



The EDACENTER

at the University of Minnesota Crookston

The EDA Chronicle-December 2015

www.edacenter.org

Volume 5, Issue 12

Events of Interest:

January 8

- Job Creation Fund Public Hearing at the DEED Office in St. Paul from 1-2PM. This public hearing is to consider a proposal to provide funding through the Minnesota Job Creation Fund Program.

January 13

- Finding & Motivating the Right Foreign Business Partner hosted by the Minnesota Trade Office to be held at the DEED Conference Center in St. Paul from 8:30-2 PM. Cost is \$60. For more information and to register, please go to <http://z.umn.edu/129s>.

January 21-22

- 2016 EDAM Winter Conference to be held at the Minneapolis Marriott in Brooklyn Park starting at 8:30 AM. Registration is now open with discounted fees available until January 8. For more information and to register, please go to <http://z.umn.edu/111v>.

February 25

- An online webinar- Information Session on Brownfield Resources will be hosted by EDAM from 12-1:30PM. For more information, please go to <http://z.umn.edu/129t>.

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Letter From New EDA Center Director, Joyce Hoelting

Dear Colleagues,

Happy new year!

In this issue of our newsletter, we describe findings of an end of year review of communities that received Economic Impact Analysis funded by the EDA Center and Extension. We also describe an initial review of issues related to business succession that will be used to inform a further 2016 examination.

Tell us About News in Your Area

The EDA Center would like to collect information from the different regions in Greater Minnesota in an effort to highlight notable projects and events across the state. If you have any pro-

Helping communities make better economic decisions

These newsletters often feature the findings of [economic impact analysis reports](#) developed and delivered by the University of Minnesota Extension. In 2015, six Economic Impact Analysis studies were conducted with EDA Center funds. University EDA Center funds make EIAs available for free when they respond to an economic emergency or when they educate communities about their regional economy.

Economic impact analysis is a good niche for using University resources to support economic development professionals. It makes efficient use of the IMPLAN data source and analysts – making them available to small

We who work with the University EDA Center grant wish you and your organizations a successful and prosperous 2016.

It is not too late to bring your ideas and research needs to us for 2016, just give me a call at 612-625-8233.

Joyce Hoelting
EDA Center Director

jects or events you would like highlighted in future newsletters, please submit them to walke810@umn.edu prior to the 15th of January.

economic development organizations as they respond to economic stress, economic emergencies, and a need to chart an economic future.

In this issue of the newsletter we will describe outcomes reported by communities who requested EIA workshops and reports.

Evaluating the EIA program

Extension conducts both immediate and longer-term evaluation processes to determine if programs are achieving goals. (See box, page 3.) Evaluations of workshops where economic impact analysis information is presented measure whether participants learned new information and found the information useful. Months after the

report is delivered, Extension checks back in with the community to see what actions have been taken.

What do community leaders learn?

Pre-post workshop evaluations show that for each workshop in 2015, 94 – 100 percent of participants gained knowledge. What's more gratifying, though, is that the highest reported gains in skills and knowledge relate to illuminating community conversations and informing local action. Participants reported that they learned the most about gaining "new ideas to support our community," to "motivate local decision makers to act," and "to have more productive discussions with fellow community leaders about local economic changes."

Does learning inform action?

To find out what happened in communities after the program, Extension reached out to leaders who had brought EIA reports and workshops to their communities. Five agreed to be interviewed. Each of them reported that the information and discussion from the economic impact analysis informed local actions and local decisions. Here is a list of outcomes reported:

Community #1: Primary outcome – a shift to thinking about local business

- "Overall, the report gave us a direction that we need to work towards in retention and expansion in (our city)."
- "Served as a 'wake-up' call to

everyone on the board about the real local needs... We had been very focused on recruiting for large businesses to come into town. Then we realized we have local work to do first. We need to work on our amenities, trails for example, and strengthen our local businesses."

- "The study was very good. I'm glad we did it. I haven't one regret other than the fact that now I have more work to do."

Community #2: Primary outcome – Informing a new decision for action or investment after job loss (Emergency EIA)

- "I think all of the small businesses in the community benefited. It gave them an idea of what to expect in the next 12 months – especially gave our retailers a 'heads up' that this would impact their businesses."
- "This informed decision-making. One thing they decided to do was to join city and county together to form a new initiative. This was a collaborative effort, informed by the report."

Community #3: Primary outcome – Informing a change in public policy to benefit existing businesses

- "This reaffirmed the fact that, as a county, we don't have inputs or outputs from manufacturing. Most of our raw materials are shipped in from elsewhere."
- "When we presented to the board, the report gave us

justification for some changes in our tax abatement policy. When our tax abatement policy was written, it seemed to gear more toward new businesses even though it was meant to assist existing businesses. Usually, it's the new businesses that get the most points on the scoring sheet. This made us confident to ask for adjustments to our tax abatement policy."

- "What was helpful about it... was that it allowed us to see how much impact (the closure) of one company can have on the local economy, especially in a community with a weak manufacturing base..."
- "This report helped push the county to provide support and incentives to business so that they stay in the county."
- "The report helped the planning of the county economic development plan."

Community #4: Primary outcome – Affirmation that previous community investments produced outcomes

- "We were surprised by how little/much impact certain industries had... For example, one of the areas we chose was animal slaughtering and processing, which mainly consists of one big beef jerky business. We were surprised how large its ripple effects are – much more than we thought it would be. We also looked at wind energy; we were surprised by the large number of employees employed."

- “The report reaffirmed our economy is pretty strong. We helped (the meat processing business) get the Minnesota Investment Fund. The findings helped justify the time we invested working with them.”

Community #5: Primary outcome – Community took direction and focus from the report by identifying valuable industries and investments

- “We uncovered many surprises about some industries (such as agriculture) that we used to expect to have a large impact but in fact didn’t employ that many people.”
- The information we got was better than expected. We were able to look at the bigger picture and narrow it down to 4-5 areas we can work on. For example, people agreed that industries such as insurance should be maintained... Infrastructure (roads and railroads) came up a lot. People

were also surprised about the impact of the Indian casino. It turned out they currently employ 350 people, making them among the biggest employers in the county. This information told us that ongoing dialogue and collaboration with the casino are very important.”

Evaluating for program improvement

Earlier evaluations of program satisfaction and impact have, over time, led to program improvements. For example, seeing that reports and workshops were not creating enough local action, educators added a facilitated discussion that allows the community to examine, together, benefits and drawbacks of specific local industries, to generate a list of ideas for how to support local industries, and to prioritize those ideas.

Educators and analysts are also taking more time before workshops

to talk to local program sponsors and hear what is going on with regard to the community’s economic development issues. The content of the report, and the design of the workshop, is adjusted accordingly.

In addition, several sites noted that the number and type of representatives who review the information makes a big difference. This information will help us guide local recruiters for EIA workshops.

“Economic Impact Analysis is simply an examination of what is,” says Joyce Hoelting, Director of the EDA Center. “While we wish we could take on every economic issue in Minnesota and solve it for communities, we all know that the best actors are local actors. Informing their local decisions is an important ingredient.”

We thank Scott Chazdon, Ph.D. and Somongkol Teng for conducting these community interviews.

We are successful when a community . . .

1. recognizes and understands its current situation;
2. has greater confidence that it can manage change;
3. acts to move toward a desired vision;
4. is better able to respond to social, civic, environmental, cultural and economic opportunities and challenges;
5. works through limitations, differences, interests and other barriers to resolve problems;
6. considers the impact of its actions on the greater community.

(from the Extension Center for Community Vitality’s Theory of Change)

Business Succession Planning – a review of literature and issues

*By Joyce Hoelting,
EDA Center Director*

In 2016, Extension will be gathering information about successful business transitions in rural Minnesota cities under 7,000 population. In November,

Extension convened a group of key informants who will guide and support this study. At that meeting, we presented a review of literature and other key sources to inform the discussion. The purpose of this literature review was to provide a fundamental summary of existing

research on business transition in rural areas.

While we could locate no research on rural business succession, we were able to find general business principles for transition. In addition, we found a few programs

in other states that assist specific types of business transitions.

Three issues summarize the problem when businesses do not transfer successfully. 1) There is a lack of identified possible buyers. 2) Identified buyers are not able to purchase the business because of a lack of capital or potential profits. 3) After the sale, business transition isn't successful.

Very few businesses develop succession plans, nor do they express an interest in learning about succession planning. As a result, the business sells for less than the owner's desired price or the business liquidates.

Based on both the literature review as well as input from the advisory committee, below is a summary of needs, options, and challenges.

Good business principles are critical to the successful transfer of businesses.

Buyers and loan officers are more confident about business purchases when there is evidence that the business is in good health. Three business practices are critical. 1) Businesses should show a profit, as evidenced on tax returns, for at least three years. 2) Written standard operating procedures should be in place, especially so that the business is not reliant on the past owner, "traditions", or family dynamics. Businesses that function well without the current owner are easier to sell, and for a higher selling price. 3) The business ownership structure should also be up to date.

At least five new ownership options can be considered for the transfer of a business.

- 1) A transfer of a business to an interested family member
- 2) A transfer to employees of the business (either an outright sale to an interested employee)
- 3) [an employee stock ownership plan \(ESOP\).](#)
- 4) An outright sale to a private party
- 5) A buy out by another company.

Owners need to be realistic in their valuing of the company and the amount of time needed to find a buyer.

Business brokers report that owners typically think that their business is more valuable than can be justified, basing their estimates on past profits and not on current economic conditions. Owners often approach the business broker when they are facing burn-out and want a quick sale. But it takes, on average, three years for a business sale to happen. Factors that lower the value of a business include inventory that is not current, employees lacking the skills or procedures to manage without the owner, and buildings that have lost value. Advisors noted some owners have not invested in their business' physical structure so that they can retain profits or avoid property taxes. This negatively affects future prospects for transferring ownership. Real estate and business brokers often have criteria for taking on a business sale (e.g., profit, value) that small, rural businesses cannot meet.

Owners should recognize the value of showing a profit for three years.

While business owners increase

deductions to lower their taxes, those deductions also lower the documented profitability. This limits the pool of interested buyers, the price of the business, and the ability of buyers to obtain financing.

Owners face some practical and emotional barriers to selling.

They are concerned that their current customer base will take business elsewhere if they know the business will be transferring. Small town community members, concerned about the future of their community, sometimes put pressure on an owner to not sell. The business is their legacy, making it difficult to not comment on changes made by new owners.

Given that "brain gainers" (new residents ages 30-45, typically with families) report that they may be willing to own a local business in order to support their employment in a rural area, this lack of marketing and advertising related to business transfer may be short-sighted.

Products or services are not up-to-date.

Rural locations may be too far away from their market or manufacturing base to be an attractive commodity. Changes in tastes and technology can affect the currency of a product or service. And retail and service businesses that have not updated their online sales opportunities may be challenged to retain business in low population areas.

In discussing these issues, advisors noted that the most helpful information would allow agents of economic development to advise others about what is successful, as

well as to share tools that can support successful transitions. It would also be useful to know which *biggest* challenges rise to the surface across Minnesota, so that attention can be focused on “the difference that can make a difference.” With limited time and funding available for this study, the advisors thought that three contributions would be most helpful.

- 1) To the extent possible with existing data, quantify the current condition or problem.
- 2) By surveying those who have bought businesses in the past three years, learn more about what is working and what is most difficult about buying an existing business in rural Minnesota – and how to overcome those challenges. (If time, a deeper dive into case

studies of successful business transitions could also be useful.)

- 3) The upcoming study should inform possible future studies, and resources from the many interested organizations about this issue could collaborate to do future investigation.

Present at the meeting were:

- Gary Hachfeld (UMN Extension Center for Farm Financial Management Extension Professor)
- Daniel Bullert (Initiative Foundation Business Finance Manager)
- Bruce Strong (Small Business Development Center State Director)
- Dean Toft (Minnesota Bankers’ Association President & CEO of

HomeTown Bank of Redwood Falls)

- Dick Todd (Federal Reserve Bank Vice President of Community Development)
- Kathi Schaff (MN Chamber of Commerce Grow Minnesota Program Director)
- Bob Voss (East Central Regional Development Commission Executive Director)
- Emily Northy (Minnesota Main Street Coordinator)
- Liz Templin (Extension Educator)
- Will Craig (U of M Professor Emeritas)
- Joyce Hoelting (EDA Center Director)

MMB Releases November Budget and Economic Forecast

The Minnesota Management and Budget Office (MMB) released the November Budget and Economic Forecast in the beginning of December. A combination of more revenues and less spending has led to a projection of a higher forecasted budgetary balance. For FY 2016-2017, revenues are expected to be \$42.718 billion, which is \$90 million more than earlier estimates. Projected spending is expected to be \$41.585 billion, or \$249 million less than earlier projections. This increases the projected balance to be \$1.871 billion, which is up \$865 million from earlier projections. After shifting \$71 million to Environmental Funds and \$594 million to budget reserves, there is still an available

balance of \$1.206 billion.

Individual income tax receipts are projected to be \$21.957 billion, \$110 million less than expected in February. General sales tax receipts are projected to be \$11.031 billion, \$91 million more than expected in February. Corporate franchise tax receipts are projected to be \$2.644 billion, \$69 million more than expected in February. Statewide property tax receipts are projected to be \$1.689 billion, \$9 million less than expected in February. Other revenues are projected to be \$3.584 billion, \$62 million more than expected in February

Real GDP growth has weakened since February. MMB attributes this to a stronger dollar weakening

exports and slower capital investment coinciding with falling oil prices. Macroeconomic consultant IHS Economics expects real GDP growth to be 2.4 percent for 2015, and 2.8 percent for 2016. This is less than the February projection for 2015 (3%) but is slightly higher for the 2016 projection (2.7%). Expectations are steady for 2017-2019. Currently, IHS expects 2.8 percent in 2017, 2.7 percent in 2018, and 2.6% in 2019 (compared to 2.8%, 2.6%, and 2.8%, respectively).

For more information and documents related to the November Forecast, please go to

<http://mn.gov/mmb/forecast/forecast/>

DEED Report: 2014-2015 Local Area Unemployment Statistics and Jobs Report

After seasonal adjustments, unemployment in November remained at 5 percent in the U.S. and dropped to 3.5 percent across Minnesota. Minnesota unemployment claims in November increased 15,690 to 31,194 when compared to October. Over the year unemployment claims increased 1.1 percent when compared to November 2014 (see summary in graph on next page).

Minnesota employers gained 7,200 jobs in November. Eight sectors posted job gains: Construction (3,300), Government (1,000), Leisure/Hospitality (900), Professional/

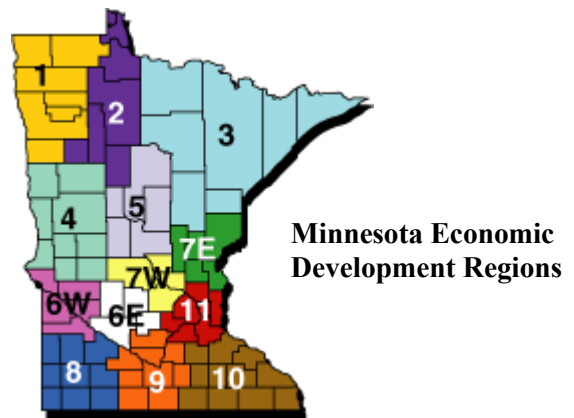
Business Services (900), Trade/Transportation/Utilities (800), Education/Health Services (600), Financial Activities (400), and Information (-400). Manufacturing (-500) and Other Services (-300), posted job losses in November. Mining/Logging remained the same as October.

Minnesota added 32,130 jobs over the past year, which puts Minnesota's growth at 1.1 percent during that time. This is below the U.S. growth of 1.9 percent over the past year. Minnesota's labor participation rate went up to 69.9 percent

(seasonally adjusted). Minnesota's labor participation rate continues to exceed the U.S. labor participation rate which was 62.5 percent for the month of November.

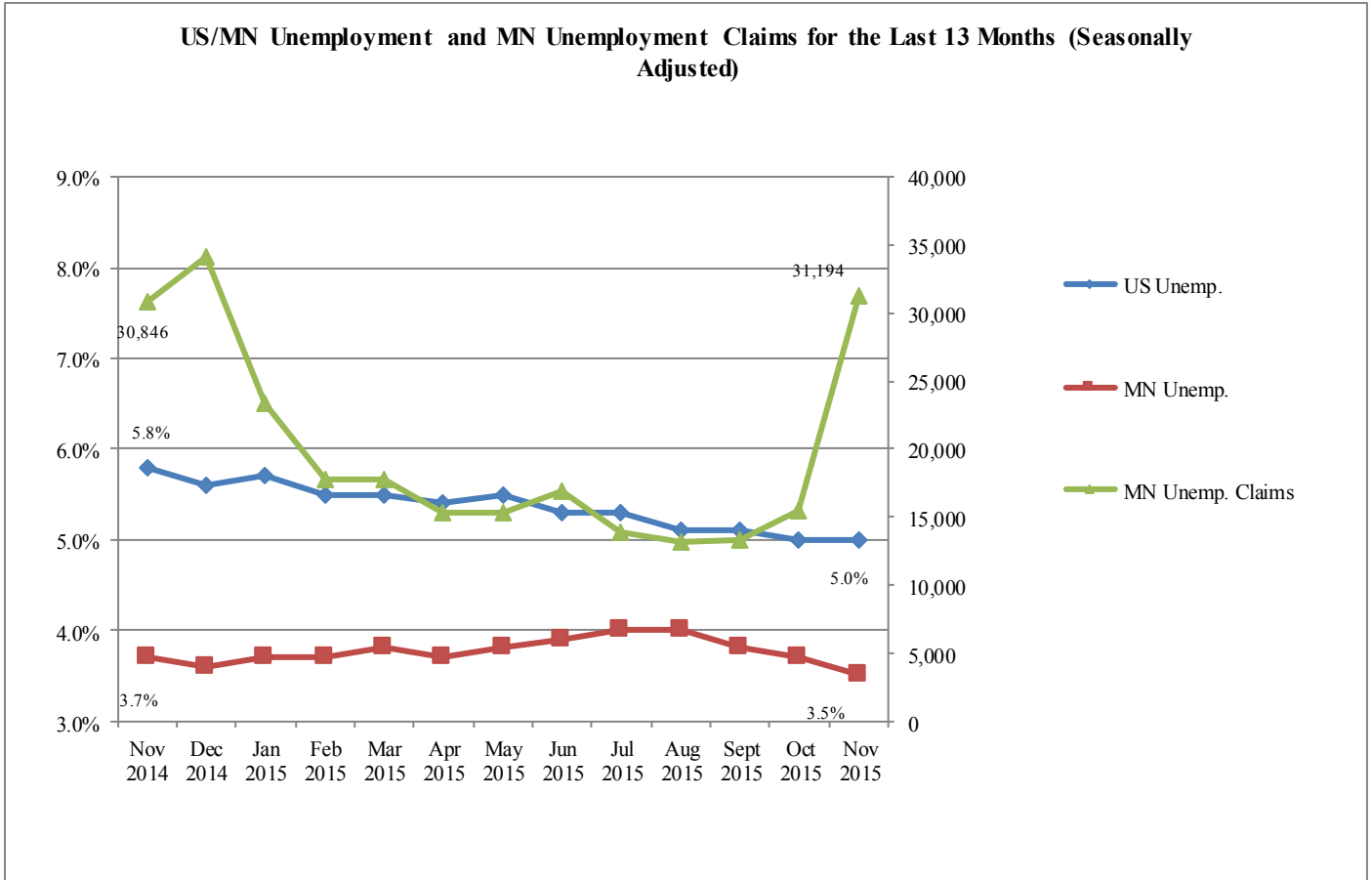
Unemployment for six of the EDRs decreased or remained the same in November (unemployment numbers for EDRs are not seasonally adjusted). The Upper Minnesota Valley region experienced the largest unemployment decrease at 0.5 percent.

Jobs data comes from U.S. Bureau of Labor Statistics (www.bls.gov) and DEED (<http://mn.gov/deed/>).



2014-2015 Minnesota Unemployment by Economic Development Region (Not Seasonally Adjusted)

Date	EDR1	EDR2	EDR3	EDR4	EDR5	EDR6E	EDR6W	EDR7E	EDR7W	EDR8	EDR9	EDR10	EDR11
Nov 2014	3.1%	5.3%	4.5%	2.9%	5.2%	3.3%	3.1%	4.8%	3.5%	2.5%	2.9%	2.9%	3.0%
Dec 2014	4.7%	6.2%	4.8%	3.9%	6.2%	4.1%	4.1%	5.8%	4.2%	3.3%	3.6%	3.4%	3.1%
Jan 2015	6.2%	7.2%	5.9%	5.1%	7.7%	5.4%	6.5%	6.8%	5.0%	4.6%	4.7%	4.3%	3.9%
Feb 2015	5.9%	7.0%	5.9%	4.9%	7.6%	5.3%	5.5%	6.7%	4.9%	4.6%	4.6%	4.2%	3.8%
Mar 2015	6.1%	7.2%	6.1%	4.9%	7.5%	5.4%	5.9%	6.8%	4.9%	4.5%	4.7%	4.3%	3.8%
Apr 2015	5.3%	6.2%	5.6%	3.7%	5.8%	4.1%	4.2%	5.2%	3.8%	3.4%	3.8%	3.4%	3.4%
May 2015	4.4%	5.2%	5.0%	3.4%	4.8%	3.7%	4.6%	4.5%	3.6%	3.2%	3.6%	3.3%	3.4%
Jun 2015	4.8%	5.4%	5.6%	3.6%	4.8%	4.0%	4.9%	4.7%	3.9%	3.6%	3.9%	3.6%	3.7%
Jul 2015	4.4%	5.2%	5.4%	3.4%	4.7%	3.8%	4.8%	4.5%	3.7%	3.3%	3.8%	3.6%	3.6%
Aug 2015	4.0%	4.7%	4.8%	3.0%	4.3%	3.3%	3.9%	4.1%	3.4%	2.9%	3.3%	3.2%	3.3%
Sept 2015	3.2%	4.3%	4.6%	2.8%	3.9%	3.0%	3.2%	3.8%	3.1%	2.9%	3.0%	2.8%	3.1%
Oct 2015	2.9%	4.2%	4.6%	2.5%	3.8%	2.8%	3.7%	3.5%	2.9%	2.7%	2.8%	2.6%	2.9%
Nov 2015	3.5%	4.8%	5.3%	2.8%	4.8%	2.9%	3.2%	3.8%	2.9%	2.6%	2.7%	2.5%	2.7%



The EDA Center at the University of Minnesota Crookston is one of more than 40 university centers nationwide, supported by the Economic Development Administration, U.S. Department of Commerce.

We conduct applied research, provide direct technical assistance and deliver educational programs development agencies that support the economy of economically-distressed rural communities throughout Minnesota.

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