregulation, conflicts with the county, raising taxes too much/rapidly, city staff turnover.
- Airport regulations for this specific area west of the airport.

Interviewees also discussed commercial development, both as a need and a challenge. One business shared a concern that the city would “change...shift away from business growth. We cannot only be a sleepy housing community. We need business and industry.”

“We can’t hold sections for residential. (It costs) \$100,000 to build 100 ft of road. Consider the return on investment for industry vs. residential. Grow retail-ability! [The city is] so focused on \$1 million homes. Make sure housing is affordable.”

On the flip side, a couple of businesses listed “commercializing” and “small business going away because of large corporations; losing retail” as some of the biggest threats.

Finally, businesses commented on the perception of the city being too far out, “no heart to the community, no downtown, no parks.” One talked about the “swamp” surrounding the city and the lack of available land. A lack of housing was shared as a challenge, and two respondents talked about the schools: the tie between school size and too much development, and the community’s identity being tied to the school.

MAYOR FOR A DAY

One way to gain insights that may have otherwise been missed through specific questions is to ask “what would you do if you were in charge?” Businesses were asked what they would do in their community if they were in charge for a day.

A couple of responses referenced the importance of working for all the people. One noted, “Get rid of [a specific employee]/that mentality. Can’t run personal agenda and represent the city. Running on personal agenda is the start of failure.” Another stated, “[I] would want everyone in government to realize they are representing all the people, not a party. Remember who is paying your wage.”

People again commented on taxes and regulations. One interviewee suggested that if in charge of the city for the day, they would be “More user friendly, [make it so people] don’t have to pay so much. For example, fees: black-top, storm water runoff fee. [High] property taxes.” Another stated they would, “Lower regulation and lower taxes. Lead from the front. Show what is important: jobs.”

There were a couple of comments on leadership and administration. “Make it more accessible administration wise,” said one. “Be in tune with people who leave a complaint. [The city is] not the easiest to deal with.” Another shared, “It would be fun” to be a leader for the day and “look at what’s being spent, what is on reserve. How do they help businesses? The city keeps increasing fees. Spending at the city not justified. [There are] a lot of spinning wheels.”

A third discussed bureaucracy and shared that their “landlord can’t put a driveway into property because of bureaucracy.” This business stated there was a need for “Common sense approach to development.”

Hermantown was noted as having a lot of green space without easy access. Three respondents suggested focusing on building outdoor amenities.

- Make a community center. A destination park with a dog park. Playground. A community gathering place.
- More parks, a community park. Lots of green space, but no place to communally enjoy it.
- Focus on quality of life, mom & pop shops, sidewalks, connecting in more trails with COGGS/existing bike systems.

Finally, infrastructure and utilities were commented upon.

- Correct the lack of high-speed internet. Lower taxes. If we have more amenities, we attract more people.
- Fix the traffic light in front of business (park) on Hwy. 53; I have witnessed multiple bad accidents at that light. The light to exit our area is very short.
- Fix roads!

A couple of businesses would focus on economic development as an investment, working to build opportunities:

- Maintain conservative investments.
- Encourage people to be open minded and willing to try.
- Document/market available land, boosting downtown Hermantown as a commercial corridor.

WHAT CAN HERMANTOWN DO TO HELP BUSINESSES

Businesses were asked what the most significant thing Hermantown could do to help improve business activity. Again, businesses expressed negativity on a sales tax, quality of life development, business support, and public relations on Hermantown:

- Do not raise sales tax.
- No sales tax.
- Have safety and responsibility as corner stone of common-sense decision making.
- Up against mother nature (with cold weather). More affordable housing. Need workers for tourism, house care, custodial.
- Residential development. Attracting businesses.
- Predevelopment work assistance for businesses.
- Make things easier for business owners - city leadership needs businesses and vice versa; visitors bureau type materials for visitors, tourists, athletes.
- More PR about what Hermantown has to offer, awareness of businesses on the 53 corridor.

Finally, businesses were asked for the specific concerns they would like to see addressed. Businesses located on highway 53 talked about access and safety to the thoroughfare.

- The turn lanes on Hwy. 53.
- The traffic light on Hwy. 53 in front of business.
- The turn lane into the business got messed up with construction. The drainage is not right; they need a culvert. Water flows into the lot off the highway and creates an ice rink in winter.

Others focused on community and economic development. From recognizing a need for workforce, specifically that future workforce will be diverse, to development around their property, supporting business endeavors, and a question on grant programs, businesses expressed concern for development assistance.

- Service level jobs; recognizing need for diverse folks to fill jobs.
- Wetlands - want to develop on a parcel they own, but there are issues with approval at the county level. business would like to see more pushback from the City to the County to advocate for the project.
- Very concerned if Hermantown did a lodging tax.
- Easement/right of way support financially from the City rather than costs split between 3 businesses.
- More housing projects.
- Increase proactive developments; any city grant programs?

ADDRESSING LACK OF BUSINESS COMMUNITY ENGAGEMENT

As noted in the introduction to this report, 66 businesses were targeted in this process and only 21 visits were scheduled after a comprehensive effort to contact these businesses. As evidenced by the difficulty in scheduling interviews, one assumption is businesses did not feel compelled to engage in processes designed to elicit their input and potentially assist them. Even with a letter from the city administrator, most contacted businesses did not schedule in interview.

That said, in several of the interviews following the sending of the city administrator letter, businesses noted the receipt of the letter, and multiple businesses had retained the letter, displaying it when the interview began. These actions suggest the influence and relationship the city had and/or could have with proactive outreach.

In a meeting held with City Administrator John Mulder and Economic Development Consultant Heidi Timm-Bijold, the business community's lack of response in the BRE was discussed. Mulder and Timm-Bijold requested recommendations for addressing the issue and facilitating future connections with Hermantown businesses.

What follows are our recommendations for bolstering the city of Hermantown's brand and relationship with its business community. These recommendations do not constitute a comprehensive strategic marketing plan. Instead, the focus is



engaging with local businesses as the target audience to build trusted relationships and city brand (reputation). Below is Northspan's recommendation; implementation of the plan will require the city's ownership and deployment, securing a budget (not constructed here), measuring the success of the strategies and tactics, and adjusting and reimplementing the efforts. This work is ongoing; one year will start a long-term process of engagement. The benefits of doing this work with the business community, however, will have positive benefit for the city and its residents.

What follows is a plan covering the following five areas:

1. Analysis of the City of Hermantown Business Community Communications
2. One-year goal
3. Marketing objectives
4. SMART (specific, measurable, attainable, realistic, and trackable) strategies to address each marketing objective
5. Suggested tactics under each strategy

The city will perform the following to reach the goals of these strategies. Note that these steps continue in perpetuum:

6. Execute
7. Measure
8. Implement revised strategy/tactic

CITY OF HERMANTOWN BUSINESS COMMUNITY COMMUNICATION RECOMMENDATIONS

- **Goals:**

- o Grow trusted relationships with the local business community.
- o Build a city brand, or reputation, with the local business community.
- o Establish communication channels and practices to support relationship building.

- **Target Audience:** Local Hermantown businesses across all industry sectors.

- **SWOT**

- o Strengths:

- Per the BRE, many businesses have a positive opinion of the city (corporate).
- Multiple businesses expressed preference for Hermantown (as a community) over neighboring communities as a place to do business.
- Business owners noted appreciating a hands-off government.

- o Weaknesses:

- Little to no current efforts to proactively connect with local businesses. Connection is driven by business need and typically initiated by them.
- In a couple of instances, BRE visits elicited negative opinions of city staff and processes.
- Businesses have noted feeling independent of the city. As one noted in the BRE contact process, a BRE visit would not be worth (Northspan's) time or their time because the city's actions do not affect them.

- o Opportunities:

- Per the BRE, some businesses have no opinion on the city. With this lack of opinion there is room to build a positive association.
- Hermantown has an up-to-date logo, branded web, Facebook, and LinkedIn sites; much of the communication infrastructure exists for targeted use.
- Hermantown uses Facebook to reach residents; business specific messaging could be added.

- o Threats

- Without a trusting, communicative relationship with its business community, Hermantown is missing a key element in building business and economic success.
- As evidenced by the BRE process, Hermantown cannot currently easily access business community information on current state, challenges, or expansions.

- **Marketing objectives, strategies, and suggested tactics.**

- o Build face to face relationships with local business community.

- Attend and engage at local business events.
 - Attend and engage at Chamber events.
 - Participate in and attend local business events (e.g. tradeshow).
- Host engaging business meet-ups.

- o Communicate city brand.

- Utilize brand developed by Communications Director with business community.
 - Share brand guidelines to guide all city leadership and staff.
 - Build brand guidelines into all personnel /business interactions.
 - Embed brand guidelines into professional development processes.
- Build/utilize communications channels.
 - Email list.
 - Newsletter.
 - Business oriented social posting.
 - Move "contact us" feature on website to front page/easy to find.
 - Set up questions- form on website.
 - Assign ownership to web form response and set guidelines (response in 24 hours weekdays).

- **Review and refine communications per metrics.**

CONCLUSION

In spring 2022, Northspan completed 21 visits to Hermantown businesses. The surveyed businesses come from six of the ten major private sector classifications: Accommodation/Food Services, Arts/Entertainment/Recreation, Construction, Manufacturing, Other Services and Retail Trade. 95% of these businesses were locally owned, with owners predominantly living in or near Hermantown.

Most interviewed businesses are hiring and getting workforce has been challenging. These employers are using creative recruitment tactics in addition to posting openings on LinkedIn and other sites.

Revenue over the past year has been stable or increasing for 75% of the businesses, and all thought their revenue would be stable or increasing over the next year. Profitability was a different story. One third of businesses said over the last year their profitability had been stable, 1/3 of businesses said it had increased and 1/3 of businesses said it had decreased. When asked what was influencing profitability, the increased costs of shipping, fuel charges, workforce, and cost of goods were all factors. Predictions for profitability were hopeful, with 2/3 hoping it will be stable, 14% hoping for an increase, and 10% predicting a decrease.

Slightly over half of Hermantown businesses had plans for expansion or major capital investments. This finding is a good omen for business success in Hermantown.

COMMUNITY ASPECTS

When reviewing the importance of community elements as they relate to business success, Hermantown businesses rated the significance of “transportation, infrastructure, proximity to suppliers, and shipping,” and “state taxes, unemployment, workers comp, OSHA, environmental regulations, insurance costs” as those with the most effect on their business success. A close third was “general attitude toward business in the community and support from local business groups.”

Businesses in Hermantown see location and access is important. Being on or near Highway 53 and between the Iron Range and Superior was shared as an asset. The location of the airport was also of value. This location provides easy access to suppliers and customers as well as visibility for drive-by traffic. Because of their tie to this infrastructure, the condition and safety of highway was noted as a concern. Interviewees shared a need for additional turn lanes, added traffic lights, and culvert work (water drains from the highway into their parking lot, turning it into an ice rink).

Hermantown businesses are also dealing with the increasing costs of doing business. With increasing costs of fuel, fuel surcharges and delivery fees, the shipping of product has become a factor affecting business profitability. Coupled with increased costs of goods, back orders, and delays, doing business has been fraught with more challenge over the last year. While many businesses recognize that taxes, unemployment, workers comp, and insurance are all “the cost of doing business,” as noted by one interviewee, taxes were voiced as a concern. The increasing property taxes in Hermantown were noted as a detriment to business, and many expressed worries over the addition of and increases to a sales tax in the community. A couple of interviewees mentioned the stormwater runoff fees as problematic.

Regarding the attitude towards business in the community and business groups, the review was mixed. Some felt the city was easy to work with, others felt it was challenging. In a couple of instances, folks voiced dissatisfaction with working with the Chamber. However, over half of the interviewed businesses were Chamber members and they did not express dissatisfaction.

COMMUNITY POSITIVES AND NEGATIVES

Hermantown businesses had many positives to share about Hermantown. Numerous comments were made about the quality of life in Hermantown, a community where “everyone knows everyone.” Multiple comments were made comparing Hermantown to Duluth, voicing a preference for Hermantown both for its lack of regulation and the ease at which one could operate. Hermantown is perceived as secure with good law enforcement, and it feels familiar, with people born and raised in the community who in turn are raising their families. Hermantown offers easy access to amenities, and it is just the right size for many.

Alternatively, businesses noted the biggest challenges to Hermantown include a lack of community center (e.g., downtown/park/etc.), sales and property tax concerns, regulation (wetlands and stormwater run-off fees), and the development in Hermantown. Sales taxes were unpopular, as were rising property taxes. In fact, one shared the most significant thing Hermantown could do to help improve business activity is to not have or raise a sales tax. Businesses are also concerned with highway 53 access and safety.

Without a traditional downtown, interviewees see a need for Hermantown to develop a center that can be accessed and utilized by all. In the desire to keep Hermantown as a small town, respondents described the importance of keeping and growing small businesses and a rural element as the city evolved.

Hermantown is perceived as “home” by many of the businesses interviewed. Many of the folks interviewed located in Hermantown for its small town feel and ease. These are meaningful qualities to consider as Hermantown plans for its next iterations.

While the number of interviewees in the study was not statistically significant, the Hermantown BRE process revealed important insights into local business perceptions, needs and desires. The lack of success in scheduling visits can be partially attributed to the business community’s lack of willingness to be engaged. Future BRE efforts can be compared with this assessment to see qualitatively how experiences in the community and with the city have changed.

With a concentrated communication outreach effort, the city of Hermantown can build from the foundation of solid and relatively neutral public opinion already established in the business community and develop communication channels and encourage trusting relationships. By doing this groundwork, the city will be better positioned to perform future BRE visits and gain additional quantifiable data.

WORK CITED

momentive.ai. (n.d.). Sample size calculator: Understanding sample sizes. SurveyMonkey. Retrieved November 23, 2022, from <https://www.surveymonkey.com/mp/sample-size-calculator/>





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TO: HEDA Members
FROM: John Mulder, Executive Director



DATE: February 16, 2023 **Meeting Date:** 2/23/2023
SUBJECT: Engwall's P&R Development **Agenda Item:**

REQUESTED ACTION

No action necessary = discussion only

BACKGROUND

For the past several months, HEDA Staff have been in discussion with P&R Properties about possible development at the former Engwall's site. This report is to review the desired infrastructure improvements related to site. We continue negotiations with the developer on the site and the cost of the project.

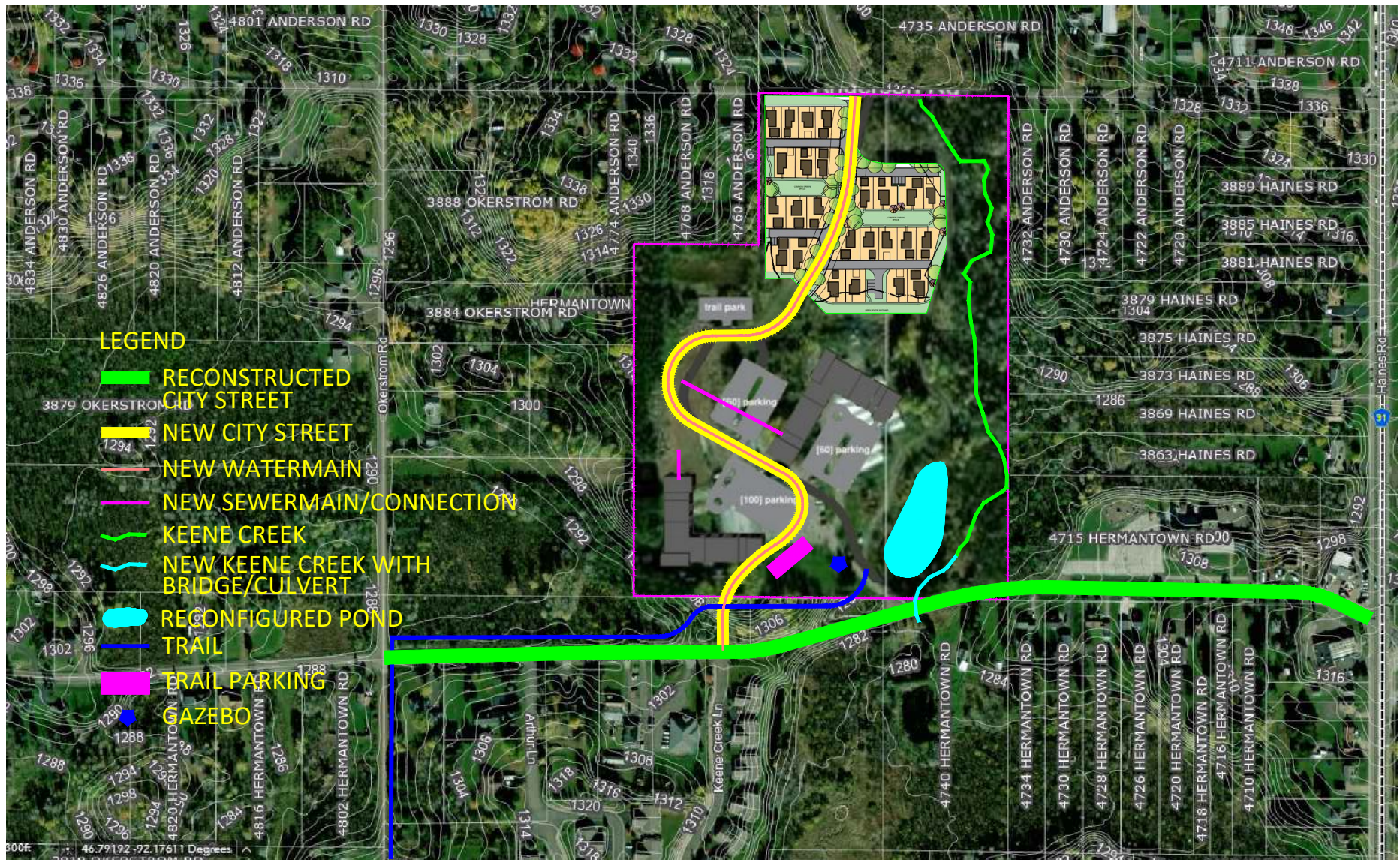
SOURCE OF FUNDS (if applicable)

ATTACHMENTS

Estimates for Infrastructure

**Estimate of Probable Costs
Prepared on 11/14/22**

		Unit of Measure	Quantity	Unit Cost	Cost
1	Hermantown Road - Urban Roadway	Linear Foot	2650	\$ 700.00	\$ 1,855,000.00
2	New City Street	Linear Foot	1500	\$ 500.00	\$ 750,000.00
3	Water Line - In New City Street	Linear Foot	1500	\$ 150.00	\$ 225,000.00
4	Sanitary Sewer	Linear Foot	400	\$ 150.00	\$ 60,000.00
5	Storm Water Treatment and Pond Removal	Lump Sum	1	\$ 250,000.00	\$ 250,000.00
6	Construct New Trail	Linear Foot	1300	\$ 200.00	\$ 260,000.00
7	Trail Parking Lot	Lump Sum	1	\$ 50,000.00	\$ 50,000.00
8	Gazebo	Lump Sum	1	\$ 50,000.00	\$ 50,000.00
				Construction Total	\$ 3,500,000.00
				Design Engineering 7.5%	\$ 262,500.00
				Construction Engineering 7.5%	\$ 262,500.00
				Land Acquisition	\$ 50,000.00
				Wetland Permitting	\$ 50,000.00
				Geotechnical	\$ 25,000.00
				City Admin 2%	\$ 70,000.00
				5% Construction Contingency	\$ 175,000.00
				Total Project Cost	\$ 4,395,000.00



LEGEND

- █ RECONSTRUCTED CITY STREET
- █ NEW CITY STREET
- █ NEW WATERMAIN
- █ NEW SEWERMAIN/CONNECTION
- ~ KEENE CREEK
- ~ NEW KEENE CREEK WITH BRIDGE/CULVERT
- ▭ RECONFIGURED POND
- █ TRAIL
- ▭ TRAIL PARKING
- ◆ GAZEBO

300F
 46.79192 -92.17611 Degrees
 3819 OKERSTROM RD