

Headwaters
Region

2016

**Comprehensive Economic
Development Strategy**



HEADWATERS

Regional Development Commission

Leading the Way

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INTRODUCTION

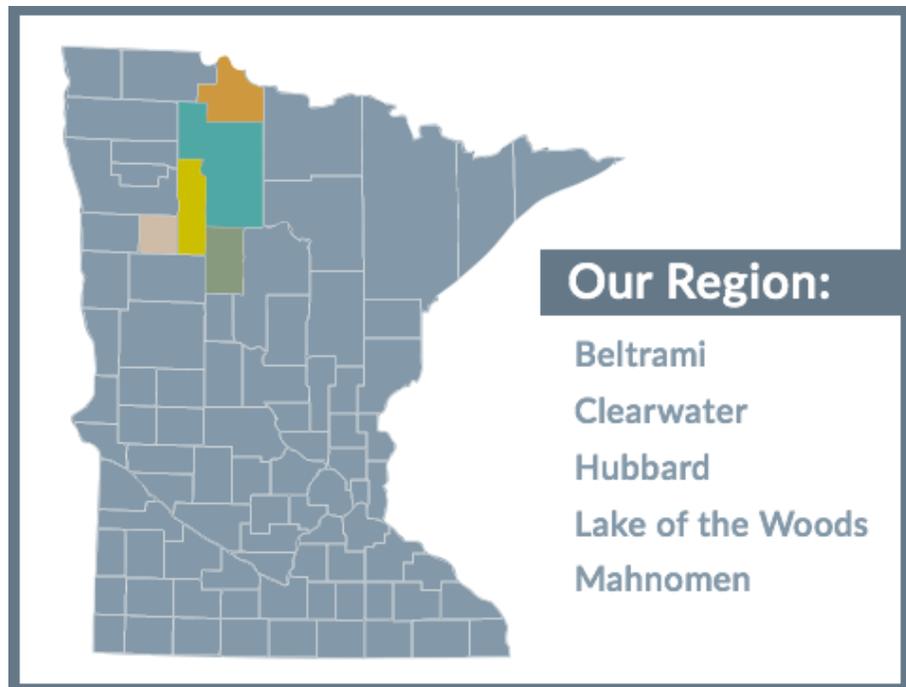
The Headwaters Regional Development Commission (HRDC) is a regional development organization that serves local governments, organizations, community leaders, and others in the five counties of Beltrami, Clearwater, Hubbard, Lake of the Woods, and Mahnomen in north central Minnesota. The HRDC exists to help our communities, and our Region as a whole, be successful. This is our core mission, and core value. Everything we do is focused on creating that success. Our services and activities are a function of our skills and competencies and the needs communities have as they strive to be successful.

Economic development activities of the HRDC are funded in part by the U.S. Department of Commerce, Economic Development Administration through the Economic Development Administration Reform Act of 1998. In this role the HRDC is a federally designated Economic Development District (EDD) for its five member counties.

One of the requirements of this designation is the completion of a Comprehensive Economic Development Strategy or "CEDS." The completion and approval of the CEDS maintains the eligibility of

the local units of government in the Headwaters Region for continued financial assistance from the Economic Development Administration and other federal agencies.

The CEDS provides an economic roadmap to strengthen the regional economy. The CEDS analyzes the strengths and weaknesses of the Region, establishes a vision for the economy of the Region and creates goals, objectives and offers useful benchmarks for evaluating progress. The primary goal of this development strategy is to create strategies for a new dynamic innovative economy that links the assets of the Region to generate new knowledge, start new businesses, and transform existing businesses into thriving 21st century companies.



The Headwaters Regional Development Commission, prepared this CEDS plan on behalf of the 5 county region. The 2016 Headwaters CEDS is a result of a thoughtful planning and implementation process designed to improve the economy and quality of life in North Central Minnesota. This ongoing process involved primary and secondary research, input from businesses, non-profits, educational institutions and government agencies, and continual analysis of local conditions.



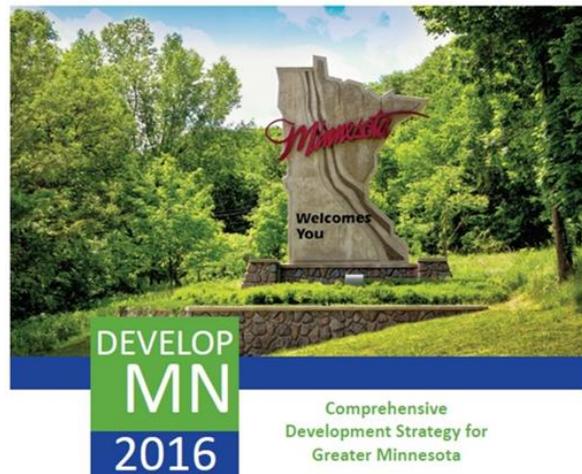
The Headwaters CEDS uses the Minnesota Association of Development Organizations’ , DevelopMN Plan as its organizing framework. “DevelopMN” provides a common outline for regional economic development, and identifies approaches to address the special challenges and opportunities of Greater Minnesota. DevelopMN identified the following cornerstones as key components of strong regions and communities. When approached in a coordinated way, these cornerstones will help create prosperity in Greater Minnesota through these four focus areas:

Human Capital

Developing, retaining and attracting talent are critical for Greater Minnesota in order to sustain and grow rural businesses and communities. Tracking the characteristics of the labor force and the needs of employers, and creating strategies for alignment between the two, are the foundation for this cornerstone.

Economic Competitiveness

Making Greater Minnesota an attractive environment for growth is critical to creating jobs, improving living standards and financing necessary public services. Economic Competitiveness requires communities to develop and link all available assets to support innovation and encourage business growth.



Community Resources

Greater Minnesota communities seek to maintain rural values, their heritage and the assets that support them. Community Resources includes topics that balance the preservation and improvement of local social, cultural and natural assets that are critical for the future.

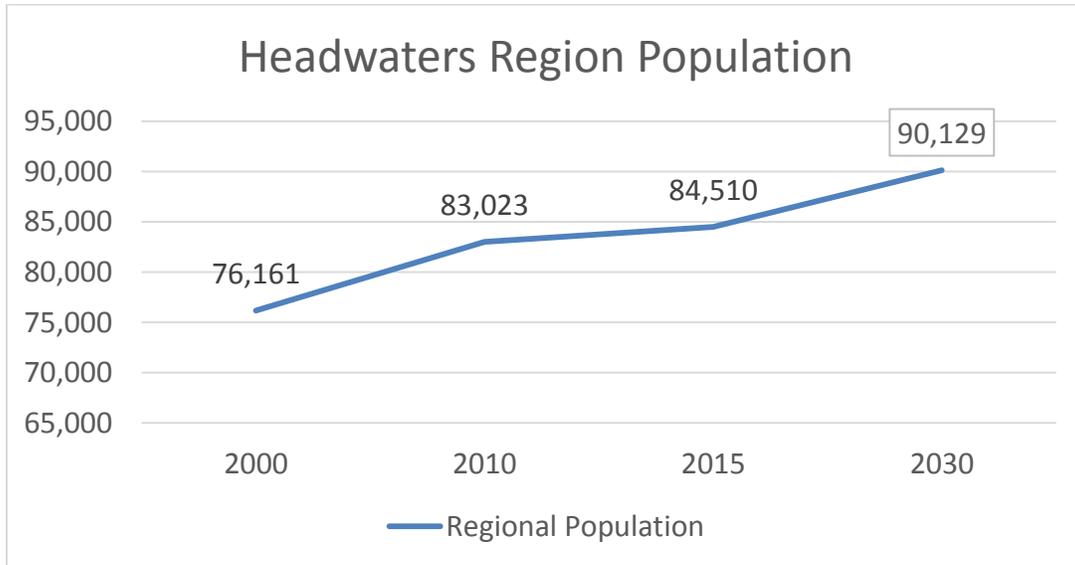
Foundational Assets

Greater Minnesota communities require proactive and collaborative approaches/strategies to address infrastructure needs in a cost-effective manner. Managing the access to, maintenance, replacement and growth of these assets are key to preserving and maintaining communities, and provide for growth opportunities. Foundational assets include aboveground and below-ground infrastructure such as transportation, utilities and water.

REGIONAL OVERVIEW

Population

The population of the five-county region grew by 11 percent from 2000- 2015, from 76,161 to 84,510. Growth is expected to continue, reaching 90,129 by 2030.



Source: United States Census Bureau via Chmura Economics

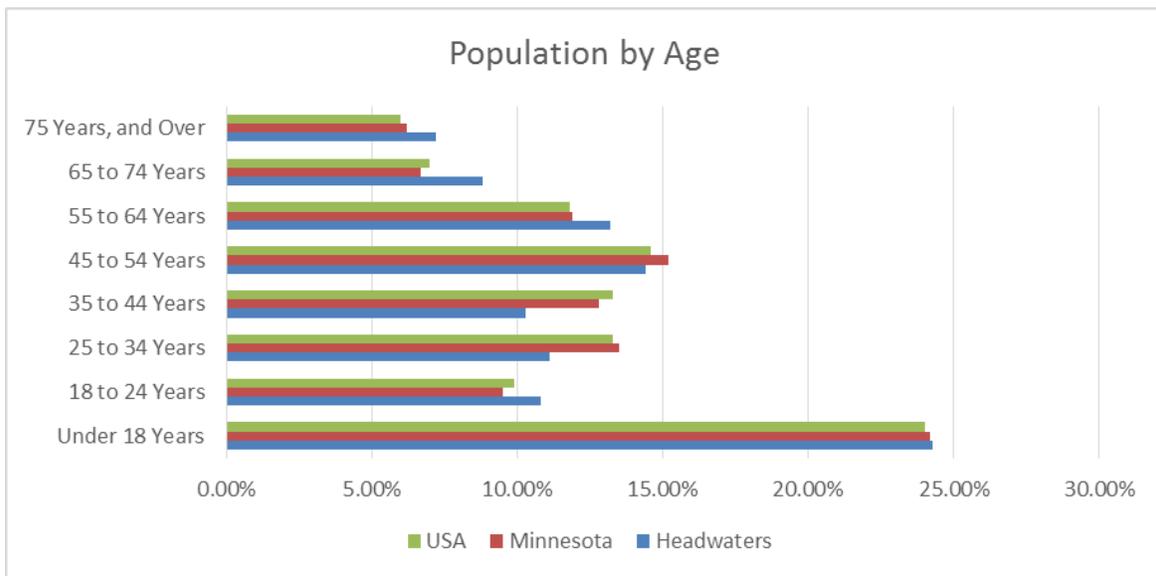
Over half the population (54%) lives in Beltrami County. Beltrami County has experienced 15% growth since the turn of the century. Hubbard County has also experienced steady growth during this period. The remaining three counties have seen little, or in the case of Lake of the Woods, negative population growth. Given the large land area and small population, the Headwaters Region is one of the most sparsely populated Regions in the State of Minnesota.

County	2000	2015	% Change
Beltrami	39,650	45,672	15.1
Clearwater	8,423	8,803	4.5
Hubbard	18,326	20,655	12.7
Lake of the Woods	4,605	3,923	-14.8
Mahnomen	5,190	5,457	5.1

Source: United States Census Bureau via Chmura Economics

Age

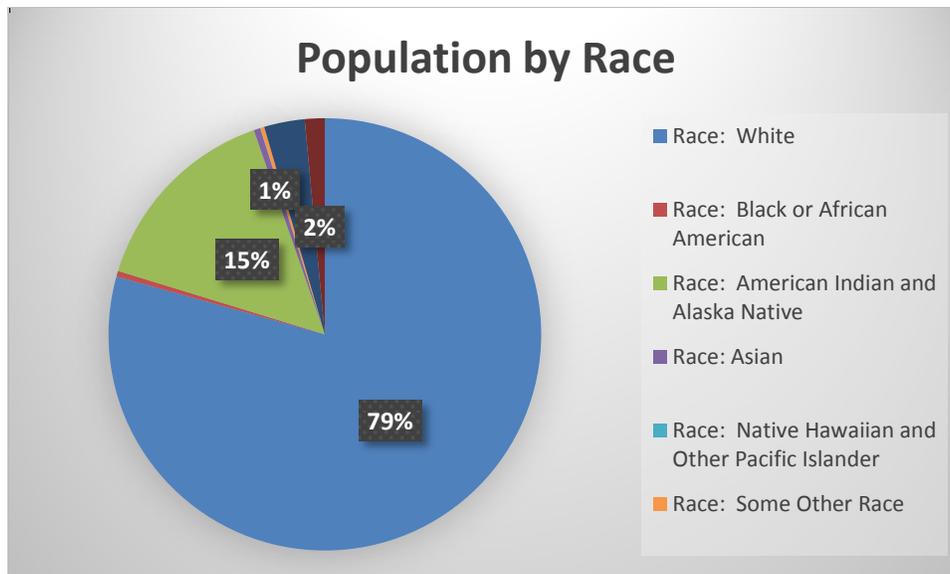
When comparing the age of the region's population with State and National figures, a number of interesting trends emerge. While a similar proportion of the population is under 18, the region has a smaller percentage of its population in the prime working ages of 25-54. Additionally, a higher percentage of the region's population is older than 55. Given that many retirees already make the region their home due to the attractive natural resources and quality of life amenities, meeting the needs of the growing senior population will be important for the community's planning efforts. Moreover, as these individual hit retirement age, it is clear that there will be a decline in the population of working-aged people, unless the region can do a better job at attracting and retaining younger workers.



Source: United States Census Bureau via Chmura Economics

Race

A unique characteristic of the regional economy is the diversity. The population in the Headwaters Region is becoming increasingly diverse. Currently, nearly 79 percent of the population is white. Almost all of the non-white population is made up of American Indians, with very few Hispanic, black, or other populations represented in the Region. All totaling 15 percent of the Region's population is American Indian.

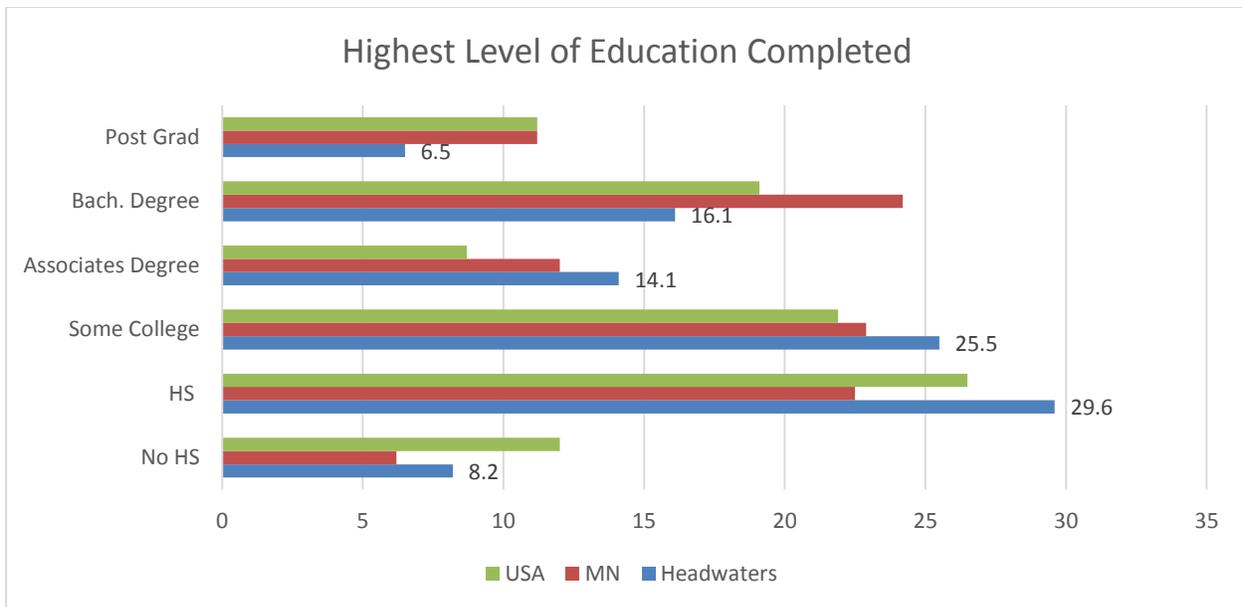


Source: United States Census Bureau via Chmura Economics

Education

The availability of a skilled workforce is now one of the most important factors in economic development. In a world that is constantly shrinking, and a world where knowledge and skills are very mobile and have multiple choices, growing, retaining and attracting talent, and then maximizing its potential, are critical for the Headwater Region. The graphs below reflect educational attainment numbers. One issue with the available data is that it does not collect data on those who have completed a specialized certificate program, complete on the job training, or an apprenticeship. Moreover, the level of education cannot inform on "soft skills," which are often cited by employers as the most critical.

As the chart shows the region lags behind the State and National rates of residents who have completed a Bachelor's degree or higher. The gap may result from a number of different factors. Historically, the region's economy was primarily based on timber and tourism, neither industry has traditionally required a post-secondary education. Currently, from an economic standpoint, there are limited job openings requiring a Bachelor's degree or above. Thus fewer residents pursued higher education. Moreover, obtaining a 4-year degree, or beyond, often requires a student to take on debt, this may lead those who have obtained a degree to look to large metropolitan areas for work, where wages are higher and demand degrees by employers is higher.



Source: United States Census Bureau via Chmura Economics

Labor Force

The “civilian labor force” is defined as the sum of both employed and unemployed persons sixteen years of age and older, excluding armed forces personnel and persons in penal and mental institutions, and homes for the aged, infirmed, or needy. Persons “not in the labor force” are those not classified as employed or unemployed and include persons retired, those engaged in their own housework, those not working while attending school, those unable to work because of long-term illness, those discouraged from seeking work because of personal or job market factors, and those who are voluntarily idle. The total labor force in the Region is **41,283**.

	Headwaters	Minnesota	USA
Labor Force Participation Rate and Size (civilian population 16 years and over) ⁴	62.6%	70.0%	63.5%

Source: United States Census Bureau via Chmura Economics

As seen in the table above, the Region has a very low Labor Force Participation Rate compared with the state of Minnesota. These results are likely the combination of demographic change (*in particular, baby-boomer retirements*), the region as a retirement destination, and a high number of discouraged workers who are not looking for work due to perceived lack of job opportunities, low wage, or lack of skills.

One can also look at the average hours and weeks worked a year to gain an understanding of the local economy and labor market. Compared with the state, the region has a greater percentage of individual working less than full-time year round. This is likely a result of the seasonality of the Tourism and Recreation Industry, which is prevalent in the region.

	Headwaters Region	Minnesota
Weeks Worked Per Year		
Worked 50 to 52 weeks	53.9%	61.7%
Worked 27 to 49 weeks	14.2%	12.4%
Worked 1 to 26 weeks	12.2%	9.7%
Did not work	19.8%	16.2%
HOURS WORKED PER WEEK:		
Worked 35 or more hours per week	56.6%	61.2%
Worked 15 to 34 hours per week	18.9%	17.6%
Worked 1 to 14 hours per week	4.8%	4.9%
Did not work	19.8%	16.2%

Source: American Community Survey via Headwaters Economics

Incomes

A traditional measure of economic development is the increase of per capita income of a Region over time. Per capita personal income is calculated as the personal income of the residents of a given area divided by the resident population of the area. It is broadly representative of the amount of wealth within the local economy standardized by the number of people in the study area. Per capita income has its weaknesses as a measure, particularly in that it does not account for income distribution. However, as a benchmarking tool, it is straightforward and easily comparable estimate of wealth for a population.

There is no universally recognized definition of middle class. One way of estimating this is using, median income. Median income is the amount that divides the income distribution into two equal groups, half having income above that amount, and half having income below that amount. As can be seen in the table below, both per capita and median income are lower in the region compared with the state and nation. Because of low incomes, the Region has a higher percent of persons in poverty, than the State of Minnesota.

	Headwaters	Minnesota	USA	Headwaters	Minnesota	USA
Economic						
Median Household Income ^{3,4}	—	—	—	\$44,564	\$60,828	\$53,482
Per Capita Income ^{3,4}	—	—	—	\$22,757	\$31,642	\$28,555
Poverty Level (of all people) ⁴	17.9%	11.5%	15.6%	14,557	605,761	47,755,606

Source: United States Census Bureau via Chmura Economics

Economic History of the Region

Historically, the Headwaters Region has been one of the poorest areas of Minnesota. The Region experiences many challenges in creating economic growth. Notably these include a small population, distance from major markets, and traditional but undiversified economic base. Traditionally, the economy of Northwest Minnesota relied upon the availability of natural resources, inexpensive labor, and tourism based on the appeal of its natural environment.

In the late 18th century, fur traders were active in the area. Trading posts sprang up in the late 18th and early 19th centuries, to carry on the business of trading furs and furnishing supplies. Logging was the second form of major economic activity in the area. In the 1800s, large companies began purchasing land for timber cutting and small mills were constructed in several areas. In the 1890s, large numbers of white settlers began arriving, looking for timber claims in order to realize a quick profit through the sale of timber. Bemidji, the location of a hotel and several trading posts, was officially incorporated in 1895.

The railroad arrived in Region Two in the late 1880s and lumbering continued as the principal economic activity into the 1900s. In 1900, nearly all of the logging camps in the state were in Beltrami, Itasca, and St. Louis Counties.

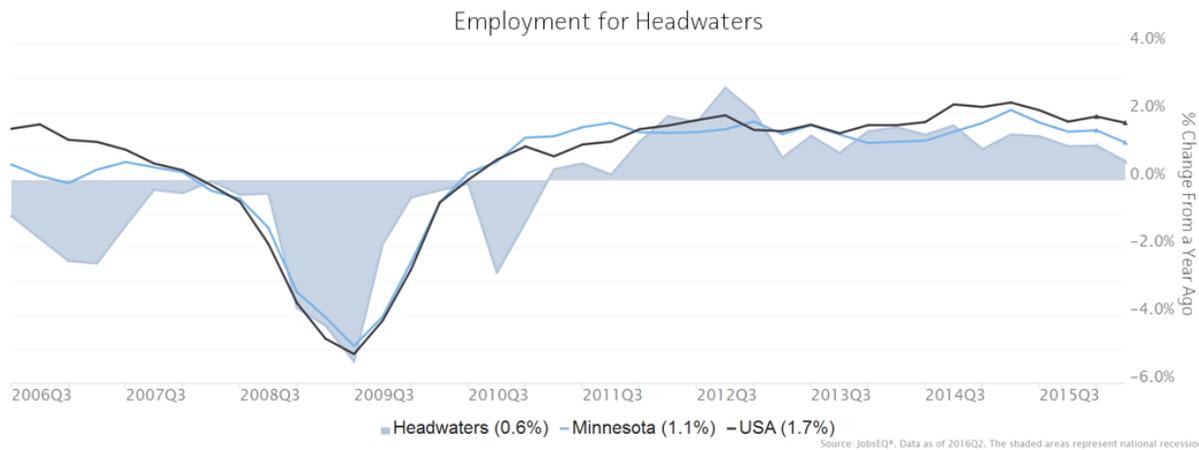
With the turn of the century, the large timber logging industry was beginning to decline and pulp-wood began to replace saw timber as a major forest project. During the early 1900s, forested areas were cleared as a result of logging, and interest was created in homesteading and farming. The homesteaders had to support themselves by seasonal work in logging camps and harvest fields in the Red River Valley. After 1910, much more land was opened up as opportunities for outside employment declined, and increased attention was given to farming. Hundreds of miles of drainage ditches were constructed in areas of northern Beltrami County in an effort to reclaim peat-lands and marshy areas. Lumber companies and real estate promoters made intensive efforts to sell the cut over land.

The efforts to convert cut over land into prime farming Region's was beset by many difficulties. Some settlers found their land unfit for successful farming. Farms were abandoned and much land became tax delinquent. Scattered settlement (which increased the cost of providing schools, roads, and public services) combined with low tax revenues compounded the problem. The drainage ditches did not reclaim the land but instead created fire hazards and harmed natural resources. Eventually the State assumed the ditch bond obligations originally instigated at local levels of government.

Although lumbering activities declined, the First World War created a good market for farm products and the area prospered. The war also gave commercial fishing a boost. The depression of the 1930s, on the other hand, reduced the demand for farm products. At the same time, high taxes and tax delinquency and forfeiture added to the depression burden. The Second World War and the following post-war expansion brought instability to population growth and economic activity in the area. Despite problems confronting area agriculture, there were a substantial number of efficient small farmers with fertile land close to market that were able to make a satisfactory living. In addition to war and post-war demands for iron ore from areas adjacent to Region Two, creameries and the wood working plants contributed to the area's prosperity through gradual increases in the processing of farm and forest products. In the 1930s and 1940s, resorts began to attract a substantial number of summer tourists to the area and the recreation and tourism business became an important part of the economy.

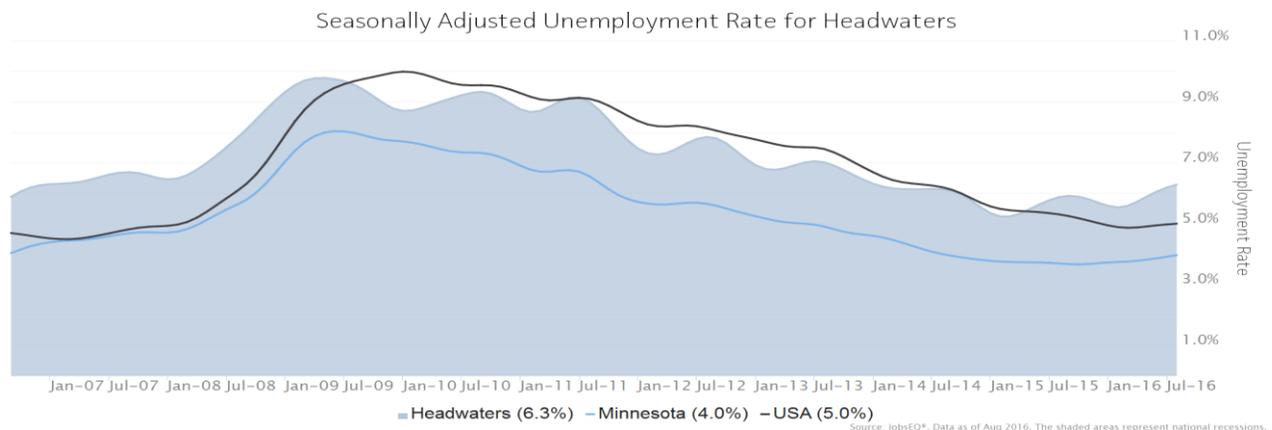
Current Economic Status

The 5-county region remains the poorest and most economically distressed region in the state of Minnesota despite a number of positive changes over the last 20 years. Total employment in the region has begun to grow again after bottoming out in 2008. As of 2016 Q2, total employment for the Headwaters was **34,679** (based on a four-quarter moving average). Over the year ending 2016 Q2, employment increased 0.6% in the region.



Unemployment

The five-county region suffers from some of the highest unemployment rates in the State of Minnesota. The figure below describe the unemployment rates in the Headwaters Region. The current unemployment rate is 6.3%. The Region's unemployment rate has declined since the peaks of 10% in 80's. Recently, due to layoffs and business closings the rate increased greatly at the end of the last decade. As the economy has begun to improve, the unemployment rate has decreased close to pre-recession levels. That said, the Region's unemployment rate continues to exceed both the state and National levels.

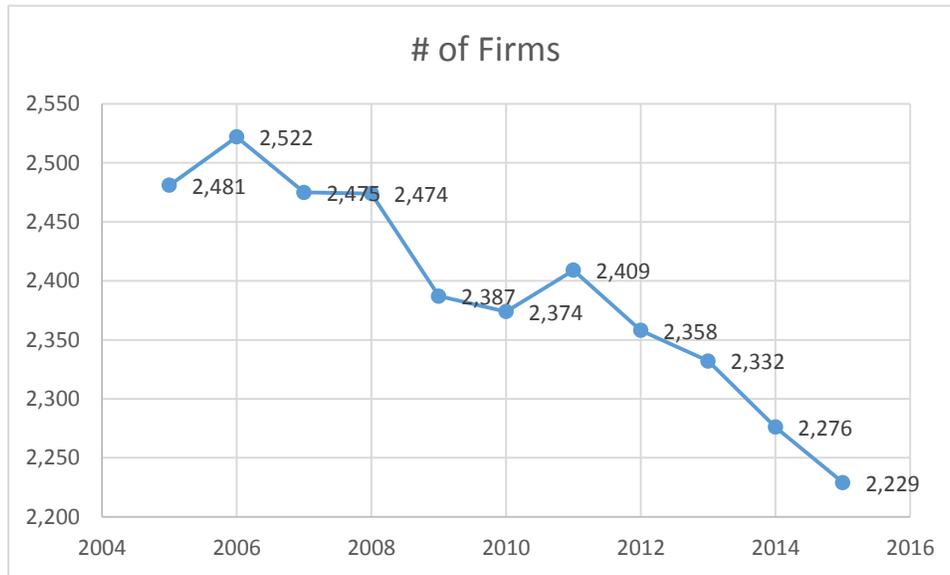


Source: United States Census Bureau via Chmura Economics

Despite high unemployment rates and low labor force participation, many employers have struggled to find workers. Moreover, Employers across the Region are very concerned that an aging workforce will significantly diminish their ability to obtain employees in the coming years.

Establishment Churn

The creation of new businesses is an indicator of a strong, dynamic economy. Small businesses and start-ups are responsible for much of the job growth in Minnesota. Over the previous 10 years, the number of establishments declined by 252, or 10 percent.

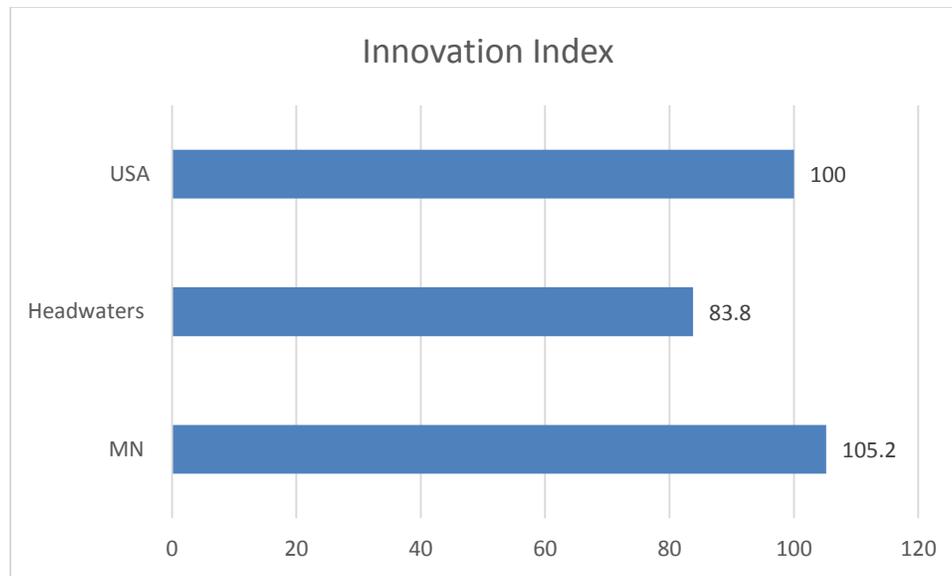


Source: Minnesota Department of Employment and Economic Development

Innovation Index

The University Of Indiana Business School develop a tool called the “Innovation Index.” The Innovation Index takes a broad look at indicators related to innovation from both the input and output perspectives. Based on statistical analysis, several factors appear to be especially important for increasing economic growth: educational attainment; young-adult population growth; high-tech employment growth; and the number of small establishments.

Based on this data the 5-county region rates poorer than the State of Minnesota as a whole and the nation in terms of innovation.



Source: Stats America Innovation Index

Composition of Regional Employment

The chart below provides a snapshot of total employment by industry for the 5-county region. Jobs are grouped by industry using NAICS classifications — a categorization system used by business and government to classify establishments by type of economic activity.

NAICS	Industry	Current			Total Change over the Last 5 Years	Historical			Forecast		
		Four Quarters Ending with 2016q2				Average Annual % Change in Employment 2011q2-2016q2			Over the Next 10 Years		
		Empl	Avg. Annual Wages	Location Quotient	Empl	Headwaters	Minnesota	USA	Total Approx Repl Demand	Total Growth Demand	Avg. Annual Growth Percent
11	Agriculture, Forestry, Fishing and Hunting	1,499	\$30,619	2.96	132	1.9%	1.6%	1.0%	499	-157	-1.1%
21	Mining, Quarrying, and Oil and Gas Extraction	36	\$56,303	0.23	-3	-1.5%	0.1%	-0.4%	8	-3	-0.8%
22	Utilities	238	\$80,403	1.27	45	4.2%	-0.2%	0.2%	56	-34	-1.5%
23	Construction	2,517	\$45,396	1.33	296	2.5%	3.7%	2.7%	517	278	1.1%
31	Manufacturing	2,555	\$47,305	0.89	284	2.4%	1.3%	1.1%	557	-306	-1.3%
42	Wholesale Trade	609	\$40,846	0.44	97	3.5%	1.2%	1.4%	135	8	0.1%
44	Retail Trade	4,548	\$23,719	1.21	-95	-0.4%	1.1%	1.5%	1,420	121	0.3%
48	Transportation and Warehousing	1,046	\$57,066	0.73	173	3.7%	1.5%	2.4%	270	-17	-0.2%
51	Information	538	\$39,378	0.77	-56	-2.0%	-0.9%	0.6%	117	-99	-2.0%
52	Finance and Insurance	744	\$45,792	0.54	-44	-1.1%	0.6%	0.9%	175	-1	0.0%
53	Real Estate and Rental	214	\$35,153	0.36	-28	-2.4%	1.8%	1.7%	47	-9	-0.4%

		Current			Historical				Forecast		
		Four Quarters Ending with 2016q2			Total Change over the Last 5 Years	Average Annual % Change in Employment 2011q2-2016q2			Over the Next 10 Years		
NAICS	Industry	Empl	Avg. Annual Wages	Location Quotient	Empl	Headwaters	Minnesota	USA	Total Approx Repl Demand	Total Growth Demand	Avg. Annual Growth Percent
	and Leasing										
54	Professional, Scientific, and Technical Services	693	\$39,936	0.31	31	0.9%	2.7%	2.5%	147	43	0.6%
55	Management of Companies and Enterprises	90	\$79,774	0.18	42	13.4%	1.6%	3.5%	19	2	0.2%
56	Administrative and Support and Waste Management and Remediation Services	794	\$33,051	0.35	175	5.1%	1.2%	2.9%	183	61	0.7%
61	Educational Services	3,261	\$39,343	1.13	0	0.0%	0.8%	0.4%	689	103	0.3%
62	Health Care and Social Assistance	5,893	\$46,072	1.21	286	1.0%	2.0%	2.3%	1,190	736	1.2%
71	Arts, Entertainment, and Recreation	1,566	\$23,967	2.30	-155	-1.9%	0.4%	2.1%	482	57	0.4%
72	Accommodation and Food Services	3,538	\$14,939	1.15	646	4.1%	2.1%	3.1%	1,244	69	0.2%
81	Other Services (except Public Administration)	1,508	\$20,741	0.98	20	0.3%	0.8%	-0.1%	379	21	0.1%
92	Public Administration	2,790	\$41,779	1.68	243	1.8%	0.8%	-0.4%	672	-9	0.0%
	Total - All Industries	34,679	\$37,098	1.00	2,088	1.2%	1.5%	1.7%	8,498	865	0.2%

Source: BLS via Chmura Economics

Health Care and Social Assistance

Health Care and social assistance is the Region's largest employment sector. 16% of all employment is generated in these industries; overall employment grew one percent since 2009. North Central Minnesota has a variety of medical services and facilities, with 11 communities having at least one medical-related service or facility. Region-wide there are 6 hospitals the largest hospital is located in Bemidji. Other Major employers include the county social service providers, nonprofits and similar professions. Employment in the health care industry is expected to increase as the population ages in the Region. What is not immediately reflected in the employment data is the large expansion of the Sanford Health Hospital in Bemidji. This growth should fuel an increase in employment in this location.

Retail Trade

The Region's private sector is primarily based on retail trade. Employment declined slightly by .5% in this industry. The majority of this employment occurs in Bemidji which is the regional center of Northern

Minnesota. Employment is expected to grow as Bemidji continues to grow as a trade area. One of the challenges to having employment concentrated in this sector is the industry's reliance on part time and low wage work. The average wages in the Region in the retail industry are only \$23,719.

Accommodations, services and art and entertainment and recreation

Accommodations, services and art and entertainment and recreation industries share many of the same customers. Tourism remains a significant part of the economy and creates much of this employment. Each year thousands of people visit the Headwaters Region for its natural beauty, recreation opportunities, and cultural amenities. Many communities in the Region are almost completely reliant on tourism to create jobs and wealth. The total economic impact of tourism is more than just the dollars a visitor spends in a community. Tourism contributes to sales, income, jobs, and tax revenues. Those dollars spill over to a host of businesses. They also help provide government services and community infrastructure, thanks to tax revenues. Again like retail, this is a low wage, low hour industry with averages wages of only \$14,393.

Education and Public administration

Education and public administration employ a significant portion of the population in the region (17.5%). A significant portion of these jobs are located in Bemidji which is home to three higher education institutions, a very large public school system, and a significant government presence, with state and federal offices centered in the community. Moreover, the three Indian Nations located within the Headwaters Region create a number of jobs through government services. Wages in this industry are higher than average for the Region, but these jobs generally rely on government revenues and make the economy highly dependent on policy decisions in Saint Paul and Washington DC.

Manufacturing

A strong and healthy economy requires a vibrant and growing manufacturing sector. One of the primary historical challenges has been to support a strong manufacturing base in the region. In the region manufacturing creates 2,555 jobs with annual average wages at \$45,000 per year. Manufacturing in the region is strong in precision metal manufacturing, forest products and food manufacturing. The Region's largest manufacturing companies include Team Industries (precision machining), Northstar Orthodontics (Dental Lab), Anderson Fabrics (Custom Fabrication Workroom), Potlatch (Lumber Mill), North Central Door Company (Overhead Door), ANI Pharmaceuticals and Lamb-Weston/RDO Frozen (Food Products).

Agriculture, Forestry, and Hunting

The Region is blessed with rich natural resources that historically formed the economic base of the Region. The majority of the 1,499 jobs in the Agriculture, Forestry, and Hunting industry revolve around wood products and logging. It should be noted that a large number of jobs related to natural resources are categorized in manufacturing, as they relate to value added processing of lumber. The industry has been hit as hard as any industry in the recent economic downturn of 2008-2009, due in large part to the staggering drop in housing construction nationwide—a drop that began in early 2006. A rebound in the housing market should help overcome these challenges, however currently a weak Canadian dollar and relaxation of import tariffs is making it difficult for the region's forest products employers to compete with Canadian competitors.

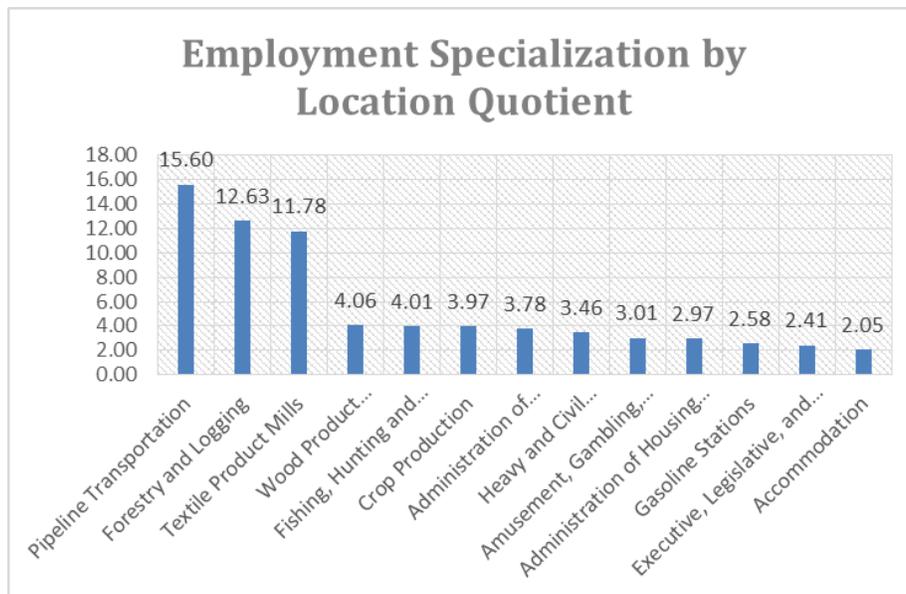
While not known as a strong agriculture region, due to the low fertility of much of the soils and a cold climate the region does have some strengths in this industry. Potato farming in Hubbard County is a major economic activity and grass seed growing in Lake of the Woods County has proven to be an

important niche crop. Mahnomen County on the western edge of the region has the most economic activity related to agriculture in the region.

Economic Specialization

The following chart depicts areas of economic specialization based on a region’s most concentrated employment. A commonly used measure of industry concentration is a Location Quotient (LQ). LQ is the ratio of the percent an industry represents in a specific Region compared to the average mix in the United States. The LQ is either more than, equal to, or less than 1.0, which is considered average. LQ is a fairly indirect measure, but it can provide insights into the strengths of a Region.

The area of employment with the greatest LQ was in Pipeline Transportation. From this data it is clear that the Bakkan Oilfield still has a considerable impact on the local economy, despite a great reduction in domestic production. Unsurprisingly two of the most concentrated industries in the Region are wood products and tourism related industries. For years these industries have driven the local economy and this is reflected in the data.



Source:
Census
Chmura

United States
Bureau via
Economics

Disaster Preparedness and Resilience

The HRDC works with communities, organization, and tribal nations across the region to prevent, protect, respond to and recover from a broad range of threats and hazards. Through this work staff have established strong relationships, protocols for regional action, strong regional and local plans, sharing and coordination of resources, equipment investments, coordinated training and exercise, improved surveillance capabilities, and the early detection and mitigation of hazards and threats.

Hazard Mitigation

Local cities and counties have adopted Hazard Mitigation Plans, developed by HRDC for the five counties in the region, and individual tribal nations. Each Hazard Mitigation Plan outlines local actions that communities may take to reduce risks from both natural and man-made disasters. The plans supports the region’s goal of a disaster resilient communities. In addition to Hazard Mitigation plans, there are a variety of emergency plans, procedures, protocols and guidelines maintained by agencies and organizations throughout the region. These plans have been reviewed and where applicable considered in the development of goals and objectives of this plan.

Economic Resilience

Economic resiliency—defined as an area’s ability to prevent, withstand and quickly recover from major disruptions (i.e., ‘shocks’) to its economic base—is a key element to ensuring and preserving regional economic prosperity. Economic resiliency is at the heart of the Headwaters CEDS. While it is an important enough element to be identified as its own cornerstone, the approach taken in this plan is that economic resiliency be a consideration for carrying out the work identified in all four cornerstones. While not called out further in the document, it is implied that economic resiliency is a component of all activities associated with economic development in the region.

SWOT ANALYSIS

 **Human Capital**

<ul style="list-style-type: none"> • Workforce training & educational resource networks • State and local higher education access • Competitive public school system that encourages post-secondary education • Growing population • Technically skilled workforce 	<ul style="list-style-type: none"> • Aging Population • Outside of Bemidji there's a lack of workforce development resources • Population outmigration of "best and brightest" • Education Attainment rates • Low Labor force participation rate • Wages lower than state average • High unemployment, especially among certain demographic groups • Substance abuse 	<ul style="list-style-type: none"> • Population and workforce expansion by embracing diversifying communities • Investment in regional talent retention and attraction • Align resources and offer workforce training resources regionally • Marketing quality of life and economic opportunity • Develop and implement career awareness programs • Establish apprenticeship program 	<ul style="list-style-type: none"> • Competition for human capital on the local, regional, and global scale • Aging population • Policy and regulation around customized training • Increasing higher education costs • Employment for trailing spouse
<p>S STRENGTHS</p>	<p>W WEAKNESSES</p>	<p>O OPPORTUNITIES</p>	<p>T THREATS</p>

 **Economic Competitiveness**

<ul style="list-style-type: none"> • Well-developed economic development networks providing technical and financial assistance to businesses, such as IDEA Competition, LaunchPad, SBDC, and RLF's • Strong industries in traditional resource based industries • Strong Tourism Economy • Growing Population creates opportunity for business growth 	<ul style="list-style-type: none"> • Facing a severe workforce shortage • Perception of high cost of doing business in MN • Risk-averse culture • State and federal development programs are not oriented to assist small businesses • Inconsistent, lacking funding model for SBDC • Underdeveloped linkages between industries and businesses • Specialized areas of technical assistance 	<ul style="list-style-type: none"> • Expand and establish local BR&E programs • Broaden access to capital along the continuum to encourage innovation • Utilize the knowledge and skills of retirees • Utilize workforce centers and technology/business incubators • Engage youth early in entrepreneurial opportunities 	<ul style="list-style-type: none"> • Long-term labour force trends • Lack of control over state and federal policies • Resource based industries are susceptible to changes in the global commodity markets and energy prices • Undiversified economies are susceptible to impacts from macroeconomic events • Competition from online & big box retailers
<p>S STRENGTHS</p>	<p>W WEAKNESSES</p>	<p>O OPPORTUNITIES</p>	<p>T THREATS</p>

Community Resources

<ul style="list-style-type: none"> • Quality, diverse, education institutions • Extensive, diverse tourism infrastructure, programs, and options • Diversity and abundance of natural amenities • Resource-rich in non-profit/service agencies • Art communities gaining strength • Medical services are available in each county, Sanford continues to grow into a major regional medical center. 	<ul style="list-style-type: none"> • Poor health outcomes • Lack of new & emerging community leaders • Divide between the Region's "haves and have-nots." • Crime is higher than one would expect for a rural area • Downtown areas in our smaller communities are declining • Daycare shortages 	<ul style="list-style-type: none"> • Empowering and encouraging new leadership • Place-making through arts and culture • Expand on tourism opportunities • Promote liveability, public spaces, and identity • Downtown preservation and enhancement • Investments into recreation amenities 	<ul style="list-style-type: none"> • Funding support for education • Arts are not a funding priority • Resistance to social and demographic change • Water resource degradation • Growing economic divide-less social cohesion • AIS
<p>S STRENGTHS</p>	<p>W WEAKNESSES</p>	<p>O OPPORTUNITIES</p>	<p>T THREATS</p>

Foundational Assets

<ul style="list-style-type: none"> • Adequate amount of available industrial park land. • Quality air service is available at the Region's airports. • The existing road system is safe, and serves its principal economic needs well. • Areas of Beltrami and Hubbard have access to the fastest broadband in the state 	<ul style="list-style-type: none"> • Housing continuum (quality, affordability, availability) • A number of communities struggle with water and sewer line replacement, and the sewer treatment • Many rural areas do not have access to high speed internet. • Insufficient funding to maintain existing road system • Small Taxbase 	<ul style="list-style-type: none"> • Public/private collaborations on broadband expansion • Encourage and support LGU's in development of capital improvement programs • Work with MnDOT to develop TIP's that reflect economic development strategy • Shared services/ resources and intergovernmental cooperation 	<ul style="list-style-type: none"> • Ability to meet ROI for broadband providers • Valuation disparity for housing • Cost of infrastructure replacement and maintenance • Macro economic trends • LGU reduction and other changes in cost sharing programs threaten local ability to build and maintain foundational assets. • Rising energy costs will impact every aspect of the regional economy.
<p>S STRENGTHS</p>	<p>W WEAKNESSES</p>	<p>O OPPORTUNITIES</p>	<p>T THREATS</p>

VISION, GOALS AND OBJECTIVES

Vision

The Headwaters Region will leverage the talents and resources of our communities, businesses, and citizens to provide and unmatched quality of life and economic growth that is robust, shared, and sustained.

Economic Competitiveness

There has been a significant decline in business establishments in the Region (-293 in the last 10 years). Moreover, the Region's Innovation Index Score is 83.8% compared with the State average of 105.2%. Furthermore, the regional economy is too reliant on Retail, Accommodations and Food Services employment. Jobs in these industries make up 23% of all employment in the Region and on average pay the lowest annual wages.

Goal #1: Increase employment in the export base industries of Manufacturing, Agriculture, Forestry, Fishing and Hunting, and Transportation/Warehousing.

Goal #2: Increase the number of firms in the Region to 2,340 by 2021. Improve the Region's score on the Innovation index to 85% by 2021.

Objectives:

- Prioritize technical assistance for established and emerging firms and industries with the highest potential for growth
- Create an Entrepreneurial Environment and Culture to enhance existing business and grow new business.
- Establish youth entrepreneurship opportunities and training.

Human Capital

Despite high unemployment in the Region's, many employers are finding it difficult to hire potential employees due to a small and aging workforce. The current Labor Force Participation Rate is currently 62.6% compared with the State average of 70%. These results are likely the combination of demographic change (in particular, baby-boomer retirements), the region as a retirement destination, and a high

number of discouraged workers who are not looking for work due to perceived lack of job opportunities, low wage, or lack of skills.

Goal #1: Increase the Labor Force Participation Rate among 24-65 year olds 2% by 2021.

Goal #2: Increase the number of individuals with Associate Degrees/Some College and Technical Certificates by 2025.

Objectives:

- Increase workforce training resources allocated to on the job training programs to retain and improve the existing workforce.
- Increase the number of child care options, especially in smaller communities.
- Market career opportunities in the Region
- Improve connectivity among Workforce Centers, education institutions, community organizations, business, and training systems to
- up-skill unemployed or under-employed workers
- Work with the Region’s school districts to establish and improve career exploration programs.

Community Resource

Despite offering excellent quality of life and career opportunities, the Headwaters still suffers from mixed perceptions associated with economic opportunity, community amenities and services. As a consequence, the Region can struggle to attract and retain the workforce, families, and community leaders needed to create prosperity.

Goal #1: Develop a coordinated regional branding and marketing plan to promote the Headwaters Region.

Aside from their ecological importance, the Region’s natural resources play a critical role in the appeal of our Region by providing scenic appeal and recreational opportunities. In addition to supporting a strong tourism industry, these resources are critical in attracting and retaining individuals and families in the region.

Goal #2: Improve the quality of life for residents and create new tourism activity by promoting and building on natural resource amenities to promote economic development and growth in the Headwaters Region.

Objectives:

- Market Regional assets internally and externally.
- Support natural resource utilization that supports both economic development and ecological preservation.

- Support policies and procedures to mitigate invasive species threats, and focus efforts on their reduction or elimination.
- Develop and implement strategies to reinforce and enhance north-central Minnesota’s position as the premier recreation capital of Minnesota.

Foundational Assets

The need to provide a variety of housing types is critical and varies significantly per community. In many communities market failure has led to communities with tight rental and ownership markets, cost-burdened households, workforce housing shortages, and low quality and aging housing stock.

Goal #1: Ensure an adequate supply of safe affordable housing for all income levels in the Region.

The region’s infrastructure needs vary by community, however, managing the access to, maintenance, replacement and growth of the Region’s infrastructure is critical to providing the foundation for economic growth opportunities.

Goal #2: Ensure the Region has the necessary infrastructure to adequately support the economic strategy of the Region and its communities.

Objectives:

- Increase the number of units rehabilitated or preserved in the region.
- Develop new market rate rentals in areas of high demand.
- Demolish vacant dilapidated housing units.
- Increase the number of new housing units constructed with appraisals of less than 200k
- Expand broadband to underserved parts of the Region.
- Prioritize infrastructure investments so they support a strategic emphasis on innovation.

Action Plan

Economic Competitiveness Cornerstone

Objective	Strategy/Activity	Key Partners
<p>Prioritize technical assistance for established and emerging firms and industries with the highest potential for growth</p>	<ul style="list-style-type: none"> • Work with existing entrepreneurs to determine critical services and tools that improve the likelihood of business growth. • Create a plan to offer specialized technical assistance not available in the region. • Pilot an economic gardening program in the region. • Improve or establish local business retention and expansion programs. 	<ul style="list-style-type: none"> • Small Business Development Center (SBDC) • Launchpad • Local Economic Development Agencies • DEED • Local Governmental Units (LGU's) • Northwest MN Foundation (NWMF) • EDA • USDA RD
<p>Create an Entrepreneurial Environment and Culture to enhance existing business and grow new business.</p>	<ul style="list-style-type: none"> • Work with EDAs/LGU's to develop simple incentives for entrepreneurs willing to invest in the Region's communities. • Pilot a "Startup Weekend" event(s) • Advocate for increased state funding for regional SBDC's. • Support expansions of IDEA Competition, the Launchpad and similar programs. • Create program(s) in the region to connect small businesses to growth and business development opportunities. 	<ul style="list-style-type: none"> • SBDC • Launchpad • Local Economic Development Agencies • DEED • LGU's • NWMF • Greater MN Partnership • USDA RD • EDA
<p>Establish youth entrepreneurship opportunities and training.</p>	<ul style="list-style-type: none"> • Research existing Youth Entrepreneurial Education programs. • Work with local entrepreneurs, schools and resource providers to develop entrepreneurial curriculum. • Work with educators, service organizations, and others to offer and coordinate programs regionally. 	<ul style="list-style-type: none"> • School Districts • Local Economic Development Agencies • NWMF

Human Capital Cornerstone

Objective	Strategy/Activity	Key Partners
Increase workforce training resources allocated to on the job training programs to retain and improve the existing workforce.	<ul style="list-style-type: none"> • Support initiatives help incumbent workers transition to higher wage occupations • Work to facilitate connections between customized training at NTC and the regional business community. • Continue to support Impact 2020 workforce taskforce efforts. 	<ul style="list-style-type: none"> • Local Economic Development Agencies • Workforce Centers • Higher Education Institutions • Impact 2020 • Local Businesses
Increase the number of child care options, especially in smaller communities.	<ul style="list-style-type: none"> • Strengthen existing early care and education offerings • Expand the availability of quality child care by creating new and innovative community partnerships. • Increases regional and statewide public awareness of early care and education’s role in rural economic development. 	<ul style="list-style-type: none"> • Local Economic Development Agencies • DEED • NWMF • Local Businesses • Childcare Aware
Market career opportunities in the Region	<ul style="list-style-type: none"> • See Community Resources for more details 	<ul style="list-style-type: none"> • Impact 2020 • Local Economic Development Agencies • DEED • LGU’s • NWMF
Improve connectivity among Workforce Centers, education institutions, community organizations, business, and training systems to up-skill unemployed or under-employed workers	<ul style="list-style-type: none"> • Establish a workforce development collaborative that identifies and connects existing assets with local needs. • Establish new apprenticeship programs • Expand the reach of programs like MI2, Workforce Impact, etc. regionally. 	<ul style="list-style-type: none"> • Local Economic Development Agencies • Workforce Centers • Higher Education Institutions • Impact 2020 • Local Businesses • School Districts
Work with the Region’s school districts to establish and improve career exploration programs.	<ul style="list-style-type: none"> • Continue to support Impact 2020 Education Taskforce efforts • Work with school and business communities to establish and expand career education programs. • Support success by 6 and other Pre K education programs 	<ul style="list-style-type: none"> • Local Economic Development Agencies • Higher Education Institutions • Impact 2020 • Local Businesses • School Districts

Community Resources Cornerstone

Objective	Strategy/Activity	Key Partners
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Market Regional assets internally and externally.	<ul style="list-style-type: none"> • Implement Regional marketing project by developing a brand for regional recruitment of talent that markets career, business and visitor opportunities. 	<ul style="list-style-type: none"> • Impact 2020 • Local Economic Development Agencies • DEED • LGU's • NWMF
Support natural resource utilization that supports both economic development and ecological preservation.	<ul style="list-style-type: none"> • Identify counties and townships that nonexistent or deficient land use policies and other vulnerable areas. • Work with local elected officials and staff to identify land use needs, planning process, etc. • Establish countywide zoning and land use policies. 	<ul style="list-style-type: none"> • MN DNR • Local Economic Development Agencies • LGU's and Staff
Support policies and procedures to mitigate invasive species threats, and focus efforts on their reduction or elimination.	<ul style="list-style-type: none"> • Establish a group of relevant regional stakeholders to review existing AIS prevention and mitigation policy and programs • Develop "best practices" and share region wide • Develop a regional AIS prevention and mitigation strategy. 	<ul style="list-style-type: none"> • MN DNR • LGU's • Lake Associations
Develop and implement strategies to reinforce and enhance north-central Minnesota's position as the premier recreation capital of Minnesota.	<ul style="list-style-type: none"> • Develop community recreation plans to guide policy on investments, improvements, and new initiatives. • Enhance the promotion of arts and cultural tourism in the region. • Attract investment in new attractions and activities. • Enhance natural resource amenities through an increase of Legacy Act investment in the region. 	<ul style="list-style-type: none"> • DNR • Local convention and tourism staff • LGU's • Region 2 Arts Board • Chambers of Commerce • NWMF • MN Tourism Dept.

Foundational Assets Cornerstone

Objective	Strategy/Activity	Key Partners
Increase the number of units rehabilitated or preserved in	<ul style="list-style-type: none"> • Align existing rehabilitation programs to better serve the areas with the tightest housing markets • Encourage communities to develop "MN Small 	<ul style="list-style-type: none"> • Greater MN Housing • Impact 2020 • HHDC

the region.	Cities” grant applications.	<ul style="list-style-type: none"> • NWMF • LGU’s • DEED
Increase the number of new affordable units.	<ul style="list-style-type: none"> • Develop financial resources for new construction of affordable housing. • Facilitate innovative models that reduce the costs of housing production. • Work with local communities to provide incentives when “value gaps,” limit new construction 	<ul style="list-style-type: none"> • Greater MN Housing • Impact 2020 • HHDC • NWMF • LGU’s
Demolish vacant dilapidated housing units.	<ul style="list-style-type: none"> • Identify and assess housing units with health and safety hazards. • Develop funding to purchase and demolish blighted properties • Work with qualified demolition contractors to ensure that health standards are met. • Transfer ownership of the newly created vacant lots to end users. 	<ul style="list-style-type: none"> • Greater MN Housing • HHDC • LGU’s
Expand broadband to underserved parts of the Region.	<ul style="list-style-type: none"> • Support the Impact 2020 Broadband Taskforce • Document broadband deficient areas of the region. • Advocate for broadband funding at both state and federal levels • Partner with broadband providers to explore ways to assist with fiber infrastructure installation • Identify industries in need of high speed Internet connectivity in next five years to plan infrastructure development. 	<ul style="list-style-type: none"> • Blandin Foundation • MN Office of Broadband • Local Economic Development • LGU’S • Impact 2020
Prioritize infrastructure investments so they support a strategic emphasis on innovation.	<ul style="list-style-type: none"> • Identify long term transportation needs, including air, road, and rail. • Encourage and support LGU’s in their development of capital improvement programs that serve to enhance infrastructure. • Advocate for funding at both state and federal levels for critical infrastructure projects. • Ensure the Region has an adequate supply of commercial and industrial sites • Work to expand affordable energy options to all communities in the Region. 	<ul style="list-style-type: none"> • DEED • LGU’s • Greater MN Partnership • EDA • USDA

EVALUATION FRAMEWORK

The HRDC will annually review the performance of the Region in meeting the vision and goals articulated in this CEDS. To evaluate the progress of the CEDS, HRDC staff will meet annually with stakeholders of the region. HRDC will encourage these representatives to engage other interested individuals from the region to ensure a broad representation of interests.

As we prepare our regular reports on the CEDS, the Headwaters Regional Development Commission will look at each cornerstone comprehensively, taking into account traditional EDA performance measures such as jobs and tax base as well as the specific goals identified in this document.

COMMUNITY AND PRIVATE SECTOR PARTICIPATION

In developing this Comprehensive Economic Development Strategy, efforts were made to include a broad range of private sector and community representatives. First, the planning process was overseen and assisted by Strategy Committee Members, who represent businesses, banks, revolving loan fund, and public sector employees. Secondly, local community leadership groups were involved with the planning process, again representing businesses, banks, higher education institutions, economic development organizations, and more. Recommendations and insights from these meetings were especially useful in framing the workforce and labor demand issues.

Fourth, the information was presented to each County Board. Each County has to publish its board meetings, and the meetings are open to the public. The presentation was a formal part of the County Board Agenda, and community members were welcome to make suggestions and comments at these meetings. In fact, these comments were then incorporated into the CEDS document under either the analysis, or the objectives and projects (whichever was most appropriate). Finally, the information was presented to the HRDC Board of Commissioners, which is also a publicly noticed meeting open to members of the Region.

Headwater CEDS Strategy Committee Members

1. Rita Albrecht MN DNR
2. Mitch Berg City of Mahnomen
3. Kathy Carney Beltrami Works
4. Dave Collins Hubbard County Economic Development Commission
5. Nate Dorr Northwest MN Foundation
6. Jason Funk Citizens National Bank Park Rapids
7. Tiffany Fettig Launchpad Coordinator
8. Gary Gauldin Park Rapids Schools
9. Dave Hengel Greater Bemidji
10. Erik Hokuf Private Business
11. Carl Johnson Security Bank Bemidji
12. Nicole Lalum Park Rapids Chamber
13. Paula Langteau Northwest Technical College
14. Ryan Mathisrud City of Park Rapids
15. Nate Mathews City of Bemidji
16. Nick McCarthur First National Bank Mahnomen
17. Diane Morey Northwest MN Foundation Business Lending
18. Michael Nuesser White Earth Nation
19. Tuleah Palmer Northwest MN OIC
20. Jorge Prince Private Sector
21. Christina Regas City of Blackduck
22. Tina Renemo City of Baudette
23. Tim Qualley MN Workforce Center
24. Laura Seter Region 2 Arts Council
25. Mycahl Stitsworth Private Business
26. Nancy Vyskocil Northwest MN Foundation