City of Dundas

Assessment of Industrial Development Potential

July 31, 2006

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1. EXECUTIVE SUMMARY

The City of Dundas retained NAC to conduct an analysis of the market conditions and factors associated with industrial land development in Dundas. The intent of the analysis is to provide information that leads to a fundamental understanding of market forces affecting the need for industrial land, factors concerning its development as well as strategies available to the city for developing its industrial land. Specific tasks include:

- The review of literature for trends affecting industrial real estate development.
- An assessment of the overall economic climate affecting economic development in Dundas.
- The identification of target industries for potential growth or expansion in the Dundas area.
- The development of an industrial land inventory and demand projection for industrial land.
- An assessment of the opportunities and constraints facing Dundas for industrial development.
- Recommendations and strategies for developing industrial land.

A. Economic Trends

Dundas/Northfield is well positioned to both drive and support economic growth. A significant amount of economic growth results from population growth. Higher levels of population growth are projected in the Dundas/Northfield area than in Rice County or in Faribault over the forecast period, through 2030. These proportionately higher levels of population growth are likely to attract proportionately higher levels of economic growth as well. The population in Dundas is likely to grow between 4,000 to over 7,000 depending on forecast assumptions. Average household sizes are likely to show slight increases instead of the forecasted decreases if the amount of entry level single family housing continues.

The Dundas/Northfield area also fares well in a variety of indicators that support business growth. The area benefits from a well educated, young workforce with a high workforce participation rate compared to surrounding areas. While wages in Rice County manufacturing industries provide strong wages relative to average County wages, these wages are about $10,000 lower than state wide averages. This disparity combined with high productivity levels make Rice County an attractive location for industrial businesses. These are very important factors to businesses looking to expand or relocate. Rice County is projected to have higher rates of labor force growth compared to the Twin Cities or Southeast Planning Region. The County also has a higher jobs housing ratio at 1.55 that the metro area or Southeast area indicating an integrated economy that provides a range of business and consumer services. The Dundas/Northfield area also projects strong growth in the 25 – 34 age group, an important segment to retain for social and economic vibrancy. Attracting industries that provide entry level and mid-level positions for this demographic segment will be a key challenge for the Dundas/Northfield area.

Rice County maintains a strong and vibrant manufacturing sector with 20 percent of all jobs. An analysis of industries in Rice County show that manufacturing in general and a variety of specific industries (food, nonmetallic mineral product, fabricated metal, plastics, and machinery manufacturing; as well as agricultural services, waste management and building, developing and general contracting are key industries with potential for continued vibrancy and/or growth. Construction, transportation and warehousing industries are relatively small industries now, but show potential for significant growth in the future. This analysis provides an initial foundation for future economic development strategies to attract business growth in Dundas.

B. Competitive Environment

The industrial real estate market is highly competitive. Almost every mid-size community in greater Minnesota has an industrial park with varying degrees of incentives. The successful development of industrial land depends largely on location and access to the regional network of highways. Globalization is generating demand for and spurring rapid growth of the warehousing and distribution industry. This industry specifically seeks low cost freeway locations on the edges of metro areas. Other, "industrial" facilities including manufacturing, construction services, wholesale trade and office/R&D may be attracted to higher amenity locations with lower levels of highway access such as an industrial park within an identifiable city. Rail access is clearly a niche opportunity for differentiating an industrial/business park from others. However, this opportunity has significant upfront capital costs and associated risks, given the relatively low demand for rail service. Trucks are the dominant mode of transportation for most industrial businesses. As a result, access to a 10-ton road system and the regional network of highways is an important factor for businesses seeking industrial land.

Industrial parks in four cities (Faribault, Lakeville, Farmington, and Rosemount) were reviewed to better understand their growth cycle, as well as understand the competitive environment in which Dundas wants to compete. Each of these areas was developed by the "host" city or private developer and developed as a unified development concept. Control over the land and active marketing to develop the land by a single entity or partnership are critical success factors. Development of industrial parks requires a long term financial position and commitment. Initial absorption rates are relatively low. Rates of development over time are a function of highway access and metro growth. As the metro area grows outward, each location becomes better located with respect to the homes of business owners and employees.

Competitive land costs and land with immediate access to city sewer and water are other critical success factors for industrial growth. Land costs are generally a function of distance from the metro core. Land in Faribault, the farthest out, had the lowest cost. Land in Lakeville, the most central of the locations reviewed with quick access to Interstate 35, had the highest land costs. Availability of sewer and water and for Dundas, sufficient sewer capacity, are basic requirements for industrial growth. Property taxes also play a role in land development. While not a top issue among the 12 businesses surveyed for this project, other studies indicate that high property taxes in Greater Minnesota were the greatest deterrent to outward expansion by businesses based in the Metro area. In this regard, Dundas is at a competitive disadvantage compared to all other cities

examined. From a land development perspective, anecdotal evidence suggests that Dundas is an easy community in which to undertake development. This is an important consideration to businesses as identified in the 12 person survey.

Faribault will be a significant competitor to industrial land development in Dundas or Northfield. It has the lowest land costs, immediately available city services and direct access to Interstate 35. In terms of travel time and perceived convenience from the metro area, Faribault is better positioned than Dundas. The proposed Rice County Development at County Road 1 and Interstate 35 is also a significant competitive threat to Dundas, especially for transportation and distribution facilities, which prize freeway locations with good access to large metro markets.

C. Land Use Issues

The types of uses permitted as well as area and setback requirements and performance standards help control the quality and character of industrial development. These controls also affect the competitiveness of a city in comparison to other cities. Comparisons to Faribault and Northfield are especially germane in this regard, as both have generally less restrictive requirements than Dundas. Dundas does not allow outdoor storage in the Limited Industrial District. Outdoor storage is a common need for industrial uses, and prohibiting outdoor storage puts Dundas at a disadvantage in attracting new industrial businesses.

In addition to outdoor storage, exterior building materials is another important factor for businesses. In this area, Dundas along with Lakeville allows the use of exterior metal panels with limited restriction which is a competitive asset.

D. Land Inventory Supply and Demand Forecast

Current Supply

Approximately 57 acres of undeveloped land are being actively marketed for immediate development in Northfield. Additionally, the 14 acre Ryt-Way building site remains vacant and available for occupancy or redevelopment. Other than these areas, Northfield is fully developed. In Dundas, there is approximately 87 acres of industrially zoned land within the city, of which 37 is within the city and developable. The other 50 acres are in the Rural Service District and unavailable for development. Owners of the 37 acres within the City are not actively marketing the land for development. The lack of an active industrial real estate market in Dundas is a significant impediment to having a usable inventory of land for industrial growth. Absorption rates for industrial land in the Dundas/Northfield area, not counting the recent College City Beverage sale, has been about 4 to 5 acres per year.

Over 1000 acres of land have been identified by both Northfield and Dundas as industrial expansion areas beyond current city borders. The costs for extending city services into these areas vary. Serving Northfield's northern expansion area would require the contiguous extension of existing city services. Serving the west expansion area beyond the Northfield Hospital would require a significant cost to cross land owned by St. Olaf and is unlikely to be developed in the

near term. This area is an unlikely location for development without significant costs and risks borne by the City of Northfield.

Expansion of city services to Dundas' growth area could be extended west from the College City Beverage site and south of the Rural Service District at a reasonable cost. However, significant investments in a road system would be needed to serve the expansion area as well as upgrades to 118th Street and Cabot Avenue to provide access to the regional highway network including Interstate 35.

With over 1000 acres identified by Northfield and Dundas along with the County's proposed 1,100 acre development at Interstate 35 and County Road 1, the immediate area as an abundance of land guided for industrial use.

Predicted Demand for Industrial Land

An estimate of land needed for industrial growth through 2030 was prepared based on local and regional population and regional employment forecasts. The gravity model used assumes that a city will attract employment relative to a given region based on its relative population size. Population is used as a predictor for employment growth. The amount of building space and land acreage needed to house this employment growth are derived based on average building and land ratios. Using this approach, approximately 130 acres of land will be needed in the Dundas/Northfield area through 2030 to meet industrial growth demands. With 57 acres being actively marketed in Northfield and 37 acres within the City of Dundas, there is an inventory of land to meet demand for the next 18 years at an annual absorption rate of 5 acres per year.

E. Development Concepts-Dundas

Two development concepts were prepared to show how 485 acres of land in the southwest growth area could be designed for long term development. The development concepts show how land could be subdivided and potential buildings sited. Building to land ratios of 20 to 30 percent were assumed. Both concepts show over 3 million square feet of buildings in this area generating over 20,000 vehicle trips per day. Each concept shows variations on road access and design.

F. Recommendations

An **Incremental and Targeted approach** is recommended as the most practical approach for generating consistent tax base growth with moderate levels of risk. This approach focuses economic development strategies on land within the city currently served by city services and roads. It will identify and target key parcels for marketing and development. There are seven parcels of land containing 56 acres in the city (or adjacent to it) with ready access to city services and roads. There is also additional industrial acreage within the City that is underutilized and could also be included in this approach. EDA programs and incentives would also need to be developed to support this type of limited but focused approach.

The demand for industrial space in the Dundas/Northfield area is consistent, but relatively modest. This is unlikely to change over the next ten years, thus it is unlikely a large industrial park development initiative could be supported. There is also little evidence to support investment in rail facilities at this time, though land west of the Union Pacific line could be "reserved" for this use in the future.

An incremental and focused effort that capitalizes on in-place infrastructure will provide the greatest return with the lowest risk. As revenues from this type of incremental growth are generated, they can be used as seed money for future economic growth and/or to reduce taxes and improve the City's tax position relative to the competition. The key issue for Dundas is having land that is readily available for development. The City can take an active role in achieving this through a variety of economic development, infrastructure and regulatory strategies. Such strategies usually involves one or more measures including direct public investment, land acquisition, capital improvements, enhanced public services, technical assistance, promotion, tax benefits, and other stimuli including land use controls and performance standards.

The following strategies are recommended to implement the Incremental and Targeted policy approach:

Economic Development Strategies

Activate the Economic Development Authority

The first step is to create an active and engaged EDA to evaluate, implement and manage economic development strategies. This report provides the foundation for further inquiries and economic development strategies depending on the overall policy direction established by the City Council. A formal industrial land development policy is needed to establish appropriate strategies, programs and tactics.

Understand Land Owner Issues/Concerns with Land Development

Without landowners willing to sell and/or develop land, there will be no industrial development. To kick start this process, the City should contact the owners of existing undeveloped land within the City's industrial districts to identify interest in, as well concerns with, industrial land development. Understanding owner issues and time frames concerning development will help determine next steps. 56 acres on 7 parcels exist within the city or immediately adjacent to the city where city services and roads are readily available (see maps of Areas 3 and 4 in Appendix D).

Assess Parcel development Potential and Communicate with Landowners.

Land owners unfamiliar with land development will have questions about development costs and selling prices. The City can evaluate and estimate costs to provide/extend city services and roads (if land is large enough for subdivision) for parcels within or adjacent to the city. Information on

recent sales prices and terms can also be provided to land owners. A preliminary estimate of development costs and market information can be the basis for continuing discussion/dialogue with land owners, and will help facilitate marketing of land. This cost and pricing assessment along with parcel location and road access will also help identify priority parcels for development.

Encourage development by Providing Incentives on a Project by Project Basis

Various actions can be taken to encourage development depending on the outcomes of the previous steps. A range of activities could be coordinated through the EDA. In some cases, the land owner may decide to actively market the land. In other situations, the City may seek permission to market the land. The City may also want to gain some level of control over priority parcels. This could include an agreement for first right of refusal or outright acquisition. The City could also acquire land and resell it at a discount in order to attract a particular business. The City may use a variety of financing mechanisms to acquire land and prepare it for development. The city could use TIF, tax abatement, bond sales, the general fund, and enterprise funds the revenue generated by a specific project meets city standards for risk and repayment. The College City Beverage project is a good example of providing incentives on a project by project basis and is a sound and relatively low risk way of growing the industrial base.

Communicate Basic Development Information and Establish Dundas as Development Friendly.

Basic information on city development and utility fees, regulations, development process and economic development programs and incentives must be "packaged" and easily available for ease of communication to business owners and developers. Downloaded information from a web site is the preferred method of receiving this information for landowners and developers. An active communications strategy should begin with basic information about Dundas.

A communications strategy should also build on the foundation that Dundas is "Easy to do Business With." Dundas has a well earned image as a city that is easy to do business with. This is a distinct competitive advantage for the City, especially when competing with Northfield for industrial growth. This image or perception must be more than a communications tactic, however. It must be based on zoning controls and performance standards as well as internal processes that maintain this position in relationship to other nearby cities. For Dundas and its recent rapid growth, the challenge will be to ensure that both staff review and Council/Planning Commission processes continue to support this competitive position. Adopting technology, employee job descriptions and employment policies that encourage efficiency, customer satisfaction and speed are critical to maintaining this competitive advantage.

Another component of this communications strategy is the development of informal partnerships and relationships with builder/developers who specialize in "build-to-suit" industrial facilities. The outcome of such partnerships is a good understanding of development standards and city processes by the builder/developer, so that the development process is streamlined, efficient and positive experience for the ultimate business owner.

Target Specific Business Segments and Communicate the Dundas Advantage.

Three business segments have been identified in this report for potential industrial growth opportunities in Dundas. One segment, the "move out" segment, is the existing south metro based business looking to expand within better commuting range of owners and employees. Another segment includes SE Minnesota based industries with strong competitive positions as defined by the location quotient analysis in Chapter 2. The third market segment includes existing businesses within the Dundas/Northfield area that need expansion room. These locally based businesses usually want to maintain their local presence and will work hard to find local land. College City Beverage is a good example of this segment.

In targeting the "move out" segment, key messages include a convenient location off of Interstate 35 in the midst of a well trained and competitive workforce. This message will resonate more strongly over time as the metro area expands southward and both the actual and perceptual distance to Dundas is reduced. Creating awareness and the perception that Dundas exists within commuting distance of south metro business owners will take time, but is an important part of recruiting the "move-out" segment. A competitive tax environment is an important issue to this segment. Dundas will need to address its unfavorable tax climate if it wants to successfully attract this segment.

In communicating with the "competitive" SE Minnesota industries identified in Chapter 2, the Dundas/Northfield area has distinct image and locational advantages that may be attractive to this segment:

- Relatively low cost supply of labor that is highly trained and productive compared to other areas of the state.
- Close proximity and convenience to the Twin Cities, but none of the congestion and hassles associated with a large metropolitan area.
- An attractive and distinct character and image that sets the Northfield/Dundas area a part from other areas.

In targeting locally based businesses, a key message could be "expand locally in the City that's easy to do business with." Points of differentiation between Dundas and Northfield should be highlighted to strengthen this message. These points could include regulatory performance standards and a transparent and quick development process backed up by some type of "performance guarantee." Targeting Northfield based businesses may not be an appropriate strategy if Dundas and Northfield were to develop a cooperative marketing partnership.

Develop Economic Development Programs

A variety of supportive economic development tools and incentives should be developed in order to compete with other neighboring cities that already offer such incentives. These could include revolving loan funds, relocation and expansion grants, TIF and tax abatement, and JOBZ.

Improve Tax Climate

Property taxes in Dundas are high. This is a significant issue for attracting new industrial businesses, especially those from the metro area and other SE Minnesota based businesses. Decisions affecting the general fund and various operating funds should be made knowing that they affect the city's business climate and ability to attract future investment.

Infrastructure Strategies

Increase Sewer Capacity

With current capacity constraints, the City is limited to certain types of industrial businesses with limited water and sewer needs. Food manufacturing is a significant and strong industry in SE Minnesota and one with strong expansion potential. Many manufacturing operations with water based processes also require significant sewer capacity. Without the capacity to handle such industries, Dundas' field of industrial opportunities is reduced and puts the City at a competitive disadvantage.

Upgrade County Road 1 from Dundas to Interstate 35

High quality access to interstate and regional arterial roads is one of the most critical components for industrial real estate development. The County Road 1 corridor is a significant asset to the City, however, it needs to be brought up to current 10 ton standards in order for the City to fully capitalize on its proximity to Interstate 35.

Regulatory Strategies

Develop Performance Standards for all Conditional Uses

Dundas has specific performance standards for some conditional uses and not for others. Clear performance standards stipulating the requirements under which conditional uses are allowed is a powerful tool to guide and direct these uses with potential negative impact. Performance standards should be created for maintenance garages, contractor's offices, and bulk storage of more than 1000 gallons in the light industrial district. Such standards should also be created for outdoor storage, buildings over 35 feet in height, mining and extraction, refuse transfer stations, creameries, and bulk storage of more than 1000 gallons in the general industrial district.

Reduce Lot Width and Rear Setbacks

Lot width can have a significant impact on land acquisition costs and extension of city services. Dundas currently has a minimum lot width of 200 feet in the general industrial district. In order to be competitive with other communities and reduce costs to potential industrial businesses, the minimum width should be reduced to 100 feet. Dundas currently requires a 30 foot rear setback, larger than most other communities. This creates a large unusable area that is generally out of sight. There is no reason this could not be reduced to 10 feet (if adjacent land is industrial) to

allow for drainage easements and not have any other impact. This would modestly increase the amount of usable space improving the cost effectiveness of land in Dundas.

Outdoor Storage

Outdoor storage is not currently allowed in the light industrial district. All other competitive communities allow outdoor storage which is a common need for industrial businesses. This position places Dundas at a competitive disadvantage. Outdoor storage can be managed as a conditional use with specific performance standards including:

- Prohibiting it in front yards.
- Requiring it to be fenced, screened and/or landscaped using berms, plant material and/or fencing/walls. A 6 foot to 8 foot height of screening material with 80% to 100% "opacity" could provide acceptable screening in most situations. Requiring it to be on a surface to control dust.
- Preventing its encroachment on required parking or loading areas.
- Prohibiting the storage of waste material.
- Using larger buffer areas/distances and plant material when abutting residential areas and high visibility corridors (i.e. College City Beverage project)

Revisit Agreement Establishing a Rural Service District

The Rural Service Agreement covering approximately 50 acres within the current city limits significantly reduces industrial development potential and tax base growth. Adjacent city services and existing roads can cost effectively serve this area. While the lack of willing land owners in this area to support industrial development will continue to be a barrier for development, the Rural Service Agreement which prohibits development is an additional barrier that should be modified or eliminated.

G. Summary

The Dundas area is generally well positioned for future industrial growth with its existing road access, potential rail access and substantial inventory of land. Over time, market forces combined with willing land owners will convert much of this land to industrial use. However, the area is unlikely to see significant development pressure beyond five acres per year in the near term. Industrial development is highly competitive and industrial land with city services is widely available in Greater Minnesota. Dundas faces significant competition from the existing industrial parks in Faribault and the Proposed County Project at Interstate 35 which have superior road access and low land prices. However, with incremental and targeted efforts the City can modestly accelerate industrial development and capture a larger portion of development occurring in the Dundas/Northfield area. A variety of strategies are recommended to support this approach. Their implementation will require active and consistent economic development management and patience for long term successes.

2. ECONOMIC TRENDS AND INDICATORS

This section provides information on existing and future economic trends and indicators affecting industrial growth in the Dundas/Northfield market Area. This assessment looks at the local and regional economic trends including demographic indicators such as population age and household incomes, as well as labor force characteristics like employment growth and unemployment rates.

A. Population

The City of Dundas is located about 20 minutes south of the City of Lakeville, the "perceptual" southern edge of the Twin Cities Metropolitan Area. Currently, the Twin Cities Metro Area includes seven counties[1]; however, judging by recent population growth trends as well as commuter trends, the actual "metro area" encompasses about 13 counties, including Rice County. Table 1 outlines past and future population growth trends for the Dundas Market Area, as well as the Twin Cities Metro Area, the State defined SE Planning District[2] and the State of Minnesota for comparison purposes.

Table 1: Population Forecast

	U.S. Census		Forecast			Percent Change			
	1990	2000	2010	2020	2030	'90-'00	'00-'10	'10-'20	'20-'30
Reinhardt Forecast for Dundas/Northfield									
Dundas	473	547	1,262	2,259	4,044	15.6%	130.7%	79.0%	79.0%
Northfield	14,684	17,154	20,284	23,616	27,489	16.8%	18.2%	16.4%	16.4%
Dundas/Northfield	15,157	17,701	21,546	25,875	31,533	16.8%	21.7%	20.1%	21.9%
Alternate Forecast for Dundas/Northfield									
Dundas	473	547	2,229	4,729	7,229	15.6%	307.5%	112.2%	52.9%
Northfield	14,684	17,154	20,084	22,584	25,084	16.8%	17.1%	12.4%	11.1%
Dundas/Northfield	15,157	17,701	22,313	27,313	32,313	16.8%	26.1%	22.4%	18.3%
Faribault	17,085	20,836	24,066	27,501	30,804	22.0%	15.5%	14.3%	12.0%
Farmington	5,940	12,365	20,500	27,100	32,000	108.2%	65.8%	32.2%	18.1%
Lakeville	24,854	43,128	59,500	78,400	88,800	73.5%	38.0%	31.8%	13.3%
Rosemount	8,622	14,619	22,700	30,100	35,700	69.6%	55.3%	32.6%	18.6%
Dakota County	275,227	355,904	423,000	470,450	501000	29.3%	18.9%	11.2%	6.5%
Rice County	49,183	56,665	64,520	72,410	80,030	15.2%	13.9%	12.2%	10.5%
7-County Metro	2,288,729	2,642,062	3,056,100	3,430,100	3,692,600	15.4%	15.7%	12.2%	7.7%
SE Minnesota	420,094	460,102	500,500	541,100	576,100	9.5%	8.8%	8.1%	6.5%
State of MN	4,375,099	4,919,479	5,452,500	5,909,700	6,268,400	12.4%	10.8%	8.4%	6.1%

Source: Hazel Reinhardt Memo dated November 2, 2005. US Census Bureau, Metropolitan Council, State Department of Administration.

Alternate forecast is based on State demographic population projections (Dept of Admin) for 2004 (729 for Dundas and 18,584 for Northfield) and 100 new residential units per year each in Dundas and Northfield and 2.5 persons per household for every year after 2004.

[1] Anoka County, Carver County, Dakota County, Hennepin County, Ramsey County, Scott County and Washington County.

Over the forecast period, the SE Minnesota Planning District, the Metro area, Dakota and Rice Counties all show declining growth rates. In contrast, Dundas is projected to have higher growth rates and the highest rate of population growth, 130 percent, from 2000 to 2010 according to the forecast by former state demographer Hazel Reinhardt. (The alternative forecast shows higher growth rates based on continuation of current residential building activity.) With a very small population base, these high growth rates are not unusual for communities going through the initial urbanization/suburbanization growth trajectory. All communities and regions shown in the Table are projected to gain a significant amount of population through 2030.

By 2030, the population forecast by former state demographer Hazel Reinhardt projects that Dundas will have over 4,000 people. The alternate forecast based on current building activity projects a larger population of over 7,000. The projected rate of growth for Dundas and Northfield between 2000 and 2030 is anticipated to be much higher than that for Rice County, indicating that disproportionately higher levels of growth will occur in the Dundas/Northfield area. The Dundas/Northfield area is estimated to have higher rates of growth compared to Faribault over the forecast period and grow in size nearly equal to Faribault, thus rivaling Faribault as the largest population center in Rice County.

The Dakota County cities are included in the Economic Trends and Indicators section of the report for comparison purposes. Profiles of industrial parks located in each of those communities are provided later in this report.

B. Labor Force

Rice County's labor force is projected to increase by 19 percent from 2000 to 2010, or by about 597 new employees per year. This is a higher rate of growth compared to the Twin Cities Metro Area and the SE Minnesota Planning District which are expected to increase by 17 percent and 14 percent, respectively.

Table 2: Labor Force

	Estimate		Forecast			Percent Change			
	1990	2000	2010	2020	2030	'90-'00	'00-'10	'10-'20	'20-'30
Rice County	26,690	31,009	36,980	40,240	43,300	16.2%	19.3%	8.8%	7.6%
7-County Metro	1,304,846	1,497,888	1,751,820	1,857,660	1,906,940	14.8%	17.0%	6.0%	2.7%
SE Minnesota	218,005	250,694	285,560	301,100	311,800	15.0%	13.9%	5.4%	3.6%
State of MN	2,314,975	2,691,709	3,112,800	3,287,100	3,385,200	16.3%	15.6%	5.6%	3.0%

Sources: US Census Bureau, Metropolitan Council, MN State Dept. of Administration

In 2000, Rice County had an average of 0.55 jobs per resident and the Twin Cities Metro Area had a higher average of 0.57 jobs per resident. In 2030, Rice County is projected to have an average of 0.54 jobs per resident while the Twin Cities Metro Area is anticipated to have a lower

[2] SE Planning District includes Dodge, Fillmore, Freeborn, Goodhue, Houston, Mower, Olmsted, Rice, Steele, Wabasha, and Winona counties.

0.52 jobs per resident. This changing indicator may be indicative of Rice County's growing relative role as a job center. Overall, these ratios indicate health job availability.

C. Population by Age

Over 50 percent of the people living in Rice County in 2000 were under the age of 35 with the largest age group under the age of 20 (Table 3). From 2000 through 2010, the under 20 age group is projected to remain the largest population cohort in the County, but with little change in population compared to 2000, there is virtually no change in growth rates. Significant increase in growth rates are projected for the 55-64 cohort, reflecting the movement of this baby boom subgroup toward retirement. Also notable are the relatively large increases in the 20 -34 age groups, reflecting growth in younger people seeking entry level and mid-level job positions.

Table 3: Population by Age for Rice County

	U.S. Census				Forecast		Percent Change	
	1990		2000		2010		'90-'00	'00-'10
	#	%	#	%	#	%		
Under 20	15,766	32.1%	17,471	30.8%	17,500	27.1%	10.8%	0.2%
20-24	5,266	10.7%	5,775	10.2%	6,980	10.8%	9.7%	20.9%
25-34	7,458	15.2%	6,628	11.7%	9,050	14.0%	-11.1%	36.5%
35-44	6,710	13.6%	8,894	15.7%	7,280	11.3%	32.5%	-18.1%
45-54	4,673	9.5%	6,972	12.3%	9,130	14.2%	49.2%	31.0%
55-64	3,512	7.1%	4,447	7.8%	6,720	10.4%	26.6%	51.1%
65-74	2,988	6.1%	3,201	5.6%	4,110	6.4%	7.1%	28.4%
75 & Over	2,810	5.7%	3,274	5.8%	3,750	5.8%	16.5%	14.5%
Total	**49,183**	**100.0%**	**56,662**	**100.0%**	**64,520**	**100.0%**		

Sources: US Census Bureau, MN Dept. of Administration

The challenge of having a large population under 20 is providing these people with entry level jobs as well as job advancement opportunities over the next 10 to 20 years. It is important that Rice County communities create these job opportunities so that this population does not opt to seek employment elsewhere, such as in the Twin Cities Metro Area. However, as the Metro Area continues to expand southward, encompassing the Dundas/Northfield area, such concerns become less critical.

D. Household Size

Household size is a good indicator of the types of families that are living in the area. A larger household size is generally associated with young families with children. These types of households are common in communities on the metro growth edge where land and housing costs are more affordable. Northfield has consistently had the highest household size among the communities surveyed (Table 4). This may be attributed to the large college student population present in the City which oftentimes share housing. Dundas has had a lower household size, one

that more closely resembles that of the Twin Cities Metro Area while Rice County continues to maintain a relatively high household size in comparison to the Twin Cities Metro Area and the SE Planning District. The types of housing being built in Dundas subdivisions tend to be affordable and attractive to young families with children. If Dundas continues to see this type of housing development, one could expect the household size in Dundas to increase or not decrease as rapidly.

Table 4 Household Size

		U.S. Census		Forecast		Percent Change			
		1990	2000	2010	2020	'90-'00	'00-'10	'10-'20	'20-'30
Rice County	Dundas	2.73	2.57	2.45	2.39	-6.1%	-4.6%	-2.6%	4.7%
	Faribault	2.67	2.79	2.69	2.65	4.4%	-3.5%	-1.5%	-2.6%
	Northfield	3.57	3.49	3.35	3.13	-2.2%	-4.0%	-6.5%	-6.9%
Dakota County	Farmington	2.88	2.97	2.73	2.58	3.1%	-7.8%	-5.6%	-0.8%
	Lakeville	3.17	3.17	2.95	2.76	0.1%	-7.1%	-6.3%	-4.0%
	Rosemount	3.10	3.08	2.84	2.69	-0.6%	-8.0%	-5.3%	-1.6%
	Dakota County	2.80	2.71	2.61	2.47	-3.1%	-3.8%	-5.6%	
	Rice County	3.01	3.00	2.85	2.75	-0.3%	-4.9%	-3.7%	-2.1%
	7-County Metro	2.61	2.59	2.56	2.56	-1.1%	-1.1%	0.2%	-0.5%
	SE Minnesota	2.70	2.63	2.54	2.46	-2.6%	-3.6%	-2.9%	-2.4%
	State of MN	2.66	2.60	2.50	2.42	-2.2%	-3.7%	-3.1%	-2.4%

Sources: US Census Bureau, Metropolitan Council, MN State Dept. of Administration; Hazel Reinhardt

E. Educational Attainment

The majority of residents in Dundas, Rice County and the Twin Cities Metro Area have at least a high school education according to 2000 Census data (Table 5). Dundas and Northfield both have a greater percentage of people who have completed high school as well as a greater percentage of people who have some college education versus those in Rice County or the Twin Cities Metro Area. High educational attainment in the Dundas/Northfield area is likely due to the presence of St. Olaf and Carlton Colleges. All of the residents living in Dundas in 2000 had at least a high school education, while there was a small population of people in both Rice County and the Twin Cities Metro Area who had not completed high school.

The high educational attainment in the Dundas area, in comparison to other communities in Rice County and/or the Twin Cities Metro Area, is significant in that it represents a well educated workforce. Having a well educated workforce is important to sustaining existing businesses and for recruiting new industries to the area. The City of Dundas can use these indicators as a marketing tool to generate interest in companies who may consider relocating to Dundas.

Table 5: Educational Attainment, Age 25 and Over, 2000.

	Dundas		Rice County		Twin Cities Metro Area	
	#	%	#	%	#	%
No schooling completed	0	0.0%	378	1.3%	16,687	1.1%
High school graduate	134	46.7%	11,016	38.2%	412,907	26.4%
Some college	93	32.4%	7,877	27.3%	409,609	26.2%
Associates degree	14	4.9%	2,096	7.3%	128,876	8.3%
Bachelor's degree	24	8.4%	4,764	16.5%	411,587	26.4%
Master's degree	14	4.9%	1,622	5.6%	119,555	7.7%
Professional school degree	4	1.4%	478	1.7%	42,247	2.7%
Doctorate degree	4	1.4%	611	2.1%	19,662	1.3%
Total	**287**	**100.0%**	**28,842**	**100.0%**	**1,561,130**	**100.0%**

Sources: US Census Bureau

F. Household Income

According to the 2000 Census, households in the City of Northfield had a significantly higher median income than those living in Rice County, the SE Planning and Economic Region and even the Twin Cities Metro Area (Table 6). The median household income in Dundas in 2000 was slightly higher than that of Rice County or the SE Region. High median incomes in the Dundas/Northfield area is likely attributed to the higher education jobs available at St. Olaf and Carlton College as well as strong manufacturing and health care jobs in the area.

Table 6: Median Household Income, 1999

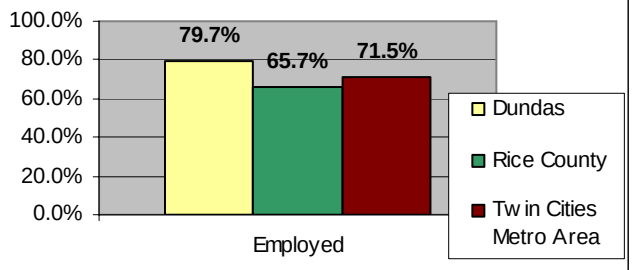
Dundas	$51,429
Northfield	$75,580
Rice County	$48,651
7-County Metro	$59,358
SE Minnesota	$42,932
State of MN	$47,111

Sources: US Census Bureau

G. Labor Force Participation Rates

The labor force participation rate is significantly higher in Dundas compared to Rice County and above that for the Twin Cities Metro Area (Figure 1). In Dundas, 80 percent of residents over the age of 16 are in the labor force, while 66 percent and 72 percent are in the labor force in Rice County and the Twin Cities Metro Area, respectively.

Figure 1: Labor Force Participation Rates



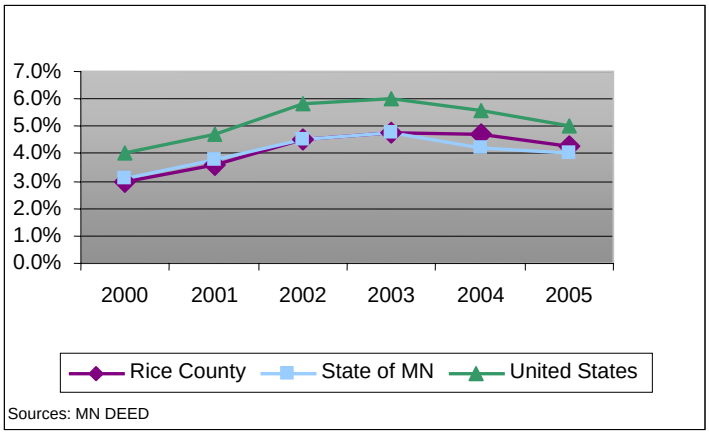
Source: US Census Bureau

Higher participation rates in Dundas reflect a smaller retired population as well as a low unemployment rate. Oftentimes labor participation rates are lower in some communities due to a large senior (retired) population. Because Dundas' population is relatively young, it is anticipated that this labor participation rate will continue to be high in the years to come.

H. Unemployment Rates

In 2005, just over four percent of Rice County's labor force was unemployed. This percentage was slightly higher than the State of Minnesota's annual average but somewhat lower than the National average (Figure 2). Rates in all jurisdictions have continued to increase since 2000.

Figure 2: Average Annual Unemployment Rates



Sources: MN DEED

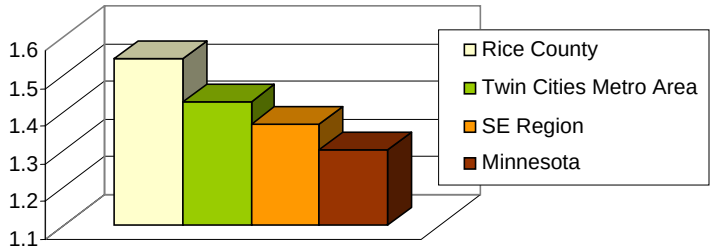
The unemployment rate in Rice County has continued to remain relatively in line with that of the State of Minnesota. From 2000 to 2003, Rice County's unemployment rate remained less than or equal to the State's, however, in 2004 Rice County's unemployment rate dropped only 0.1 percent while the State's decreased by 0.6 percent.

I. Job - Housing Balance

Having a balance between the number of jobs per housing unit is very important for a thriving community with implications on commuting trends.

In 2000, Rice County had an average of 1.55 jobs per housing unit (Figure 3). This number was slightly higher than the Twin Cities Metro Area and the SE Planning District and significantly higher than the State as a whole. Having a high jobs-housing ratio signifies a healthy economy. It is an indication that residents have a better chance of finding work close to home, thus minimizing commuting time. Note that this is a macro indicator and does not assess an actual match between jobs and those qualified or interested in those jobs. Despite a healthy jobs-housing balance, SE Minnesota communities within reasonable commuting distance of the metro area are seeing significant numbers of people commuting to the Metro area for jobs (Table 7).

Figure 3: Jobs-Housing Balance, 2000



Source: US Census Bureau

Table 7: Place of Work - 2000

	Workers	Work in Place of Residence		Work in Metro Area	
		#	%	#	%
Cannon Falls	1,995	931	46.7%	758	38.0%
Faribault	9,584	6,107	63.7%	1,483	15.5%
Northfield	8,519	5,988	70.3%	1,809	21.2%
Owatonna	11,848	9,553	80.6%	626	5.3%
Red Wing	8,055	6,290	78.1%	1,157	14.4%
Sources: US Census Bureau; Hazel Reinhardt					

J. Employment and Wages

Rice County has a diverse employment base. Manufacturing is the largest single sector of employment, providing 20 percent of Rice County jobs (Table 8). Within manufacturing, food manufacturing employment is especially strong, with 8 percent of total jobs in the County, or 41

Table 8: 2004 Employment by Industry, Rice County, MN

Industry	Firms	Employees	Percent	Average Wage
Educational Services	51	3,561	15.78%	38,908
Total Manufacturing- all mfg. industries	70+	4,664	20.67%	N/A
-Food Manufacturing	12	1,928	8.54%	N/A
-Machinery Manufacturing	12	808	3.58%	N/A
-Fabricated Metal Product Manufacturing	14	571	2.53%	N/A
-Computer and Electronic Product Mfg	6	556	2.46%	N/A
-Plastics & Rubber Products Manufacturing	4	178	0.79%	N/A
-Misc Manufacturing	N/A	152	0.67%	N/A
-Furniture and Related Product Mfg	11	76	0.34%	N/A
-Nonmetallic Mineral Product Mfg	8	343	1.52%	N/A
Health Care and Social Assistance	102	2,971	13.17%	29,578
Retail Trade	216	2,750	12.19%	20,779
Accommodation and Food Services	99	1,688	7.48%	10,132
Construction	238	1,407	6.24%	38,406
Public Administration	32	1,304	5.78%	34,618
Wholesale Trade	71	924	4.10%	47,993
Other Services, Ex. Public Admin	123	616	2.73%	17,015
Finance and Insurance	60	440	1.95%	43,272
Administrative and Waste Services	64	427	1.89%	21,984
Professional and Technical Services	109	336	1.49%	44,799
Arts, Entertainment, and Recreation	26	255	1.13%	13,842
Information	24	227	1.01%	32,428
Management of Companies and Enterprises	4	205	0.91%	20,283
Agriculture, Forestry, Fishing & Hunting	29	204	0.90%	28,282
Truck Transportation	27	144	0.64%	4
Real Estate and Rental and Leasing	47	110	0.49%	23,857
Printing and Related Support Activities	7	52	0.23%	N/A
Mining	4	42	0.19%	50,731
Total, All Industries	**1,441**	**22,563**	**100%**	**32,966**
Source: US Census Bureau, County Business Patterns 2004. http://www.census.gov/epcd/cbp/download/dwncbp04.html				

percent of all manufacturing jobs. Industries that use space in industrial/business parks-manufacturing, wholesale trade, transportation and warehousing, construction, etc. employ approximately one third of all jobs in Rice County. Other major industries in the County are not typical users of industrial parks. These industries include education, health care, retail stores, professional services, and other industries.

Rice County has a reasonably diverse employment mix, however, a fair number of jobs are concentrated in a few businesses in some industries. This overall diversity offers protection against a decline in a specific industry having a large economic impact in the region. Industries where there is a high concentration include food manufacturing where 12 companies employ 2,000 workers, machinery manufacturing where 12 firms employ 808, and electronic product manufacturing where six firms employ 550 workers. A small number of firms employing large numbers of employees may leave the region's economy vulnerable in case of an economic downturn in a particular industry. In contrast, a diverse economic base with smaller firm sizes may provide more flexibility and help to temper the region-wide effects if a single industry declines.

In terms of wages, Rice County employers provide competitive compensation in several industries including manufacturing, construction, and wholesale trade. The average annual wage in the County in 2003 was $24,850, compared with an average wage of $35,823 in the State of Minnesota. While above average wages in Rice County are found in manufacturing ($34,927), education ($38,908), wholesale trade ($47,993), and construction ($38,406), they lag behind state averages for the same industries by $5,000 to $10,000 per year. This presents an opportunity for economic development in Rice County if productivity is comparable to "industrial" workers in other parts of the state.

K. Competitive Position – Location Quotient Analysis

The above discussed demographic, labor force, jobs balance and occupational characteristics have an important bearing on a community's economic growth potential. However, other factors ranging from labor productivity to export orientation of local businesses also play a large role and will be discussed next.

Economic development opportunities that may be available to Dundas-Northfield will result in part, from the area's overall competitiveness in attracting industries relative to other region's statewide. This evaluation examines the area's current competitiveness and how it has changed since 1998 using the Location Quotient (LQ), an economic analysis tool. This tool, or benchmark, measures how competitive firms in Rice County are compared to other firms operating in the same industry statewide. The analysis will identify the most competitive industries in the area and will help guide Dundas in creating appropriate economic development strategies. Some LQ analyses compare local industries to industries nationally. The state was used as the comparison in this analysis because growth in Dundas-Northfield is likely to be influenced more by the regional and state economy than by national or global influences. The LQ is computed as a ratio between the county and the state (see sidebar on next page).

Data Source

To conduct this analysis, data was obtained from the United States Census Bureau. The data used is a county-level dataset of business patterns. The data includes information on the number of employees and establishments between 1998 and 2002. This data is organized by industry under the North American Industrial Classification System (NAICS code) and subcategories of industries. The NAICS system was implemented with the North American Free Trade Agreement as a means to standardize job classifications. The system was created to facilitate a wide range of comparisons and study methods, including the one used in this report. Rice County data is reasonably complete, but some industries' (including transportation and warehousing) employment figures were suppressed by the Census Bureau to protect confidentiality of specific employers. These industries' employment figures were estimated based on the number of establishments and average firm size.

Competitive Strengths and Weaknesses for Rice County

Table 9 lists Rice County industries and the LQ associated with each industry. The list was edited to exclude industries for which data was not available.

LQ Method

A location quotient (LQ) is calculated as a local industry's share of total local employment divided by the same industry's share of employment at the state level.

A value greater than 1.0 indicates an industry concentrated at the local level. Such industries produce more than are needed for local consumption and are thus identified as export-oriented industries.

A value less than 1.0 indicates a sparsely concentrated industry. This local industry does not provide sufficiently for local consumption and the local economy must import products or services from other regions to meet its needs. A LQ equal to 1.0 indicates that the local and statewide industry is perfectly proportional.

$$LQ = \frac{\text{Countywide jobs in an industry / Total County Jobs}}{\text{Statewide jobs in an industry / Total US Jobs}}$$

The County has many strong non-"industrial" export-oriented sectors, such as education, health care, and retailing. Because this analysis focuses on industrial land users, these industries were not considered for industrial competitiveness, but are provided to establish the basic industries that drive the Rice County economy.

Using this analysis, trends can be found in the competitive strength of various industries that are users of industrial land. Based on the 5 year average LQ score and how that score has changed over time, each industry was classified into on of four trend categories:

Strong and Growing- Industries which enjoy strong competitive advantage. The competitiveness of the industry in Rice County has increased over the past five years.

Mature- Industries that enjoy competitive advantage, but have declined slightly in strength since 1998.

Emerging Sectors- These industries are currently still somewhat competitively weak, but have shown increased competitiveness and may be worth tracking or developing.

Weak and Declining- Industries that offer no competitive advantage in Rice County, and most local needs for these industries are met with imports.

Figure 4: Competitive Position for Rice County Industries

5-Year Average LQ Score	Declining rate of growth (-)	Increasing rate of growth (+)
LQ > 1	**Mature Industries** (LQ>1, declining rate of growth) Nonmetallic mineral product manufacturing Fabricated metal manufacturing Building, developing, general contracting Manufacturing (overall) Plastics Manufacturing Agriculture & Forestry support activities	**Strong and Growing** (LQ>1, increasing rate of growth) Food Manufacturing Machinery Manufacturing Waste Management & Remediation
LQ < 1	**Weak and Declining** (LQ<1, declining rate of growth) Printing and related support activities Computer equipment manufacturing Wholesale trade, durable goods	**Emerging Sectors** (LQ<1, increasing rate of growth) Truck Transportation Transportation and Warehousing Construction Wholesale Trade, nondurable goods

Change in Competitive Position (1998 – 2002)

Location Quotient Analysis Implications for Industrial Growth in Dundas

This analysis shows that Rice County has many industries that may be classified as "mature." These industries enjoy current competitive advantage, but often an industry's "mature" classification is synonymous with potential future decline as the industry begins to lose its advantage over other locations in Minnesota and worldwide. Stabilizing and rejuvenating these industries should be a focus of economic development efforts. Such efforts could include research to identify strategies Dundas could pursue to help these industries maintain competitiveness.

Another area of priority is the strong and growing industries category. Given strong past performance and growth potential, these industries could be a key recruitment target. These industries in Rice County include food manufacturing firms and machinery manufacturers. There are few but large employers, some of which are located in Northfield. Sufficient sewer capacity and infrastructure for food manufacturers is important and planning to ensure adequate long term capacity for water and sewer is a critical element of planning for employment growth in Dundas.

Table 9: Location Quotients for Selected Industries.
Organized by Average 5-year LQ, high to low Rice County vs. State of Minnesota, 1998 to 2002

Job Classification	NAICS	1998	1999	2000	2001	2002	5 Year Average	Change, 98-02
Educational services	61----	7.45	5.22	7.45	9.95	**9.70**	**7.96**	**2.25**
Nonmetallic mineral product mfg	327///	5.92	5.28	5.92	7.28	**5.66**	**6.01**	**-0.26**
Food mfg	311///	5.12	5.17	5.12	5.07	**5.90**	**5.28**	**0.79**
Agriculture & forestry support activities	115///	3.51	8.79	3.51	0.00	**0.25**	**3.21**	**-3.26**
Machinery mfg	333///	2.37	2.53	2.37	2.82	**3.21**	**2.66**	**0.84**
Nursing & residential care facilities	623///	2.09	2.10	2.09	2.03	**1.85**	**2.03**	**-0.25**
Non-store retailers	454///	1.78	1.86	1.78	1.87	**2.01**	**1.86**	**0.23**
Plastics & rubber products mfg	326///	2.19	2.68	2.19	2.15	**0.00**	**1.84**	**-2.19**
Fabricated metal product mfg	332///	1.83	1.86	1.83	1.65	**1.76**	**1.79**	**-0.07**
Hospitals	622///	0.00	0.00	0.00	0.00	**8.44**	**1.69**	**8.44**
Building, developing & general contracting	233///	1.67	1.90	1.67	1.69	**1.34**	**1.65**	**-0.33**
Manufacturing	31----	1.47	1.51	1.47	1.41	**1.41**	**1.45**	**-0.06**
Credit intermediation & related activities	522///	1.78	1.90	1.78	0.86	**0.67**	**1.40**	**-1.11**
Food & beverage stores	445///	1.36	1.43	1.36	1.25	**1.14**	**1.31**	**-0.22**
Motor vehicle & parts dealers	441///	1.33	1.33	1.33	1.27	**1.13**	**1.28**	**-0.20**
Publishing industries	511///	1.43	1.13	1.43	1.40	**0.60**	**1.20**	**-0.84**
Construction	23----	1.16	1.31	1.16	1.19	**1.01**	**1.17**	**-0.15**
Accommodation & food services	72----	1.17	1.18	1.17	1.13	**1.14**	**1.16**	**-0.03**
Waste management & remediation services	562///	1.10	1.10	1.10	1.16	**1.33**	**1.16**	**0.23**
Furniture & related product mfg	337///	1.10	1.37	1.10	1.22	**0.87**	**1.13**	**-0.23**
Special trade contractors	235///	1.08	1.26	1.08	1.14	**0.96**	**1.10**	**-0.12**
Retail trade	44----	1.03	1.09	1.03	0.99	**0.95**	**1.02**	**-0.09**
Information & data processing services	514///	1.35	1.31	1.35	0.00	**1.05**	**1.01**	**-0.30**
Gasoline stations	447///	0.99	1.06	0.99	0.86	**1.16**	**1.01**	**0.17**
General merchandise stores	452///	0.94	1.03	0.94	1.16	**0.92**	**1.00**	**-0.02**
Rental & leasing services	532///	1.05	1.23	1.05	0.93	**0.64**	**0.98**	**-0.41**
Transit & ground passenger transportation	485///	0.00	3.72	0.00	0.00	**1.16**	**0.98**	**1.16**
Repair & maintenance	811///	0.93	1.01	0.93	0.86	**0.73**	**0.89**	**-0.20**
Heavy construction	234///	0.85	0.71	0.85	0.53	**0.86**	**0.76**	**0.00**
Bldg material & garden equip & supp dealers	444///	0.66	0.75	0.66	0.68	**0.91**	**0.73**	**0.26**
Wholesale trade, nondurable goods	422///	0.55	1.19	0.55	0.42	**0.91**	**0.72**	**0.36**
Amusement, gambling & recreation industries	713///	0.80	0.64	0.80	0.63	**0.43**	**0.66**	**-0.37**
Forestry, fishing, hunting, and ag. support	11----	0.82	1.18	0.82	0.00	**0.07**	**0.58**	**-0.74**
Wholesale trade	42----	0.55	0.80	0.55	0.46	**0.52**	**0.57**	**-0.03**
Museums, historical sites & like institutions	712///	0.00	0.00	0.00	1.37	**1.33**	**0.54**	**1.33**
Wholesale trade, durable goods	421///	0.57	0.58	0.57	0.49	**0.30**	**0.50**	**-0.27**
Real estate & rental & leasing	53----	0.55	0.60	0.55	0.40	**0.36**	**0.49**	**-0.19**
Transportation & warehousing*	48----	0.54	0.50	0.54	0.47	**0.37**	**0.48**	**-0.16**
Printing & related support activities	323///	0.51	0.53	0.51	0.42	**0.39**	**0.47**	**-0.13**
Truck transportation	484///	0.00	0.86	0.00	0.82	**0.59**	**0.45**	**0.59**
Computer & electronic product mfg	334///	0.00	0.00	0.00	0.98	**0.15**	**0.23**	**0.15**
Transportation support activities	488///	0.00	0.72	0.00	0.00	**0.00**	**0.14**	**0.00**

***Industries with small/no employment, suppressed data were excluded from this list**

Emerging sectors are potential targets for development as well. These industries include transportation-related industries such as trucking and warehousing. In particular, Dundas has access to the Union Pacific Railroad mainline tracks, which offers the opportunity to create a competitive niche in the industrial real estate market. Finally, as growth of the Minneapolis-St. Paul metropolitan area continues southward, demand by wholesale trade of nondurable goods and trucking/warehousing and distribution will grow in this area. Construction services will also grow to support expanding residential and commercial building activity.

Comparison with Southern Minnesota Industry Inventory: Cluster Study Project

The Southern Minnesota Initiative Foundation (SMIF) completed a study in 2003 of industries in Southeast Minnesota. This project used a location analysis along with other tools to identify industries in Southern Minnesota that held promise for economic development and strong export potential. The report expands the scope of analysis beyond Rice County and offers insight into industries in a wider geographical range that may be relocation targets as part of a larger Dundas economic development program.

The study area included a 20-county area, including Rice County. The study analyzed several industries and generated a matrix (Table 10) showing opportunity areas for key Southern Minnesota industries. The findings of the SMIF report vary to some degree from the findings of the Rice County LQ study summarized above. Some of the weaker industries in Rice County such as computer/electronics manufacturing and printing/publishing occupy a stronger competitive position and are promoted in the SMIF report.

Table 10: SMIF Key Industry Assessment

Industry	Export level	Innovation	Growth Potential	Employment Growth	Employment Quality	Employment Concentration
Food Mfg.	+	+/?	?/-	-	-	+
Printing/Publishing	+	0	0/-	-	+	+
Computers/ Electronic Mfg.	+	+	+	+	+	+
Metal Products Mfg.	+	-	?	-	+	+
Machinery Mfg.	+	+	?	-	+	+
Transportation	0	-	?	0	+	0
Non metallic mineral/Glass mfg.	+	+	0/?	0/?	+	+

Source: Southern Minnesota Initiative Foundation
Key: + = positive, - = negative, 0 = neutral, ? = unknown

L. Summary: Economic Factors Show Positive Environment for Industrial Growth

The demographic and economic indicators portend a positive environment for job growth in the Dundas/Northfield area. Located on the fringe of the metro area, Dundas/Northfield continues to add population and households at a higher rate than Rice County and is projected to be the fastest growing population center in Rice County. Rice County is a vibrant economic area itself with growing numbers of jobs and relatively low rates of unemployment, thus providing a good source of employment for industry in the Dundas/Northfield area. Rice County also maintains a high jobs-housing balance in comparison to the Twin Cities Metro Area and the SE Planning District which is another indication of local job growth. These are good indicators for industry looking to relocate and/or expand and should be part of a larger economic development communications strategy. Other important factors in which the Dundas/Northfield area excel include its young, well educated population; the availability of land for new development; and its close proximity to the Twin Cities Metro Area.

Statewide demographic and employment analyses also support industrial growth opportunities in the Dundas/Northfield region. Minnesota state demographic projections show the highest growth in population and labor force to be in a band of counties from Cass County in the north through the Twin Cities Metro area to Olmsted County in the southeast[3]. State manufacturing employment in 2010 is projected to be primarily located in the Twin Cities region and southern Minnesota. Wholesale/warehousing employment is projected to be primarily in the Twin Cities and central regions with the largest increase by 2020 in warehousing[4].

[3] Minnesota State Demographic Center. "Minnesota Labor Force Projections: 2000-2030."
[4] DEED. Labor Market Information. "Employment. Outlook Tool."

3. INDUSTRIAL PARKS: TRENDS, PROFILES AND LAND USE

This section provides an overview of industrial park and real estate development issues. In order to better understand the local and regional environment in which Dundas competes, four existing industrial parks/areas will be reviewed including property tax impacts. The four existing industrial areas include Airlake in Lakeville, a city initiated Business Park in Rosemount, an industrial area in Farmington as well as the Northern and Airtech industrial parks on the north side of Faribault. This section will also examine the transportation issues affecting industrial growth and location as well as land use regulations and a summary of business owner's needs based on a survey of industrial businesses.

A. Industrial Land Development Trends

Industrial land development is inherently about supporting the manufacturing, trade and distribution functions of business. Every step of the supply chain process, the system of moving goods from producer to end user, requires places to make, store, and distribute products. Industrial land that houses these functions makes up the largest sector of the nation's real estate both in area and value. Major changes in supply chain technology and management as well as economic globalism have significant implications for industrial real estate development. Industry practices including just-in-time product deliveries, zero-to-minimal inventory storage, e-commerce and increasing speed to market are driving these changes.

Industrial real estate has traditionally been classified in three main categories. Warehouse and distribution facilities make up approximately 70 - 80 percent of land use, manufacturing and assembly around 10 - 20 percent of land and research and development or high tech about 10 percent. Office space, showrooms and incubator spaces may also be included in the industrial land mix. The mix can vary widely depending on local market conditions and land location. Warehouse and distribution facilities generally require large land areas for vehicle and product movement and storage and have a low employee to square foot ratio. Of the three types of facilities, warehouse and distribution generally have the lowest value per square foot and hence a lower tax value. Manufacturing facilities have higher levels of investment in machinery and employment per square foot with R & D facilities having the highest investment per square foot and hence largest tax value overall.

Because of their varying functions, value, and employment needs, these different categories of industrial land users will seek out different locations. Warehouse and distribution facilities seek land at the lowest costs with good transportation access. Both manufacturing and R&D functions also desire good transportation access, but they are also willing to pay more for land to be closer to labor and end user markets.

<u>Industrial Land Development Trends</u>

- Land prices, availability of land and traffic congestion in metro markets are pushing development of large transportation and distribution businesses to the fringe with good freeway access.

- Globalization is generating demand for large regional distribution facilities and new transshipment points. Land near major markets where goods can be transferred from one shipping mode to another are becoming more valuable.

- Changes in retailing practices are influencing demand for industrial facilities. The growth of big box retail stores is increasing the demand for centralized regional distribution centers where full truck loads of merchandise are sorted and loaded for direct store delivery. These facilities often employ large cross-docking facilities. An example is a new 880,800 square foot regional Wal-Mart food distribution center being built in Mankato to serve a four-state region.

- The practice of local finish and customization is a growing part of the market. Major multinationals often import bulk quantities of standard products and then ship them to local engineering and configuration centers for feature enhancement and/or private labeling to serve a local or regional need.

- Average shipment sizes and weights have been declining in recent years due to technology and design efficiencies, however delivery frequencies are increasing. This trend spurs demand for close-by, fast-throughput cargo facilities.

- Locational decisions for warehouse-distribution centers depend largely on access to suppliers and consumers. The shorter the selling cycle, the greater the demand for close-in land and facilities. Products with a longer selling cycle often warehouse in more remote or rural facilities. Large-scale distribution is also increasingly dependent on major hubs such as airports and highway intersections and ideally where rail, road and air facilities converge.

- Convenient highway access is less important for light assembly and high-tech businesses, but is usually very important for wholesale trade and distribution businesses.

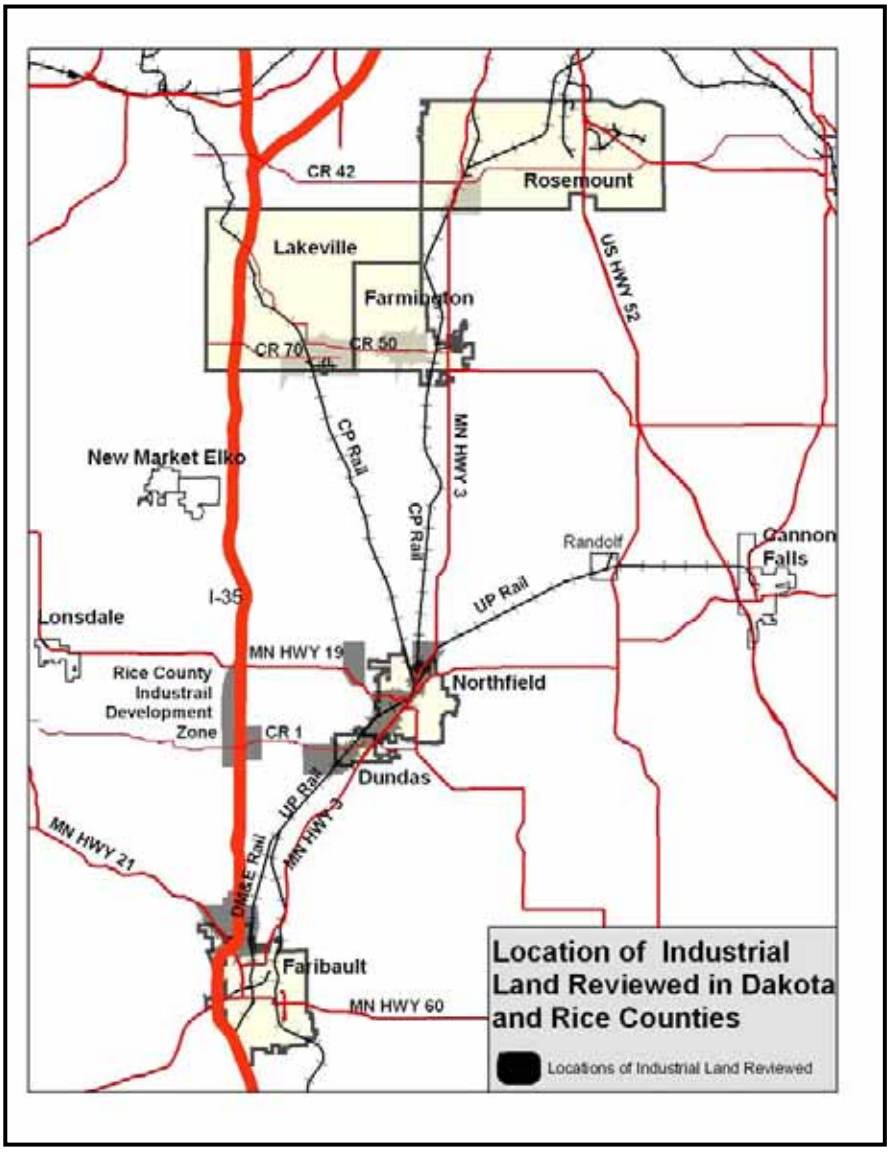
- Most industrial development is initiated and developed by the private sector. However, cities play an important role in facilitating development through a variety of organizational structures and financing tools (Appendix A)

B. Profiles of Four Industrial Areas/Parks

Industrial sites in four communities were selected as "case studies" for Dundas. Industrial areas in the Dakota County cities of Rosemount, Farmington and Lakeville and two areas in Faribault were chosen as they were all developed and initiated as an "industrial park" concept (Figure 5). In these cases, either the city or private developer was directly involved in the initial development and marketing of the land as part of unified development concept. These areas are also within reasonable distance of Interstate 35.

The map at right shows the location of these industrial areas as well as industrial land in the Dundas/Northfield area and Rice County's proposed highway commercial development at County Road 1 and Interstate 35. The Rice County project and Faribault sites provide the most direct competition to potential industrial land in Dundas. Land status in each reviewed area was classified as vacant, developed or redeveloped using the criteria listed in Appendix B.

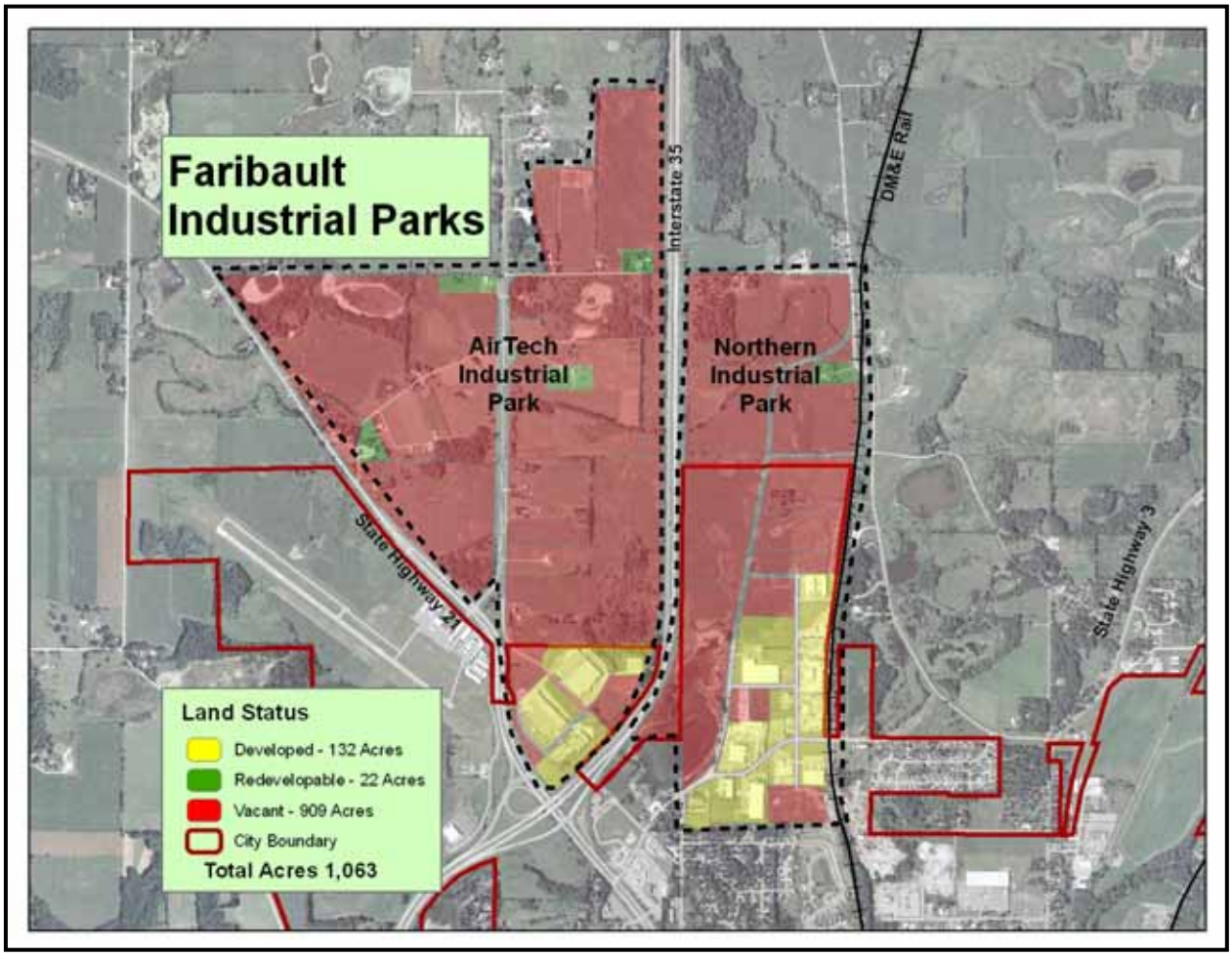
Figure 5: Location of Industrial Areas Reviewed



Faribault

The City of Faribault has guided large areas on the north side of the city and straddling Interstate 35 for industrial uses (Figure 6). The older Northern Industrial Park and newer Air Tech Industrial Park together contain over 1000 acres of land guided for industrial use. Both parks were initiated by private developers who assembled land and marketed it for industrial development. The city worked closely with the developers in this process in the installation of city sewer and water and road construction.

Figure 6: Faribault Industrial Parks.
See Appendix B for land status classification criteria



Northern Industrial Park is located east of the interstate and contains about 350 acres, of which 213 are within the city and 137 acres outside the current city boundary (Table 11). About 100 acres within the city remain available for development. Rail access is available on the eastern edge of the Northern Industrial Park. One spur from the DM&E Rail serves two companies including Metcon Lumber and is available for extension. This rail line is in poor condition between Comis Junction (north of Faribault) to Owatonna with top speeds of 30 mph and is not

capable of carrying much traffic. The City loaned funds to these two companies to finance the spur.

The city brought sewer and water services to the park. Extensions of city services and roads are done incrementally to serve new businesses. Loans from city sewer and water funds are used to finance trunk lines. Individual businesses are assessed to pay for their portion of the improvement. Over the past 5 years, 93 acres have been developed in the Northern Industrial park for an absorption rate of 18 acres per year.

Table 11: Northern Industrial Park Land Status (Acres)

	In City	Out of City	Total
Developed	113	0	113
Vacant	100	137	237
Total	213	137	350

The Air Tech industrial park is located west of the Interstate and across from the municipal airport and is designated to include over 650 acres at full build out (Table 12). Currently, three businesses occupying 45 acres have located here in the past three years including a 500,000 square foot distribution center currently under construction on 11 acres. The city assisted the development of the Air Tech Park through use of a TIF district to finance city services to the area. This development over the past three years has occurred at an absorption rate of about 15 acres per year.

Table 12: Air Tech Industrial Park Land Status (Acres)

	In City	Out of City	Total
Developed	45	0	45
Vacant	17	603	620
Total	62	603	665

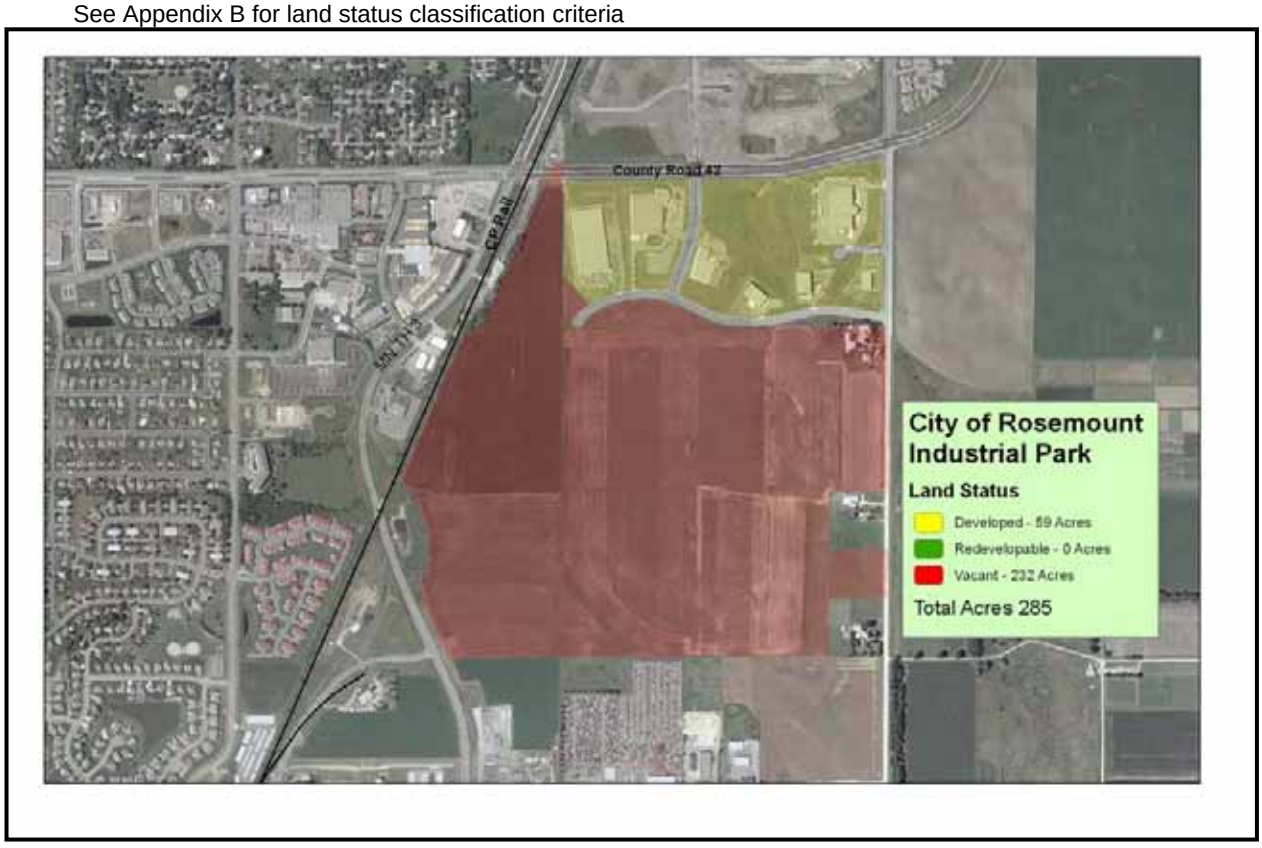
Both Parks access Interstate 35 at Minnesota Highway 21. All land is within two miles of this interchange. It is the City's policy is to install roads and sewer and water services when land is developed and then assesses the land to recover costs. Capital costs to install roads and services are paid by a loan from the sewer and water fund. Land with no city sewer and water has been selling for $.60/square foot, whereas land with city services has been selling for $1.25/square foot.

Rosemount

In 1996 the City of Rosemount created a TIF district to finance the acquisition of land and development of an 80 acre City business/industrial park at the Southeast intersection of Dakota County Road 42 and State Trunk Highway 3 (Figure 7). The city's port authority acted as the developer for this park. The 80 acres has been mostly developed and sold to owner/occupants. Approximately 14 acres of the initial 80 acre park remains available. Five acres were developed in 2005 and no development occurred in 2004. Average parcels size is around 8 acres. Buildings range in size from 10,000 square feet to 128,000 square feet. The city sold the initial land at incentive rates (as low as $1/acre) to encourage development. The business park contains regional ponding and a road system containing attractive landscaping and lighting fixtures. Buildings are very attractive with significant amounts of brick, stucco and glass. The city has high standards for its industrial land. It does not allow outside storage and has high exterior material standards. The idea was that this initial 80 acres would spur high quality private development of the adjacent 220 acres.

To date this adjacent land has not developed due to a variety of factors. The national and local market for industrial land dropped significantly in the late 1990s. The land itself has limited access to the regional transportation network. Despite its location at Dakota County Road 42 and State Highway 3, it is 8 miles from Interstate 35 and five miles from Highway 52. Access to both of these points is on County 42, a major regional collector with frequent signalized intersections. Additionally, the owner of the 220 acres has been reluctant to sell at prices appropriate for industrial land when nearby land zoned for residential use is selling at higher prices. The owner has not acted on recent proposals by a large developer of Industrial and commercial land to acquire and develop the land. This developer indicated that the 220 acres could be developed over a 7 – 10 year period at an annual absorption rate of 22 acres per year.

Figure 7: Rosemount Business Park
See Appendix B for land status classification criteria



A Canadian Pacific mainline rail runs on the west side of the existing 80 acres and adjacent 220 acres. None of the existing businesses have rail access. The City has had discussions with Progressive Rail about developing a rail access park, however, the City decided that it wanted to maintain its high performance standards. Through these discussions, the city re-affirmed that it did not want open storage and the relatively low ratio of investment in building to land that it believed was likely with a rail access park.

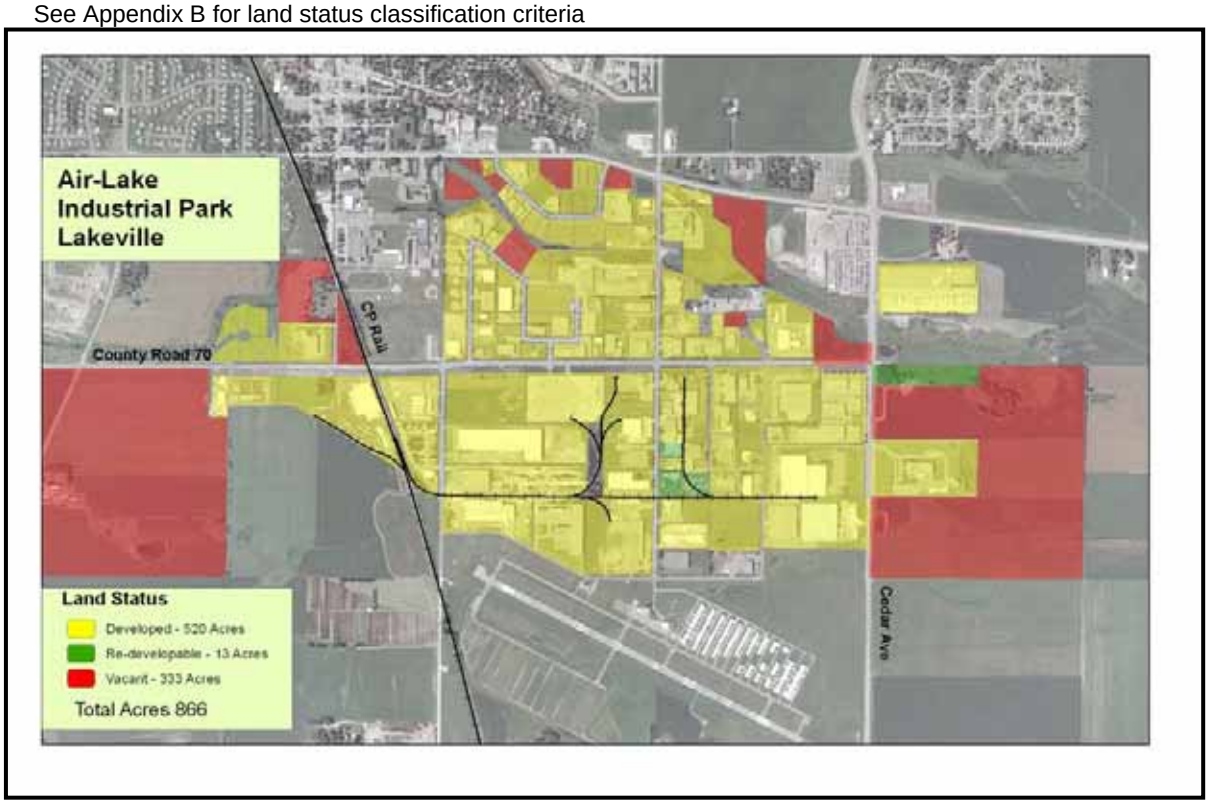
With very little industrial land left in Eagan and Apple Valley, and an improving industrial market, land in Rosemount is becoming more attractive. The city is committed to maintaining its

high standards for industrial development and will wait until the market will support development that meets those standards.

Airlake Industrial Park - Lakeville

The growth cycle of Airlake provides a useful case study of how metro growth southward along interstate 35 and the full inclusion of Lakeville into the metro area economy has generated industrial growth. As the metro areas continues its southward reach, other communities including Dundas/Northfield, may become more closely aligned with the metro economy and less so as a SE Minnesota regional center. Both Airlake and Dundas Industrial land are located about 3 miles east of interstate 35 and have mainline railroads as additional transportation modes. Airlake is in a strong competitive position today due to its location with good regional access and its niche role with rail access.

Figure 8: Air-Lake Industrial Park
See Appendix B for land status classification criteria



Airlake Industrial Park is located on the southern edge of Lakeville approximately 3.5 miles from Interstate 35 on CR 70 (Figure 8). Airlake Industrial Park is the second largest industrial park in the state containing nearly 900 acres of available land and 4000 jobs. It is home to over 120 manufacturing and industrial businesses. Seventeen businesses are connected, via 1500 feet of rail, to the Canadian Pacific Railroad. Approximately 300 acres are vacant and remain available for development, however, none of this land has the potential for rail access.

Airlake was started in 1978 when Lakeville was on the far growth fringe of the metro area. Its growth was initiated and sustained by a private development group that had strong financial capabilities to acquire and market the land and finance improvements.

During its first 10 years (1978 – 1988), development was relatively slow at about 7 – 10 acres per year. Perceptually and physically, Lakeville was not considered in the metro area and was generally considered too far to go for most businesses to invest in. As the metro area expanded outward and the homes of businesses owners moved further out, Lakeville began to be perceived more and more as part of the metro area. As business owners perceived a Lakeville location as within their commuting shed, the pace of development picked up and Lakeville began to capitalize on the "Move Out" market.

The type of development attracted to a Lakeville location also varied with its growth cycle and relative physical/perceptual location. Many early park tenants tended to be relatively low value (property tax perspective) warehouse and distribution firms wanting inexpensive access to Interstate 35. Over time as the relative physical and perceptual location decreased, higher value material processors and manufacturers began to see a Lakeville location as desirable and able to afford rising land prices. As Lakeville approached a population of 30,000, the demand for office/industrial/flex space accelerated. This higher type of industrial development generally provides the highest tax return per square foot due to facilities with higher intensities of use and higher quality of materials and design.

Airlake also enjoys a strong competitive position compared to other industrial areas due to the availability of rail access. Progressive Rail, a short line railroad, based in Airlake Park, has been the lead partner in providing this rail access and recruiting businesses needing such access to the park. Progressive Rail owns the rail in the park which is located on easements provided by the individual land owners. Businesses with rail access include manufacturers and processors of paper, lumber, plastic resins, landscaping and warehouse and distribution enterprises. Many of these businesses have large areas devoted to outdoor storage and for the movement of product to/from rail, processing and truck.

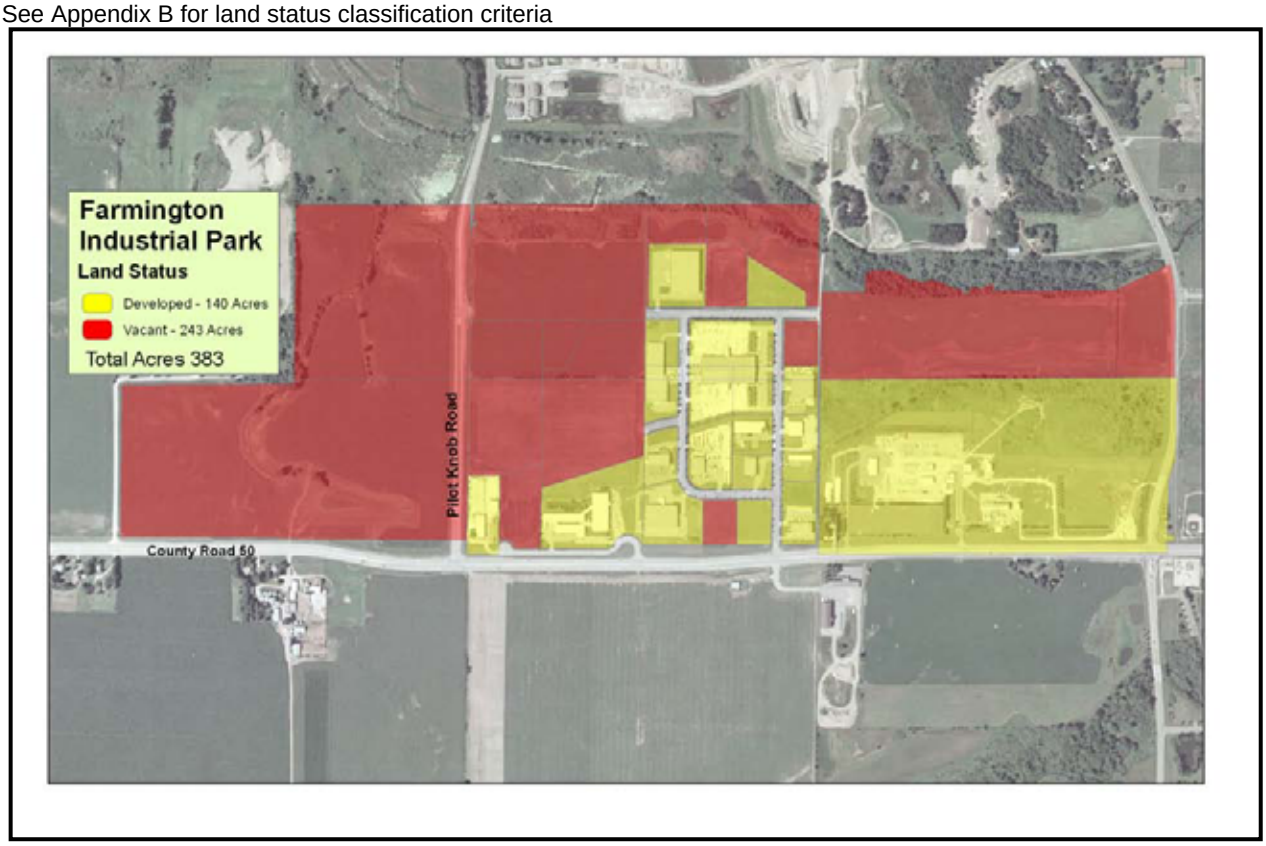
Most parcels with rail access average 11 acres, whereas, the average for the entire park is about 5 acres. Today, smaller parcels (1 – 10 acres) are generally supporting selling prices of $4 - $5 per square foot for land with road access and city services. Larger parcels sell in the range of $3 - $3.5 per square foot. The park has experienced annual absorption rates of 25 – 30 acres per year in recent years. Area developers attribute this strong performance to the physical/perceptual location of Lakeville fully within the metro area and the park's access to both rail and Interstate 35.

Elko-New Market is the likely next location for industrial growth to serve the "move out" segment as the metro area expands southward along Interstate 35. Elko-New Market has 250 acres zoned for industrial development where Scott County Roads 2 and 86 intersect with Interstate 35. Land in both of these areas is within two miles of the interstate. The area at County Road 2 will have metro sewer and water service by 2010.

Farmington

Farmington has a small 57 acre industrial park north of County Road 50 and east of Pilot Knob Road (Figure 9). The initial park is nearly developed, only 4 parcels totaling 11 acres remain. The road and sewer infrastructure are in place to expand to future phases to the east and west. Adjacent to the industrial park to the east is an 80 acre parcel owned by Northern Natural Gas for a regional compressor station. Over 240 acres remains available for future phases of the industrial park and other industrial land development.

Figure 9: Farmington Industrial Park
See Appendix B for land status classification criteria



C. Property Tax Impact of Industrial Land

2005 land and building assessment data available from Dakota and Rice County were used to evaluate and compare the above four case study industrial areas/parks to industrial land in Dundas and Northfield on an "average acre" basis. This information is an approximation of the economic or market value of land and buildings in these areas. Note that land value plus building value equals total market value (Table 13).

Table 13: 2005 Comparative Property Tax Data ($ per Acre)

County Assessment	Valuation and Tax Data for Developed[5] Land ($/ Acre)					
	Dundas (all City industrial zoned)[6]	**Northfield (all City Industrial zoned)**	**Faribault (Air-Tech and Northern)**	**Lakeville (Airlake)**	**Rosemount (City Business Park)**	**Farmington (Industrial Park)**
Land value	30,561	33,151	22,524	74,688	52,343	31,742
Bldg Value	136,942	217,419	162,186	251,524	231,770	173,470
Total Market Value	173,856	249,873	184,939	326,212	284,113	205,211
Property Tax	4,815	9,660	4,647	9,608	9,154	6,241
Property Tax as a percent of Market Value	2.8%	3.9%	2.5%	2.9%	3.2%	3.0%
Improvement percent[7]	79%	87%	87%	77%	82%	84%
Yellow Color	Lowest Value for all compared cities					
Green Color	Highest Value for all compared cities					
Source: Rice and Dakota County Assessors						

Airlake Industrial park in Lakeville had the highest market value for land and buildings and thus the highest overall market value of all compared industrial areas. Dundas had the lowest value for buildings and Faribault the lowest value for land. Because of the significance that building improvements play in overall value, Dundas had the lowest overall market value per acre. Despite lowest overall values in Dundas, Faribault shows the lowest amount of property tax per acre of industrial land. While an acre of land in Airlake Industrial Park had the highest average total value, an acre of land in Northfield had a slightly higher property tax per acre. The percentage of property tax per total market value calculated for an average industrial acre in each city shows that Northfield has the highest percentage by a significant margin.

This data makes comparisons on an "average acre" basis and as such is affected by building-to-land ratios. Dakota County assessment records provide this information whereas Rice County records do not, so competitive comparisons must be qualified on this basis. A visual examination of aerial photos indicates that existing industrial development in Dundas has a very low building-to-land ratio. If so, this would lower the amount of property tax per acre as well as the percent of property tax to total market value.

[5] Developed land is defined as any tax parcel where the building value is 30 percent or greater of the combined building and land value or total value.
[6] Includes College City Beverage
[7] Improvement percent is the value of the building divided by the total value of the parcel.

Estimates provided by the League of Minnesota Cities indicate that Dundas has a much higher property tax burden on businesses than the "average acre" data suggests. The League estimates that a $500,000 business paid 2005 property taxes of $18, 569 in Dundas, $14,974 in Northfield, $12,934 in Faribault and $13, 857 in Lakeville[8]. While these are estimates, Dundas is significantly higher than the others so as to warrant concern over its ability to compete for industrial development. Property taxes are a very important issue for making location decisions to many businesses.

Increasing the commercial/industrial tax capacity (Tax capacity is the parcel market value multiplied by the state assigned class rate for different categories of land) and hence its proportion of a city's total tax capacity is a goal of most communities in order to reduce the tax burden on residential properties. While a high commercial/industrial tax capacity is laudable, it doesn't guarantee lower residential property taxes. Dundas has the highest proportion of total tax base in commercial-industrial properties compared to all other reviewed cities and key groupings of cities prepared by the League of Minnesota Cities (Table 14). Despite this, Dundas has high residential taxes. According to League estimates, a $150,000 homesteaded residence paid $2,110 in property taxes in Dundas in 2005, whereas it was $1,545 in Northfield, $1,102 in Faribault, and $1,358 in Lakeville[9].

Table 14: Tax Capacity Composition for Selected Cities

City	Total Tax Capacity	Tax Capacity Composition (%)				
		Homestead	Non-Hstd Residential	Farm	Commercial-Industrial	Other
Dundas[10]	$889,470	49.14%	3.31%	1.93%	43.38%	2.23%
Northfield	11,612,943	64.81%	10.83%	0.24%	22.68%	1.95%
Faribault	$12,309,699	65.23%	10.37%	0.47%	20.49%	3.45%
Lakeville	$48,222,710	73.67%	6.39%	1.06%	16.38%	2.50%
Farmington	$13,664,564	81.20%	7.44%	0.75%	7.42%	3.19%
Rosemount	$18,307,596	67.37%	7.33%	1.67%	19.77%	3.86%
Aggregate Comparison Categories						
Small Cities	30,014,071	54.97%	8.22%	4.92%	18.41%	13.48%
GMN Regional Centers	$215,921,864	52.03%	10.46%	0.43%	30.77%	6.31%
GMN Total	$875,231,975	53.56%	10.18%	1.01%	27.01%	8.23%
Metro Total	$2,764,069,173	59.09%	11.51%	0.39%	26.66%	2.35%
All MN Cities	$3,639,301,148	57.76%	11.19%	0.54%	26.74%	3.76%

Source: League of Minnesota Cities. "Market Value and Tax Capacity Composition City by City 2005." August 2005.
Note: Individual cities can be compared to a representative aggregate group prepared by the League of Minnesota Cities: Dundas can be compared to Small Cities, Northfield and Faribault to Greater Minnesota (GMN) Regional Centers, and Lakeville, Rosemount and Farmington to Metro Cities.

While Dundas has a high percentage of its tax capacity in commercial and industrial property, this percentage is likely to decrease over time as recent residential construction gets added to the tax roles and dilutes the industrial tax capacity. New commercial development on Highway 3 would be a mitigating factor in maintaining the high proportion in industrial-commercial tax

[8] League of Minnesota Cities Property Tax Calculator
[9] League of Minnesota Cities Property Tax Calculator.

capacity and may be a more cost effective measure for maintaining a strong commercial-industrial tax base than aggressively recruiting industrial development.

D. Zoning Regulations and Performance Standards

Permitted Uses. The land uses allowed by Dundas within its two industrial districts are very similar to those allowed in the comparison group of cities. Within the light manufacturing districts, distribution, warehousing and other industries with modest external impacts are allowed. General industrial districts provide space for raw material processing and processing and manufacturing activities with greater external impacts. With the changing economy and technological advances, few businesses have these types of impacts. Adult uses are also generally allowed in either of these two district types. Aside from adult uses, most other uses specified by all cities in these two types of districts are clearly industrial in nature. Northfield is an exception to this in that commercial uses such as retailing and general service and repair are allowed in its light industrial district. Rosemount's business park is also an exception in that it is more exclusionary than any other area reviewed. Allowed uses of the business park are corporate headquarters, light manufacturing, office showroom/office, warehousing and health care facilities that do not require outdoor storage. Appendix C lists uses for all compared cities.

Accessory Uses. Off-street parking and loading of vehicles associated with the primary use are typical accessory uses. For industrial areas, this means that parking and temporary storage of trucks and semi-trailers are an acceptable use. Because the parking of such vehicles is considered accessory uses, they are not considered outdoor storage and subject to outdoor storage performance standards.

While this treatment of trucks is generally acceptable, large quantities of trucks stored in highly visible locations may contribute to conflicts with adjacent residential and commercial uses and project a poor image if located along highly visible transportation corridors. Dundas may want to regulate outdoor storage of trucks in such locations.

Conditional Uses. The surveyed communities have a variety of different conditional uses. This reflects the function of the conditional use as a method each community uses to regulate uses it uniquely perceives as having special impacts. Common items in many communities include kennels, large liquid fuel storage facilities, outdoor storage and waste/recycling facilities.

With the exception of Rosemount and Lakeville, most communities do not have consistent and specific performance standards stipulating how conditional uses would be deemed acceptable. Dundas has performance standards for certain conditional uses identified in the light industrial district (Outdoor sales, recreational facilities and kennels), but performance standards do not exist for other conditional uses: maintenance garages, contractor's offices and bulk storage of more than 1000 gallons. Conditional uses identified in the General Industrial District that do not have performance standards include: outdoor storage, buildings over 35 feet in height, mining and extraction, refuse transfer stations, creameries and bulk storage of more than 1000 gallons. Creating performance standards for these uses would better assure such uses have minimal negative impacts.

The clear definition of special performance standards for conditional uses is a powerful tool to guide and direct these types of uses that have potential for negative impacts.
Dundas should review its current conditional uses to determine their continued appropriateness. The development of specific performance standards for all conditional uses should then be completed.

Area Requirements

Most cities require a larger minimum lot size and width for general industrial uses compared to light industrial uses (Table 15). This is done to minimize potential negative impacts these industries may have on the surrounding area. Dundas, Lakeville and Faribault all have 1 acre minimum lot requirements. Northfield and Farmington have a 20,000 square foot requirement. This is likely a non-issue as minimum lot sizes demanded by even small businesses are one acre

or larger. Dundas also has a 200 foot lot width requirement, significantly larger than all other cities which may be a competitive disadvantage. In the light industrial area, Dundas and Northfield have the same minimum lot size and lot width requirements and slight variations on setback requirements. In this area, Lakeville has similar requirements and Faribault has a larger 1 acre minimum lot size.

Table 15: Area and Setback Requirements

Lot Requirements	Faribault	Farmington	Lakeville	Northfield	Rosemount	Dundas
General Industrial						
Lot Area	1 acre	20,000 sf	1 acre	20,000 sf	5 acres	1 acre
Lot Width	100 ft	75 ft	100 ft	100 ft	N/A	200 ft
Front Yard Setback	25 ft	30 ft	40 ft	50 ft	75 ft	35 ft
Rear Yard Setback	15 ft	15 ft	30 ft	20 ft	50 ft	30 ft
Abutting residential	50 ft	15 ft	N/A	N/A	N/A	
Side Yard Setback	15 ft	15 ft	15 ft	15 ft	50 ft	10 ft
Abutting residential	50 ft	15 ft	50 ft	N/A	N/A	100 ft
Light Industrial						
Lot Area	1 acre	N/A	30,000 sf	20,000 sf	3 acres	20,000 sf
Lot Width	100 ft	N/A	100 ft	100 ft	240 ft	100 ft
Front Yard Setback	25 ft	N/A	50 ft	50 ft	30 ft	35 ft
Rear Yard Setback	15 ft	N/A	30 ft	20 ft	10 ft	30 ft
Abutting residential	50 ft	N/A	N/A	N/A	N/A	N/A
Side Yard Setback	15 ft	N/A	10 ft	15 ft	10 ft	10 ft
Abutting residential	50 ft	N/A	50 ft	N/A	N/A	100 ft
Industrial/Business Park						
Lot Area	2.5 acres	40,000 ft	N/A	N/A	1 Acre	N/A
Lot Width	100 ft	150 ft	N/A	N/A	120 ft.	N/A
Front Yard Setback	40 ft	50 ft	N/A	N/A	30 ft	N/A
Rear Yard Setback	25 ft	25 ft	N/A	N/A	10 ft	N/A
Abutting residential	50 ft	25 ft	N/A	N/A	N/A	N/A
Side Yard Setback	25 ft	25 ft	N/A	N/A	10 ft	N/A
Abutting residential	50 ft	25 ft	N/A	N/A	N/A	N/A

Faribault generally has the least restrictive setback requirements. Setbacks for all cities are generally insufficient to provide enough area for effective screening. No cities have larger

setbacks for corner lots that could provide opportunities for screening at intersections which are more visible locations. Rear setback in Dundas are 30 feet and larger than other communities. This could be reduced with minimal visual/use impact and provide a small increase in useable land area.

The actual average lot sizes for all reviewed cities are much larger than the minimums indicating that minimums are not having much, if any, impact (Table 16). Market demand for most industrial parcels is resulting in average parcel sizes from 3 to 8 acres. Compared to all other communities, Dundas has the smallest average parcel size at 3 acres despite having a higher minimum lot size than some other cities.

Table 16: Land and Building Data for Compared Cities

	Dundas[11]	Northfield	Faribault	Lakeville	Rosemount	Farmington
Average Parcel Size (Acres)	3	5.62	6	4.78	8.4	7.0
Range (Acres)	.06 – 22.8	.58 - 42	.51 – 18.6	.7 – 21.6	3.5 – 15.6	1 – 80
Average Building Size (Square Feet)	N/A	N/A	N/A	50,641	57,153	35,070
Range (Square Feet)	N/A	N/A	N/A	2,600 – 304,360	10,016 - 128,492	2,223 – 91,820
Floor Coverage Ratio (percent)	N/A	N/A	N/A	.24	.16	.28
Range (Percent)	N/A	N/A	N/A	.01 – 1.16	.1 - .29	.05 - .84

Source: Rice and Dakota County GIS parcel data (March 2006). Dakota County data includes information on building size whereas Rice County does not.

General Landscaping and Screening

All communities require screening of industrial uses (except the front of a building) if adjacent to or across from residential areas. Requirements for general landscaping are limited to providing ground cover over 10 to 20 percent of the lot area. None of the cities have specific requirements for quantity or quality of landscaping material. Dundas requires 15 percent of the lot area to be landscaped.

TP[11]PT Includes College City Beverage

Exterior Materials/Design Standards

Exterior material standards were compared for all cities. Most cities regulate exterior materials through prohibitions and restrictions on certain materials. All cities prohibit corrugated metal or light gage unfinished sheet metal or unfinished/unpainted concrete.

Dundas allows architectural metal panels without restriction. Other cities regulate the amount or surface percentage of this material that can be used. Faribault allows up to 70 percent of it on the front façade and up to 80 percent on other street facing facades. Lakeville allows up to 50 percent on facades facing the public right of way and residential areas. Northfield allows up to 25 percent to be architectural metal (or wood and vinyl). Farmington allows up to 6 percent and Rosemount prohibits it.

Dundas has the most permissive standards on this competitive issue. In terms of competing with Faribault and Northfield, this position may help Dundas compete for and attract new industrial businesses. However, in terms of creating an overall positive visual image for the City, Dundas may consider limiting the use of architectural metal panels in highly visible locations. A higher standard for industrial areas adjacent to residential areas and highly visible transportation corridors will be important for creating a better image for the city. For example, the College City Beverage facility on Railway Street is a highly visible project that exceeds current standards. It will be constructed of colored pre-cast concrete panels and a glass curtainwall.

Typical Exterior Materials

Architectural metal panels are a preferred building material by smaller industrial businesses due to its low costs and maintenance.

Poured in place or pre-cast "tip-up" concrete panel walls and/or concrete block are a step up in quality and cost over metal panels.

Concrete masonry units with surfaces that imitate stone and brick are a higher quality finish with actual stone, brick and glass curtain walls representing the upper end of exterior materials.

Outdoor Storage

Outdoor storage is one of the most challenging issues from both a competitive and aesthetic perspective. In areas where outdoor storage is allowed, the visual result is generally the same regardless of how (conditional use, accessory use, other method) the city regulates it or the quality of a city's performance standards. Dundas does not allow outdoor storage in the light industrial district nor does Rosemount in its business park district. The affect of this in Rosemount is especially evident. This business park, while including indoor manufacturing and warehousing activities, looks and feels like a collection of corporate campuses. Rosemount also has an extremely high material standard which also contributes to the campus environment.

Most communities examined had similar performance standards for screening of outdoor storage. These standards are a good starting point, but do not adequately deal with outdoor storage. Common performance standards for outdoor storage include:

1. Prohibiting it in required front yard or side yard setback areas. Required front or side yard setback areas refer to the area between the property line and the minimum setback line. As stated, these regulations would allow outdoor storage in front of a building if it was setback beyond the required minimum front setback line. Outdoor storage should not be allowed in front of the building period! Outdoor storage between industrial uses in side yards, if mitigated through screening, would be acceptable.
2. Requiring it to be fenced, screened and/or landscaped using berms, plant material and/or fencing/walls. Most require 6 foot to 8 foot screening with 80% to 100% "opacity" or opaqueness. Some communities require that a landscaped screen be at least 10 feet deep.
3. Requiring it to be on a surface to control dust.
4. Preventing its encroachment on required parking or loading areas.
5. Prohibiting the storage of waste material.
6. Using larger buffer areas/distances and plant material when abutting residential areas.

The challenge is that outdoor storage materials tend to be large and thus it is difficult to screen them from ground level viewing unless there is significant grade variation and/or lots of space for vegetated buffer areas. Ten feet is generally not a sufficient area for effectively screening outdoor industrial storage. Creating and rigorously implementing existing standards is incumbent on the city to maintain visual quality. Standards set too high may be excessively costly to businesses and place cities that do so at a competitive disadvantage to other areas with other lower standards.

Insufficient screening along perimeter exposes on-site storage to public ROW in Faribault's Northern Industrial Park.

Most of the cities reviewed implement their standards to varying degrees of effectiveness. An approach that most seem to follow is to segregate industrial areas from residential areas and place outdoor storage out of view from high visibility areas. In Lakeville, outdoor storage is generally not visible from County Road 70. Efforts to place industrial businesses requiring little or no outdoor storage along high visibility areas or to strongly enforce requirements on businesses in high visibility locations are options to manage this issue and maintain competitiveness and a positive image.

No screening on a highly visible corner within the Farmington Industrial Park.

All cities allow outdoor storage in their general and light industrial districts. By not allowing such storage in its light industrial district, Dundas is potentially limiting its ability to compete for new industry, especially with Faribault and Northfield.

Allowing outdoor storage as a conditional use with specific standards would allow Dundas to be more competitive with other areas. Additional performance standards for outdoor storage on highly visible areas (along County Roads 1 and 8) and strict enforcement could manage this issue for competitive purposes and maintain an attractive image. The College City Beverage landscaping with its undulating berms and substantial plantings is an example that could be used as the basis for performance standards guiding the screening of outdoor storage in highly visible locations.

Materials associated with rail use tend to be of large scale and difficult to screen. In Lakeville these areas are generally out of view of major transportation corridors.

Dundas should also consider adopting specific performance standards as listed above as conditions for outdoor storage in the General Industrial (GI) District. Greater specificity in this area should improve ability to communicate and enforce the City's expectations.

Most cities do not consider truck and trailer parking as outdoor storage and thus do not generally have screening or siting requirements for this use. Such use should be considered as outdoor storage and subject to performance standards to mitigate the visual impact on residential areas and highly visible transportation corridors.

E. Survey Results of Decision-Maker Needs Concerning Business Growth and Relocation

Survey Background and Methodology

A phone survey was conducted with twelve businesses to understand the particular needs and issues that industrial types of businesses have when expanding or relocating. A sample of industrial businesses in Faribault, Lakeville, Farmington and Rosemount were selected and contacted representing a broad range of businesses engaged in manufacturing, material processing, trucking and warehousing. The interviews were conducted with managers having decision-making responsibility for expansion, relocation and general business operations. Survey respondents included owners, general managers, presidents, and plant managers.

Twelve 15-minute interviews were completed; five with businesses in Faribault and seven with businesses in Lakeville. Of these businesses, six performed machining or manufacturing operations, five specialized in warehousing and distribution, and one was an auto body repair business. In addition to the diverse array of business activities, the sample of businesses surveyed also reflects a broad range of small to medium sized businesses; employment ranged from as few as five employees to as many as 60 employees.

Search Process and Important Locational Factors

In conducting their most recent site location search process, all respondents stated that their search for potential locations was to find an appropriately sized available site in a city that wanted or accepted their respective business activities. One business, a trucking company, expressed difficulty in finding a city that was accepting of their operation. Another business, a manufacturing company, experienced difficulty in finding a city that was receptive to the small size of their operation. Finding a site for a business activity is much more challenging than finding a site for a new home.

Each interviewee was asked to evaluate a variety of locational factors for importance in choosing their current location or would be in considering a move to a new location.

Following are the most important factors for choosing a location:

1. *Access to major roads/regional freeway system*
   Nearly every business stated that access to the freeway was vitally important. Access to Interstate 35 was especially important for those businesses that had a high number of commuting employees, or those who covered a broad sales area. Lack of freeway access also deterred one company from relocating to Farmington, due to the added inconvenience.

2. *Utilities available for ready hook-up*
   City sewer and water service as well as natural gas, electric, phone and high speed internet services are absolute necessities for everyone. Most respondents could not

distinguish or did not understand the differences in high speed internet service such as fiber optic systems.

3. *Short distance to the owner/manager's home*
   Close proximity to the owner/manager/s home and reducing employee commute times was stressed by many, especially those that have relocated in recent years.

   Four businesses, three manufacturing operations and one auto body repair shop have relocated outward from the metro area in the last five years. Two are now located in Lakeville, and two are located in Faribault. The primary decision-makers for each of these companies stated that the reason for the move was to be closer to both the owners and employees. These four companies all have a large number of employees that commute to work from Southern Minnesota. These new sites in Lakeville and Faribault provide a central location accessible for employees and for doing business in the Twin Cities. The average commute distance for employees of all businesses surveyed was approximately 12 miles. According to the Metropolitan Council, the average commute time for employees located in the 7-county metro area is 10.6 miles. Workers in the ring of counties surrounding the metro area commute an average distance of 31.4 miles.

4. *Access to good labor markets*
   Access to qualified labor was very important to larger businesses and manufacturing operations and less so for smaller businesses.

5. *Local property taxes and tax incentives*
   Property taxes were an important factor for all when considering relocation sites, however, taxes were less important than access, utility availability and proximity to owner and employee homes. Several interviewees also stated that they had researched TIF Districts in the area when searching for relocation sites. However, none of the businesses contacted were located in a TIF District.

6. *Local Services*
   One overarching theme from the respondents was a location that provided benefits and services for employees. These benefits include things such as restaurants or places to go for lunch, and convenient services such as health care, dental clinics, banks and retail stores. Special emphasis was put on providing lunch options for employees.

7. *Receptive local community that is easy to do business with*
   Another key point for some operations was finding a community that was receptive to their business activities. One respondent, the owner of the trucking company looked at potential sites in five area communities before finding a city that was inviting to the business. Another interviewee from a plastic injection manufacturing operation stated that he had a difficult time finding space in an industrial park that was friendly to smaller businesses, as he was only looking for an 8,000 square foot space. Both stressed that the City should make an effort to not be exclusionary when trying to attract potential businesses.

Other less important locational factors:

1. *Rail access*
   Only one business owner stated that rail access was an important factor when making a locational decision. The respondent who emphasized the importance of rail access runs a supply company that distributes utility pipe. This business relies on rail access to transport their product.

2. *Outdoor storage*
   The businesses interviewed for this survey all stated that they have a very limited need for outdoor storage. The utility pipe distributor stores significant amount of product outdoors. The manufacturing firms have a limited need for outdoor storage. The trucking firm has a need for the outdoor storage of trailers. Finding accommodation for each company's storage needs did not seem to be a problem, which may indicate that city requirements for outdoor storage were not perceived as burdensome or that the outdoor storage need of this sample was not all that great to begin with.

3. *Name recognition of community the land is located in*
   Name recognition of the host city was not a priority for most. While everyone stated that name recognition is nice, it was not a key issue for determining location. Two businesses, one printing company and one manufacturing operation, did state that name recognition was important to them. However, these are both family-operated businesses that have been in the same location for over 20 years and have had long-term connection to their respective cities.

Zoning Regulations

The majority of those consulted had not worked directly with their respective city's zoning requirements. Several decision-makers stated that during past relocation and expansion projects, working with the city was the responsibility of their general contractor. Several business owners worked with the same general contractor when locating in Lakeville's Airlake Industrial Park. All stated that the process was very smooth and efficient. Only two interviewees stated that they had any direct involvement with the city when going through an expansion or development process. A trucking company owner stated that, due to the property being zoned I-2, the business was required to adhere to strict screening regulations. It was required to fence and berm the entire perimeter of her 5 acre site. The owner stated that while this seemed like a burden at the time of development, she is very pleased with the appearance of the site now and understands the city's need for such extensive requirements.

Potential Relocation to Dundas

The majority of businesses contacted have been in their current locations for four to ten years. A few organizations have been at the same site for up to 80 years. The businesses that have been in the same location for 20 or more years are typically family-run businesses with ties to the local community and have no desire to relocate.

None of those interviewed expressed an immediate desire to move their business. Several businesses have expanded or relocated in the last five years, making an immediate relocation less of a priority. However, several business owners and managers of companies that had relocated in the last 5 years stated that they would consider a potential relocation in the future. The level of interest for relocation was much higher for businesses that are leasing their current sites versus those that own their own buildings. Of those interviewed, five businesses lease their space, while seven owned their own buildings. Two respondents stated specifically that they would be interested in relocating to a site in Dundas. One is a current resident of the City and would like to move his business closer to home.

Summary of Decision-Maker Needs

Though the survey was of small size, it confirms the importance of regional freeway access and utility availability for immediate hookup as top business needs. These are priority issues that Dundas must address in order to create a competitive industrial park. The survey also provides insight into how Dundas could meet other business needs to gain a competitive or niche edge.

Dundas has a relatively good location for access to the workforce pool of SE Minnesota and as the metro area continues growing southward, to the homes of business owners and managers. Furthermore, as an established community, Dundas/Northfield has a wide range of services that would be attractive to a large daytime employee population. These are important factors to include in a communications strategy that is part of a larger economic development initiative.

Dundas already has a reputation as being reasonable to do businesses with, especially in comparison with Northfield. This is a critical asset for Dundas to retain and build on. This asset has two parts. One component has to do with the ease with which the City facilitates and makes the development process transparent and simple. As Dundas grows, this will be more difficult to maintain. Several interviewees from Airlake Industrial Park emphasized how smooth the development process was when working with APPRO, an Airlake based building contractor. This contractor was very familiar with the City's development standards and processes and made the overall process smooth and efficient from the businesses perspective. Dundas may want to consider developing relationships with contractors to enhance the development process from the customer's perspective.

The other component of the "easy to do business with" asset deals with the perception that development standards are reasonable. As some respondents indicated, they had difficulty finding a community that would accept their business. The challenge here will be to create standards that provide a competitive edge but are still acceptable to the community. A perception of very high or low standards can be a disadvantage for any industrial land. With ample time and land, Dundas has the opportunity to create different industrial districts with different standards to meet the City's growth needs at different points in time. In this fashion the City could enhance its competitiveness by appealing to a broad range of businesses.

Twin City Business and the Greater Minnesota Connection

In order to better understand when and why Twin City based businesses would consider expansion in greater Minnesota communities, the Center for Rural Policy and Development conducted a survey with 165 Twin City based businesses in manufacturing and technology in late 2003[12]. This survey supplements findings of the small survey summarized above with findings of interest to Dundas:

- Companies that presently have operations in Greater Minnesota were much more likely to consider it their first choice for new production investments relative to companies without an existing presence there.
- Availability of skilled labor, labor costs, and property tax rates were considered the most important factors for companies in determining an optimal location for new investments.
- Quality of life is considered to be Greater Minnesota's strongest asset, while its property tax rates received the lowest ratings.
- One-third of the survey respondents said they would be more likely to invest in Greater Minnesota if one or more location factors were improved; most commonly cited were property tax rates.
- Respondents with existing Greater Minnesota operations were also much more responsive to JOBZ incentives than respondents with no existing Greater Minnesota operations.

The positive factors identified in the small 12-person survey conducted for this report need to be balanced with key findings by the Center for Rural Policy and Development survey. Competitive property tax rates are a very important factor for businesses considering relocation. Dundas does not fare well on this account especially in comparison to Faribault. Significant efforts by the City are needed to get its tax rates competitive with neighboring communities if it hopes to attract significant industrial development. From a marketing perspective, Dundas should target Twin City based businesses with existing operations in greater Minnesota and emphasize the quality of life offered in the Dundas/Northfield area as well as its accessibility to the metro region.

TP[12]PT Center for Rural Policy and Development. "Twin Cities and Greater Minnesota Connections: A Business Perspective. March 2004.

F. The Transportation and Industrial Development Connection

Transportation access is a critical element for higher value industrial growth. Industrial land must have direct access to the regional road network and have relatively quick access to the interstate highway system or similar primary arterial roads. Competitive advantages will go to industrial land with the best access. Rail service may also play a strong or niche position to achieve competitive advantage for certain types of industrial businesses.

Overview of Minnesota Transportation Flow Patterns and Economics

Minnesota's economy has generally outperformed the national average and is projected to continue its strong growth with significant implications on the flow of goods and transportation systems. Freight tonnage is expected to grow by 60 percent and the value of freight is expected to grow by 108 percent during the period 2001 – 2020[13]. This indicates that in 2020 the shipment of high-value goods will increase relative to 2001, while the shipment of low-value goods will decrease.

Minnesota's major trading partners are other Midwest and the Plains states. At least 60 percent of all tonnage and value moved in and out of Minnesota is with these regions. In Minnesota, trucks move the most freight by tonnage and value; however, rail moves a significant share of freight by weight. These products tend to be high-density and low-value which requires low shipping costs and are not very time-sensitive. The top five commodities moved by rail in Minnesota include farm products, non-metallic minerals, food products, metallic ores and coal. In Minnesota, trucks move the largest share of freight by value. Major products moved by truck include warehousing[14], farm products, food products and transportation equipment and electrical machinery.

Highway/Road Access

The state has designated Minnesota highways that are important connectors between freight generating and receiving facilities and the primary roadway network. Interstate 35 from the metro area to Owatonna is one of four high-tonnage (40 – 80 million tons annually) truck corridors in the state and is an important asset to Dundas (Figure 10). The Minnesota Twin Trailer network supplements the National Truck Network in designating roads that allow trucks with two trailers and trucks with extra-long single trailers (Figure 11). Minnesota Highway 3 between Dundas/Northfield and the Twin Cities is one such route as are all interstate highways. MNDOT has also designated an Interregional Corridor System (IRC) to provide movement of goods and people to/from regional centers. Highway 19 from Northfield to Interstate 35 is a medium priority IRC.

[13] Minnesota Statewide Multimodal Freight Flows Study, April 2000

[14] Warehousing is truck freight flow to and from distribution centers and intermodal containers of mixed commodities. These products are ultimately delivery to commercial businesses for sale to consumers or to manufacturing locations for production input.

County state aid highways (CSAH), such as County Road 1 receive state funding to maintain higher capacity roadways to connect freight generating and receiving facilities to the state and federal systems. New CSAH roads are built to and rated at a 10-ton capacity and are capable of withstanding heavy trucks. County Road 1 does not currently meet this standard for year-round use. During spring road restrictions CR 1 from Minnesota Trunk Highway 3 to the Railway Street/West Ave. intersection, is posted as a 9-ton road. From this intersection to Interstate 35, it is posted as a 7-ton road. In order to capitalize on the regional and national access provided by Interstate 35, CR 1 needs to be upgraded to provide year round 10 ton access to interstate 35 and Highway 3. This would provide the most direct and thus positive connection needed for a competitive industrial park. An alternative would be to upgrade CR 8 to Highway 3 or CR 78 to Highway 19.

Figure 10: High Tonnage Truck Corridors

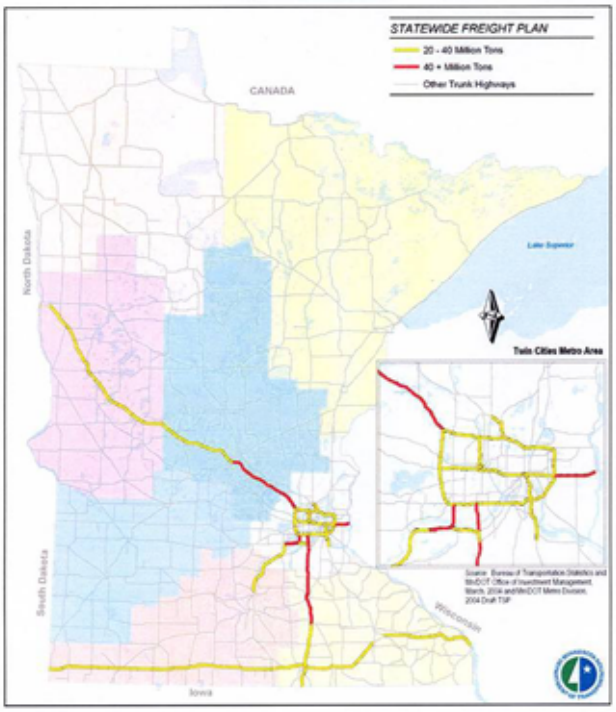


Figure 11: MN Twin Trailer Truck Network

Future Trends

As Minnesota's economy continues the shift toward services, shipments associated with manufacturing become relatively less important and warehousing and distribution of products destined for consumption becomes relatively more important. The Twin Cities region is a major distribution center for the upper Midwest and is experiencing significant growth in warehousing and distribution enterprises.

The Federal Highway Administration has prepared a national forecast of freight flows through its Freight Analysis Framework (FAF). Between 1998 and 2020, inbound shipments to Minnesota by weight are forecast to grow by 92 percent compare to outbound shipments of only 52 percent.

This reflects a change to a service-oriented, consumptive economy, an increase in the manufacture of high-value, low weight goods and to a decline in resource industries and shipments.

Other Midwest states are predicted to remain as Minnesota's largest trading partner, however, they are expected to decline in relative terms. Shipments to and from Canada, Mexico and the west and southwest are expected to grow in relative terms.

Outbound commodities with the highest increases in tonnage and above average growth rates are forecast by the FAF to be food processing, electrical and non-electrical machinery, chemicals, lumber and secondary warehousing[15]. Inbound commodities with the highest tonnage increases and above average growth rates are clay, concrete, glass, stone, food processing, secondary warehousing, electrical and non-electrical machinery. These imported commodities are needed to serve Minnesota's growing population and service industries. Note that high value goods such as machinery and secondary warehousing rely on premium transportation modes such as air cargo, trucking and intermodal rail containers.

Opportunities and Issues for Rail Access Industrial Land

Dundas is fortunate to have a critical component of the state's railway network running through the city. The Union Pacific mainline is part of the state's Strategic Railroad Network. Such lines carry more daily trains and tonnage than lower rated lines. The Union Pacific line carries between 7 – 19 trains per day.

Rail service into the Twin Cities is approaching capacity and increasing amounts of congestion and the resulting delay are affecting shipments in and out of the metro area. This may present an opportunity to provide facilities for the transfer of freight to truck in Dundas and where it can be moved into the metro area via the region's highway network. Rail access is clearly a niche service with limited application. United Properties developed the 112 acre Shenandoah Business Park in Shakopee in 2000 next to Union Pacific rails with the intention of providing a rail served park. Demand for the rail facilities never materialized and United now anticipates building out the park without rail service. 220 acres in Randolph has been marketed as having rail access on Union Pacific for the past two years with minimal interest or activity. Progressive Rail is the shortline rail service providing access onto the Union Pacific, however, the business taking such service would need to provide the rail and switch onto the Union Pacific line.

A serious impediment to rail freight movement to and from Minnesota is congestion in Chicago. Minnesota has direct rail service to the Pacific Northwest and parts of Canada, but most other shipments must go through Chicago[16]. This includes shipments to the east coast, southern California and even Texas and the Gulf States. While rail shipment practices are governed by

[15] Secondary warehousing refers to goods that originate in warehouses and distribution centers and are destined for commercial and manufacturing locations for final delivery. These are generally goods that have been through their final stage of processing and manufacturing.
[16] Minnesota Department of Transportation. "Minnesota Statewide Freight Plan." May 2005.

national regulations which are beyond the ability of local officials to affect, the overall impact is to limit the potential of rail to compete as freely as the trucking industry.

Providing rail access presents Dundas with a niche opportunity to differentiate its industrial land from other industrial lands. Rail accessible land has been a proven success factor for the Airlake Park in Lakeville. With such land no longer available in the south metro, an opportunity is available for Dundas to pick this service up. The key risk is the initial investment of approximately $250,000 in a switch to connect the main rail lead to the main line, $100 per foot for the lead, land for the lead right-of-way and engineering design. A critical mass of rail users is needed to support this investment. According to Progressive Rail, at least 200 cars per month are needed to support such investment. Airlake currently has 150 acres of rail-served land and 400 – 500 cars per month. Within the south metro growth zone, other areas that have the potential to enter the rail service niche include Cottage Grove, Randolph Township, Northfield and Dundas. Initial investment in rail facilities represents a significant barrier to entry. It's likely that the first community to do so could establish a competitive edge thus preventing new competition from entering this niche market. The investment risk, however, should be borne by and/or shared with private investors/firms with strong industry knowledge and expertise in providing rail services.

4. DUNDAS/NORTHFIELD LAND INVENTORY AND DEMAND FORECAST

The Dundas/Northfield area is generally viewed by the real estate industry as a southeastern Minnesota regional center for business and commerce. As the Twin Cities region continues to growth south, the Dundas/Northfield area is likely to become more connected economically to the Twin Cities and its economic role will evolve. An analysis of the competitive environment for industrial land and growth in Dundas/Northfield should consider this "transitionary" nature of the region's role.

The area has traditionally been a regional center in SE Minnesota and is the second largest market in Rice County after Faribault. Food manufacturing, industrial machine parts manufacturing and distribution/warehouses are key industries that have prospered in SE Minnesota. Industrial parks in Faribault provide a good competitive comparison within the context of serving the industrial needs of SE Minnesota.

A. Dundas/Northfield Area Industrial Land Inventory

The availability of readily developable industrial land supports the creation of new jobs and creates and expanded tax base for the city of Dundas. The Dundas/Northfield area competes within the state and region as one market area. From a real estate development perspective, an understanding of land availability within the Dundas/Northfield market area is an important starting point to determine future economic development strategies.

An inventory of industrial land was conducted for the Dundas/Northfield area to establish a baseline of land available for industrial growth and to establish parameters for future growth projections. Dakota and Rice County parcel and assessment data were analyzed using Geographic Information systems (GIS) for conducting the inventory.

The methodology and assumptions used in this analysis are presented below:

- Land was included in the inventory if it is currently zoned for industrial uses and is within the current city boundary. Land beyond the current city boundary was also included if it is guided for future industrial use in the City's Comprehensive Plan. An additional 235 acres was included as potential future growth for Dundas beyond that area designated in the Annexation Agreement with Bridgewater Township. This was done because significant amounts of land both within the current city limits and annexation area may not be available for development due to stated intentions of property owners. 50 acres within the current city limits are in a rural service district and not available for development. 144 acres within the annexation area are owned by the same property owners involved with the rural service district.

- Land within the Cannon River Floodway was not included in the inventory.

- Land that is zoned commercial but containing current industrial uses was not included in the inventory.

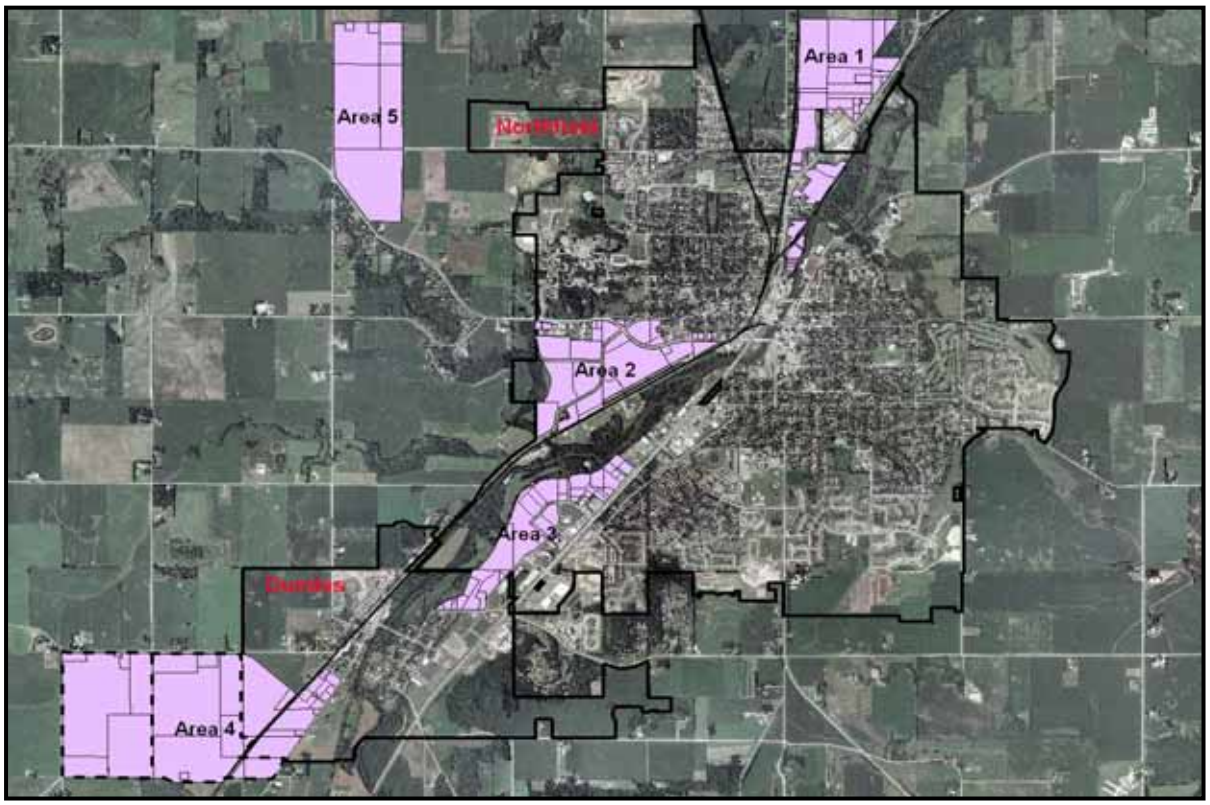
- Vacant parcels are defined as having a building improvement value of $0 by county assessor, are parcels larger than 10 acres in current Ag or residential use or are developed but currently empty or lacking a tenant.

- Developed parcels are defined as having a building improvement value greater than or equal to 30% of total value as determined by county assessor or are parcels containing outdoor storage/parking and/or associated with developed adjacent parcels (possible expansion).

- Re-developable parcels are defined as having a building improvement value less than 30% of total value as determined by county assessor, are only in use as surface parking or storage and not associated with a developed adjacent parcel, or are parcels less than 10 acres in current Ag or residential use.

Inventoried land fell into five geographic groupings within the Dundas/Northfield area (Figure 12). Individual maps showing the status of each parcel (vacant, developed or redevelopable) within of each of the five areas is included in Appendix D.

Figure 12: Dundas/Northfield Industrial Land Inventory Sub-Areas



Northfield Inventory

Approximately 71 acres of land is available for immediate development in Northfield (Table 17). This includes three parcels of undeveloped land with a total of 57 acres and the 14 acre Ryt-Way parcel which remains vacant after five years. This parcel contains a 67,000 square foot building constructed in 1970 with 16-foot ceilings. Ceiling heights of 20 – 24 feet are standard in new warehouse facilities. The undeveloped land includes the 40-acre Gleason property, the 12.6 acre Hasse property and the four acre North Sheldahl site which has access to rail. The 5-acre College City Beverage site and facility may become available for sale and redevelopment after the firm completes its move to Dundas.

Table 17: Dundas/Northfield Land Inventory Status (Acres)

Northfield	Vacant Actively Marketed	Vacant Other	Developed	Re-Developable
In-City	70.6 (+)	26	262	3
Growth Area	0	400	-	19
Total Northfield	70.6	432	258	21
Dundas				
In-City	0	87.2[17]	56.4	1
Annexation Area	0	256	-	-
Potential Future	0	235	-	-
Total Dundas	0	578	56.4	1
Total Dundas/ Northfield	70.6	1010	314.4	22

In late 2001, the Northfield City Planning Department and Maxfield Research Inc. had identified 76 undeveloped acres that were available for industrial development. With 57 acres currently available, one could assume that 19 acres have been developed over the past 4.5 years for an annual absorption rate of 4 acres per year. Recent sales of industrial land in the Dundas/Northfield area indicate a selling price of $1.10 – $1.15 per square foot for undeveloped land.

In addition to these available properties, the inventory shows an additional 26 acres of vacant or undeveloped land according to the above listed inventory methodology. Though this land is zoned industrial, it is unlikely that this land would be developed as industrial property. These parcels tend to be small, irregular parcels with poor land characteristics for industrial building or are in institutional ownership.

Both the Ryt-Way and Gleason properties are qualified for the Minnesota Job Opportunity Building Zones (JOBZ) program. Northfield is a participant in the statewide JOBZ program. This program provides financial incentives to businesses, exempts qualifying businesses from

[17] Includes 50 acres of preserved Ag land in the Rural Service District.

property taxes and provides tax credits for higher paying jobs. Northfield's EDA also uses a variety of grant and loan programs to encourage business growth and development.

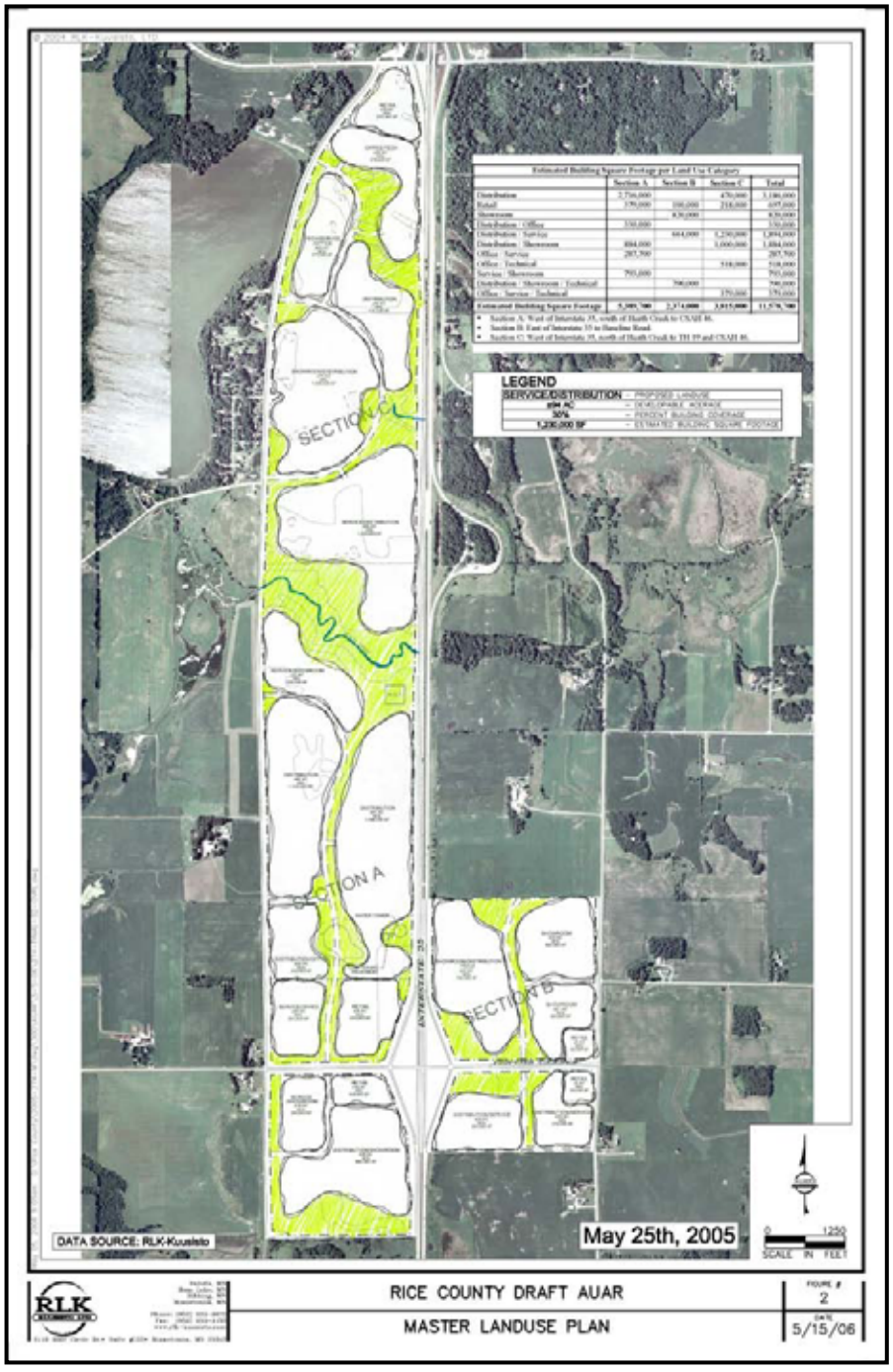
Dundas

With the recent sale of 23 acres to College City Beverage for their new facility and relocation from Northfield, there is currently no land in Dundas that is being actively marketed for industrial development. Of the 87 acres of vacant undeveloped land currently in the City, at least 50 acres are not available for development due to preferences of current land owners. This leaves 37 acres available for potential development within the current city limits. These parcels may not be readily available, due to lack of owner interests in development. The lack of an active industrial real estate market in Dundas is a significant impediment to industrial growth. Prior to the College City Beverage project, the only land development within the past five years in the industrial area was development of the 1.5 acre Pumper Woodruff parcel into an office.

Overall, the long-term inventory for the Dundas/Northfield area shows over 1000 acres of land that is vacant or undeveloped according to the above methodology. The vast majority of this land is currently in agricultural use outside of current city limits with no city services available. Roads in these areas are gravel rural roads and significant investment would be needed to build a road system to support industrial development. Dundas faces an additionally difficult development situation because a significant portion of land (50 acres) is classified as rural service within city limits and is off limits to development. The location of this land immediately adjacent to developed areas with existing sewer and water service therefore blocks the cost effective extension of city services into areas that could otherwise be economically brought into development. The cost of extending services and roads around this land is an additional burden to industrial development in Dundas.

B. Overview of Proposed Rice County Industrial Development at Interstate 35 and County Road 1

Figure 13: Rice County Economic Development Concept



Rice County is proposing a large economic development project on 1,100 acres of land along interstate 35 between County Road 1 and State Highway 19 (Figure 13). The Master land use plan contained in the AUAR shows over 11.5 million square feet of building space on this land. Most of the buildings would contain warehouse and distribution businesses with a smaller portion for retail and service.

Springsted conducted a financing plan for County investment in sewer, water and road infrastructure for phase 1. Phase 1 includes 338 acres and 4.2 million square feet of building development on four quadrants of land centered on the intersection of Interstate 35 and County Road 1. Springsted assumed a 10 year build out for this development. This development rate would require an annual absorption rate of 39 acres per year, a very high rate of growth compared to the rates of development for comparable industrial land in the area. Industrial land on the north side of Faribault which has immediate access to Interstate 35 with existing city services has been developing at 15 to 18 acres per year over the past five years. Faribault is only seven miles south of this proposed site. Airlake industrial park in Lakeville has been experiencing annual absorption rates of approximately 25 acres per year over the past five years.

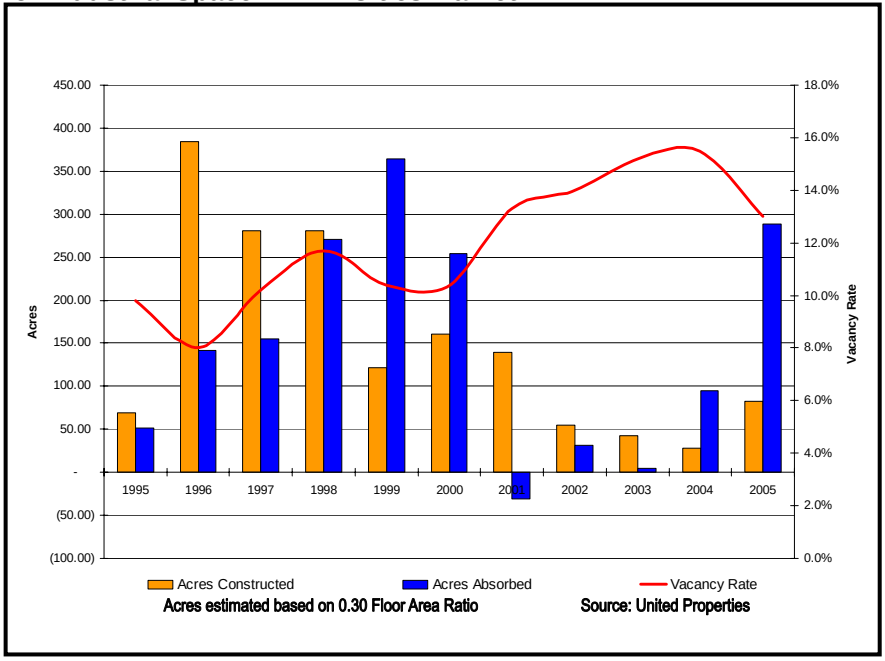
C. Industrial Land/Economic Demand Forecast

The forecast seeks to calculate the future demand for industrial land within the Dundas/Northfield area by 2030. This section reviews recent industrial activity in the Twin Cities area as well as recent absorption rates for the compared industrial areas. This section will then use regional population and employment projections to forecast industrial land demands.

Industrial Growth Outlook for the Metro Area

2005 was the second year of rebounding health in the Twin Cities industrial real estate market and may be the beginning of a positive growth cycle. The last period of sustained industrial growth was from 1994 to 1999. Since 2000 the market has been beset by rising vacancy rates and declining construction and absorption. 2005 saw significantly declining vacancy rates and five-year highs in demand for acres under construction (Figure 14). The industrial market absorbed over 3.7 million square feet of buildings in 2005, more than three times that absorbed in 2004. Assuming a 30 percent floor area ratio, this equates to approximately 290 acres of land. This strong activity pushed down vacancies to 13 percent at year end 2005 from a historical high of 15.5 percent in 2004, signaling an end to the latest industrial downturn[18]. Half of this absorption was in the bulk warehouse market. 2006 is projected to be another strong year for industrial development pushing vacancies down to 10 percent, the lowest since 1999.

Figure 14: Construction, Absorption , and Vacancy Rates, for Industrial Space – Twin Cities Market



The southeast submarket, which includes Lakeville, Farmington and Rosemount posted the largest drop in vacancy rates in the metro area from 18.8 percent to 15 percent signaling strong business growth. Absorption of building space in the southeast market was over 1.1 million square feet in 2005. Using a 30 percent floor area ratio, this amounts to approximately 85 new acres put into industrial land use in the entire southeast region during 2005. Approximately 25 acres of this occurred in the Airlake industrial park in Lakeville.

[18] United Properties. "Outlook Report." January 2006.

Industrial land prices have increased significantly, with prime locations in the most desired submarkets doubling in the last two years, due to a constrained supply of developable land. Coupled with increasing construction costs, rising interest rates and business and employment expansion, the market will likely seek new growth opportunities further out from the traditional metro core.

Industrial Land Forecast

This forecast seeks to determine the amount of industrial land that will be demanded within the Dundas-Northfield area until 2030. This analysis uses local and regional population and regional employment forecasts as well as industry sector characteristics to calculate land needs. The methodology used here is a simple "gravity model." This model assumes that a city will attract employment relative to a given region based on its relative population size. This method uses population as an indicator or predictor for employment growth. This is appropriate for Dundas/Northfield because population forecasts are available for individual cities whereas, employment forecasts are prepared for larger planning regions and it accounts for Dundas/Northfield's increasing share of the region's growth.

Table 18 shows the projected population growth of the Dundas/Northfield area in relation to the SE Planning Region. The alternative forecast, presented in Chapter 2 based on recent and projected building permit activity, is used for this analysis. While the population of Dundas/Northfield represents a relatively small share of the total population of the SE Planning Region, its share of the population is expected to increase from 3.85 percent in 2000 to 5.61 percent in 2030. This is due to the Dundas/Northfield area population growing relatively faster than the population of the SE Planning Region.

Table 18: Projected Population Forecasts

	2000	2010	2020	2030
Alternate Population Forecast for Dundas/Northfield				
Dundas	547	2,229	4,729	7,229
Northfield	17,154	20,084	22,584	25,084
Dundas/Northfield	17,701	22,313	27,313	32,313
SE Minnesota Population Forecast	460,102	500,500	541,100	576,100
Dundas/Norfield % of SE MN Planning District	3.85%	4.46%	5.05%	5.61%

Table 19 shows the projected employment growth in the Southeast Planning Region over the period 2005 – 2030 for selected industries that use industrial land for their facilities. Projections show that of 102,099 total new jobs added in the region, 19,662, or about 19 percent, will be in the "industrial land using" industries of construction, manufacturing, wholesale trade and transportation, distribution and warehousing. The forecast shows that many industrial type industries are projected to grow more rapidly than the average rate of 1.29% for all industries.

High growth areas include Transportation, Distribution and Warehousing, Construction, and selected manufacturing categories including plastics and rubber products, nonmetallic Minerals, fabricated metals, and machinery.

Table 19: Southeast Minnesota Planning Region Employment Projections-Selected Industries

NAICS Code	Industry Description	Annual Average Growth Rate	Employment Projections 2005	Employment Projections 2030	2005-2030 Increase
0	Total, All Industries	1.29%	269921	372019	102099
23	**Construction**	**1.45%**	**10436**	**14958**	**4522**
31	**Total Manufacturing**	**0.83%**	**44940**	**55251**	**10311**
311	Food Manufacturing	1.04%	10712	13886	3175
323	Printing and Related Support Activities	1.28%	2105	2890	785
326	Plastics & Rubber Products Manufacturing	2.03%	1336	2208	872
327	Nonmetallic Mineral Product Mfg	2.28%	2572	4516	1944
332	Fabricated Metal Product Manufacturing	1.33%	4792	6676	1884
333	Machinery Manufacturing	1.99%	4073	6662	2588
334	Computer and Electronic Product Mfg	-0.68%	9357	7887	-1470
337	Furniture and Related Product Mfg	0.88%	2254	2803	549
	Misc Manufacturing	0.54%	7701	8819	1117
	Total Manufacturing	0.83%	44940	55251	10311
42	**Wholesale Trade**	**0.51%**	**6449**	**7320**	**871**
480000	**Transportation, Distribution & Warehousing**	**2.21%**	**5451**	**9409**	**3959**
	Total "Industrial Land User" Industries		**67276**	**86939**	**19662**

Source: Minnesota Department of Employment and Economic Security. "Employment Outlook-2002 - 2012." The observed annual average growth rate for 2002 – 2012 DEED forecast was applied to an extended forecast for 2005 to 2030.

Table 20 shows the calculation of demand for industrial land in the Dundas/Northfield area based on the projected employment growth within those industries that area most likely to use industrial land for their facilities. This projection reflects projected job growth based on the natural increase in population and does not account for an outside business moving into the area from outside the planning region or state.

The forecast projects over 1,100 new "industrial" jobs in the Dundas/Northfield area between 2005 and 2030. These jobs will require over 1.4 million square feet of buildings. Each industry category has varying space needs per employee. Building-to-land ratios can vary dramatically within a given industry. An average of 25 percent was used based on the review of comparative industrial areas discussed in Chapter 3. Using a 25 percent building-to-land ratio, approximately 130 acres will be needed for industrial development. If a 30 percent building-to-land ratio is used, approximately 100 acres will be needed. A range of 100 to 130 acres is a reasonable projection of industrial land demand between now and 2030. Additional land will also be needed for roads and public infrastructure (stormwater ponding) to serve any industrial development. Approximately 15 – 20 percent of the developed land will be needed for such infrastructure.

Table 20 Demand for Industrial Land for Dundas/Northfield, 2005 - 2030

	Construction	Total Manufacturing	Wholesale Trade	Transportation, Distribution and Warehousing	Total
Projected Increase in employment- SE Planning Region (Table 18)	4,522	10,311	871	3,959	19,662
(times) Estimated Dundas/Northfield share of new employment (percent of increase)(Table 17)	0.0561	0.0561	0.0561	0.0561	
(equals) Total new "Industrial" employment in Dundas/Northfield	254	578	49	222	1,103
(times) Average square feet per employee	1,000	800	800	3,000	
(equals) Amount of building square footage needed for the new employees	253,690	462,753	39,070	666,268	1,421,782
(divided by) Average land-to-building ratio	0.25	0.25	0.25	0.25	
(equals) Total square feet of land needed to meet projected demand for industrial space	1,014,761	1,851,013	156,281	2,665,072	5,687,128
(divide by) 43,560 square feet in an acre	43,560	43,560	43,560	43,560	
(equals) Acres of land needed to meet demand	23	42	4	61	131

Source: Average square foot per employee data: Urban Land institute, Maxfield Research.

Estimated Absorption Rates

The forecast of 131 acres needed between 2005 and 2030 equates to an annual absorption rate of just over 5 acres per year. This is consistent with estimated recent absorption rates of 4 acres per year in Northfield. Faribault has experienced higher rates of 15 to 18 acres per year, however, land costs are somewhat lower in Faribault, it has superior freeway access and it has ample land available with city services for immediate development. Rosemount has experienced a rate of 5 acres per year recently. This low rate of development reflects it's relatively poor access, higher land costs and the city's high performance standards all of which makes Rosemount a relatively expensive location to develop. Airlake Industrial Park experienced relatively low rates of absorption of around 5 acres per year during its first 10 years. As the metro area expanded outward, the pace of development picked up and recent development of 25 – 30 acres per year has been common.

Discussions with commercial and industrial real estate brokers confirm an estimate of 5 acres per year of demand for industrial land in the Dundas-Northfield area over the next five to seven years with absorption rates of up to 10 acres per year thereafter.

With 57 acres being actively marketed in Northfield and 37 acres of industrial land within the current Dundas city limits, there is an ample inventory of land to meet demand for the next 18 years at an annual absorption rate of 5 acres per year. The development potential of the existing 37 acres depends, however, on owner interests in industrial development.

With an aggressive economic development strategy, Dundas could capture a share of industrial development within the Dundas/Northfield area larger than its relative size would indicate. The absolute amount of this total growth, however, is still relatively small at about 5 acres per year. The cost of the infrastructure needed to serve this growth beyond the current city limits could severely reduce the benefits of such growth.

5. DESIGN ISSUES AND CONCEPTS

Once the preliminary economic feasibility of developing an industrial/business park has been determined with an investment team including participating landowners the next stage would be initial site planning and preliminary engineering work. This section addresses key planning and design issues and offers a couple of conceptual options for site design in the growth area in the southwest sector of the City. The intent is to provide a checklist of criteria that can be applied to land under consideration for development.

Industrial Park Development Process

The planning process primarily involves land planning, subdivision design and platting, establishing controls for the development of individual sites, the construction of street and utility improvements and overall site landscaping.

This process is followed by marketing individual sites for sale or lease and in some cases developing speculative buildings without signed leases in place. Actual building design occurs as sites are sold or leased to new owners or tenants, or designed and constructed under a build-to-suit agreement. At this stage, the requirements of the master developer and CC&Rs, if implemented, serve to control how an individual site is developed.

Much of the long term value of an industrial/business park is tied to the quality of overall development and what takes place on individual sites. It is the interplay among site controls, zoning regulations and building codes that helps to achieve the desired result.

Key Site Design Issues

Site design must consider a variety of interrelated variables, from lot layout to street systems and landscaping plans. The key is to build in flexibility in the overall design. Business parks take years to decades to fully build out. Over this time, process, transportation and building technologies will change affecting building and lot sizes and their configuration.

- A range of parcel sizes should be accommodated. Parcel sizes of 1 to 5 acres are typically needed by small businesses in order to accommodate buildings of 12,000 sf – 65,000 sf. Larger parcels must also be provided to serve larger business needs but may also be subdivided and served by a cul-de-sac if needed.
- Lot depths of 200 – 300 feet are common and serve a range of uses. Some lots of 550 feet or greater add flexibility for larger users, but may also be subdivided depending on the evolving need.
- Consideration of appropriate covenants, codes and restrictions (CC& Rs) that implement performance and design standards beyond those established by city regulations.
- Lots should be configured to allow loading docks to face south or west. This is especially important for transportation, distribution and warehousing functions.

- Sites for building types and functions that are the least industrial in appearance, such as offices and R&D and flex facilities, should be situated on the most visible part of the property, close to arterials, major collectors and residential areas
- A 10 ton local road system should link into an existing minor arterial and major collector system to avoid traffic through residential area. Access points should conform to existing spacing guidelines; efforts should be made to concentrate access at limited points.
- Available City services for quick connection
- Large areas for outdoor storage for businesses needing rail access.

Concept Plans

Two concept plans were developed to provide some ideas on possible parcel, road and rail layout, building locations, scale and orientation as well as overall site access and transportation links. The growth area in the southwest quadrant of the City is generally a good location for industrial development. The land is gently rolling with few significant topographical changes. Soil conditions in this area are similar to that found on the College City Beverage site and are generally acceptable for commercial and industrial structures. No detailed information on soils has been considered at this stage.

The area considered for both concepts is shown as "Area 4" in Appendix D. The area covers approximately 485 acres of land in the areas identified as "annexation area" and "potential future expansion area." This land is currently outside of the current city limits and is mostly west of the County's proposed realignment of County Road 8 to connect in with Decker Avenue. Both concepts also show how land east of the realigned County Road 8 and within the current city limits could be developed. This land, however, is mostly within the rural service area and not available for development.

Access to both concepts is shown at quarter mile to half mile intervals. Building-to-land ratios range from 20 percent to 30 percent. Stormwater management areas represent about 5 percent of the total land area proposed for development and would be a regionalized utility service. Large stands of trees including a ravine in the south central area are retained as amenities for the park. A multi-purpose trail system connects these amenities as well as the entire industrial park to rest of the city and its trail system.

Both concepts also show a future community park on County Road 1 just east of the realigned County Road 8. Such facilities contain regional ball fields and attract a significant amount of traffic. As such, these facilities are compatible uses near industrial or commercial uses. A high density residential area is shown in the northeast section of the plan and adjacent to the community park as reflected in the current future land use plan.

Growth of the industrial area (for either concept) would logically start at the south east corner and move west along 118th Street. With utilities and a water tower at the College City Beverage site, city sewer and water can be extended west under the rail line. 118th street can be improved incrementally as demand warrants.

Concept one (Figure 15) shows how the rail lead (the track serving the industrial park) would be positioned if developed in the near future with the support of an identified willing land owner. Lack of interest by other land owners in the area limits design options for laying track. The parcel shape of land owned by this owner requires that the lead depart from the main line in a southwest direction and then proceeds west. The lead is shown as moving north and then west, thus keeping most of the rail served parcels in an interior park location. Industries needing rail service also frequently require substantial amounts of outdoor storage area that is difficult to screen. Locating such industries in an interior location significantly reduces the visibility of such areas to high traffic corridors and residential areas.

Concept one also shows how the proposed east west corridor would bisect the park providing good access to Interstate 35 and Minnesota Highway 3 for businesses located in the park. Both the realigned County Road 8 and the east west corridor are shown as "greenbelt corridors." This road type has a large right-of-way (300 to 600 feet) for landscaping, stormwater treatment and trails. This road type also provides an attractive image to the park and city and buffers residential areas from the industrial park. This concept shows 67 lots and 3 million square feet of buildings which would generate approximately 21,000 vehicle trips per weekday (Table 21).

Table 21: Vehicle Trips per Weekday for Industrial Uses

	Per 1,000 Square feet of GFA	Per developed Acre	Per Employee	Per Employee
	Average	Average	Average	Range
Light Industry	6.97	51.8	3.02	1.53 - 4.48
Heavy Industry	1.5	6.75	0.82	.75 -1.81
Industrial Park	6.96	63.11	3.34	1.24 – 8.80
Manufacturing	3.82	38.88	2.1	.60 – 6.66
Warehousing	4.96	57.23	3.89	1.47 – 15.71
Miniwarehouse	2.5	38.87	56.28	17 – 194.0
Office Park	11.42	195.11	3.5	2.92 – 3.85
R&D Center	8.11	79.61	2.77	.96 – 10.63
Business Park	12.76	149.79	4.04	3.25 – 8.19

Source: Institute of Transportation Engineers, Trip Generation, 7th ed. (Washington, D.C.: 2003

Concept two (Figure 16) shows a similar layout without the east west corridor. It also has a better rail design without the constraints of working with the land area of the identified willing land owner. The rail design shows the lead departing the mainline directly north and then curving west. This approach has nearly the same length as shown in concept one but with fewer tight curves. Concept two also shows how the growth area could be developed without the east west corridor. In this case 118th Street and Cabot Avenue would need to be upgraded to handle truck traffic and connect to County Road 1 and 8. This concept is a more practical approach and avoids the cost and uncertainty with the east west corridor. Here, the park could be built out incrementally using existing rights of way for County Road 1 and 8. The grid street pattern allows logical and cost effective extension of streets and city services as demand warrants. This concept shows 65 lots and 3.2 million square feet of buildings which would generate over 22,000 vehicle trips per weekday (Table 21).

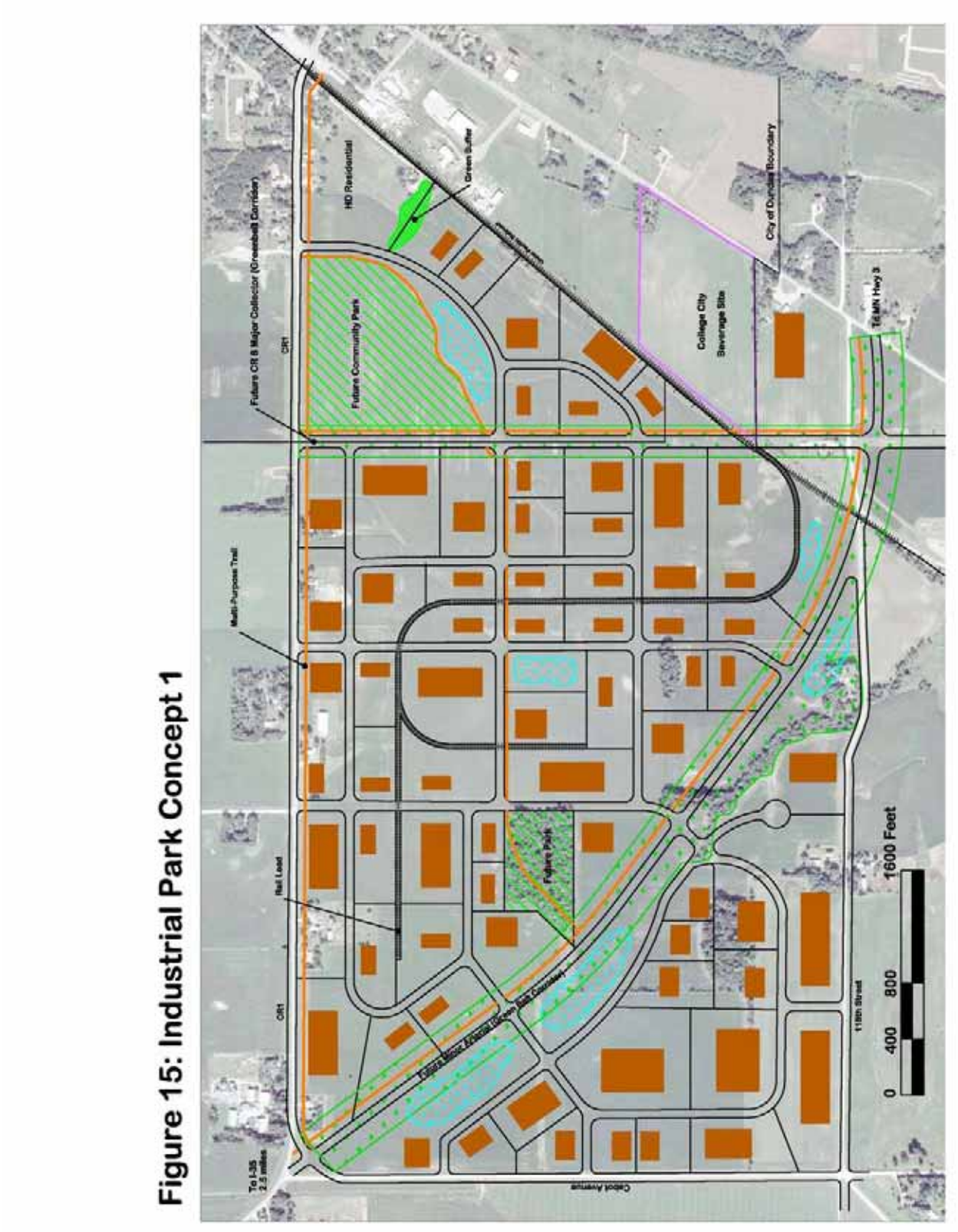


Figure 15: Industrial Park Concept 1

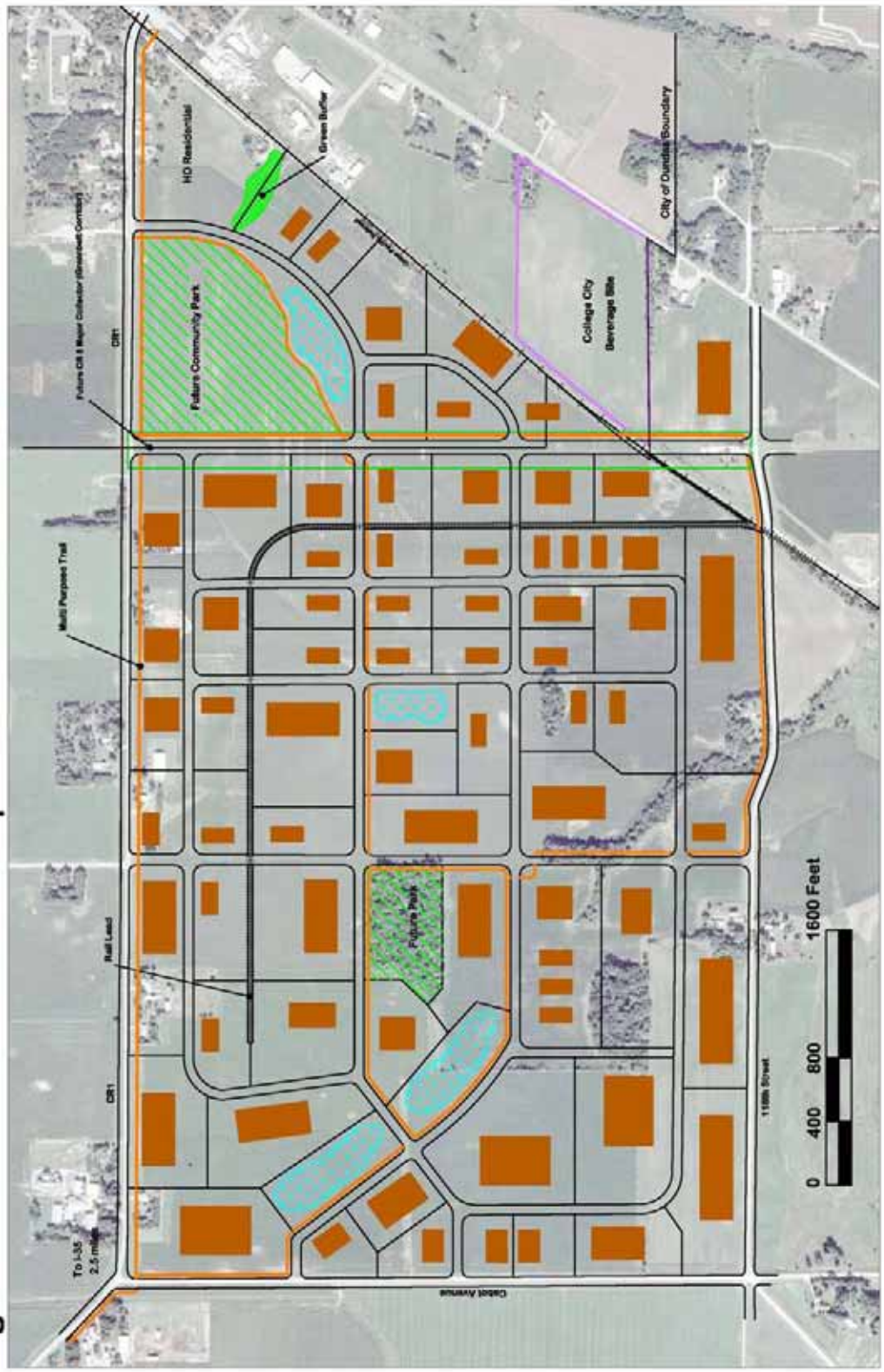


Figure 16: Industrial Park Concept 2

6. ISSUES ANALYSIS

A. Strengths

Attractive Economic and Demographic Characteristics

Economic and demographic trends in Rice County strongly support economic development in the Dundas/Northfield area. The area has a well educated, young and productive labor force working at competitive wages. This is a critical business success factor that should make the Dundas/Northfield area very attractive to industrial type businesses seeking to relocate or expand in the area and a critical component to communicate as part of a larger economic development strategy and program.

Reputation as Being Reasonable to do Business With

Anecdotal evidence suggests that Dundas is viewed as an easier city in which to do business with than Northfield. The recent decision by College City Beverage to move its operation to Dundas and swift city review and approval of College City's development application supports this conclusion.

Competitive Wages in Rice County

The location quotient analysis identifies a number of manufacturing industries as being very competitive compared to the same industries statewide. While Rice County wages in these industries are high compared to many other industries in Rice County, they are still lower than statewide and metro area wages by significant amounts providing a competitive advantage and a useful tool for marketing Dundas as a good business location.

B. Weaknesses

No Active Industrial Real Estate Market

All industrial land in Dundas (and Northfield) is in private ownership; there is no active current interest by these owners in Dundas to develop land for industrial purposes (other than the recent College City Beverage transaction). Furthermore, land owners controlling 50 acres immediately west of the current industrial area in the SW section of the city have stated their intention to continue farming and to not develop. This is a critical land component for efficient site design and the cost effective extension of city services and roads as well a rail lead. Parcels controlled by private individuals with a profit or other objective rather than an economic development objective can significantly block industrial market development or result in a very slow rate of development.

Conversely, sites marketed by the City with the intent to attract new jobs can result in more rapid development. With a substantial amount of publicly owned land, Dundas could be highly competitive with other communities whose sites are primarily privately owned. Note that there

are many publicly owned industrial and business parks in many greater Minnesota communities. Creating points of differentiation to these other parks are essential to competitiveness. One way might be for the City to purchase land and build, or offer to build, a "spec" building to facilitate development and continue development momentum. This approach, however, presents a high degree of risk to the City.

High Property Tax Rates

Dundas has significant structural problems with high property taxes. While high residential property taxes don't seem to be affecting the attractiveness of Dundas for new households, high taxes on business property puts the city at a competitive disadvantage especially compared to Faribault and the proposed County project at Interstate 35. This is a critical issue for attracting high quality businesses. High quality businesses seeking to expand have ample relocation opportunities. Industrial land is widely available in mid-sized cities throughout Greater Minnesota. Competition for this type of business expansion is fierce, with communities offering a wide range of incentives. Significantly higher property tax rates than the competition may require significantly generous incentives to be competitive. A key economic development strategy that the city must address is reducing its tax rates.

Limited Sewer Capacity

Dundas is approaching its contracted sewer capacity with the City of Northfield. Until this issue is resolved, only industries with limited water and sewer needs can be accommodated in the City. Once capacity is reached, no additional industrial development can be accepted. Investment in expanded sewer capacity is essential and should pre-empt any further investment in extending services and roads for industrial development.

Time and Distance Slow Development Speed

Industrial development and real estate trends support the general outward movement from the metro area of industrial businesses and the specific outward movement of distribution and warehousing functions to support metro area growth dynamics. The areas most likely to capitalize on these trends, however, will be those with superior freeway locations and access to regional and national markets.

With similar freeway access, amount of raw land and potential for rail access, Dundas has been compared to Airlake as a potential model for growth. Dundas, however, is still too far removed from the metro area for this model to begin operating. Additionally, Rice County plans for Interstate 35 as well as development on the Interstate at Elko-New Market could significantly alter the environment so that an Airlake model of growth may no longer be relevant.

Dundas' Zoning District Standards Reduce Competitiveness

Dundas does not currently allow outdoor storage in its Light Industrial District which puts it at a disadvantage in competing with other industrial park areas, especially Faribault, which does

allow outdoor storage. Outdoor storage is needed for many industrial businesses and can be managed as a conditional use with specific standards and by limiting it to low visibility areas. While outdoor storage is allowed in heavy industrial, no performance standards exist to manage this activity with potential for negative visual impact. Reducing the minimum lot width to 100 feet in the General Industrial District may reduce land acquisition costs in Dundas improving its competitiveness with Faribault and Northfield.

C. Opportunities

Rail Access as a Niche Position to Differentiate Dundas

The availability of rail access to a high quality main line rail has been an asset for growth of the Airlake industrial park; however, with no rail accessible land remaining at Airlake, an opportunity exists for another location in the south metro to provide this service. Very little industrial land with rail access exists in the market area. Establishing rail as a competitive niche position comes with significant costs and risks, however. Major costs include a main line rail switch at $250,000, the common rail lead ("the collector road") serving the area at $100 per foot, securing land for the right of way for the rail lead and engineering design.

220 acres of land on a short line operated by Progressive Rail has been marketed in Randolph Township for the past couple of years. No switches or track have been laid; such investment is contingent on securing adequate commitment from rail users willing to locate here. Progressive Rail has not been willing to invest in a switch or the rail lead at this location.

While rail service could be a significant opportunity to establish a niche market for industrial growth in Dundas, the quality of this opportunity should be measured in terms of interest shown and willingness to invest dollars by private firms with significant knowledge and expertise in this area.

Target Smaller Businesses

State reports on job growth consistently show that the majority of job growth comes from small businesses. Small businesses, especially those currently located in the metro area, could be a potential opportunity for industrial growth. As these businesses grow, they may be unable to find affordable land within the metro area. However, a relatively close-in location such as Dundas, with significantly lower land costs, could be an attractive option for such businesses. Additionally, growing small businesses located throughout Rice County and neighboring county would also be good targets. Competitively priced land with good access to regional and national markets and labor could be very attractive to such businesses. There is a relatively small base of small businesses within the Dundas area that offer industrial growth potential. Growth will likely come by recruiting small businesses outside the immediate population area.

Capture Higher Percent of Area Industrial Development

With significantly more industrial land contiguous to existing city limits than Northfield, Dundas has an opportunity to capture an increasingly higher proportion of industrial growth in the Dundas/Northfield area. Industrial growth of 130 acres is projected over the next 24 years due to the existing and projected economic and population base of the Dundas/Northfield area. Dundas could increase its share of industrial development generated by this base due to available land and reasonable development standards and efficient and quick city processes for project approval. This opportunity would not be available if Dundas were a stand alone remote community.

Close Proximity and Access to Interstate 35

Dundas is only 3.5 miles from the interchange at Interstate 35 with direct access on County Road 1. This distance is similar to that enjoyed by Airlake Industrial Park in Lakeville and such access was a key component of Airlake's success. Capitalizing on this success will require upgrading CR 1 to year-round 10-ton and current design standards.

Partnership with Northfield

From a competitive market location perspective, Dundas and Northfield are one market area. Dundas and Northfield would more effectively compete with Faribault or the proposed County development at Interstate 35, by working together than against each other. While this presents political challenges, there may be areas where cooperation can be fostered. Areas of cooperation could range from joint marketing of the Dundas/Northfield area to joint investment in infrastructure and tax base sharing. Through cooperation and pooling of resources, Dundas and Northfield could create an aggressive economic development strategy to better compete in the regional industrial real estate market.

Strong and Growing Industries for Economic Development Targeting

The location quotient analysis identified industries with above average competitive strength and prospects for strong future performance. Opportunities for industrial development may be found by specifically targeting these industries through economic development strategies and programs. These industries include: Nonmetallic mineral product manufacturing; Fabricated metal manufacturing; building, developing, and general contracting; overall manufacturing; plastics manufacturing; agriculture and forestry support activities; food manufacturing; machinery manufacturing; waste management and remediation.

While trucking, warehousing and distribution are also identified as strong growth industries, Dundas is unlikely to be a strong competitor for these industries if the Rice County proposal at Interstate 35 materializes.

D. Threats

Rice County Project at Interstate 35 and County Road 1

Rice County has proposed an 1100 acre industrial park at Interstate 35 and County Road 1. This location would be very attractive to fast growing trucking, distribution and warehousing activities focused on serving the Twin Cities consumer market. Competing for these types of businesses would be very challenging for Dundas, unless land, tax and urban service costs were significantly lower in Dundas. Differentiating itself from this project with significant amenities, services and image and targeting such businesses who seek such amenities, services and image will be critical to success.

Offering rail service, a high level of "in-park" amenities and an urban location with nearby, walkable services may be one way to differentiate itself, at least to a market segment that values these services.

Faribault Industrial Parks

With ample land available in its two existing parks, superior freeway access, lower land costs and existing city services and urban amenities, Faribault is the most significant immediate competition for industrial land development in the Dundas/Northfield area. With its direct freeway access, Faribault is as close to the Twin Cities in terms of travel time as Dundas is, thus mitigating Dundas' ability to capture the "move-out" segment from the Twin Cities. Rail access is available in the Northern Industrial Park, however, it has not been a significant draw; only two businesses have spur connections. This could be an indication that rail service is not a significant amenity or service on which to base growth. On the other hand, the DM & E rail line is in poor condition with top speeds of 30 mph thus limiting its functionality and contributing to the lack of business interest and use.

Industrial Land as a Commodity

Land with generally good access is widely available in most medium sized communities in Greater Minnesota. Many of these communities offer a wide range of development incentives from tax increment financing and grants/loans to low cost land including utilities. If Dundas wants to expand its industrial tax base, it will need to take specific steps to accelerate development activity.

Impact on Small Town Character and Quality of Life

Without a road system that keeps truck and vehicle traffic associated with industrial development away from the downtown commercial and residential areas, the character of the town will be compromised.

7. RECOMMENDATIONS

A. Overall Policy Options

Dundas officials are faced with several policy options pertinent to securing the City's economic future. The policy options presented in this section are followed by a specific policy recommendation and economic development, infrastructure and regulatory strategies needed to implement the policy recommendation. These recommendations are derived from the data and analysis presented in earlier sections of this report. The recommendations are limited by the scope of this project and are presented for purposes of discussing Dundas' economic development options towards the creation of an economic development strategy.

A sound and consistent economic development strategy will help forge Dundas' identity over time. Dundas has a variety of paths that could be chosen in setting a direction for its economic future. Four general courses of action are available to the City:

Stay the Course – maintain a hands off approach and allow land owners and market forces to determine the timing and pace of development. The City's primary role is in its use of zoning controls to establish and implement requirements and the performance standards for proposed industrial uses. With demand for industrial land estimated at around 5 acres per year and 56 acres being actively marketed in Northfield, this option is the safe, low-risk choice, but unlikely to result in much activity.

Aggressively Pursue Industrial Investment – Actively seek out developers/investors to acquire tracts of land for speculative industrial development and tax base growth. With modest demand for industrial land and ample near term inventory, developers/investors are unlikely to be interested in this approach, even with significant tax incentives and infrastructure investment by the City. This approach represents large risks to the city.

Partner with Northfield – Recognizing the common competitive environment and investment issues that both Dundas and Northfield face, create a cooperative partnership for industrial growth in the area. This would most likely take the form of cooperative marketing of the Dundas/Northfield area through a regional "chamber of commerce" with programs and communication materials that are funded by both cities. Successful programs at this level could eventually lead to greater levels of cooperation.

Incremental and Targeted Strategies – Focus economic development strategies on land within the city currently served by city services and roads. An incremental approach would target key parcels for marketing and development. This could include both undeveloped land or underutilized industrial land. EDA programs and incentives would be developed to support this type of limited but focused approach.

B. Recommendation

An **Incremental and Targeted approach** is recommended as the most practical approach for generating consistent tax base growth with moderate levels of risk. This approach focuses economic development strategies on land within the city currently served by city services and roads. It will identify and target key parcels for marketing and development. There are seven parcels of land containing 56 acres in the city (or adjacent to it) with ready access to city services and roads. There is also additional industrial acreage within the City that is underutilized and could also be included in this approach. EDA programs and incentives would also need to be developed to support this type of limited but focused approach.

The demand for industrial space in the Dundas/Northfield area is consistent, but relatively modest. This is unlikely to change over the next ten years, thus it is unlikely a large industrial park development initiative could be supported. There is also little evidence to support investment in rail facilities at this time, though land west of the Union Pacific line could be "reserved" for this use in the future.

An incremental and focused effort that capitalizes on in-place infrastructure will provide the greatest return with the lowest risk. As revenues from this type of incremental growth are generated, they can be used as seed money for future economic growth and/or to reduce taxes and improve the City's tax position relative to the competition. The key issue for Dundas is having land that is readily available for development. The City can take an active role in achieving this through a variety of economic development, infrastructure and regulatory strategies. Such strategies usually involves one or more measures including direct public investment, land acquisition, capital improvements, enhanced public services, technical assistance, promotion, tax benefits, and other stimuli including land use controls and performance standards. The following strategies are recommended to implement the Incremental and Targeted policy approach:

C. Economic Development Strategies

<u>Activate the Economic Development Authority</u>

The first step is to create an active and engaged EDA to evaluate, implement and manage economic development strategies. This report provides the foundation for further inquiries and economic development strategies depending on the overall policy direction established by the City Council. A formal industrial land development policy is needed to establish appropriate strategies, programs and tactics.

<u>Understand Land Owner Issues/Concerns with Land Development</u>

Without landowners willing to sell and/or develop land, there will be no industrial development. To kick start this process, the City should contact the owners of existing undeveloped land within

the City's industrial districts to identify interest in, as well concerns with, industrial land development. Understanding owner issues and time frames concerning development will help determine next steps. 56 acres on 7 parcels exist within the city or immediately adjacent to the city where city services and roads are readily available (see maps of Areas 3 and 4 in Appendix D).

Assess Parcel development Potential and Communicate with Landowners.

Land owners unfamiliar with land development will have questions about development costs and selling prices. The City can evaluate and estimate costs to provide/extend city services and roads (if land is large enough for subdivision) for parcels within or adjacent to the city. Information on recent sales prices and terms can also be provided to land owners. A preliminary estimate of development costs and market information can be the basis for continuing discussion/dialogue with land owners, and will help facilitate marketing of land. This cost and pricing assessment along with parcel location and road access will also help identify priority parcels for development.

Encourage development by Providing Incentives on a Project by Project Basis

Various actions can be taken to encourage development depending on the outcomes of the previous steps. A range of activities could be coordinated through the EDA. In some cases, the land owner may decide to actively market the land. In other situations, the City may seek permission to market the land. The City may also want to gain some level of control over priority parcels. This could include an agreement for first right of refusal or outright acquisition. The City could also acquire land and resell it at a discount in order to attract a particular business. The City may use a variety of financing mechanisms to acquire land and prepare it for development. The city could use TIF, tax abatement, bond sales, the general fund, and enterprise funds the revenue generated by a specific project meets city standards for risk and repayment. The College City Beverage project is a good example of providing incentives on a project by project basis and is a sound and relatively low risk way of growing the industrial base.

Communicate Basic Development Information and Establish Dundas as Development Friendly.

Basic information on city development and utility fees, regulations, development process and economic development programs and incentives must be "packaged" and easily available for ease of communication to business owners and developers. Downloaded information from a web site is the preferred method of receiving this information for landowners and developers. An active communications strategy should begin with basic information about Dundas.

A communications strategy should also build on the foundation that Dundas is "Easy to do Business With." Dundas has a well earned image as a city that is easy to do business with. This is a distinct competitive advantage for the City, especially when competing with Northfield for industrial growth. This image or perception must be more than a communications tactic, however. It must be based on zoning controls and performance standards as well as internal processes that maintain this position in relationship to other nearby cities. For Dundas and its

recent rapid growth, the challenge will be to ensure that both staff review and Council/Planning Commission processes continue to support this competitive position. Adopting technology, employee job descriptions and employment policies that encourage efficiency, customer satisfaction and speed are critical to maintaining this competitive advantage.

Another component of this communications strategy is the development of informal partnerships and relationships with builder/developers who specialize in "build-to-suit" industrial facilities. The outcome of such partnerships is a good understanding of development standards and city processes by the builder/developer, so that the development process is streamlined, efficient and positive experience for the ultimate business owner.

Target Specific Business Segments and Communicate the Dundas Advantage.

Three business segments have been identified in this report for potential industrial growth opportunities in Dundas. One segment, the "move out" segment, is the existing south metro based business looking to expand within better commuting range of owners and employees. Another segment includes SE Minnesota based industries with strong competitive positions as defined by the location quotient analysis in Chapter 2. The third market segment includes existing businesses within the Dundas/Northfield area that need expansion room. These locally based businesses usually want to maintain their local presence and will work hard to find local land. College City Beverage is a good example of this segment.

In targeting the "move out" segment, key messages include a convenient location off of Interstate 35 in the midst of a well trained and competitive workforce. This message will resonate more strongly over time as the metro area expands southward and both the actual and perceptual distance to Dundas is reduced. Creating awareness and the perception that Dundas exists within commuting distance of south metro business owners will take time, but is an important part of recruiting the "move-out" segment. A competitive tax environment is an important issue to this segment. Dundas will need to address its unfavorable tax climate if it wants to successfully attract this segment.

In communicating with the "competitive" SE Minnesota industries identified in Chapter 2, the Dundas/Northfield area has distinct image and locational advantages that may be attractive to this segment:

- Relatively low cost supply of labor that is highly trained and productive compared to other areas of the state.
- Close proximity and convenience to the Twin Cities, but none of the congestion and hassles associated with a large metropolitan area.
- An attractive and distinct character and image that sets the Northfield/Dundas area a part from other areas.

In targeting locally based businesses, a key message could be "expand locally in the City that's easy to do business with." Points of differentiation between Dundas and Northfield should be

highlighted to strengthen this message. These points could include regulatory performance standards and a transparent and quick development process backed up by some type of "performance guarantee." Targeting Northfield based businesses may not be an appropriate strategy if Dundas and Northfield were to develop a cooperative marketing partnership.

Develop Economic Development Programs

A variety of supportive economic development tools and incentives should be developed in order to compete with other neighboring cities that already offer such incentives. These could include revolving loan funds, relocation and expansion grants, TIF and tax abatement, and JOBZ.

Improve Tax Climate

Property taxes in Dundas are high. This is a significant issue for attracting new industrial businesses, especially those from the metro area and other SE Minnesota based businesses. Decisions affecting the general fund and various operating funds should be made knowing that they affect the city's business climate and ability to attract future investment.

D. Infrastructure Strategies

Increase Sewer Capacity

With current capacity constraints, the City is limited to certain types of industrial businesses with limited water and sewer needs. Food manufacturing is a significant and strong industry in SE Minnesota and one with strong expansion potential. Many manufacturing operations with water based processes also require significant sewer capacity. Without the capacity to handle such industries, Dundas' field of industrial opportunities is reduced and puts the City at a competitive disadvantage.

Upgrade County Road 1 from Dundas to Interstate 35

High quality access to interstate and regional arterial roads is one of the most critical components for industrial real estate development. The County Road 1 corridor is a significant asset to the City, however, it needs to be brought up to current 10 ton standards in order for the City to fully capitalize on its proximity to Interstate 35.

E. Regulatory Strategies

Develop Performance Standards for all Conditional Uses

Dundas has specific performance standards for some conditional uses and not for others. Clear performance standards stipulating the requirements under which conditional uses are allowed is a powerful tool to guide and direct these uses with potential negative impact. Performance standards should be created for maintenance garages, contractor's offices, and bulk storage of more than 1000 gallons in the light industrial district. Such standards should also be created for

outdoor storage, buildings over 35 feet in height, mining and extraction, refuse transfer stations, creameries, and bulk storage of more than 1000 gallons in the general industrial district.

Reduce Lot Width and Rear Setbacks

Lot width can have a significant impact on land acquisition costs and extension of city services. Dundas currently has a minimum lot width of 200 feet in the general industrial district. In order to be competitive with other communities and reduce costs to potential industrial businesses, the minimum width should be reduced to 100 feet.

Dundas currently requires a 30 foot rear setback, larger than most other communities. This creates a large unusable area that is generally out of sight. There is no reason this could not be reduced to 10 feet (if adjacent land is industrial) to allow for drainage easements and not have any other impact. This would modestly increase the amount of usable space improving the cost effectiveness of land in Dundas.

Outdoor Storage

Outdoor storage is not currently allowed in the light industrial district. All other competitive communities allow outdoor storage which is a common need for industrial businesses. This position places Dundas at a competitive disadvantage. Outdoor storage can be managed as a conditional use with specific performance standards including:

- Prohibiting it in front yards.
- Requiring it to be fenced, screened and/or landscaped using berms, plant material and/or fencing/walls. A 6 foot to 8 foot height of screening material with 80% to 100% "opacity" could provide acceptable screening in most situations. Requiring it to be on a surface to control dust.
- Preventing its encroachment on required parking or loading areas.
- Prohibiting the storage of waste material.
- Using larger buffer areas/distances and plant material when abutting residential areas and high visibility corridors (i.e. College City Beverage project)

Revisit Agreement Establishing a Rural Service District

The Rural Service Agreement covering approximately 50 acres within the current city limits significantly reduces industrial development potential and tax base growth. Adjacent city services and existing roads can cost effectively serve this area. While the lack of willing land owners in this area to support industrial development will continue to be a barrier for development, the Rural Service Agreement which prohibits development is an additional barrier that should be modified or eliminated.

Summary

The Dundas area is generally well positioned for future industrial growth with its existing road access, potential rail access and substantial inventory of land. Over time, market forces combined with willing land owners will convert much of this land to industrial use. However, the area is unlikely to see significant development pressure beyond five acres per year in the near term. Industrial development is highly competitive and industrial land with city services is widely available in Greater Minnesota. Dundas faces significant competition from the existing industrial parks in Faribault and the Proposed County Project at Interstate 35 which have superior road access and low land prices. However, with incremental and targeted efforts the City can modestly accelerate industrial development and capture a larger portion of development occurring in the Dundas/Northfield area. A variety of strategies are recommended to support this approach. Their implementation will require active and consistent economic development management and patience for long term successes.

APPENDIX A

League of Minnesota Cities Handbook for Minnesota Cities
Chapter 16: Community Development and Redevelopment

Chapter 16

Community development and redevelopment

This chapter addresses the major structures and programs for encouraging and guiding the economic development and redevelopment of a community. Economic development tools can be applied to any size city. These tools are interrelated and a city may use several for one project. Without council coordination and guidelines, a real danger exists for citizen criticism of alleged misuse of these tools.

State. v. Wicklund, 589 N.W.2d 793 (Minn. 1999).

It should be noted that public financing of a privately-owned facility does not make public space in the facility a public forum for free speech purposes.

This chapter is divided into three sections. The first section describes the requirement for a city to establish criteria for awarding business subsidies before any subsidy can be made. The second section addresses the various development agencies or structures cities may create or that are available to provide development assistance. The third section addresses the programs or tools available for encouraging development and redevelopment.

I. Criteria for awarding business subsidies required

II. Structures

III. Programs

IV. How this chapter applies to home rule charter cities

I. Criteria for awarding business subsidies required

Minn. Stat. §§ 116J.993 to 116J.995.

See specifically Minn. Stat. § 116J.994, subd. 2.

Minn. Stat. § 116J.994, subds. 5, 11

Minnesota Department of Employment and Economic Development.

Prior to awarding any subsidy, as defined by law, to any business, a city and any HRA, EDA, port authority, non-profit created by a local government, and other units and divisions of cities must hold a public hearing and adopt criteria for awarding business subsidies. The public hearing notice must include a statement that either a resident or a city property owner may file a written complaint with the city if the city does not follow the business subsidy law. Written complaints must be filed within specified timelines. The criteria must include a policy regarding the wages to be paid for any jobs created. Copies of the criteria adopted by cities are found on the Minnesota Department of Employment and Economic Development (DEED) web site.

Minn. Stat. § 116J.994, subd. 3.

Once the criteria are established, the grantor and the recipient must enter into subsidy agreements that meet the statutory requirements. The agreement must include an obligation to repay part or the entire subsidy if the recipient does not meet its obligations.

Minn. Stat. § 116J.993, subd. 3.

Types of assistance meeting the definition of a business subsidy include: grants; contributions of real or personal property or infrastructure; the principal amount of a loan at rates below those commercially available to the recipient; any reduction or deferral of any tax or any fee; any guarantee of any payment under any loan, lease or other obligation; or any preferential use of government facilities given to a business.

Minn. Stat. § 116J.994, subd. 11.

The law now imposes a 180-day statute of limitations on actions to challenge a city after approval of a business subsidy agreement. Citizens or owners of taxable property in a city may bring a civil action against the city for failure to comply with the business subsidy laws. Cities should therefore consult closely with the city attorney before awarding a business subsidy.

Minn. Stat. § 116J.993, subd. 3.

There are several exceptions to this definition, including a business subsidy of less than $25,000, subsidies for redevelopment, pollution control and land clean up, housing, industrial revenue bonds, and other similar programs.

Minn. Stat. § 116J.994, subds. 4, 7, 8.

Recipients must provide grantors with information on their progress toward the goals outlined in the agreement. The goals for increasing jobs or retaining jobs must result in local job creation and job retention. Grantors must submit the annual Minnesota Business Assistance Form (MBAF) to the Department of Employment and Economic Development (DEED) for each business subsidy agreement. Local government agencies in cities with a population of 2,500 or more must submit an MBAF, regardless of whether they have awarded business subsidies. Local government agencies in cities with a population of 2,500 or less are exempt from filing the MBAF if they have not awarded a subsidy in the past five years.

II. Structures

A. Housing and redevelopment authorities

The predominant method of delivering and administering housing and redevelopment programs in Minnesota is through a legal public agency, accountable to city government. A city may establish this public agency, which is often the housing and redevelopment authority (HRA). There are more than 230 HRAs in Minnesota.

1. Elements of an HRA

Minn. Stat. §§ 469.001 to 469.047.

An HRA is a public corporation with power to undertake certain types of housing and redevelopment or renewal activities. While state legislation "creates" a housing and redevelopment authority in each city, it is up to the city council to formally establish an HRA before it can do business and use its powers. Once a council legally establishes an HRA, it may undertake certain types of planning and community development activities on its own with council approval.

Minn. Stat. § 469.003.

Minn. Stat. § 469.003, subd. 1.

To create a housing and redevelopment authority, the city council must, by resolution, make the following findings required by law:

- Substandard, slum or blighted areas that cannot be redeveloped without governmental assistance; or,
- A shortage of affordable, decent, safe, and sanitary dwelling accommodations available to low-income individuals and families.

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Minn. Stat. § 469.003, subds. 2, 4.

The council must pass this resolution after a public hearing. A copy of this resolution must go to the commissioner of DEED.

2. Area of operation

Minn. Stat. § 469.004, subds. 1, 2.

The area of operation of a city HRA is the corporate limits of the city. County and multi-county HRAs operate in areas that include all the political subdivisions within the county or counties, except they may not undertake any project within the boundaries of a city that has not adopted a resolution authorizing the county or multi-county HRA to exercise powers within that city.

Minn. Stat. § 469.004, subd. 5.

Establishment of a county or multi-county HRA precludes the formation of city HRAs, unless the county or multi-county HRA and the commissioner of DEED agree to let the city form one.

3. Membership

Minn. Stat. § 469.003, subd. 6.

An HRA consists of five commissioners who are residents of the city. The mayor appoints and the council approves the members who serve five-year, staggered terms. City councilmembers often serve on the HRA. The entire membership of an HRA may consist of councilmembers.

24 C.F.R. 964.415

Federal regulations require that at least one eligible resident be a member on a public housing agency board, which may be the HRA, an EDA or other public housing authority. This rule applies to any public housing agency that holds a public housing annual contributions contract with HUD or that administers Section 8 tenant-based rental assistance. The rule does not apply to state-financed public housing projects or Section 8 project-based assistance. A "small PHA exception" also exists.

Minn. Stat. § 469.003, subd. 7.

The city clerk must file a certificate of appointment for each commissioner to a city HRA and send a certified copy to the commissioner of DEED.

Minn. Stat. § 469.011, subd. 2.

State law allows the HRA to adopt bylaws.

Minn. Stat. § 469.011, subd. 4.

Commissioners may accept compensation of up to $75 for each meeting they attend. Commissioners who are elected officials may receive daily payment for a particular day only if they do not receive any other daily payment for public service on that day. Commissioners who are public employees may not receive daily payment, but may not suffer loss in compensation or benefits as a result of their service.

4. Powers

Minn. Stat. § 469.012, subd. 1.

An HRA is primarily responsible for the planning and implementation of redevelopment and/or low-rent housing assistance programs within its area of operation. An HRA has all the powers necessary to carry out the state HRA Act, but does not have the power to levy and collect taxes or special assessments except with respect to certain redevelopment projects including, but not limited to, the following powers:

- To sue and be sued.
- To employ staff and an executive director.
- To undertake projects within its area of operation and to provide for the construction, reconstruction, improvement, extension, alteration, or repair of any project or part of a project.
- To sell, buy, own, and lease property by any means necessary, including the power of eminent domain.

- To cooperate with and use state and federal financial assistance programs.
- To develop rehabilitation and code enforcement techniques.
- To issue bonds for any of its corporate purposes backed by the pledge of revenues, grants or other contributions.
- To implement renewal or redevelopment programs using tax increment financing.
- To own, hold, improve, lease, sell or dispose of real or personal property.
- To designate substandard, slum or deteriorating areas needing redevelopment, and unsafe, unsanitary, and overcrowded housing.
- To make necessary expenditures to carry out the purposes of the HRA law.
- To develop and administer an interest reduction program to assist the financing of the construction, rehabilitation, or purchase of low- or moderate-income housing.

Minn. Stat. § 469.012, subd. 4.

While HRAs have the legal authority to "do whatever is necessary and convenient" to implement redevelopment, they are subject to the ordinances and laws of the city. The city council must approve HRA plans before the housing and redevelopment authority may begin implementation.

Minn. Stat. § 469.028.

5. Contracting

Minn. Stat. § 469.015.

All HRA construction work and purchases of equipment, supplies or materials that involve expenditure of $50,000 or more must be competitively bid. There are limited exceptions for emergencies and certain projects, such as parking ramps and certain public transit facilities

6. Financing

Minn. Stat. §§ 469.033 and 469.034.

Operating funds, capital improvements, and debt retirement expenses for HRA projects may be financed by any one, or combination of, the following methods:

- Federal grants.
- Revenue bonds the HRA or local governing body sell.
- General obligation bonds the local governing body sells.
- Tax increments from redevelopment projects.

- A limited mill levy for redevelopment projects and planning activities.
- A limited mill levy for informational and relocation services.

7. Certifications to state

The following documents relating to the establishment and activities of local HRAs must go to the DEED commissioner:

Minn. Stat. § 469.003, subds. 4, 6.

- Resolution of need.

Minn. Stat. § 469.003, subd. 7.

- Certificates of appointment or reappointment of HRA commissioners.
- Project reports.
- Applications for federal assistance.
- Contracts with federal agencies.
- Redevelopment plans.
- Low rent public housing project and management plans.

Minn. Stat. § 469.013.

In addition, annual financial reports must go to the state auditor.

8. Federal certification

In order for a local HRA to use federal Department of Housing and Urban Development (HUD) assistance programs, it must submit a transcript of organizational documents to the HUD area office.

9. Pros and cons of the HRA

While HRAs have demonstrated competence and professional expertise in many areas, any special purpose agency like an HRA will have some pros and cons.

a. Pros

Fiscal self-sufficiency. Due to the nature of the programs an HRA addresses, it can fund projects usually outside the general government budget with minimal, direct impact on the city budget. The enabling legislation also allows for a one-third mill levy and the use of revenue bonds.

Greater efficiency. Because of the specialized functions of an HRA, it can organize its operations in a certain area better than general government by focusing resources on the delivery of a specific program rather than on a wide-range of conventional services.

Flexibility. An HRA can act swiftly to meet a problem and has the flexibility to be more innovative than a city council in developing new approaches. Furthermore, an HRA has the ability to coordinate public and private resources to solve problems.

b. Cons

Operating too independently. Because it is somewhat free of political pressure, an HRA can administer programs with only a minimal amount of accountability for its actions.

Fragmentation of the local government function. An HRA can run the risk of operating at cross-purposes or in contradiction to city policies, which can result in conflict with and duplication of efforts.

Responsiveness to public opinion. HRA operations, insulated from the electoral process, can risk being insufficiently responsive to public opinion or community thinking.

B. General city development powers

Cities have authority to aid and cooperate in the planning, construction or operation of economic development and housing and redevelopment projects.

Minn. Stat. § 469.041.

The following is a partial list of actions cities may take, with or without compensation:

- Dedicate, sell, convey or lease any of its interests in any property or grant easements, licenses or any other rights or privileges to an HRA.
- Furnish parks, playgrounds, recreational, community education, water, sewer, and drainage facilities or other works adjacent to or in connection with housing and redevelopment projects.
- Do any and all things necessary or convenient to aid and cooperate in the planning, undertaking, construction or operation of the projects.

Minn. Stat. § 469.043, subd. 2.

- Grant a partial tax exemption of up to 50 percent of all local taxes for housing projects in a redevelopment district.

Minn. Stat. § 469.192.

A statutory city, a home rule charter city, an economic development authority, a housing and redevelopment authority or a port authority may make a loan to a business, a for-profit or nonprofit organization or an individual for any purpose the entity is otherwise authorized to carry out under any of the laws cited.

Laws establishing the purposes are Minn. Stat. §§ 116J.415, 469.001 to 469.068, 469.090 to 469.1082, 469.124 to 469.134, 469.152 to 469.1651, or any special law.

Judd Supply Co. v. Merchants & Mfgs. Ins. Co., 448 N.W.2d 895 (Minn. Ct. App. 1989).

Private development projects that receive public financial or other assistance will not necessarily become public projects that trigger competitive bidding or other state laws applicable to public works.

C. Economic development authorities/port authorities

Two development approaches gaining in use are the port authority and the economic development authority.

Minn. Stat. §§ 469.048 to 469.089.

More than 25 cities now have the powers of a port authority under special laws and many more have created economic development authorities.

Minn. Stat. §§ 469.090 to 469.1082.

The Minnesota Department of Employment and Economic Development publishes *The Economic Development Authorities Handbook.*

For a copy of this book, and for sample resolutions and by laws for an EDA, contact the League's Research Department at (651) 281-1220 or (800) 925-1122.

All cities may create economic development authorities that have most of the powers of port authorities. The city may consolidate the economic development authority (EDA) with an existing HRA or the city may grant the authority HRA powers. The city council may create an EDA by passing an enabling resolution. Before adopting the enabling resolution, the city must first conduct a public hearing. The enabling resolution establishes a board of commissioners for the EDA. The city council can choose to serve as the EDA board of commissioners or create a board composed of a cross-section of the community. The mayor, with approval of the council, appoints the commissioners. The board may consist of three, five or seven members who serve six-year terms. The board is subject to the open meeting law.

Minn. Stat. § 469.192. See also various parts of Minn. Stat. §§ 469.090 to 469.1082.

An EDA is authorized to make a loan to a business, a for-profit or nonprofit organization, or an individual. The loan must be for a purpose the EDA is authorized to carry out under the law. An authorized purpose must deal with or contribute to economic or industrial development. EDAs have the ability to use pooled bond reserving. In most development programs, each bond issue is independent of any other bond issue with a separate service or sinking fund account. EDAs, however, may create a single common bond reserve fund. Under this arrangement, each project's revenues go into a common fund, which in turn pays the bondholders on all projects.

Through this pooling mechanism, the security of each project's bond increases and borrowing costs decrease as long as the pool has the necessary volume and diversity of cash flow.

Minn. Stat. § 469.101, subds 1, 2

Minn. Stat. § 469.102.

EDAs can acquire property and facilities but cannot issue debt without an election. The city must authorize the issuance of debt in the resolution creating the EDA. Also, EDAs can create economic development districts but the districts must be contiguous and qualify as blighted under the tax increment law.

D. Municipal or area redevelopment agencies

Minn. Stat. §§ 469.109 to 469.123.

Any municipality or group of municipalities may establish a public body, known as a municipal or area redevelopment agency, in and for the area the municipality covers. This law defines municipalities as home rule charter or statutory cities, counties, towns or school districts.

Minn. Stat. § 469.110, subd. 11.
Minn. Stat. § 469.111.

The law includes only rural areas, which generally means all areas that are not within the boundary of any city having a population of 50,000 or more, and not immediately adjacent to urbanized and urbanizing areas with a population density of more than 100 persons per square mile or areas with an unemployment rate of 6 percent or more. The restrictions limit applicability of the law to rural areas and to the Iron Range.

Minn. Stat. § 469.111.

Minn. Stat. § 469.115.

The establishment of the municipal or area redevelopment agency is similar to the establishment of an HRA. A municipal or area redevelopment agency has similar powers to an HRA.

E. City development districts

Minn. Stat. §§ 469.124 to 469.134.

Any home rule charter or statutory city may designate development districts within the boundaries of the city. Within these districts, cities may:

- Adopt a development program to acquire, construct, reconstruct, improve, alter, extend, operate, maintain or promote developments aimed at improving the physical facilities, quality of life, and quality of transportation.
- Promote pedestrian skyway systems.
- Install special lighting systems, street signs and street furniture, landscaping of streets and public property, and snow removal systems.

Minn. Stat. § 469.127.

The law encourages pedestrian skyway systems, underground pedestrian concourses, people-mover systems, and publicly-owned parking structures. It exempts these structures from taxation even when they are attached to privately-owned buildings.

F. Municipal industrial development

Minn. Stat. §§ 469.152 to 469.1651.

Minn. Stat. § 469.152.

For the purpose of attracting industrial and commercial development and encouraging local governments to prevent economic deterioration, any home rule charter or statutory city or its redevelopment agency has the power to promote industrial development by:

- Acquiring, constructing, and holding lands, buildings, easements, improvements to lands and buildings, capital equipment, and inventory for industrial projects.
- Issuing revenue bonds and entering into revenue agreements to finance these activities to promote industrial projects.

Minn. Stat. § 469.155, subd. 4.

- Refinancing health care and other facilities.

Under the legislation, cities assist industries in starting operations and use generated revenues to repay the costs. This law is the basis for issuing most industrial revenue bonds.

Minn. Stat. § 469.153, subd. 2.

Industrial projects eligible for assistance include any revenue-producing enterprises engaged in assembling, fabricating, manufacturing, mixing, processing, storing, warehousing or distributing any products of agriculture, forestry, mining or manufacturing, or in research and development activity in these fields.

Minn. Stat. § 469.155, subd. 14.

The law prohibits a city from operating any of these projects as a business or in any other manner.

G. Minnesota Housing Finance Agency

Minn. Stat. ch. 462A.

For more information about MHFA programs, contact MHFA at 400 Sibley Street Suite 300, St. Paul, MN 55101-1998, (651) 296-7608 or (800) 657-3769.

The goals of the Minnesota Housing Finance Agency (MHFA) are to provide decent, affordable housing to low- and moderate-income people; preserve the existing housing stock in Minnesota; preserve existing neighborhoods and prevent them from deteriorating; and promote energy conservation in residential housing.

The Minnesota Legislature created the MHFA in response to a shortage of affordable housing for low- and moderate-income people. Private enterprise and private investment were unable, without public assistance, to provide an adequate supply of safe, sanitary, and decent housing at affordable prices and rents. Due to high construction costs and interest rates, new construction has been seriously curtailed, and home repairs and improvements are unaffordable for low- and moderate-income homeowners. This situation has made the MHFA and other housing programs more important than ever.

The sale of state tax-exempt bonds is the primary financing for MFHA programs. The nature of these bonds allows the MHFA to make below-market interest rate loans for the construction or rehabilitation of single- and multi-family housing. Appropriations from the Legislature provide additional funding for programs, including: the promotion of energy conservation; an increase in home ownership opportunities for first-time homebuyers; home improvement grants to very low-income homeowners; and programs to improve the housing available to Native Americans, large families, and the disabled.

H. Department of Employment and Economic Development

Minn. Stat. ch. 116J.

For more information, contact DEED at 500 Metro Square Building, 121 East Seventh Place, St. Paul, MN 55101-2146, (651) 297-1291 or (800) 657-3858.

The Minnesota Department of Employment and Economic Development (DEED) is the primary development agency for Minnesota. DEED staff is responsible for a wide range of grant and loan programs, as well as for providing technical assistance to businesses and communities.

Minn. Stat. §§ 116J.411 to 116J.424.

The Center for Rural Policy and Development may be contacted at 120 Alumni Foundation Center, Mankato, MN, (507) 389-2599.

DEED also provides grants for contamination cleanup and redevelopment, administers the rural development program, makes challenge grants to regional organizations to encourage private investment in rural areas, and administers a revolving loan fund to provide loans to new and expanding business in rural Minnesota. Local government units, including cities, may receive these loans if the community has established a local reviving loan fund and can provide at least an equal match to the loan received.

Minn. Stat. § 116J.431.

Greater Minnesota Business Development Infrastructure Grant Program.

The 2002 Legislature established DEED's greater Minnesota business development infrastructure grant program. Cities outside the seven-county metropolitan area may receive grants for up to 50 percent of the capitol costs of public infrastructure necessary for certain specified economic development projects excluding retail and office space.

Minn. Stat. § 272.02, subd. 64.

The 2003 Legislature authorized DEED to create as many as 10 "tax-free" job opportunity building zones (JOBZ) of up to 5,000 acres each outside the metropolitan area. In each of these zones, businesses will be eligible for a broad range of tax incentives for a period of 12 years. Under the program, local units of government, including cities, submitted applications to DEED.

I. Minnesota Technology, Inc.

Minn. Stat. ch. 116O.

Minnesota Technology, Inc. (MTI) is a public corporation of the state created by the Legislature in an attempt to combine the best features of a private development corporation and a governmental development agency. MTI's purpose is to foster long-term economic growth and job creation while using the existing development infrastructure.

Minnesota Technology, Inc.'s main office is at 111 3rd Avenue South, Minneapolis MN 55401, (612) 373-2900 or (800) 325-3073.

MTI focuses on applied research and technology transfer and early stage funding for small manufacturers. MTI may provide financial assistance, including loan guarantees, direct loans, interest subsidies, equity investments, and joint ventures.

III. Programs

A. Housing bonds

Minn. Stat. ch. 462C.

Cities may use revenue bonds for financing single- and multi-family housing, primarily for the benefit of low- and moderate-income families. The law contains single- and multi-family housing criteria and the specific actions cities must take to comply with the law. Federal law limits the issuance of housing revenue bonds. Bonding authority is allocated by a state formula.

B. Industrial parks

An industrial park is a tract of land suitable for industrial use because of location, topography, proper zoning, availability to utilities, and accessibility to transportation. A single body has administrative control of the tract. In some cities, an industrial park may be little more than a tract of unimproved land, while in other cities it may be totally served by city services and have restrictive building requirements. An industrial park's purpose is to attract industrial development.

Advantages and disadvantages of industrial parks are sometimes justified and sometimes unsubstantiated. Advantages include reduced site development costs and site readiness. Disadvantages include the initial cost of acquiring and improving the land and installing city services, as well as the potential for the land to become subject to county and school district taxation before the city finds a private buyer. Property a city holds for later sale for economic development purposes remains tax exempt for a period of eight years, or until buildings or other improvements that are constructed after acquisition reach one-half occupancy.

Currently, private enterprise creates most new industrial park development by establishing a for-profit community development corporation. A city can cooperate with that corporation through its land-use controls and methods of financing public improvements. Many cities have also established industrial parks complete with streets, water, and sewer, in spite of the possible tax ramifications. The city then sells or leases a portion of the park to a business needing a location for its building.

Minn. Stat. § 469.185.

Minn. Stat. § 465.035.

A.G. Op. 476-B-2 (Mar. 2, 1961).

The law authorizes any city owning lands that are not restricted by the deed to convey the lands for nominal consideration, to encourage and promote industry, and to provide employment for citizens. In finding that a conveyance of land for an indoor arena was not within the statute, the attorney general concluded the conveyance must encourage and promote industry and provide employment for citizens. A more direct promotion of industry is necessary, beyond the fact that more potential customers might be in town as a result of athletic contests. Because the Legislature may not constitutionally authorize the expenditure of public funds for private purposes, there may be some doubt about the constitutionality of this law. However, the courts have upheld the municipal industrial development revenue bond law against the same objection.

City of Pipestone v. Madsen, 287 Minn. 357, 178 N.W.2d 594 (1970).

The laws that authorize the granting of lands presumably override any charter restrictions as to bids or voter approval of the disposition of such lands. However, they have no effect in granting authority to convey land a city holds in trust for a particular purpose.

The city's attorney can best advise the city concerning the legality of a purchase of land for resale. Local circumstances are important in determining the legality.

C. Industrial revenue bonds

Minn. Stat. §§ 469.152 to 469.1651.

The municipal industrial development laws help cities attract new commercial and industrial development, and keep existing businesses in the city. The law authorizes the council to issue revenue bonds, and use the proceeds to acquire and construct industrial sites and facilities. The city then leases these facilities to private industry and uses the rental fee proceeds to retire the bonds.

A city may issue industrial revenue bonds, also known as municipal revenue bonds, without public referendum. It cannot pledge the full faith and credit of a community as security for these bonds. Thus, the city may not tax property owners to pay principal and interest on the bonds.

For more information, contact DEED at 500 Metro Square Building, 121 East Seventh Place, St. Paul, MN 55101-2146, (651) 297-1291 or (800) 657-3858.

If a city decides to investigate the use of industrial bond financing, it should contact the Department of Employment and Economic Development. The department provides the city with information, advice, and technical assistance. This assistance is important, due to the adoption of federal and state laws allocating issuance authority among the states and their political subdivisions. The commissioner of Securities must approve the project.

D. Commercial rehabilitation

Minn. Stat. § 469.184.

Cities have authority to carry out programs for the rehabilitation of small- and medium-sized commercial buildings. The city must adopt a program ordinance that provides for the adoption of program regulations, including a definition of small- and medium-sized commercial buildings. Loans under the program may be for amounts up to $200,000. The city may finance the program through the sale of revenue bonds.

E. Tax increment financing (TIF)

Minn. Stat. §§ 469.174 to 469.1799.

Tax increment financing authority is available to most cities. Cities with housing and redevelopment authorities, economic development authorities, port authorities, redevelopment agencies, those cities administering development districts or development projects, or cities exercising port authority powers under a general or special law may use tax increment financing. Certain recent amendments, however, may make the use of this development tool impractical.

Tax increment financing is a funding technique that takes advantage of the increases in tax capacity and property taxes from development or redevelopment to pay public development or redevelopment costs. The difference in the tax capacity and the tax revenues the property generates after new construction has occurred, compared with the tax capacity and tax revenues it generated before the construction, is the captured value. The taxes paid on the captured value are called “increments.” Unlike property taxes, increments are not used to pay for the general costs of cities, counties, and schools. Instead, increments go to the development authority and are used to repay public indebtedness or current costs the city incurred in acquiring the property, removing existing structures or installing public services.

Thus, the property owner in a TIF district continues to pay the full amount of property taxes. TIF involves only the increased property taxes generated within the district. It does not pre-empt the amount of property taxes currently derived from the redevelopment area, nor does it directly affect the amount or rate of general ad valorem taxes the city levies. The result of a TIF project is an increased tax base that will benefit all local taxing jurisdictions. Additionally, TIF districts usually create new jobs and help stimulate the economy.

TIF is used to encourage four general types of private development: redevelopment, renovation and renewal, growth in low- to moderate-income housing, and economic development.

Minn. Stat. § 469.175, subd. 5.

The city using TIF must report annually to the county board, the county auditor, the school board, and the state auditor as to the status of the TIF district or districts and publish the report. The state auditor has established a uniform system of accounting and financial reporting for TIF districts. The city must annually submit to the state auditor a financial report in compliance with these standards.

Minn. Stat. § 469.1771, subds. 1, 2b.

The state auditor may audit TIF districts. If the state auditor notifies a TIF authority of an alleged violation, a copy of the notice is also forwarded to the county attorney. If no action is brought within one year, the county attorney must notify the state auditor, who then notifies the attorney general. If the attorney general finds a substantial violation, the attorney general will petition the state tax court to suspend the authority's power to use TIF for a period of up to five years.

Minn. Stat. § 469.177, subd. 8.

Lake Superior Paper Indus. v. State, 624 N.W.2d 254 (Minn. 2001).

Brookfield v. County of Ramsey, 609 N.W.2d 868 (Minn, 1998).

The TIF agreement with the developer is a complex document. Assistance from a financial advisor and the city attorney is necessary in order to anticipate the many potential problems. An agreement can establish a minimum market value for tax increment assessment purposes, as well as provide that the developer pay a certain level of taxes regardless of any classification rate changes or levy decreases The agreement should be entered into before the assembly and acquisition of the land on which the completed improvements are to be located.

See Minn. Stat. §§ 469.177, subds. 1b, 11; 469.1771, subd. 1; 469.1791; 469.1793; 469.1799; and 469.1814.

The 2001 tax reform legislation, which reduced class rates and provided for the state takeover of the general education levy, resulted in several changes to various statutes to accommodate the changes. The continued viability of TIF in the future has been considerably reduced by these changes.

2003 Minn. Laws ch. 127, art. 10.

2003 Minn. Laws 1st Spec. Sess. ch. 21, art. 10.

The 2003 Legislature made a number of clarifications and changes in TIF law. The law imposes a 180-day statute of limitations on actions to challenge the creation or modification of a TIF district. Changes were made in the law requiring "but-for" findings before a city approves a TIF plan and the creation of a TIF district. Other changes relate to administrative expenses, plan modifications, reporting requirements, use of increment in pre-79 districts, excess increments, pool, and decertification, among other things.

2005 Minn. Laws ch. 152, art. 2.

The 2005 Legislature made additional changes in TIF law. Before a district can be created, a detailed estimate of the impact of a proposed district on city-provided services, such as police and fire protection, public infrastructure, and borrowing costs attributable to the district, in addition to other complex estimations must be prepared.

Walser Auto Sales, Inc. v. City of Richfield, 635 N.W.2d 391 (Minn. Ct. App. 2001), *aff'd*, 644 N.W.2d 425 (Minn. 2002).

Cities should use extreme care in establishing a TIF district and should follow all procedural requirements, otherwise a court may find the district was not properly established. A TIF district was not properly established where minimal effort was made to ensure the thorough inspection of the properties, inaccurate and unprecedented methodology was used to establish the condition of the buildings, and the buildings found structurally substandard were not reasonably distributed throughout the district.

Chenoweth v. City of New Brighton, 655 N.W.2d 281 (Minn. Ct. App. 2003).

A cause of action for inverse condemnation does not arise where a city's involvement with an adjacent property owner's development consists of establishing a TIF district, entering into a contract with a private developer specifying the size and value of structures to be built, and providing for substantial city assistance to facilitate development.

Given the complexity of the laws governing the use of TIF, cities or HRAs should not undertake this method of financing community development projects without the advice of an attorney and professional consultants.

F. Property tax abatement

Minn. Stat. §§ 469.1812 to 469.1815.

A city may grant an abatement of some or all of the taxes or the increase in taxes it imposes on a parcel of property if the city expects the benefits of the proposed abatement agreement to at least equal the costs of the proposed agreement. The city must also determine that the agreement is in the public interest because it will increase or preserve tax base, provide employment opportunities, provide or help acquire or construct public facilities, help redevelop or renew blighted areas, or help provide access to services for residents of the city.

Property taxes in a TIF district cannot be abated unless the period of the abatement will not occur until after the district is decertified.

A resolution must be adopted after notice and public hearing, specifying the terms of the abatement. There are statutory limits on the duration and amount of the abatement. Bonds may be issued in an amount equal to the sum of the proposed abatements to provide funds for projects.

School districts and counties have similar abatement powers. A city, county, and school district can agree to abate their taxes on the same property.

Abatements may be used to phase-in property tax increases that are caused by large increases in market value.

G. Community development block grants

More information is available on the HUD web site.

The Community Development Block Grant (CDBG) program, under the U.S. Department of Housing and Urban Development (HUD), provides cities with federal funding to initiate and continue a diverse array of housing and community development projects.

H. Transportation

In addition to the basic authority of cities to construct and maintain streets, cities may be involved in alternative methods of transportation. For some cities, public transportation systems are of major importance in the overall plan for community development and redevelopment.

1. Railroads

Minn. Stat. ch. 398A.

The Regional Railroad Authorities Act (RRAA) allows counties and other local units of government to provide for the improvement and preservation of local rail service. One or more municipalities may form a regional railroad authority. Before a city may organize an authority, however, it must ask the county to organize an authority. If the county or counties do not organize an authority within 90 days after receiving the request, the city or cities may organize under a resolution they adopt after a public hearing. Cities may also loan or donate money; dedicate, sell or lease city property to an authority, and provide public improvements to authority property. The commissioner of the Department of Transportation has the power to pay a portion of a regional railroad authority's cost of acquiring a rail line.

2. Airports

Minn. Stat. § 360.032.

Minn. Stat. §§ 360.061 to 360.074.

Any city may own and operate an airport, and may zone to prevent airport hazards.

Minn. Stat. § 360.046.

To close a municipal airport, a city must provide written notice to the commissioner of the Department of Transportation of intent to close the airport, and then provide a hearing within 90 days with a 30-day public notice.

3. Mass transit

Minn. Stat. § 412.221, subd. 32.

Minn. Stat. § 174.27.

Some of these state grants are discussed on the Mn/DOT web site.

Some Minnesota cities operate mass transit systems, either under the general authority of the statutory city code, charter provisions or special laws. The law authorizes cities to have commuter van pools for employees. A variety of state grants to assist public transit systems are available. Contact the Department of Transportation for more information.

I. Advertising

Minn. Stat. § 469.189.

Cities have wide discretion in using city funds to promote their communities. Because the laws treat certain types of cities differently, this discussion will deal with the laws governing the use of city money for advertising purposes.

Minn. Stat. § 469.189.

Except for first class cities (Minneapolis, Duluth, and St. Paul), the council of any statutory or home rule charter city may appropriate money each year for advertising. A city may use the appropriated money only for the purpose of advertising the municipality and its resources and advantages, including cooperative programs of more than one city.

Minn. Stat. § 469.187.

First class cities may levy a tax not to exceed .00080 percent of their taxable market value.

Minn. Stat. § 469.188.

Second class and third class cities may levy a tax for advertising agricultural, industrial, business, and the community's other resources.

A.G. Op. 59-A-22 (May 23, 1958).

A.G. Op. 59-A-22 (May 20, 1965).

A.G. Op. 469-B-2 (May 25, 1959).

A.G. Op. 476-B-5 (Oct. 29, 1959).

The council has considerable discretion in determining what constitutes advertising. The attorney general has ruled, for example, that: a survey of business and business development is permissible; the council may decide whether the cost of a city progress report is a legitimate advertising expenditure; the city may pay for signs outside city limits advertising the city; under similar authority to levy a tax to advertise the agricultural, industrial, business, and general resources, the city could pay for a parade float if the council determined that the float would advertise the city; and whether the law authorized Christmas decoration was a fact question for the council.

Mitchell v. City of St. Paul, 114 Minn. 14, 130 N.W. 66 (1911).

See 16 McQuillin, *Municipal Corporations* § 44.40.

As far back as 1911, the Minnesota Supreme Court held that a contract with a publicity bureau was a reasonable means to promote the general welfare of the city. It is important, of course, that whatever a city chooses to do should be within the bounds of the public rather than the private interest and benefit the community as a whole.

1. Bureau of information and publicity

Minn. Stat. § 469.186.

Any statutory city may establish and maintain a bureau of information and publicity. The purpose of the bureau is to furnish tourist information; provide outdoor advertising; and prepare, publish, and circulate information about the recreational facilities, businesses, and industrial conditions of the community. This law does not authorize a special tax levy. Because the statutes give every city the authority to appropriate money for advertising, this would seem to include authority to maintain a bureau of information and publicity. It is doubtful the publicity statute provides any additional authority for statutory cities.

Sverkerson v. City of Minneapolis, 204 Minn. 388, 283 N.W. 555 (1939).

Almost all the home rule charters cities have adopted since 1930 or 1940 contain omnibus grants of power authorizing the city, without more explicit grants of authority, to do anything appropriate for a city that the Legislature might have authorized. It seems clear from the Minnesota cases, that such grants of power authorize expenditures for advertising.

A.G. Op. 59-A-22 (Dec. 8, 1965).

The attorney general has ruled that under such a charter provision, the city may promote business and industrial development, and hire a staff for that purpose. It seems likely a charter city, without an omnibus grant but with a typical general welfare clause, has authority to make expenditures for advertising the city as long as the particular expenditures are for a public purpose.

J. City district heating system

Minn. Stat. § 412.321, subd. 1.

Minn. Stat. § 465.74.

Any city may acquire, construct, own, and operate a city district heating system, and issue and sell general obligation bonds to finance any city expenditures related to the acquisition or operation of a district heating system. Cities may issue revenue bonds payable solely from all or portions of revenues the city receives from a district heating system. The city itself, by ordinance, may authorize a redevelopment agency to exercise any and all of the city's powers to issue these revenue bonds.

K. Contributions to economic development organizations

Minn. Stat. § 469.191.

Cities may appropriate up to $50,000 annually from the general revenue fund to any incorporated development society or organization of the state for promoting, advertising, improving or developing the economic and agricultural resources of the city.

L. Contributions to hospitals, artistic organizations

Minn. Stat. § 465.037 (hospitals).

Minn. Stat. § 471.941 (artistic organizations).

Cities may make grants to private, nonprofit or public hospitals that serve the city, or to artistic organizations that provide an opportunity for people to participate in the creation, performance or appreciation of a wide range of artistic activities.

M. Rural development grants

For more information, contact Rural Development State Office 410 Farm Credit Service Building 375 Jackson Street St. Paul, MN 55101-1853, (651) 602-7800.

A variety of grants and loans are available to cities from the U. S. Department of Agriculture, rural development program. Sewer, water, rural enterprise, housing, and other types of grants and loans are available.

N. E-commerce ready cities

Minn. Stat. § 116J.037.

For more information, contact DEED, 500 Metro Square Building, 121 East Seventh Place, St. Paul, MN 55101-2146, (651) 297-1291 or (800) 657-3858.

Cities that meet certain conditions may be designated e-commerce ready cities by the Department of Employment and Economic Development.

O. Corporations created by cities

Minn. Stat. § 465.717.

Several cities have created non-profit corporations for a variety of reasons, mostly involving community development. Cities are now prohibited from creating non-profit corporations unless authorized by special legislation. A joint powers entity can incorporate itself, but must comply with all applicable public sector laws (open meeting, gift law, conflicts of interest, competitive bidding, etc.).

IV. How this chapter applies to home rule charter cities

All of the tools this chapter lists are available to charter cities. The general discussions also apply to all cities.

APPENDIX B

Land Classification Criteria

- Vacant parcels are defined as having an improvement value of $0 by county assessor, are parcels larger than 10 acres in current Ag or residential use or are developed but currently empty or lacking a tenant.

- Developed parcels are defined as having an improvement value greater than or equal to 30% of total value as determined by county assessor or are parcels containing outdoor storage/parking and/or associated with developed adjacent parcels (possible expansion).

- Re-developable parcels are defined as having an improvement value less than 30% of total value as determined by county assessor, are only in use as surface parking or storage and not associated with a developed adjacent parcel, or are parcels less than 10 acres in current Ag or residential use.

APPENDIX C

Permitted, Conditional and Accessory Uses for
Compared Industrial Parks/areas

INDUSTRIAL DISTRICT COMPARISON TABLE

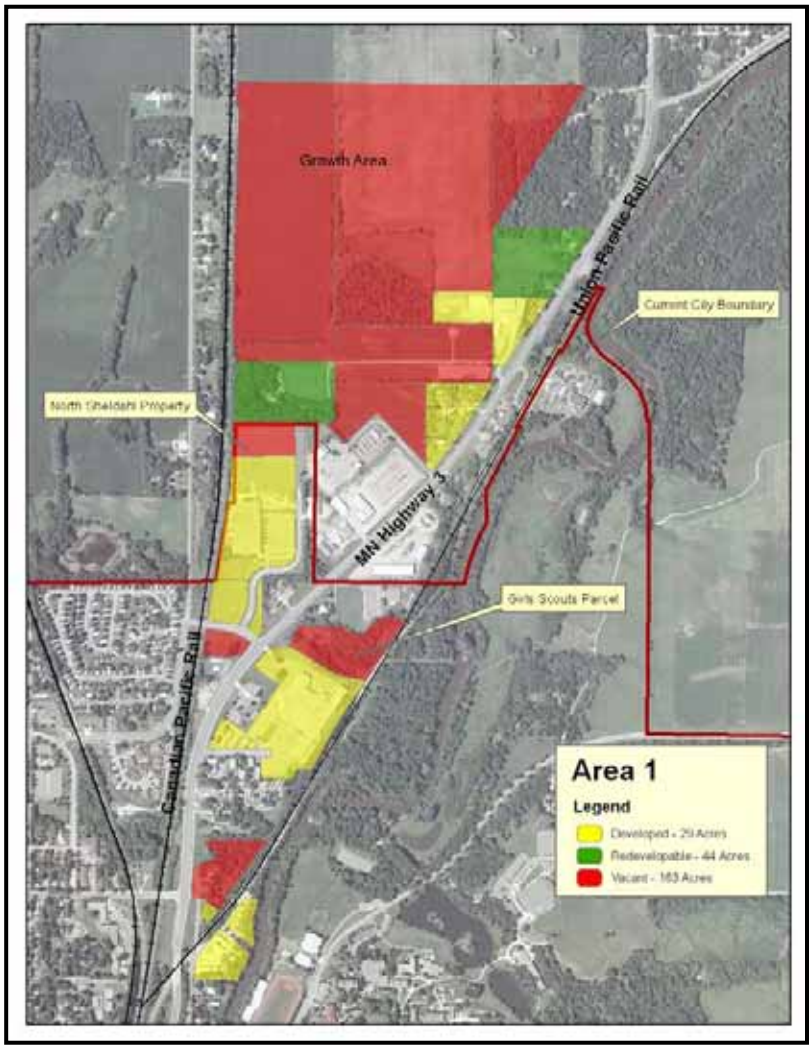
	DUNDAS		NORTHFIELD		FARIBAULT		LAKEVILLE		FARMINGTON		ROSEMOUNT		
	Limited L-I	General G-I	Limited L-I	General I	Light I-1	Industrial Park I-P	Limited I-2	General I-2	Light Industrial I-1	Industrial Park I-P	Light L-I	General I-G	Business Park I-P
Permitted Uses	Light Manufacturing. Wholesaling. Warehousing. Bulk storage under 1,000 gallons. Laboratories. Offices. Machine and metal shops. Essential services. Government and public utility buildings. Broadcasting antennas. Printing and publishing establishments. Fuel sales and service stations. Government and public utility buildings and structures. Outdoor civic events conducted by non-profit organizations. Radio and TV stations. Commercial printing establishments. Trade schools. Major auto manufactured repair.	All uses permitted in the Limited Industrial District. Manufacturing, bulk handling and storage, processing, packaging, or assembly of products and materials such as stone, brick, glass, lime, gypsum, plaster of paris, glue, size, cloth, batteries, ceramic products, plastics, rubber products, grain, agricultural products, feed, food, flour, and paint. Industrial activities such as mill working, metal polishing and plating, foundry, vinegar distillation, grain milling, cement production and other similar uses. Ag uses. Adult uses. Cartage and express facilities. Building materials sales. Transportation terminals.	Retailing. Light manufacturing, processing, packaging, or assembly of products and materials. Office and professional buildings. Research laboratories. Wholesaling and warehousing operations. Auto/truck service stations, major repair, and washing services. Service and repair businesses. Solar energy systems and solar panels. Public utility facility. Office showrooms and office warehouses. Contractors' offices and yards. Machine shops. Mini-storage. Offset printing.	All uses permitted in the Limited Industrial district. Manufacturing, processing, packaging or assembly of products and also breweries, cement production, stone cutting, brick, glass, batteries (wet cell), ceramic products, mill working, metal polishing and platting, paint (pigment manufacturing), vinegar works, rubber products, plastics, meat packing, flour, feed grain milling, milling, food and agricultural products, coal, tar, distillation of bones, sawmill, lime, gypsum, plaster of paris, glue, size, cloth, and similar uses. Agricultural uses limited to raising of crops and forestry. Adult uses as regulated by section 34-1031. Creamery. Foundry. Commercial truck storage and parking.	Aircraft storage and maintenance. Boat const., repair, & storage. Cleaning services and laundries. Contractor showroom & yard. Furniture moving and storage. Greenhouse, wholesale. Industrial machinery/equip. sales and service. Research, dev. & testing lab. Self-service storage. Wholesaling, warehousing, and distribution. Adult uses. Animal kennel, vet services. Auto convenience facility. Major and minor auto repair. Indoor firearm range. Building material sales. Farm/construction equipment. Indoor rec facility. Offices. Bus garage or maintenance. Package delivery service. Transp. services and terminals. Truck, trailer, boat or rec. vehicle sales and service. School, vocational or business. Armories, convention halls. Clubs and lodges. Communications facilities. Electric or gas substation. Essential svcs. Govt buildings and structures. Public utility bldg. St and equipment maintenance facility.	Aircraft storage and maintenance Boat construction, repair, & storage. Cleaning services and laundries. Contractor showroom & yard. Greenhouse, wholesale. Industrial mach. & equipment sales and service. Research, dev., and testing lab. Self-service storage. Wholesaling, warehousing, and distribution. Adult uses. Animal kennel, vet services. Auto convenience facility. Major and minor auto repair. Indoor firearm range. Bldg. mat. sales. Farm/construction equipment. Indoor rec facility. Offices. Package delivery service. Transp. services and terminals. Truck, trailer, boat or recreational vehicle sales and service. School, vocational or business. Armories, convention halls. Clubs and lodges. Place of assembly. Communications facilities. Electric of gas substation. Essential Services Govt buildings and structures. Public utility bldg. St and equip maintenance facility.	Commercial printing establishments. Laboratories. Manufacturing, compounding, assembly, packaging, treatment, or storage of products and materials except waste. Minor automobile repair. Servicing of motor freight vehicles and heavy construction equipment; directly related manufacturing, compounding, assembly, packaging, treatment, or storage of products and materials except waste.	All permitted uses as allowed within the I-1 zoning district. Major automobile repair.	Auto repair - major. Light manufacturing facilities. Mini-storage. Offices. Research facilities. Sexually oriented businesses. Supply yards. Truck terminal. Warehousing facilities.	Light manufacturing facilities. Office showroom. Office warehouse. Research facilities. Warehousing facilities.	Business, trade, and vocational schools. Commercial indoor recreation. Commercial use antennas and towers. General building and trade contractor office uses. General repair services, excluding automotive repair and the like. Light manufacturing, processing, and assembly uses. Motion picture, recording, television and radio production studios. Professional service and office uses. Public buildings and uses. Satellite dishes or solar collectors. Testing, research & laboratory uses. Transit stations/park and ride facilities. Veterinary services including kennels. Warehousing, wholesaling and distribution uses.	Adult uses as defined and regulated in this code. Asphalt, cement and concrete production. Auto body and major repair. Commercial use antennas and commercial use antenna towers. Manufacturing, warehousing, wholesaling, distribution, processing, packaging, assembly, compounding and accessory uses. Mineral extraction. Motor freight terminals. Recycling operations. Refinery and storage of crude oil, refined oil, alcohol and other liquids and including fertilizer storage. Related and support office and commercial uses provided they are located within the same structure as the principal use. Self-service storage facility.	Commercial indoor rec. Financial institutions without drive throughs. Light manufacturing, processing and assembly uses within enclosed building. Medical or dental clinics. Motion picture, recording, TV and radio production studios, excluding towers/antennas. Office showroom. Office warehouse. Printing and duplicating. Professional service and office uses. Public buildings and uses. Testing, research and laboratories. Transit stations, park and ride. Warehousing, wholesaling and distribution uses within an enclosed bldg.

INDUSTRIAL DISTRICT COMPARISON TABLE													
	DUNDAS		**NORTHFIELD**		**FARIBAULT**		**LAKEVILLE**		**FARMINGTON**		**ROSEMOUNT**		
	Limited L-I	General G-I	Limited L-I	General I	Light I-1	Industrial Park I-P	Limited I-2	General I-2	Light Industrial I-1	Industrial Park I-P	Light L-I	General I-G	Business Park I-P
Accessory Uses	Retail sales of products manufactured on site. Off-street loading. Off-street parking. Semi-truck parking.	Buildings and structures for a use accessory to the principal use. Off-street loading. Off-street parking. Semi-truck parking.	Off-street parking and loading and unloading areas and storage of merchandise and/or material. Retail sales of products manufactured on the site.	Accessory uses permitted are uses incidental to the permitted uses, storage buildings and garages. Retail sales of products manufactured on the site shall be allowed as an accessory use	N/A	N/A	Commercial or business bldgs and structures - use accessory to principal use but use shall not exceed 30% of gross floor space of principal use. Fences. Keeping animals. Off-street load. Off-street pkg. Outdoor storage/parking of land/sea containers and semi-tractors. Secondary or accessory use antennas and satellite TVROs. Sexually oriented uses – accessory. Signs.	All permitted uses as allowed within the I-1 zoning district. Major automobile repair.	Parking lots.	Parking lots.	Off-street parking or loading for a permitted, conditional or interim use. Overnight sleeping facilitates for security personnel.	N/A	Off-street parking or loading. Overnight sleeping facilities for security personnel. Retail sales of products manufactured, fabricated, or assembled on-site limited to 15% of the gross floor area of the principal building.
Conditional Uses	Maintenance garages and shops. Contractors offices, shops, and accessory uses where there is no outside storage. Bulk storage of more than 1,000 gallons. Advertising signs. Open and outdoor service, sale, and rental. Commercial recreation facilities. Animal kennels.	<u>Outside storage of parts, products, or fuels.</u> Buildings or structures exceeding 35 feet in height. Mining and extraction. Advertising signs. Bulk storage of more than 1,000 gallons of fuel, fertilizer, agricultural chemicals, or agricultural products. Refuse transfer stations. Creameries.	Buildings over 50 feet in height. Industrial uses which have <u>outside or open storage of parts, products, or fuels.</u>	All industries which have <u>outside or open storage of parts, products, or fuels.</u> Structures that exceed 50 feet in height. Bulk storage of more than 1,000 gallons of fuel, fertilizer, agricultural chemicals, or agricultural products.	Recycling facility. Auction establishments. Outdoor recreation area. Hotel, motel. Ambulance facility. Child care center. Restaurants and bars. Heliport. Waste hauler. Parking facilities, ramps. Stadiums/arenas. Dwelling in conjunction with business. Communications towers. Waste transfer or disposal facility.	Recycling facility. Auction establsh. Outdoor rec area. Ambulance fac. Furniture moving and storage. Restaurants/bars. Heliport. Waste hauler. Parking facilities. Stadiums/arenas. Dwelling in conj. w/ business. Comm. towers. Waste transfer or disposal facility. Ammunition and explosives storage and mfg. Concrete, asphalt & rock crushing. Refuse disposal and incineration. Scrap/salvage yard, metal milling. Stockyards, slaughterhouse. Electricity gen. plant non-nuclear	Animal kennels. Daycare facilities as a principal use or accessory use. Essential services involving transmission pipelines and transmission or substation lines in excess of 33kV and up to 100kV. Satellite TVROs greater than 2 meters in diameter. Truck stops. Truck/car washes (automatic mechanical drive-thru only) as accessory use associated w/ a truck stop.	All conditional uses as allowed within the I-1 zoning district. Airports. Crude oil, gasoline or other liquid storage tanks.	Agriculture. Commercial recreational uses. Food processing facilities. Manufacturing facilities. Public utility buildings. Recycling facilities. Solar energy systems. Towers.	Bus terminal. Child daycare facilities, commercial. Manufacturing facilities. Public utility buildings. Truck terminal.	Automotive repair. Landscape and horticultural services. Lumber and construction materials businesses. Medium manufacturing, processing, and assembly uses. Motor freight terminals. Non-service station retail facilities having gasoline pumps. <u>Outdoor storage.</u> Self-service storage facilities.	N/A	Arenas, convention ctr. and stadiums. Business, trade & vocational schools. Churches. Commercial bakeries. Day care centers, nursery and montessori schools. Drive throughs for restaurants and banks. Eating and drinking establishments without drive throughs. Health and athletic clubs. Hotels and motels. Satellite dishes/ solar collectors. Self-service storage facility.

INDUSTRIAL DISTRICT COMPARISON TABLE														
	DUNDAS		NORTHFIELD		FARIBAULT		LAKEVILLE		FARMINGTON		ROSEMOUNT			
	Limited L-I	General G-I	Limited L-I	General I	Light I-1	Industrial Park I-P	Limited I-2	General I-2	Light Industrial I-1	Industrial Park I-P	Light L-I	General I-G	Business Park I-P	
Interim Uses	N/A	N/A	Gravel surface parking lots. Charter schools and other educational institutions, which have one or both of the following characteristics: a. Are restricted by the state from owning land or buildings; or b. May be subject, under the laws of the state, to non-renewal or termination at a specific time. Recycling of aggregate materials	Gravel surface parking lots.	N/A	N/A		All interim uses as allowed within the I-1 zoning district.	Mineral extraction.	Mineral extraction.	Commercial outdoor recreation. Temporary buildings accessory to an approved construction project.	Asphalt plants and related processing of stockpiled materials. Temporary buildings accessory to an approved construction project.	N/A	

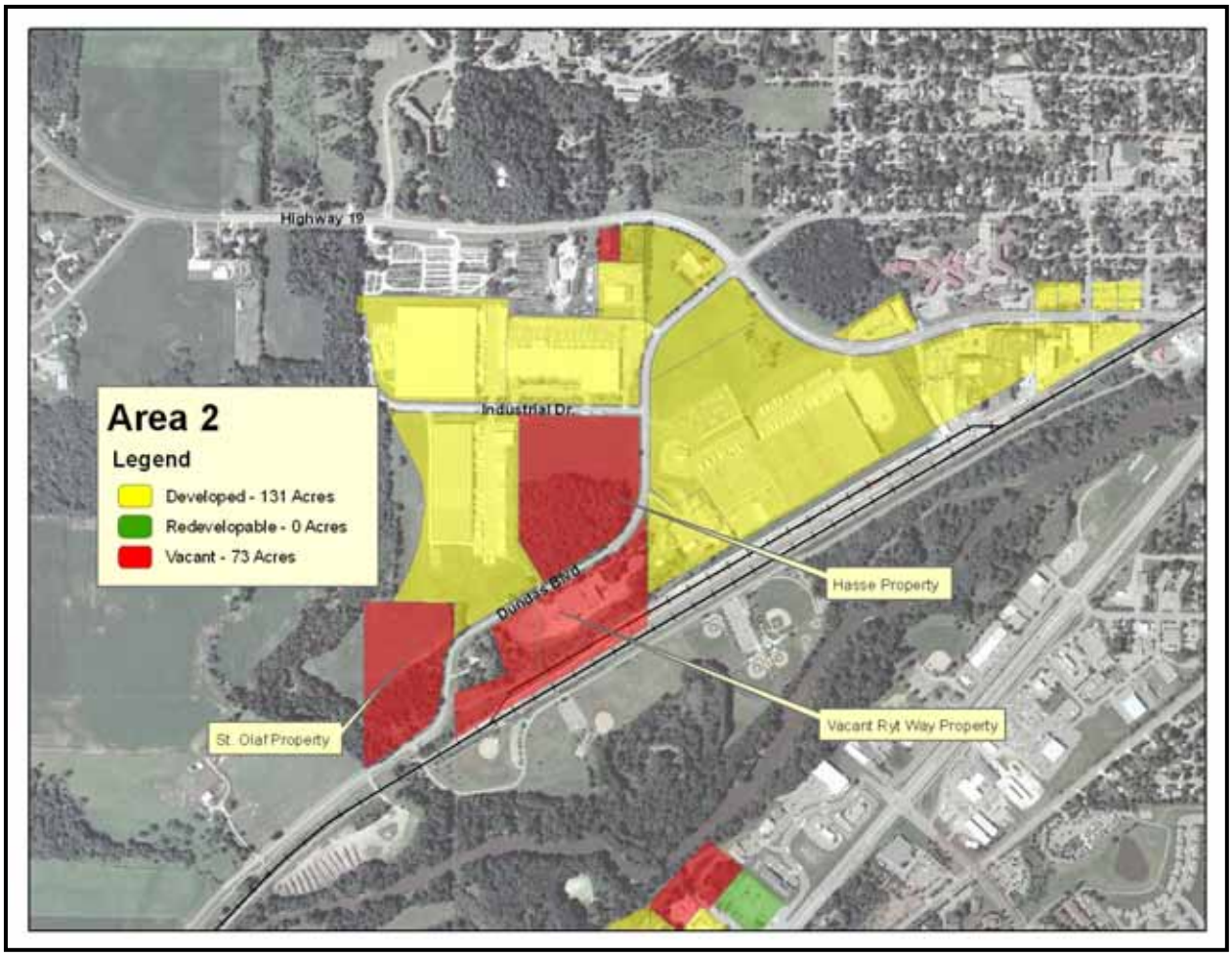
APPENDIX D

Dundas/Northfield Land Inventory



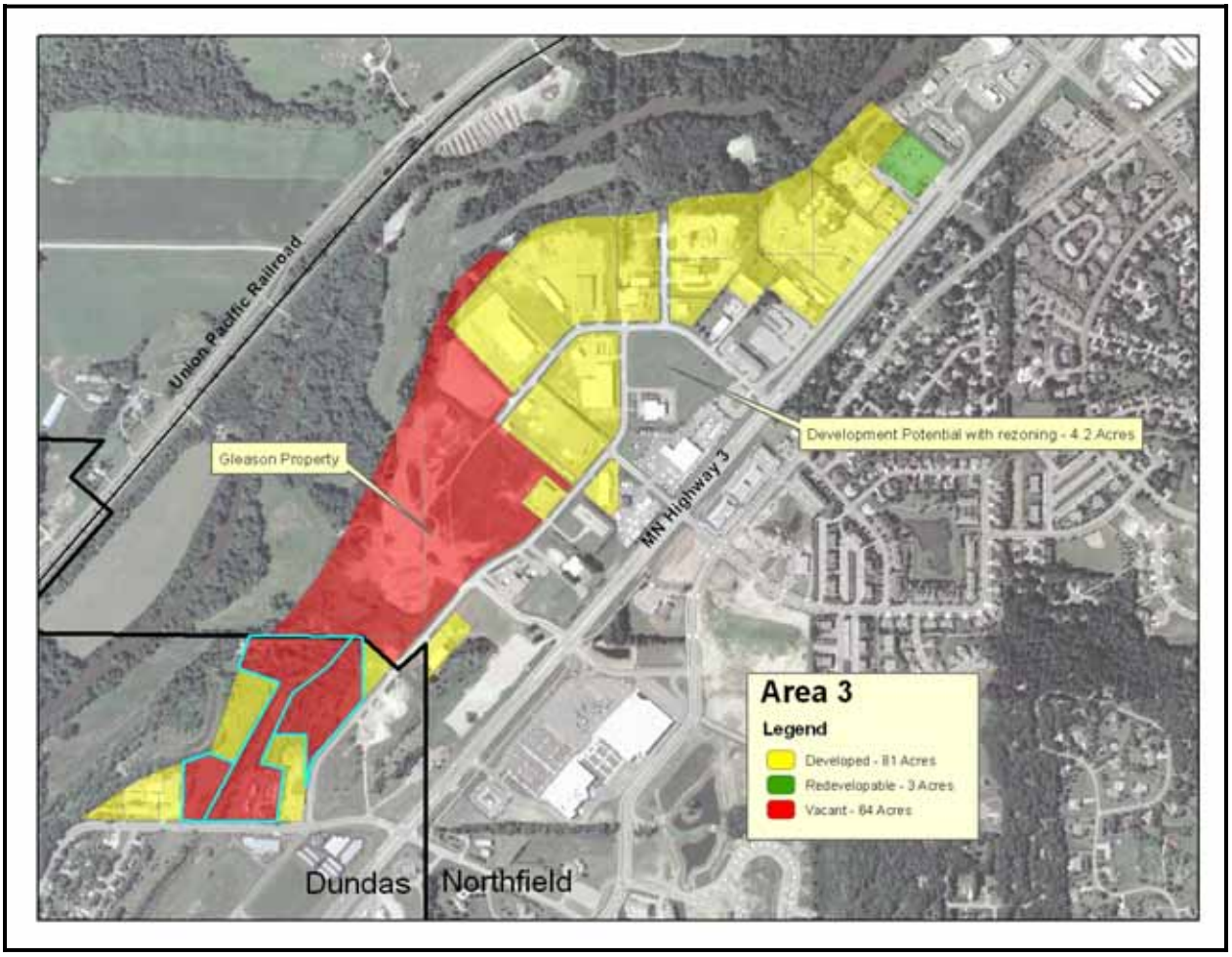
Area 1: Northfield

- Northern end of City
- Expansion are north into Dakota County
- City service available for contiguous extension north.
- Option for rail access from Canadian Pacific Railroad.
- North Sheldahl site of 4 acres being actively marketed.
- Other vacant parcels not conducive to development due to small size, shape and topography.



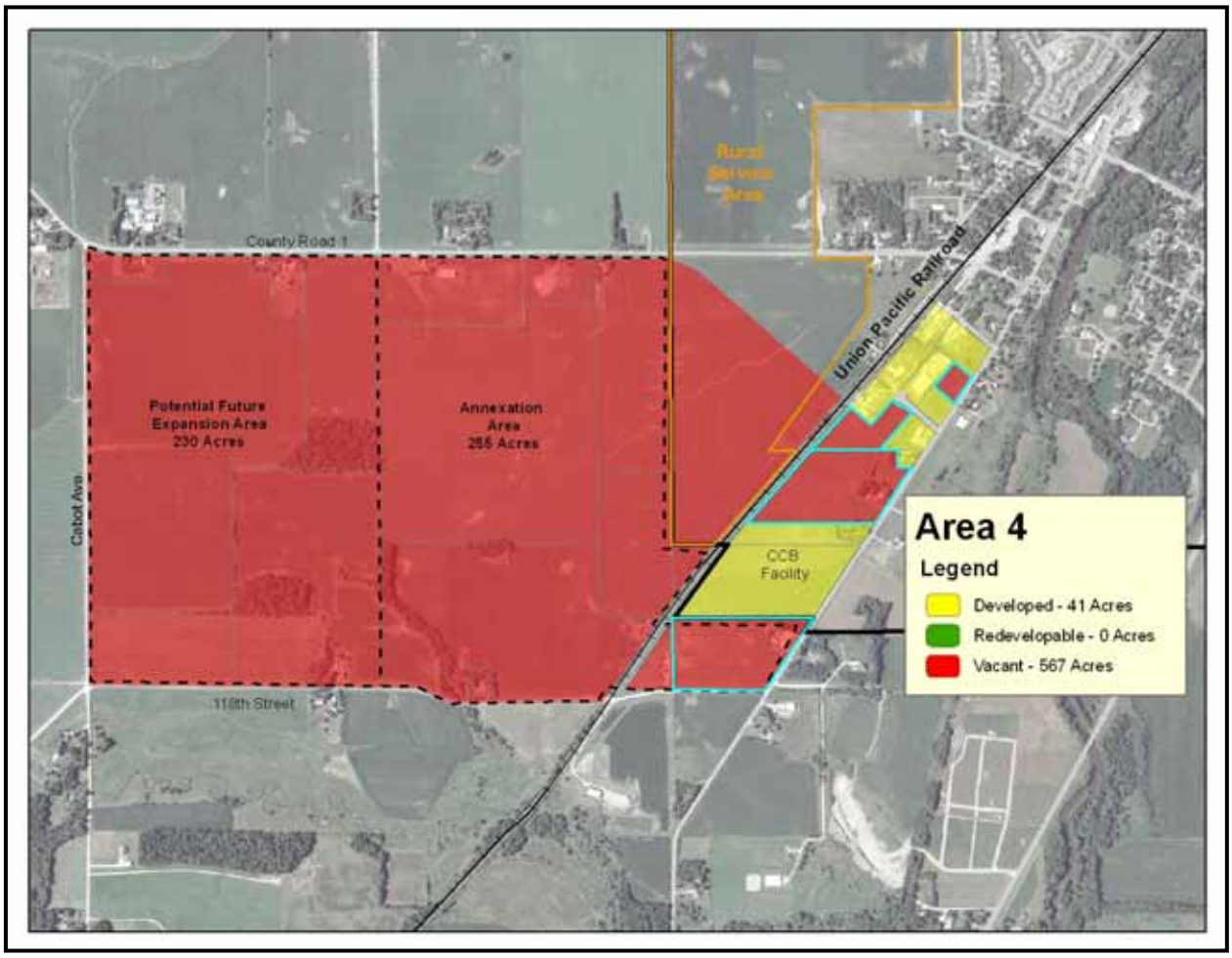
Area 2: Northfield

- This area is characterized by very large parcels and large warehouse and distribution facilities.
- 12.6 acres on the Hasse property are being actively marketed for development.
- The 67,000 square foot Ryt-Way building remains empty. It's 16 foot ceiling height is low by today's standards of 20 – 24 feet.
- St. Olaf property has low probability of being developed for industrial use.



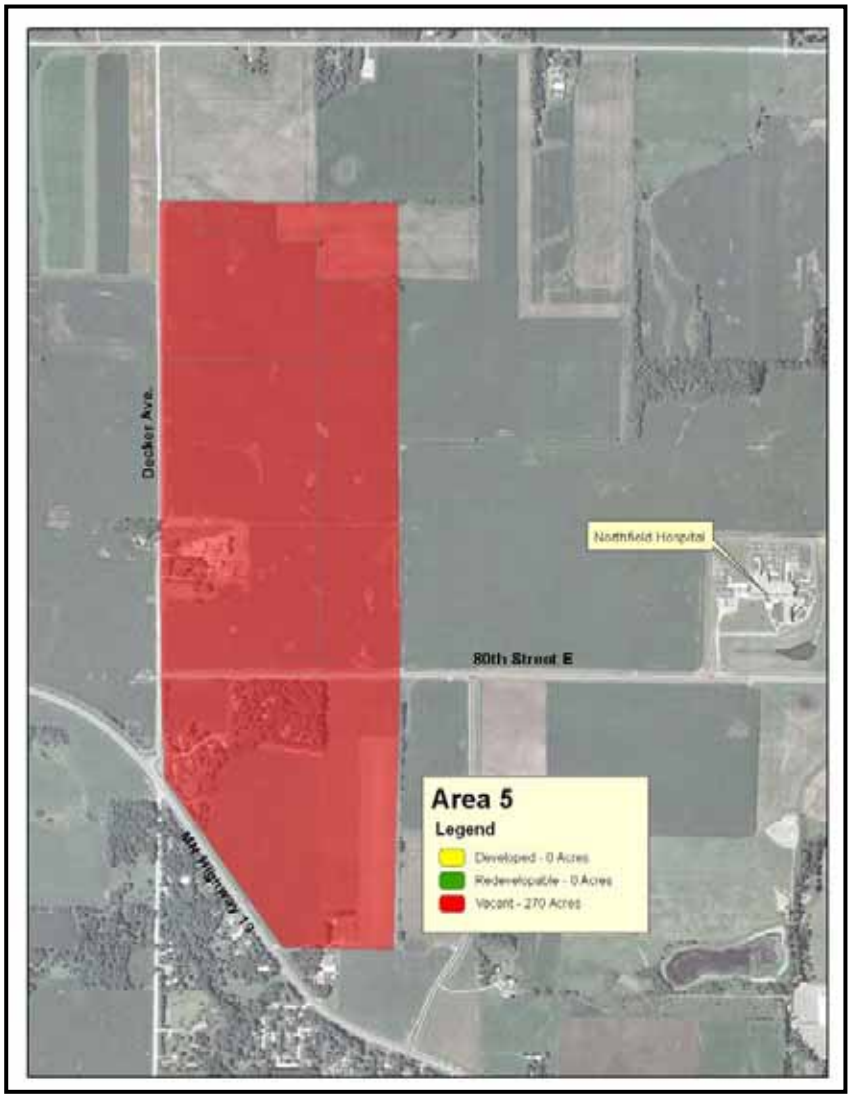
Area 3: Dundas/Northfield

- Industrial area between river and Highway 3, crosses Dundas/Northfield Border.
- 40 acre Gleason property in Northfield actively marketed.
- 4.2 Acres of vacant commercial land in Northfield could become available if rezoned industrial.
- 18 Acres on 3 parcels are vacant and represent development potential in Dundas



Area 4: Dundas

- Dundas SW Growth area, includes land currently zoned industrial within current city limits.
- Rural Service Area blocks contiguous and cost effective extension of city services. Service extension at south east corner.
- 22 acres on 3 parcels are vacant within existing city limits and 16 acres on 1 parcel on southern edge are vacant.



Area 5:Northfield

- Long Range Growth area west of City
- St. Olaf controls most of the land between the growth area and current city boundary, blocking service extension and growth potential.
- Some existing residential in area.
- Good access to Interstate 35; County proposal at Interstate may pre-empt development here and diminish industrial development potential.