go...COOK COUNTY

Creating Sustainable Prosperity for All

COOK COUNTY ECONOMIC ANALYSIS

JUNE 2013

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I. PREFACE

Cook County (the County) was among a small group of rural counties in the 1990s that defied national trends of population loss and economic contraction. Growth was propelled by the abundance of high quality natural amenities that attracted people and stimulated business expansion. This growth created hundreds of new jobs and local wealth. Population grew by more than one-third exceeding 5,000 by the year 2000.

Fortunes have shifted over the past decade. Growth in Tourism, the County's largest economic sector, stagnated forcing businesses to cut costs and delay investments that were needed to remain competitive. Private sector jobs fell much faster in Cook County than in the state or nation. Wages grew slowly and dropped for many residents. Full-time employment became harder to find. At the same time, housing costs continued to rise and construction was concentrated in the seasonal home market further driving up costs. Population growth was effectively zero as the migration of retirees and older workers was canceled out by the loss of young adults and a declining birth rate.

By private sector jobs (-2), average wages (+2.8%), and population (+8) the County ended the 2000s in essentially the same place that it started. The population is graying, school enrollment is declining, housing affordability is decreasing, and the list of investments needed to restore prosperity is growing.

The County has inherent strengths rooted in its land, culture, and people. Its natural amenities, especially its public land) and arts culture are advantages over many rural areas that can be used to attract tourists, retirees, and skilled workers with families. The new broadband network can be linked with investments in other forms of community capital to achieve the County's tourism potential and diversify the economy.

Community stewards from across the County have come together through ***Go Cook County*** to create an economic development vision to respond to these challenges and opportunities. For this vision to succeed it must be developed with broad community input and embraced by public and civic institutions, businesses, and residents across the County. New partnerships, strategic investments, leadership, and public policy will be necessary to improve the economy.

ECONOMIC ANALYSIS: A STARTING POINT

To help the community think about the future, an analysis of current conditions along with consideration of past trends that may continue into the future and alter current conditions is necessary.

This report is grounded in quantitative information and supplemented by qualitative information gathered through surveys and steering committee input. The current and past composition of the County's population, employment, business sectors, income, and workforce are addressed first.

The County's comparative advantages and how they affect the economy are discussed second. These include factors affecting the production process (e.g. supplies, land, and labor) and those that affect the cost of inputs and outputs (e.g. market proximity, infrastructure, clusters, regulation, housing, and quality of life). It also discusses rural economic development approaches that may be appropriate for the County.

II. DEMOGRAPHIC AND ECONOMIC OVERVIEW

Cook County is a small and remote community. Over the decades the local economy has transitioned from Logging, Fishing, and Manufacturing to Tourism, capitalizing on the outdoors, arts, and North Shore culture.

Cook County's population and economy experienced higher growth in the 1990s than at any time in the last 70 years. Population grew by one-third to an all-time high of more than 5,000 residents and jobs increased by more than 50%.

From 2000 to 2010, growth stagnated. The population grew by only eight people. The population aged. The private sector lost jobs and average earnings per job decreased. A simple measure of the County's economic health, the lodging tax grew by less than the rate of inflation.

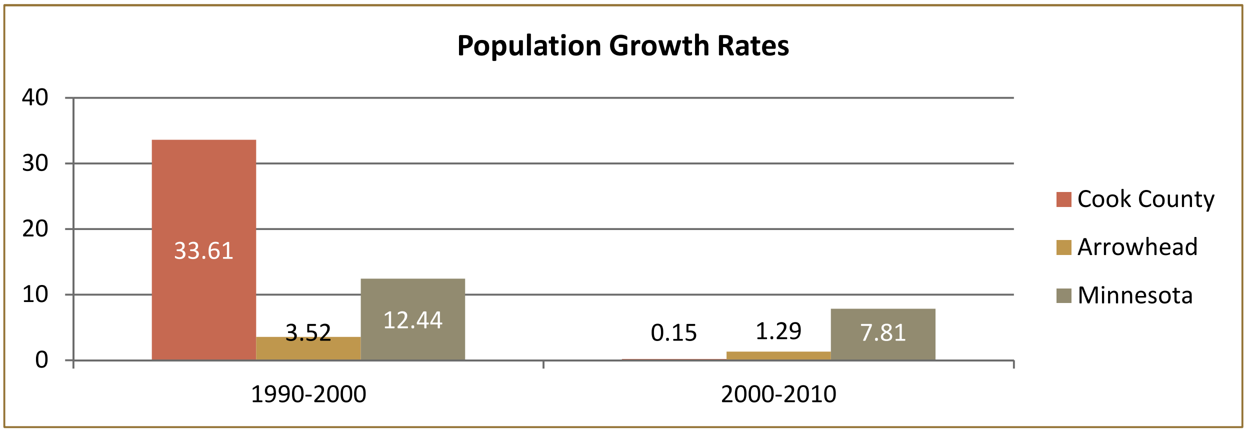
> Teton County, Wyoming; Summit County, Colorado; and Blaine County, Idaho were chosen as benchmark counties to help gauge Cook County's performance and opportunities.
>
> Like Cook County, these communities ranked highly on the USDA scale for high quality natural amenity rural counties. Additional commonalities include:
>
> - Tourism is the dominant business activity.
> - Large federal ownership of land.
> - Housing affordability is an issue for the local workforce.

The County's leaders need to address multiple challenges to put it back on a path to growth and prosperity. Investments must be made to make the County competitive with competing tourist destinations. Efforts must be made to diversify economic activities. Strategies that meet local needs for affordable housing, an improved business climate, broadband utilization, and workforce training are necessary to attract and retain young families, small businesses, and support a quality school system.

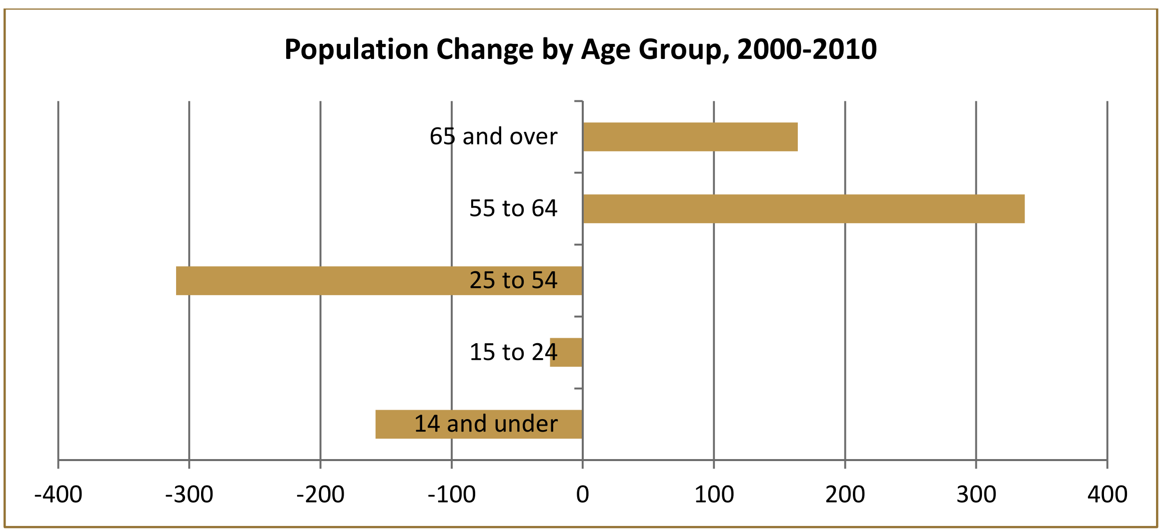
POPULATION

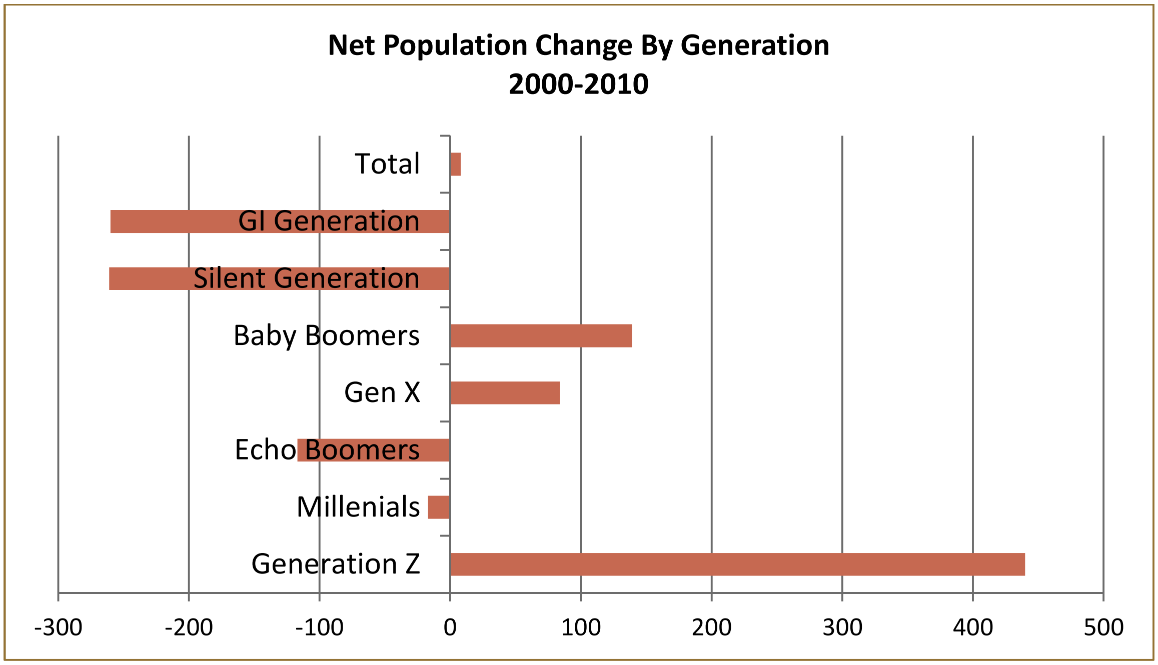
The County's population growth has been slow and erratic through its history. Several decades showed no population growth and a few decades resulted in population loss. In the seventy years between 1940 and 2010, the County's population only grew from 3,030 to 5,176. The increase amounted to an average annual growth rate of 1.01%, compared to 1.28% at the state level and 1.91% at the national level.

Population growth and economic activity are closely related. The economic expansion of the 1990s helped the County's population grow by more than one third to 5,168.

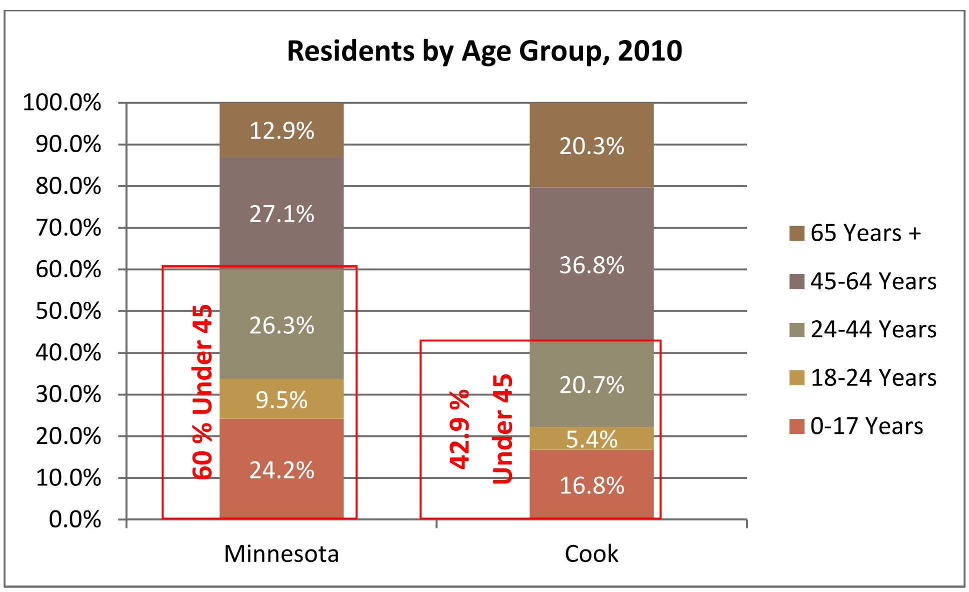


Growth stagnated from 2000 to 2010. The population only increased by eight people. Natural changes – births and deaths – were about equal, as were in and out migration. There were 139 more Baby Boomers living in the County in 2010 than in 2000. The number of residents born between 1976 and 2000 decreased by 134 during the same period.



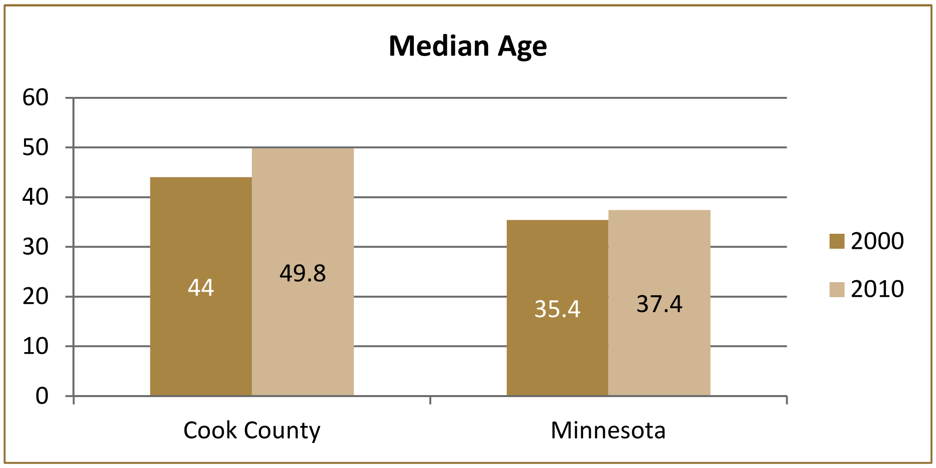


The County has a smaller percentage of residents in the prime-age workforce range than the state. This is a significant challenge for businesses, service providers, and community organizations. It is also a concern for the schools since the members of this age group – 25 to 54 year olds – are the parents of school age children. Less than 38% of the County's residents fell into this age range in 2010 compared to 42% at the state level. The County has a smaller share of residents than the state in every age group under 45.



Median Age

The average County resident is considerably older than the state's average resident. The gap is widening as the County gains older residents and loses young adults and children. From 2000 to 2010 the median age increased by 12% to almost 50 years old. The state median age increased by 5.6% to 37 years old.



Population Projections

Population estimates released in 2012 by the State Demographic Center project the County will grow at a slightly slower rate than the state average over the next fifteen years. The County is projected to grow at annual average rate of .71% through 2025, adding 554 residents to reach a population of 5,730. Residents between 25 and 54 years old will shrink to fewer than 33% of the County's population in 2020 compared to the state share of about 39%. These projections do not take into account how continuing or changing local social and economic trends may affect population change.

Race and Gender

Two races dominate the County: 87.5% classify themselves as "white," and 8.6% as "American Indian or Alaska Native," with very small numbers for various other classifications.

Females make up 50.5% of the population and males make up 49.5%. This is similar to the national split of 50.8% females to 49.2% males.

Poverty

In the period from 2006 through 2010 an estimated 8.9% of County residents lived below the poverty line compared to 13.9% nationally. During the same period only 3.1% of families in the County lived in poverty compared to 10% nationally. The County's poverty rates were significantly better than national average in every category except one: Female headed households with children under 18 years. More than 39% of such households lived in poverty compared to 37% nationally.

Implications of Demographic Trends
Rural areas tend to lose young adults as they leave for college and different life experiences and jobs in urban areas. Many do not return. However, there is generally a countervailing inflow of young families, mid-life career changers and retirees out of major urban centers (McGranahan, Wojan & Lambert, 2011). The County's migration and birth rates have not been enough to grow population.

An elderly and aging population brings new challenges and opportunities. It is important to differentiate between the needs of long-time residents aging in place and retirees migrating to the area. Long-time residents are more likely to experience challenges with debt, savings, housing, and health care affordability.

The elderly expect to live longer, healthier lives. Providing recreation and social opportunities that meet the changing needs of senior citizens will be important. The County will also need to provide access to health care, transportation, personal assistance and other services differently than it has in the past.

Declining numbers of young adults and families pose significant problems. Projected declines in prime-age workers raises the issue of how the County is going to supply the labor force to grow the economy, provide basic services, and sustain the school system.

The number of students in the County has declined by more than 15%, from 718 to 608 since 2002. Public school enrollment has declined 40% since 2002 when two charter schools opened. Public school enrollment is projected to decline another four percent in the next two years. School revenue is directly tied to enrollment. The school district's finances are not strong, even with an operating levy increase approved in 2010. Declining enrollment and budgets make maintaining and raising educational standards difficult. This in turn can lead to further declines in enrollment, workforce, and business growth as the quality of local education is perceived negatively.

Lack of networks and peer groups can be a deterrent to attracting young families and workers. Younger adults are linked to an entrepreneurial economy and culture that leads to growth in employment and wealth creation.

Community development strategies to attract and serve different groups of the population need not be mutually exclusive. Surveys reveal that Baby Boomers and young adults value many of the same community characteristics. They like communities that remind them of the past – with shops, schools, homes, and services that are easily accessible and within walking distance of each other.

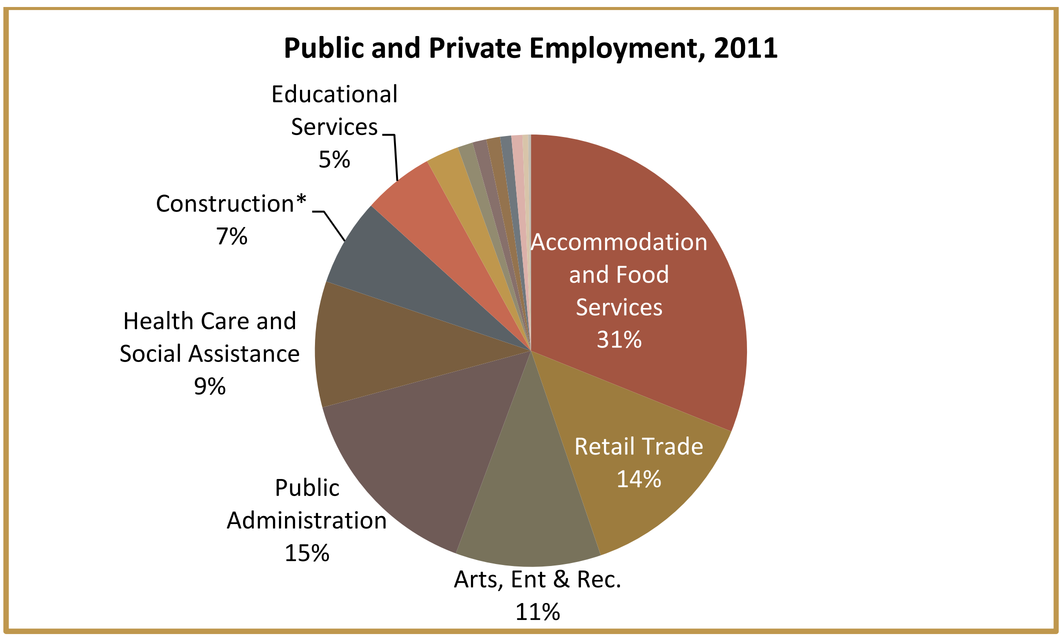
BUSINESS AND EMPLOYMENT

Tourism has replaced Logging, Fishing, and Manufacturing as the foundation of Cook County's economy. The economy, like the County's population, is one of the smallest in the state. In 2010, the County's economy supported a Gross Regional Product (GRP) of $234 million, 311 businesses, and 2,675 employees.

Tourism (Retail Trade, Arts, Entertainment and Recreation, and Accommodation and Food Services) accounted for 54% of public and private sector wage and salary jobs and 55% of GRP. By comparison the same three sectors accounted for 14% of the jobs in Minnesota and an average of 52% in the three benchmark counties.

Government is an important source of employment in the County. Traditional government services including Public Administration, Healthcare and Social Assistance, and Education provide about one-quarter of wage and salary jobs. Government enterprises and jobs also make up an important part of Leisure and Hospitality.

The bulk of the remainder of wage and salary jobs are in other private sector services and Construction. Many of the businesses in these sectors cater to Tourism businesses, tourists, seasonal residents, or retirees.



Cook County Public and Private Employment, 2011		
	Employment	**Percent**
Total	2,691	
Accommodation and Food Services	808	30.0%
Public Administration	393	14.6%
Retail Trade	354	13.2%
Arts, Entertainment, and Recreation	282	10.5%
Health Care and Social Assistance	245	9.1%
Construction*	170	6.3%
Educational Services	138	5.1%

Finance, Insurance, Real Estate	64	2.4%
Information	30	1.1%
Administrative and Support Services	28	1.0%
Other Services (except Public Administration)	26	1.0%
Professional, Scientific, and Technical Services	22	0.8%
Transportation and Warehousing	21	0.8%
Utilities^	11	0.4%
Wholesale Trade	5	0.2%
*2011 annual average is not available. Total was derived by averaging previous year data. ^ Utilities data appears to be low.		
QCEW annual average employment of public and private wage and salary workers - DEED, 2013		

Sole proprietors are a significant part of the County's economy, representing one-third of all jobs in 2010. The number of sole proprietors increased by 46% from the year 2000. The County outperforms the state in this measure and is ranked in the top 25% of rural counties nationally by the USDA.

In 2010 about 36% of the County's 801 proprietors were engaged in Tourism or related businesses; 35% in Professional, Business, Health Care, and Education; and about 23% were engaged in Forestry and goods producing activities.

Trends

Cook County's traditional natural resource businesses (i.e. Commercial Fishing, Trapping, Logging and Manufacturing) have declined over the past century as a shift away from a manufacturing and natural resource extraction based economy has occurred nationwide. Yet the decline has been especially sharp in Cook County. Traditional natural resource activities provided 68% of employment in 1920 and less than 4% of employment and 3.16% of GRP by 2011. The transformation is also significant in the lack of growth in the service economy dependent on Tourism.

The County was not immune to economic trends of the past decade. Like Cook County, the nation's employment levels were lower at the end of the decade than the beginning. All else being equal, total employment in the County should have shrunk by 1%. In reality, private sector employment shrank by more than 11%. The County's economic troubles cannot be solely explained by broad national trends. In a reversal of national trends, increases in government employment provided a buffer to private sector job losses. This will be explored in more detail in the following pages as economic sectors are discussed in more detail.

Employment in Northeast Minnesota is expected to grow at 1.4% per year from 2011 to 2020. Health Care, Construction, and Administrative and Support Services will lead the way. Leisure and Hospitality, and Retail Trade (the County's largest sectors) are expected to experience slower growth. All else being equal the County's employment is expected grow at a slower rate of .6% per year, or 6% total due to its business mix.

Employment Growth Projections, 2011-2020			
	2011	Growth Projection	2020
Total	2,691	6.0%	2,861
Accommodation and Food Services	808	6.9%	864
Public Administration	393	-1.7%	386
Retail Trade	354	8.3%	383
Arts, Entertainment, and Recreation	282	7.5%	303
Health Care and Social Assistance	245	33.3%	327
Construction*	170	33.4%	227
Educational Services	138	4.8%	145
Finance, Insurance, Real Estate	64	5.6%	68
Information	30	4.9%	31
Administrative and Support Services	28	28.1%	36
Other Services (except Public Administration)	26	5.9%	28
Professional, Scientific, and Technical Services	22	19.2%	26
Transportation and Warehousing	21	6.9%	22
Utilities^	11	-3.6%	11
Wholesale Trade	5	-0.4%	5

******2011 annual average is not available. Total was derived by averaging previous year data.
^ Utilities data appears to be low.
DEED 2010. Northeast Minnesota Long Term Employment Change

Tourism and Related Businesses

Tourism is the County's dominant economic sector. Tourism accounts for 52% of the County's sales tax revenues, the most of any count y in the state and more than three times the state average Tourism, outdoor recreation, and the local arts culture have been the drivers of economic and population growth in recent decades.

Activities which are conventionally associated with Tourism include Leisure and Hospitality (Accommodation and Food Services; Arts, Entertainment, and Recreation) and certain sub-sectors of Retail Trade (gasoline stations, clothing stores and accessories, and miscellaneous store retailers).

The *2007 Economic Analysis of Cook County* concluded that all Retail Trade activities should be counted as part of the Tourism economy. Employment in Construction, Real Estate and other services and two-thirds of employment in Manufacturing was identified as primarily related to Tourism.

The 2007 analysis also concluded that much of the employment in other businesses such as Health Care, Utilities, Finance and Insurance, and Wholesale Trade have large Tourism components, as the County lacks other primary sectors which require support services and products.

Economic Impact

Tourism and related businesses accounted for almost 55% of the County's 2010 GRP[i]. Leisure and Hospitality and Retail Trade account for about 49% of private and public wage and salary employment. Using the metric established in 2007, Tourism and related businesses comprise 63% of wage and salary employment.

Tourism and Related Businesses Employment, 2011			
		Employment	**Percent**
Conventional Tourism	Total, All Employment	2691	
	Accommodation and Food Services	808	30.03%
	Arts, Entertainment, and Recreation	282	10.48%
	Retail Trade (Tourism Related)	227	8.43%
	Subtotal	**1317**	**48.94%**
2007 Metric	Retail (Remainder)	123	4.57%
	Construction*	170	6.32%
	Real Estate	64	2.38%
	Other Services (except Public Administration)	26	0.97%
	Subtotal	**383**	**29.08%**
	Total, Tourism and Related Businesses	**1700**	**63.17%**
	All Other	893	33.18%

***2011 annual average is not available. Total was derived by averaging previous year data.**

2011 QCEW - annual average employment of public and private wage and salary workers - Minnesota Department of Employment and Economic Development, 2013

In 2011, conventional Tourism businesses:

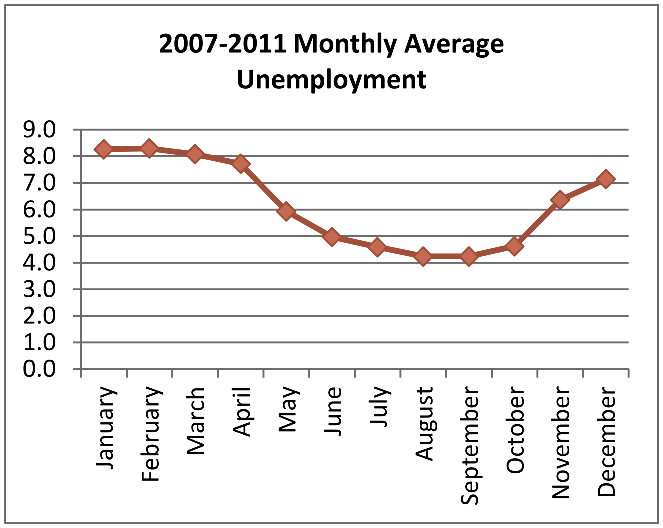
- Paid $22.9 million in wages, or about 55% of private sector wages.
- Public sector wages added an additional $5.8 million.
- Comprised 48% of private sector businesses.
- 36% of sole proprietors were engaged in conventional Tourism businesses.

Specialization and Seasonality

The County's Tourism economy is built on high quality public lands and Lake Superior, arts, and North Shore culture. The County's average tourists are a middle-aged couple from Minnesota visiting for three to five days. They are primarily attracted to the scenic beauty and outdoor activities. Shopping, dining, and entertainment are secondary activities. The tourist economy is highly seasonal (Cook County Visitors Bureau, 2011).

The busy season continues from June through October, with the peak time in July, August, and September. Sales during this period are two to three times the levels during the rest of the year. Tourism businesses and infrastructure operate near capacity during this time. Utilization falls to 20% to 40% of capacity during the "shoulder" season from November through May.

Alpine skiing accounts for as much as 75% of winter tourist activity. Strong alpine skiing activity can significantly raise the economy. For example, lodging use can rise to 80% on the west end and 50% in Grand Marais.



The County's labor force and unemployment rate mirror tourist activities. Unemployment falls from April through October and rises through the winter. Unemployment rates in shoulder months tend to be twice as high as during the peak season. (Hence the term "shoulder" season.) The labor force is as much as 20% larger during the peak season.

Trends

Tourism in important to Cook County because it is what is called a "traded sector", or an economic activity that stimulates growth by bringing outside wealth into the County from other regions. As such, the health of the overal economy is linked to fluctation in the Tourism economy.

The County's Tourism economy has stagnated in the past decade. Overall employment in conventional Tourism sectors increased by 2.3% from 2001 to 2011. However, Tourism employment in the private sector decreased by 19%.

Nationally, private sector employment in Leisure and Hospitality (the majority component of Tourism) increased by 11.9% from 2001 through 2011. All else being equal, the County's Leisure and Hospitality businesses should have added 140 private sector jobs. Yet, the County lost 205 private sector jobs in Leisure and Hospitality.

Of the three benchmark counties, Summit County, Colorado lost tourism jobs at a similar rate. Blaine County, Idaho performed about average. Teton County, Wyoming outperformed expectations by over 50%.

Despite declining private sector employment in Leisure and Hospitality the County's gross sales receipts at an annual average rate of 6.9% in the ten year period from 2000 to 2010. Overall the state experienced slower growth of about 4.2% per year. The County's resorts and lodging establishments performed stronger than most others in the State.

However, many businesses reported declining profit margins over the same time period. Lodging businesses, for example, saw revenue per pillow decline by 18% from 1999 through 2008 while costs rose 35%. Accommodations and Food Services businesses experienced the greatest employment losses and slowest overall wage growth.

Regional employment growth rates in Accommodations and Food Services of 6.9%; Arts, Entertainment, and Recreation of 7.5%; and Retail Trade of 8.3% are expected to lag behind the average growth rate of 13.1% through 2020.

Implications for Development

Despite negative economic trends affecting tourists and a softness in the local economy, the County has many strengths. The County has a high quality natural amenity base that is uncommon in the Midwest.

The County's Tourism economy is not in a growth mode. It has not added new jobs (especially at higher wage levels) or expanded into new products. Losses in private sector employment and inflation adjusted wages were softened by the performance of the public sector.

To survive and prosper tourist businesses and communities continually improving . Businesses must pay for operating costs including wages, utilities, and marketing before capital investments can be made. Most of the County's businesses a small, locally owned enterprises with modest resources and so were were unable to make the necessary investments. This can lead to a vicious cycle of fewer customers leading to less means for investment and so on. Meanwhile, many of the County's competitors in high amenity areas were making, or had already made the, necessary investments. Low end markets may attract increasing numbers of tourists, but do not generate the revenues and jobs of higher end markets.

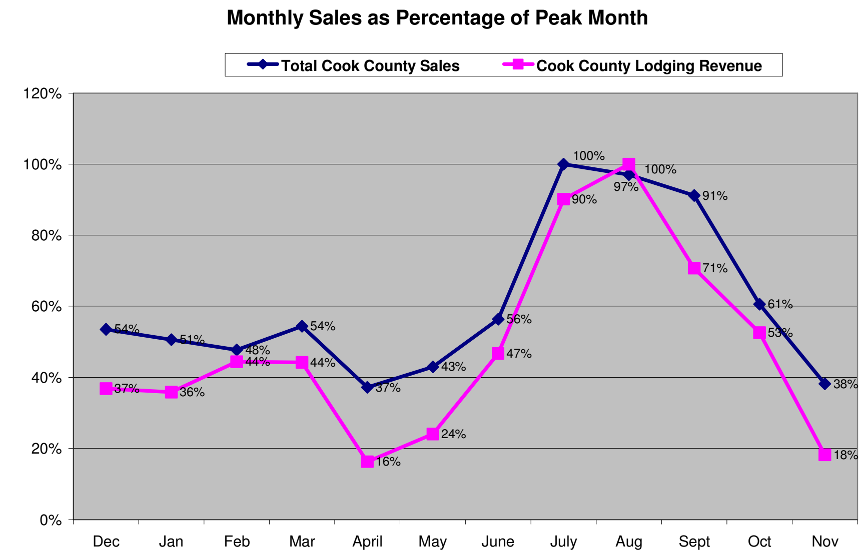
Another factor in the Tourism economies struggles has been market loss to other areas capitalizing on the North Shore bran that Cook County built. This may be partially explained by the diversion of lodging tax revenues from marketing to golf course bond payments at time when local competitors were increasing marketing.

A decrease in per capita participation in outdoor recreation is a concern. Possible causes include changing habits of vacationers, increasing dependence on technology and fewer young people using the wilderness (Cook, 2010). This decrease has not manifested among the Baby Boomers that are currently the core group of the County's tourists.

Restoring vitality to the Toursim economy is critically important to the overall well-being of the County. Research implies "*that recreation and tourism development contributes to rural well-being, increasing local employment, wage levels, and income, reducing poverty, and improving education and health*" (USDA, 2005).

A goal for Tourism based strategies should be increased business vitality – a more dynamic private sector measured by expansion of existing businesses, new business formation, and greater investment.

Business vitality suggests a higher level of productivity and innovation, the attraction of new businesses, and a business climate more conducive to expansion.



The County's Tourism businesses currently operate near capacity from July through September.

Total County sales tax revenues closely follow lodging tax revenues suggesting that increased tourism activity in the slow season would raise overall economic activity and employment.

Opportunities exist to grow business activities during the shoulder season. Strategies for growth should focus on reducing seasonality by expanding "products" that will attract additional tourists from late October to mid-June and during mid-week days, and improving productivity of employees and businesses. Responses to the ***Go Cook County*** business survey, online community survey, and discussions with the steering committee support this assessment.

Natural Resources

Employment in the natural resources sector is primarily in Forest and Wood Products, with a smaller Commercial Fishery on Lake Superior.

Forest and Wood Products related activities provided at least 118 jobs in 2011. Records listed one Logging establishment (with employees), one Commercial Sawmill, and one Wood Preservation establishment in 2011. An additional 29 sole proprietors were engaged in Logging and Support Activities for Forestry and Logging in 2010. The County's eleven freight truck operaters were likely linked to Logging. The U.S. Forest Service contributed at least 33 jobs to Support Activities for Forestry and Logging. Seventeen sole proprietors were involved in Commercial Fishing in 2010.

The long-term employment outlook released by DEED projects the total number of jobs in Forestry and Logging, and Fishing will remain flat in the region through 2020. However, many Logging workers are nearing retirement age, creating a need for replacement workers.

Many industry groups and economic development agencies are exploring opportunities in renewable energy and bio products to revitalize the Forestry and Logging sector. Cook County has also explored these options. The Cook County Local Energy Project (CCLEP) has developed a plan to source energy within the County to keep energy dollars working in the local economy. CCLEP is investigating the potential for using forest biomass to generate hot water for heating public buildings in Grand Marais. The project is not expected to be a major source of new employment. Recent changes in energy markets and uncertainty about government policies present challenges to long term planning for these strategies.

Cook County Higher Education (CCHE) has identified a local interest in natural resource sciences, management and related skills. CCHE is providing geographic information system education through an accredited partner and is exploring ways to offer additional programs. Although state and federal employment in the County is concentrated in natural resource sciences and management local residents do not receive priority access to local jobs.

Government

Federal, state, local, and tribal governments are significant employers and service providers. At 34% of the County's wage and salary workers, government employment was more than double the state and national averages in 2010. Gains in government employment from 2001 through 2010 buffered private sector job losses.

Traditional government services – Public Administration, Education, and Health and Social Services – accounted for about 25% of overall employment. One-in-six Leisure and Hospitality jobs are provided by the public sector, primarily Grand Portage Reservation.

Government jobs are a source of needed full-time employment with higher wages and benefits. In 2011, federal government jobs paid average wages of $60,520, state jobs paid average wages of $34,758 and local government jobs paid average wages $32,562. Average wages in the private sector were $23,705.

Government Employment by Industry, 2010

	Local	State	Federal	Total
Education	68	13	0	81
Health and Social Services	150	0	0	150
Public Administration	271	11	138	420
Trade, Transportation, and Utilities	25	0	11	36
Leisure and Hospitality	208	5	16	229
Construction	24	6	0	30
Total*	768	35	165	968

(QCEW, 2012) *The sum of displayed categories may not equal total sector employment, annual averages.

Support Economy

The County's support economy consists of businesses that provide the basic goods and services (such as grocery stores, banks, and hospitals) to residents and Tourism businesses. For example, resorts are large users of utilities and professional services, and tourists are significant users of health care services.

Meeting demand for services in Health Care, espescially to the County's aging residents is important for continued gowth. It can also be a significant source of employment growth. High wage, high skill Health Care practitioners and technical occupations are expected to grow at a rate of almost 20% through 2020 in the region.

Jobs in the Health Care support sector are projected to grow by more than 41% during the same period. Jobs in this sector offer lower average weekly wages of $409 and fewer full time employment opportunities.

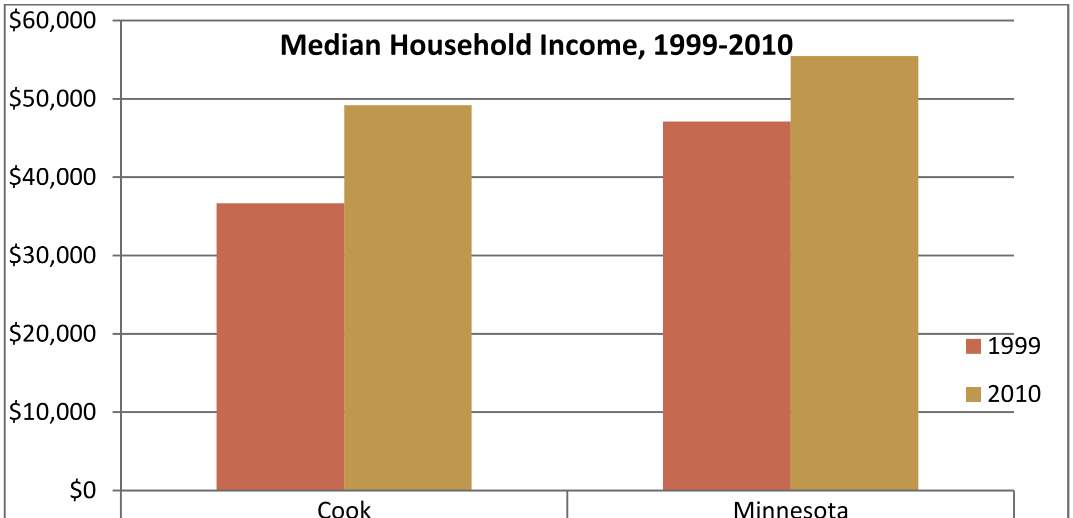
Regional growth in Construction employment will tend to concentrate in heavy and civil engineering contractors, not the residential and small project contractors prevalent in Cook County.

PERSONAL INCOME

Changes in the County'spersonal income since the year 2000 indicate separate economic trends for its workers and retirees. Despite above-average median household income growth lead by wealthier retirees, average wages grew slowly, and the income for many workers decreased when adjusted for inflation.

Median household income is a widely used measurement of an area's standard of living. The County's median household income grew by 34% from 1999 to 2010 to $49,152. When adjusted for inflation median household income in the County increased by 2.5% whereas the state experienced a decrease of 10%.[ii]

The County closed the gap with the state growing from a median household income $10,471 less in 1999 to $6,297 less in 2010. Still the median household income is about 89% of state and 95% of national levels.

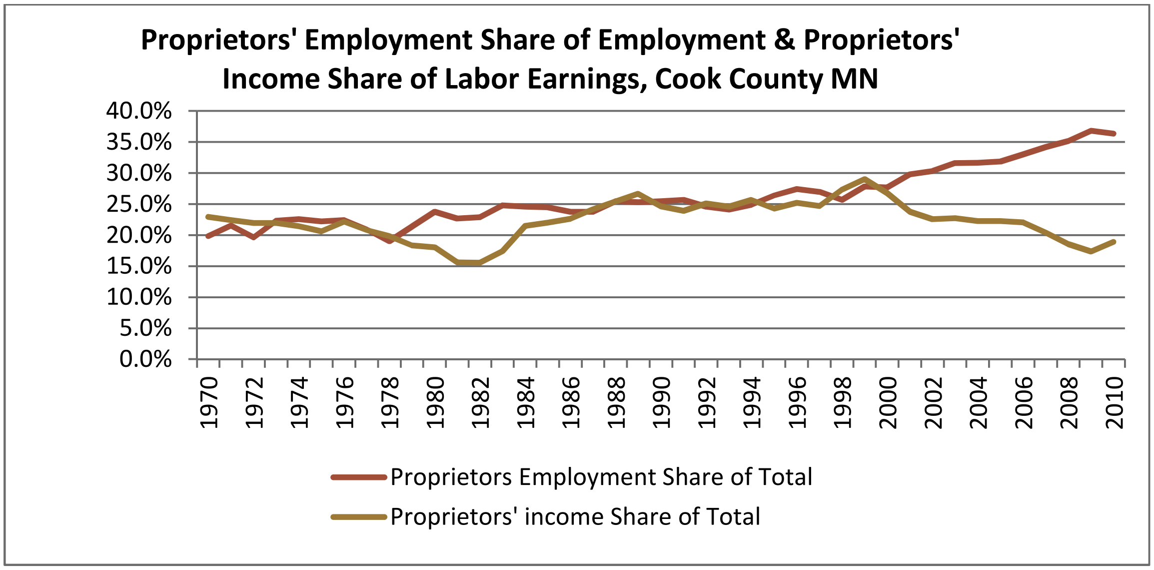


	Cook	Minnesota
1999	$36,640	$47,111
2010	$49,162	$55,459

Total personal income in the County increased by about 12% from 2000 to 2010 once adjusted for inflation. Due to almost no change in population the per capita personal income increased at the same rate. From 1990 to 2000 total personal income grew by 65% and per capita personal income grew by almost 24%.

Labor Income

There are two components to labor income: wages and salaries, and proprietor income. Sole proprietors held 36% of the jobs in the County in 2010 compared to 27% in 2000. However, their share of total earnings decreased from 23% of labor earnings to slightly more than 16%. Much of the growth in sole proprietors was likely for necessity or supplemental income reasons.



Understanding changes in wage and salary earnings is important because 63% of the County's workers are employed in wage and salary jobs. Labor earnings increased by 63% and employment increased by 58% during the economic expansion of the 1990s. Employees in every sector received noteworthy gains in income that exceeded inflation in the 1990s.

Real average wages – wages adjusted for inflation – increased by only 2.84% overall in the County from 2001 to 2011. The County's wage growth rate was on par with Minnesota overall and slower than the national average of 4.45%.

Cook County Wage Changes, 2002 - 2011				
	2002	2011	2011 Inflation Adjusted	Change in Buying Power
All	$423	$544	$435	2.84%
Accommodation and Food Services	$291	$347	$273	-6.19%
Public Administration	$613	$814	$640	4.40%
Retail Trade	$367	$395	$310	-15.53%
Arts, Entertainment, and Recreation	$291	$358	$282	-3.09%
Health Care and Social Assistance	$529	$695	$547	3.40%
Construction*		$650	$511	
Educational Services	$638	$614	$483	-24.29%
Finance, Insurance, Real Estate	$426	$664	$523	22.77%
Information	$493	$606	$477	-3.25%
Administrative and Support Services		$490	$386	
Other Services (except Public Administration)		$186	$146	
Professional, Scientific, and Technical Services		$569	$448	

Private sector service providing businesses employed 1606 workers in 2011 at annual average wage of $22,951. Government provided 920 jobs at an annual average wage of $37,063.

The County's average weekly wage of $544 for all sectors is lower than the Northeast Minnesota average of $730, and the state average of $920. Notably absent are jobs in higher wage sectors such as manufacturing, information, and mining.

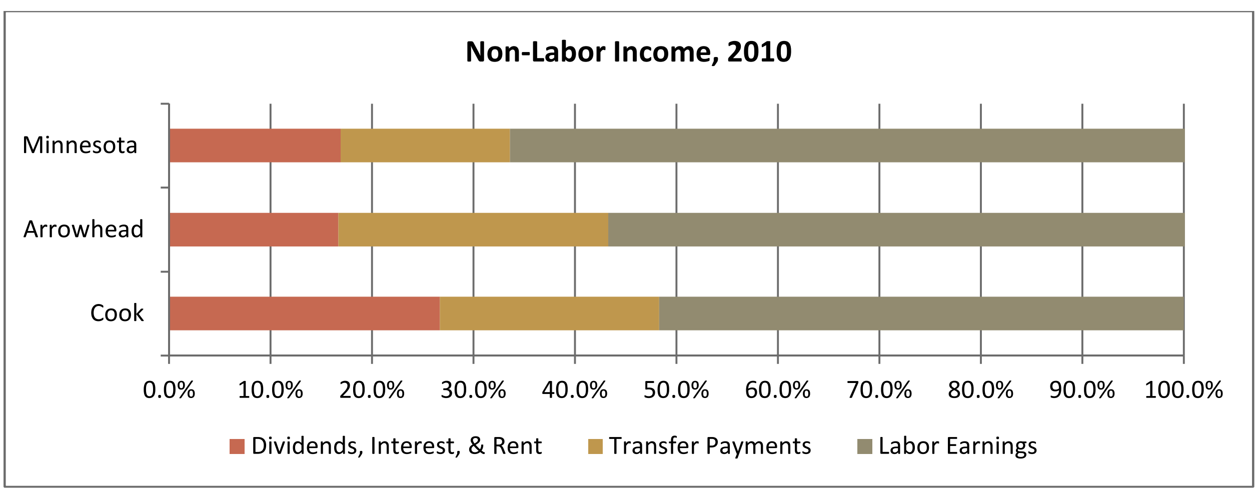
The low overall wage rate is not simply a factor of the prevalence of traditionally low wage jobs. Wages in other sectors lag behind the benchmark communities. Leisure and hospitality jobs in Cook County pay higher than the state average for the sector.

Full time employment is difficult to find. Real average earnings per job decreased from 2000 to 2010. In 2010, 25.8% and 25.4% of the County's residents worked less than 40 weeks in the year and/or fewer than 35 hours per week. Nationally these rates were 20.9% and 21%. On average, 21% and 19% of workers in the three benchmark counties were in a similar less than full time employment situation.

Non-Labor Income

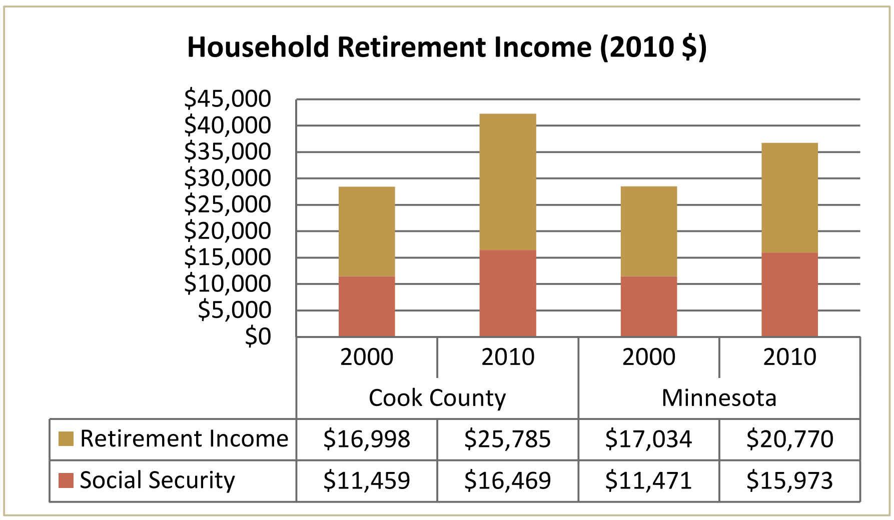
Non-labor income makes up an increasing part of the County's economy and is largely responsible for increases in overall income levels. Inflation adjusted non-labor income rose by 22% from 2000 to 2010. Retirees are driving this growth. Retirement and disability, Medicare, and Medicaid payments made up 35 percent of all non-labor incomes.

As the County's population ages it is becoming more dependent on non-labor income. In 2010, over 48% of the County's personal income was derived from non-labor earnings (52% came from labor earnings.) Non-labor incomes make up slightly more than one-third of personal income at the state and national levels.



The County's share of households receiving Social Security and other retirement income grew faster than the state from 2000 to 2010. These households are also wealthier than the state as a whole. The opposite was true in 2000.

Households Receiving Retirement Income				
	Cook County		Minnesota	
	2000	**2010**	**2000**	**2010**
Social Security	29.10%	33.40%	23.90%	25.30%
Retirement Income	21.10%	25.20%	13.70%	15.20%
U.S. Bureau of Economic Analysis				

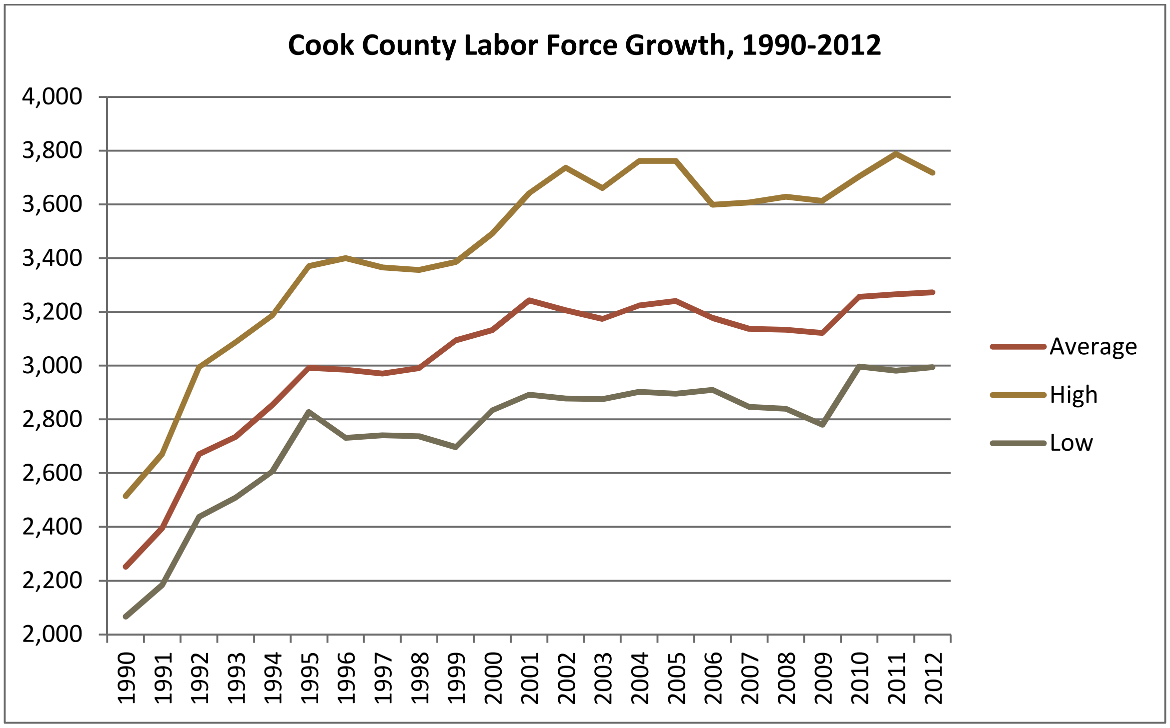


WORKFORCE

Cook County's small, highly seasonal labor force grew at a slower rate than the state since 2000. The County's population is well educated, especially compared to other rural areas, but educational attainment is not evenly distributed. The County faces significant challenges as the prime age workforce – 25 to 54 year olds – is shrinking and has much lower levels of educational attainment than average.

Labor Force

After growing by 33% during the 1990s, the County's average annual labor force grew by 4.5% from 2000 through 2012. The state's labor force grew by 5.8 percent. The labor force is larger during the busy tourist season. The difference between the annual high point of the labor force and annual low point averaged 21% from 2000 through 2012, compared to 18.5% during the 1990s.



A decline in prime-age workers in the County is a concern for future prosperity. Workers aged 25 to 54 declined by 310 from the year 2000 to 2010. Fewer than 38% of the County's residents fell into this age range in 2010 compared to 42% at the state level. This group is projected to decline to under 33% before slowly increasing in 2025.

Educational Attainment

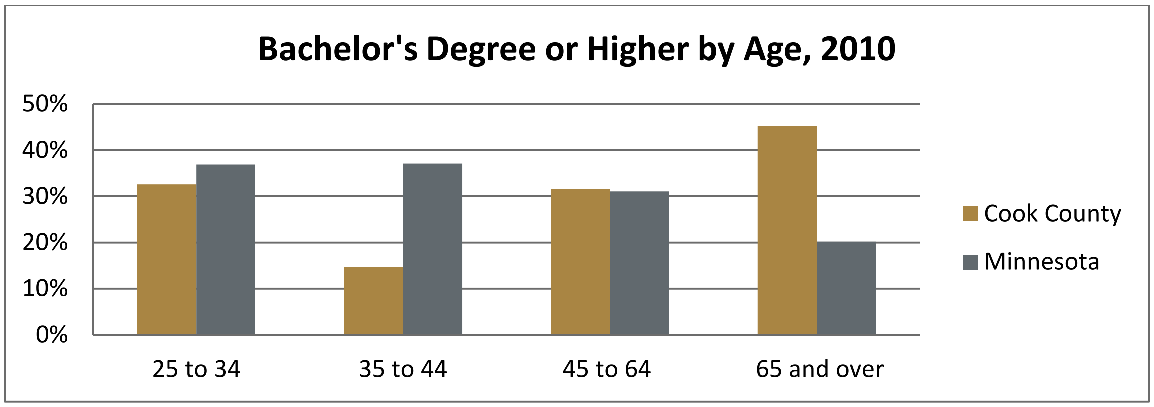
Cook County has a well educated population overall. At almost 91% the percentage of students that graduate high school on time is 15 percentage points higher than the state. The County also has one of the lowest rates of adults without a high school degree in the state.

Public school students in Cook County perform below average on standardized state reading and math tests, and above average on standardized science tests and ACT scores. Native American, Special Education, and students qualifying for free and reduced lunch do not score as high as the average Caucasian students**.**

Primary and Secondary Education Attainment		
	Cook	Minnesota
Percent meeting or exceeding standards in 3rd grade reading (2011)	70.20%	78.50%
9th grade average attendance (2008)	95.50%	94.40%
Percent meeting or exceeding standards in 11th grade math (2011)	37.10%	48.60%
Graduation rate (on time) (2010)	90.80%	75.90%
www.mncompass.org		

Cook County has the eighth highest percentage of residents with a college degree in Minnesota. 34.4% have a bachelor's degree or higher, compared to 31.4% statewide. Cook County has the highest percentage of college educated residents of any rural county in Minnesota. Yet it trails its closest benchmark county by almost 11 percentage points.

College degrees are not evenly distributed across the population. Most of Cook County's advantage comes from the 45% of residents age 65 and over who have college degrees, compared to 20% statewide. At 14.7% the percentage of 35 to 44 year old residents with college degrees is less than half the state average. Just over 7% of County residents have earned a two year degree, slightly less than the statewide average.



Occupational Skills and Training

Leisure and Hospitality, Public Administration, and Retail Trade enterprises are the County's largest employers.

Many entry-level positions in Leisure and Hospitality, such as servers, front desk clerks, and housekeeping, require little or no formal education or previous training. Formal training or prior experience for managers is more common, and completion of postsecondary training is increasingly important for advancement in the hospitality industry. However, higher skill levels, especially "soft" skills, are required in Cook County since it is serving destination leisure travelers that expect better service and more amenities (Department of Labor, 2006).

Lack of standard recognized training in this sector is a barrier to growth. Close collaboration between businesses, Cook County Higher Education, Cook County School District, and other workforce partners is needed to develop cost sensitive training programs that meet the need of local employers and help put employees on a path to successful careers.

"As the percentage of youth in the workforce has declined, the Hospitality industry has sought new sources of labor, such as immigrants and older workers, in order to avoid facing an insufficient supply of workers to satisfy demand" (Department of Labor, 2007).

A general workforce shortage in Healthcare is a concern in Cook County. Many employers in rural Minnesota report difficulty filling positions. In particular, long-term care facilities have difficulty attracting and retaining professionals. Rural areas find it challenging to attract qualified healthcare workers partly because they cannot always offer salaries that are competitive with urban areas.

Future skills needed in Cook County include the ability to work with geriatric populations with complex conditions and multiple diagnoses. Technological and IT skills, including patient care through telemedicine, will also be very important.

Strategies to diversify the economy, increase upward mobility, and add full time jobs that can sustain families will need to include programs to train middle-skill workers for occupations that require more than high school, but less than college.

Cook County Higher Education (CCHE) is the principal provider of higher education access and workforce training in the County. CCHE works with the local business community to identify workforce needs, then partners with accredited colleges to provide programs through distance learning. The majority of current offerings are focused on health care occupations. CCHE's students have a 90% program completion rate, compared to 75% nationally. CCHE also partners with state agencies and other organizations to provide workforce skills training and business assistance. CCHE served over 700 people last year with 135 enrolled in degree or certificate education courses.

Commuting Patterns

The number of employees who commute into the County has dropped during the past decade. In 2010, 14.5% of workers employed in the County lived outside of the County, down from 25.2% in 2002 (not including telecommuters). From 1990 to 2000, outflow earnings, i.e. people who work in the County but live elsewhere, grew from $3.2 million annually to $9.8 million (in 2011$). From 2000 to 2010, outflow earnings decreased to $7.5 million (in 2011 $).

Earnings of people who live in Cook County and work elsewhere including telecommuters (inflow earnings) increased from $3 million to $6 million from 1990 to 2000 (in 2011 $). Inflow earnings increased by only $100,000 from 2000 to 2010 in (2011 $) despite an increase in residents who commuted outside of the County. In 2010, 18.6% of County residents were employed outside of the County compared to 15.6% in 2002 (not including telecommuters).

Commuting patterns add important context to the County's economy. Rural tourism and recreation communities often experience workforce housing shortages. These areas often rely on employees commuting from more affordable communities, affordable housing developments, or both, to meet workforce needs. Flat population growth, decline in prime-age workers, little full-time residential development, and a decline in commuting show that Cook County has had trouble attracting a workforce that will allow it to grow.

Implications of Economic Trends

Cook County has been in a no-growth mode trending towards decline the past decade. Positive trends in retiree population and non-labor income, employment growth in the non-tourism service businesses, and a relatively low unemployment rate were offset by employment losses in Leisure and Hospitality, fewer full-time jobs, and loss of young families.

Negative trends in Tourism – the major engine of economic growth – are a major concern since almost all other businesses directly and indirectly depend on tourists, Tourism businesses and Tourism wages for income. Many of the dining, entertainment, and recreation amenities that can be used to attract new residents also depend on tourists to sustain them. Local governments also depend on sales and property taxes paid by tourists and Tourism businesses.

Restoring vitality to the Tourism economy is critically important to the overall well-being of the County. Research implies, and Cook County's experience reaffirms "*that recreation and tourism development contributes to rural well-being, increasing local employment, wage levels, and income, reducing poverty, and improving education and health*" (USDA, 2005).

Tourism will continue to be the economy's driving force. A healthier tourist economy is necessary for a healthier county economy. Investments in existing tourist businesses and attractions are needed to stabilize the tourist economy. Investments in new attractions, activities, and services that expand the season and attract new customers will be needed to create more year-round employment and higher incomes for working families.

To add to the positives of an improving tourist economy the county must also diversify its economy by actively supporting entrepreneurs and new endeavors that build on the county's existing assets.

A development strategy that focuses on leveraging local strengths and opportunities to create and attract growth entrepreneurs is capable of yielding a middle path to growth and sustainability. Creating an entrepreneur-friendly community also makes it easier to attract and retain young workers and families. The natural resources and North Shore heritage that already attract residents and tourists can be leveraged to create new business opportunities in other areas. Adopting an asset-based, organically grown approach to diversification can help ensure that growth is compatible with the existing community and conservation of resources.

Support of tourism and economic diversification do not need to be mutually exclusive. The arrival of broadband and efforts to connect the county to entrepreneurial and small business networks can create a broad spectrum of opportunities. The tourists, seasonal residents, and retirees that flock to Cook County can serve as an initial market and unofficial advertisers for products and services based on the County's unique sense of place.

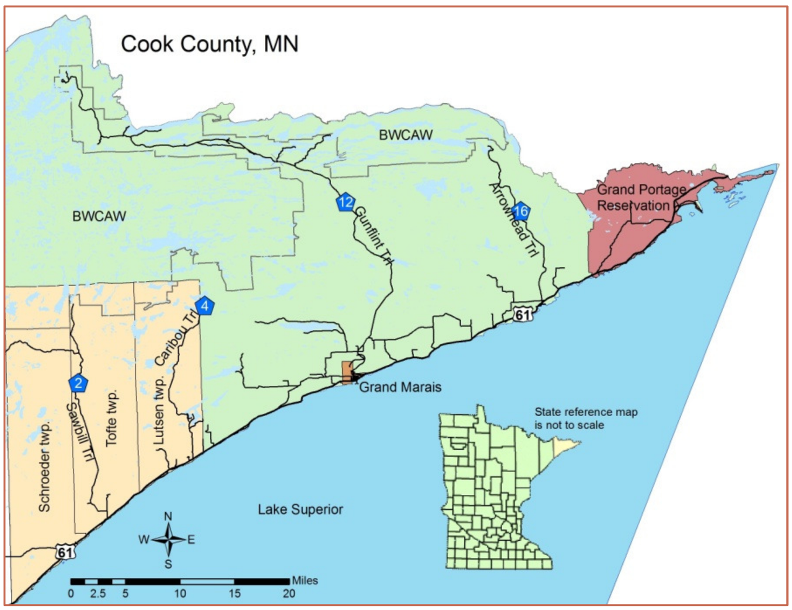
Many communities have followed similar paths to help grow successful companies that remain connected to their homes. Examples include: Duluth Pack and Frost River in Duluth and Granite Gear in Two Harbors, Steger Mukluks and Wintergreen Clothing in Ely, art glass in western North Carolina, outdoor products manufacturing in Utah, and craft breweries in Summit County, Colorado.

III. EVALUATION OF COMPARATIVE ADVANTAGES

This section addresses the factors that influence the County's economy, how it has changed over time, and how it might change. These include factors affecting the production process (e.g. supplies, land, and labor) and those that affect the cost inputs and outputs (e.g. market proximity, infrastructure, clusters, regulation, housing, and quality of life). An evaluation of the County's comparative advantages (and disadvantages) will help identify opportunities and constraints for future economic development.

Natural Resources and Access to Supplies and Markets

Cook County is a large, remote territory. There is only one road through the County – US Highway 61. Residents, businesses, and infrastructure are clustered in small communities



Cook County's early economy was based on the extraction of natural resources. Over the past 80 years, the County has transitioned to a tourism and recreation economy based on the same resources that provided early settlers with traditional resource use jobs in logging, fishing, and trapping.

Logging in the County began declining in the early 20th Century as the old growth forests were harvested. The County's small population could not sustain a thriving local market for wood products and its remote location with limited transportation options raised obstacles to serving regional markets. Technological advances in logging through the decades reduced the required labor and raised the investment necessary to enter the market. Increasing federal ownership of forest lands, now at more than 70% of the County's land area, and a transition in federal policy from resource utilization to resource conservation decreased the amount of harvestable forest.

While reducing economic opportunity in resource extraction, state and federal forest policy added different economic opportunities by enhancing the recreation potential of the County's lands and waters. This cemented the transition to an economy based on tourism and recreation.

The importance of the County's forests has declined as an input to goods producing businesses such as manufacturing and construction. Economic and technological trends suggest extraction based businesses will not be a source of major employment growth. Similarly, a small commercial fishery on

Lake Superior that adds value to the local economy and maintains traditional culture has been sustained, but is not a source of major economic activity.

Many communities, including Cook County are exploring opportunities in renewable energy and bio products to revitalize the forestry and logging sector and properly manage forest health. Recent changes in energy markets and uncertainty about government policies present challenges to long term planning for these strategies.

Recruiting manufacturing plants has long been a popular strategy in rural communities. The opportunities for many types of businesses in Cook County will still be limited by geographic distance from supplies and markets. Transportation costs, just-in-time supply chains, and the need for face-to-face interactions remain real challenges.

"*The advantages of rural areas for most of the past half century have been natural resources, land, and low-cost labor. Rural economies relied on commodities or value-added production from farming, forests, or mining, or by recruiting branch plants and back office facilities*" (Rosenfeld, 2009).

Globalization and changes in technology have changed the economic landscape for rural areas. Commodities and non-specialized goods also produce and retain little local wealth. Rural wages are neither low enough, nor skills high enough, to compete with newly developing economies for global manufacturing (Rosenfeld, 2009).

Growing or attracting small, medium-technology businesses that make specialized, high value products and services is a reasonable alternative approach. This approach has been successful when it combines local skills, value-added products strongly linked to local resources or culture, access to global markets, and connecting directly with customers. Not all of the businesses need to start as exporters (tourists excepted). The local market can be a source of growth and a sustained buffer against ups and downs in export markets. Services to support entrepreneurs and growth businesses are critical to the success of this approach.

Natural Amenities and Outdoor Recreation

Natural amenities and outdoor recreation have been the basis of the Cook County's economy and quality of life in recent decades. Research and local experience have shown that high quality natural amenities attract working-age adults and retirees. High amenity areas also experience growth in tourism.

The relationship between natural amenities and economic growth can work in two directions. Business owners and employees may be attracted to areas with high quality natural amenities and, assuming investments in other forms of capital, choose to live and work there. Alternatively, businesses may be built around the natural amenities – ski areas and outfitters for example (Markley & Low, 2012)

Cook County has world class outdoor recreation assets. The County's natural amenities have been ranked in the top quarter of rural counties in the country by the USDA. Population, employment, and income in high amenity rural counties grew substantially faster than other rural counties over the past two decades. Cook County followed this pattern in the 1990s before experiencing stagnation in the last decade.

A recent report found 69% of Minnesotans participate in outdoor recreation every year. This is before including those who participate in hunting, fishing, and wildlife watching. Outdoor recreation in Minnesota generates $11.6 billion in consumer spending, 118,000 direct jobs, $3.4 billion in wages and salaries, and $815 million in state and local tax revenue (Outdoor Industry Association, 2013). The Minnesota Ski Areas Organization estimated that skiing contributed $500 million to the state economy.

A decrease in per capita participation in outdoor recreation is a concern for the County. Possible causes include changing habits of vacationers, increasing dependence on technology and fewer young people using the wilderness (Cook, 2010).

The County will need to make investments in built capital, human capital, and other assets if it is to continue growing. Built capital is a community's infrastructure and building assets. It includes traditional public infrastructure such as roads, water, sewer, and electric systems. It also includes houses, communication systems, and other physical assets that contribute to community and economic development. It can also include tourism and recreation specific facilities.

Combined with the right investments, natural amenities and the high quality of life associated with them could once again be an engine of prosperity in Cook County. Responses to the online community survey and lessons from other communities stress the importance of preserving the natural amenities and culture that are the basis of growth. In essence, new investments must be compatible with the existing community and contribute to sustainability.

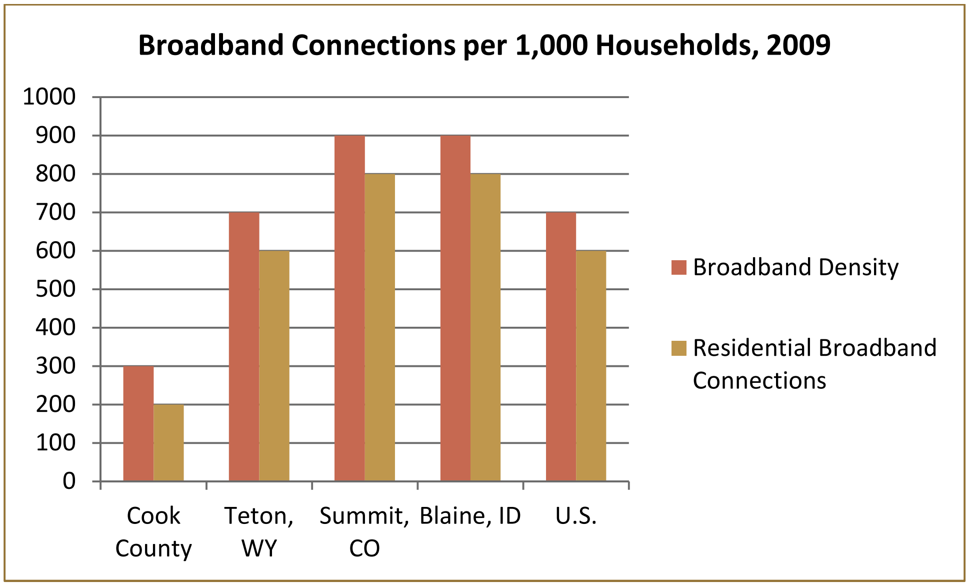
Broadband

While much of the research and efforts around rural broadband have focused on growing creative class residents and entrepreneurial enterprises, broadband investments are necessary for many types of businesses, institutions, and residents.

Broadband access will be important to provide the amenities that tourists want, especially luxury travelers, to market the County and its businesses as quality destinations, and to conduct necessary business activities and improve the functionality of existing technology infrastructure.

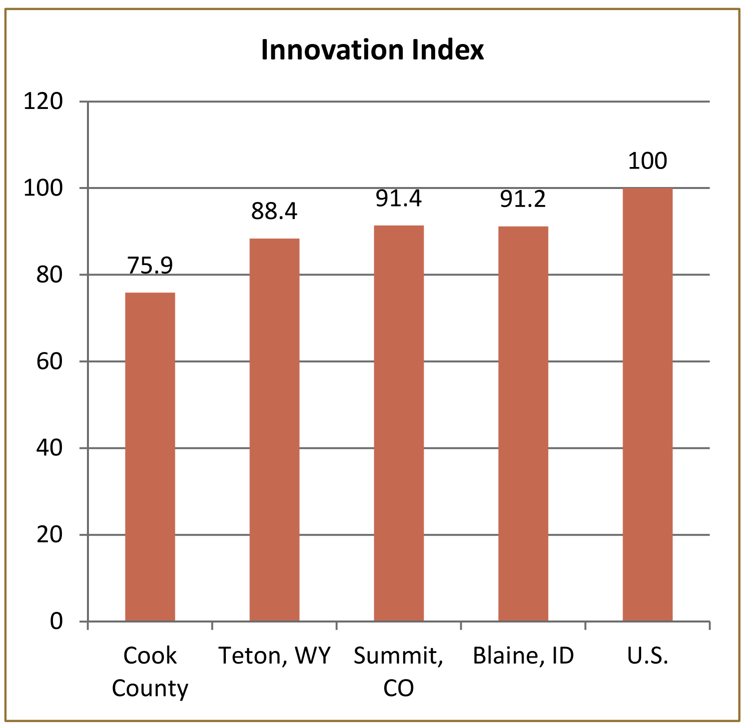
Broadband will also be necessary to improve primary and secondary education, access to higher education, and ongoing skills training.

When combined with investments in broadband and support networks, high quality natural amenities have been shown to boost growth and diversify local economies by attracting or growing entrepreneurs, knowledge workers, and other creative class individuals.



Empirical research and case studies show that investments in built capital, especially broadband, lead to income growth, value-added products and services, and population growth in high-amenity rural areas. While communities may experience growth in self-employment without broadband, its absence is (weakly) associated with decreased self-employment income and low growth in value-added products and services (Markley & Low, 2012).

The Innovation Index developed by Purdue University showed broadband density had a significant effect on economic growth from 2002 to 2007.



This suggests that broadband supports entrepreneurship and the establishment of businesses with growth potential. In today's economy, broadband access is akin to transportation infrastructure in the past – a way to connect with non-local markets and supplies (information and knowledge) to grow businesses. Broadband can shrink the importance of being located close to supplies and markets for certain creative and knowledge based industries. Like any physical infrastructure the broadband network will require future investment to prevent it from degrading or becoming obsolete.

Basic Infrastructure

Transportation access is signicicantly limited in the County. This affects the quantity, frequency, and price of freight movements and travel. The County has limited ability to affect this. The nearest interstate, commercial airport, and port are more than 100 miles from Grand Marais. The County does not have active rail service, though it does have a general aviation airport.

Remote rural areas tend to pay higher prices for electricity and other utilities due to long distances between population centers and variations in terrain, which add to transmission costs (Rosefeld, 2009).

Modern sewer and water infrastructure can mitigate environmental concerns associated with development by allowing increased density of development and treatment of waste. Increased density can also lower construction and operating costs over the long run. The County has more control over this form of infrastructure. Upfront costs may be an obstacle.

Building and Land Supply

Economic activity requires built space which requires basic, and often, extended public services. Despite being a geographically large place, Cook County faces constraints on the supply of buildable land to accommodate economic growth. In order to accommodate population and economic growth the County will need to increase the development capacity of the limited land it has available.

More than 90% of Cook County is vacant land owned by the different government agencies, most of it in forests, wilderness and natural areas. Physical and environmental conditions such as steep topography and wetlands create further constraints. The need to protect natural and cultural amenities also presents challenges.

Zoning changes, design, construction methods and enhanced infrastructure can address many of these challenges. These methods raise development costs which are already high due to limited land availability, higher construction costs, and other issues discussed in this report.

Cook County does have some opportunity for commercial infill and redevelopment in the existing commercial districts. In addition to service and retail businesses these areas are attractive to creative firms.

Workforce Housing

Affordable workforce housing supply and quality is a persistent challenge in Cook County. This is common in many high amenity rural areas. As a community becomes a popular vacation and/or retirement option, with a limited supply of land and housing, real estate prices become increasingly unaffordable to the local workforce. When the workforce is displaced or priced out it becomes more difficult to sustain a vibrant economy, to fill jobs, to retain families, to service visitors, and satisfy the needs of the community (Town of Breckinridge, 2012).

Cook County faces additional challenges arising from its remoteness and high percentage of publicly owned forest lands. In similar counties, employees may commute from communities on the periphery to their places of employment. Privately owned, developable land is limited in Cook County and the nearest city from which employees can commute is Silver Bay, which is 55 miles from Grand Marais and 35 miles from Lutsen.

Cook County has significant needs for quality, affordable workforce housing in both the rental and ownership markets. A general rule of thumb is that a house is affordable if it is less than three times the household's gross annual income. Another generally accepted rule of thumb is that housing expenses (including utilities) should constitute no more than 30% of household income.

Because many jobs in the County are seasonal, less than 35 hours per week, or both, arriving at an exact average wage per resident worker is difficult. However, it is not necessary to do so to demonstrate the housing affordability gap in Cook County. The following chart shows that affordable housing is a problem even when assessing the issue broadly.

Cook County Housing Affordability Index		2011 Median Home Sale Price	Average New Home Built in Grand Marais (2007-2012)	2012 Fair Market Rent, 2Br Apt. (Fair Market Rent $671/month)
		$225,000	$183,000	$8,052
Median Household Income	$49,162	4.6 (times annual income)	3.7	16.4%
2 Worker Household / Avg Services Wage	$45,902	4.9	4.0	17.5%
1 Worker Household/Avg. Services Wage	$22,951	9.8	8.0	35.1%

Three themes stand out in the chart above. First, the 2011 median sales price in Cook County was more than one-third higher than the State median sales price of $166,000. This is skewed due to the fact a majority of homes in Cook County are seasonal or recreational homes. From 2000 to 2010, the County added 1,138 housing units, growing the housing stock by 24%. However, 87% of new units were seasonal or recreational homes.

Skewed as the average home price may be the high ratio of seasonal/recreational to full-time resident occupied housing is a common indicator of an unhealthy housing market that is not keeping pace with workforce needs.

Second, housing appears to be more affordable in Grand Marais. The average value of a single family home constructed in Grand Marais in the past five years is $183,000, still well above the affordability threshold. Increased construction in Grand Marais cannot be relied upon to alleviate workforce housing problems county-wide. The City only issued ten permits for single family home construction from 2007-2011. There are not enough buildable lots and workers may want to live close to their place of employment. A low supply of available land, lack of infrastructure, zoning restrictions, and limited financing are barriers to building quality, affordable housing near employment nodes.

Third, rental housing appears to be a more affordable option for many households. This is contradicted by further examination of the rental market. There are very few rental housing units available. The rental vacancy rate in the 2010 Census was 4.3%. Only 7.6% of rental units were in apartment buildings (multi-unit structures) compared with the state average of 21.5%. Renters and owners are directly competing for the available single family homes. An additional challenge for renters is the generally acknowledged poor quality of units.

The Cook County Grand Marais Economic Development Authority has established the Cook County Housing Program to address workforce and senior housing issues. The program has made nearly $2 million in investments in housing and commercial rehabilitation, blight reduction, and sewer and water abatements since 2006.

The program is currently attempting to address quality, affordable rental housing through a rental rehabilitation committee that is leading a comprehensive rental rehabilitation program.

Last year seven local families participated in homeownership workshops co-sponsored by Arrowhead Economic Opportunity Agency. Four went on to purchase a home, receiving $2,500 in assistance.

While the County has successfully implemented several programs, the type and scope of programs and investments are not sufficient to bend the curve of the housing gap in Cook County.

The County needs to clearly identify the extent of its current and future needs and follow the lead of other high amenity rural communities. Recent research has shown that population and employment in rural tourism and recreation communities in Colorado with proactive affordable housing programs grew at a faster rate than those without programs.

The County will need to add at least 275 housing units by 2025 just to accommodate the projected 11% increase in population. If the County wants to attract a similar share of 25 to 54 year olds as the state it will need at least an additional 175 units by 2025. Not all units need to be developed within the framework of an affordable housing program. Some new living arrangements will be needed for an aging population which will open vacancies in existing units.

Successful affordable workforce housing programs typically include a variety of different strategies, shared public and private commitments, and significant investments in time and money. Common approaches including deed restrictions, down payment assistance, and zoning changes are discussed in Appendix A: Affordable Housing Strategies.

Workforce Size and Skills

Cook County has a very small labor pool and is faced with complicating factors such as high housing costs and not enoughfull time jobs that make recruiting labor difficult. The availability, cost, and quality of labor are very important to businesses. A shortage of skilled workers decreases productivity requiring businesses to pay more to acquire the right type of labor, recruit labor from elsewhere, or use labor that is less suited to the available jobs.

These tactics increase business costs without producing the according increases in performance. Tourism and healthcare businesses are labor intensive and therefore more sensitive to labor costs, but skill level is at least equally important.

Access to, and resources for developing education and skills training, are limited in rural areas. Close collaboration between businesses, Cook County Higher Education, Cook County School District, and other workforce partners is needed to develop the right skill sets that will grow a productive local labor market.

More productive workers can lead to higher revenues which in turn can lead to higher wages which can partially offset higher housing and living costs. This can also attract new workers.

Entrepreneurship

Another human capital approach to economic development is to build an economic environment that grows or attracts skilled workers and entrepreneurs.

The simplest definition of an entrepreneur is someone who organizes a business venture and assumes the risk for it. A broader definition includes innovation and growth potential. Entrepreneurship is not limited to high technology industries and urban areas. Entrepreneurs are found in every corner of the economy and regions across the country.

Additional small, locally owned businesses can diversify the economy and employment opportunities, insulating the County from economic flux. Local business ownership also generates wealth that is more likely to be reinvested in the community.

In 2008 Cook County was ranked amongst the nation’s rural counties with the highest rate of self-employment and as above average in employer establishment birth rates. Two common, if flawed, measures of entrepreneurship.

The local decline in sole proprietor earnings over the last decade demonstrated earlier in this report suggests a high degree of supplemental self-employment and/or individuals starting businesses because they have no other economic alternatives. These businesses are likely marginal in terms of opportunities for future growth.

However, necessity and supplemental self-employment are not the only factors in considering the County's entrepreneurial potential. High quality natural amenities and creative class individuals are closely connected with the entrepreneurship.

In addition to the County's natural amenities, it was ranked amongst the rural counties with the highest concentrations of creative class individuals in 2000. Furthermore, Cook County is at the top of these attribute classes amongst Midwestern rural counties.

The creative class was associated with much stronger growth in rural counties during the past two decades. (While these counties may have grown because of the presence of the creative class, it is possible that the amenities that attracted the creative class were responsible for the higher job growth in creative-class counties in the 1990s.)

Skilled residents are positively associated with increases in self-employment income and establishment of businesses with growth potential. Efforts to increase levels of educational attainment and other forms of skill building may enhance the potential of the County to create growing businesses. However, human capital is mobile and these efforts may not increase entrepreneurship if, for example, young people leave after high school and do not return (Markley & Low, 2012).

Corresponding investments in built capital (e.g. broadband network), natural amenities (new recreation opportunities), and a degree of urban amenities and services may play an important role in encouraging skilled individuals and entrepreneurs to remain or locate in the County.

Natural amenities and the coming broadband network will not be enough on their own to stimulate new business creation by growth entrepreneurs. The interaction of multiple forms of capital and assets is necessary for entrepreneur driven growth. Rural areas often lack preexisting institutions and tools that are critical to entrepreneurial success. For example, access to capital is considered critical but it is more effective when combined with high quality advisory services. Identifying the County's unique needs is difficult without additional surveys and other primary data collection.

Cook County will need to develop a robust support system to give its entrepreneurs the advantages that they need to be successful. In rural communities this includes (1) creating a supportive place for entrepreneurs to do business; (2) providing a simple single source for entrepreneurs to access the full array of services and resources available to help them start or grow businesses; and (3) creating a robust real and virtual community to foster innovation and link with peers, service providers, and market opportunities (Collins-Williams, 2008).

Public Policy

Local government plays an important role in the well-being of the economy and residents. It provides public goods that contribute to economic growth, such as basic infrastructure and schools. Through policies and actions it creates an environment that shapes the decisions of businesses and residents.

The leadership role of local government is especially important in rural areas because often there are fewer non-profit and private institutions with the capacity or influence to spearhead community and economic development activities.

Many of the strategies and initiatives developed as a result of the ***Go Cook County*** process will require some level of funding and all will require dedicated leadership. Not all of this must, or can, or even should, come from local government. But local government leadership will be critical to attract and maintain ongoing support from public, non-profit, and private stakeholders.

Cost-effectively using tax dollars to provide businesses and residents with high value public goods and services is always a balancing act. Providing infrastructure and services that exceed the needs of businesses and residents does not lead to growth and erodes public confidence. However, low taxes are not sufficient for growth. An area will become less competitive if infrastructure, services, and education decline. Cook County has potential to grow, but it must pursue the right investments and policies. Processes must be streamlined to increase productivity and improved delivery of services.

Economic challenges have intensified in the past decade. The County faces uncommon affordable housing challenges. Reduced private reinvestment in businesses and communities allowed the gap between Cook County and competitors to grow. It also decreased the ability of all levels of government to respond to this through investments in infrastructure and programs to boost economic development.

However, the County did not cease new investments in community capital. In 2009 Cook County voters approved a 1% local option sales tax. All but $605,000 of the $20 million lifetime sales tax revenue has been committed.

- Birch Grove Recreation Complex $700,000
- County-wide Broadband $4 million
- Public Library Addition in Grand Marais $1.5 million
- Expanded Community Center in Grand Marais $9.5 million
- District Energy Facility in Grand Marais $335,000
- Improvements to Superior National Golf Course $3.1 million

The $4 million investment in broadband is the local share of the $20 million project. Arrowhead Electric Cooperative was awarded a combination grant and loan package from the USDA Rural Utilities Service (RUS).

Cook County has one of the lower property tax rates in the State. The County captures less property tax as a percentage of market value than many other rural recreation counties in the State with which it competes.

2012 Local Tax Profiles		
Property Tax	Cook County	37.35%
	Becker County	41.56%
	Crow Wing County	32.40%
	St. Louis County	53.92%
	Grand Marais (plus County)	15.29%
	Brainerd* (Plus County)	15.50%
	Ely (Plus County)	14.80%
Sales and Use	State	6.88%
	Cook County	1.00%
	Detroit Lakes (Food & Bev)	1.00%
	Brainerd	0.50%
	Duluth	1.00%
Lodging	Cook County	4.00%
	Detroit Lakes	3.00%
	Brainerd	3.00%
	Ely	3.00%
	Minneapolis	3.00% 5.625%^
	Duluth	5.5%
	Bloomington	7.00%
	St. Cloud	5.00%
	Two Harbors	1.00%

*2011
^ 3.00% on facilities with fewer than 50 rooms. 5.625% on facilities with 50 or more.

Median Residential Property Tax Comparison					
	Median Home Value	Median Property Tax	% of Market Value	Ranking (0f 3,143 U.S. Counties)	Average % of Resident's income
Cook	$247,000	$1,016	.41	1,458	1.88
Becker	$166,800	$1,226	.74	1,136	2.28
Crow Wing	$187,000	$1,186	.63	1,187	2.28
St. Louis	$140,400	$1,102	.78	1,475	1.95
Minnesota	$200,400	$2,098	1.05%	19 of 50 states	3.1

www.tax-rate.org

Local government sets the land use and zoning policies which shape the location, scope, and type of physical development within the County. This role is especially important in Cook County because undevelopable publicly owned lands dominate the County and development must be balanced with protecting the natural amenities, small town charm, and North Shore/Northwood's heritage that makes Cook County an attractive place to live, work, and visit.

Growth in many high amenity rural counties slowed in the 2000s but the change was striking in Cook County.

Land use policies likely played a role. As pointed out in this report, case studies demonstrated that rural tourist communities with proactive affordable housing strategies grew faster (and more equitably) than those without strategies. There is some evidence that part of the cause of slowing growth in the highest amenity rural counties in the last decade may be related to restrictive land use policies meant to preserve the landscape and other qualities that draw residents to the area (McGranahan, 2011). The ***Go Cook County*** process has revealed that many believe the County's zoning regulations are too restrictive to allow for reasonable growth, and the permitting process too time consuming and difficult.

Regulation is, of course, necessary. Predictable and transparent regulations are preferable to lax regulations for encouraging development. Land use policies that prudently select sufficient areas suitable for development, use techniques to allow increased density and affordability and protect the environment, and are complemented by an array of economic and community development policies can satisfy reasonable concerns about growth.

Clusters

Economic clusters are groups of like, related, or interconnected businesses within a specific geographic area. Clusters are based on unique strengths and unique products and services. The firms within an industry cluster can compete with, complement or rely on each other through both formal and informal relationships.

Addressing clusters is important because it orients efforts to working with groups of businesses on common issues that improve overall conditions rather than just individuals in an uncoordinated matter.

The County's tourism businesses are a diagonal cluster. Each firm adds value to the activities of others, even though their products are quite distinct and clearly belong to other industry classifications. The entire visitor package could include recreation, accommodation, museums, antique dealers, food and beverage services, industry tours, etc. (Community Futures Network, 2010).

Many of the issues, needs, and strategies presented in this report can be implemented through cooperation among businesses in the County's clusters. Training, marketing, and infrastructure can be more effective if addressed county-wide.

Close examination of the connections in clusters can reveal gaps that present opportunities for new services, import substitution, or linking with other business sectors. For example, Leisure and

Hospitality sector consists of Accommodations and Food Services, and Arts, Entertainment, and Recreation. It has been suggested that there are additional opportunities to grow businesses in both subsectors by increasing the sales of local arts and crafts in other County businesses. A local value chain could be extended by incorporating local forest products into these linkages.

XI. DATA SOURCES AND REFERENCES

Except where specifically referenced, economic data used in this report are from standard federal and state government sources:

- Decennial Census (U.S. Census Bureau)
- County Business Patterns (U.S. Census Bureau)
- American Community Survey (U.S. Census Bureau)
- Bureau of Economic Analysis
- Quarterly Census of Employment and Wages (U.S. Bureau of Labor Statistics, via Minnesota Department of Employment and Economic Development)

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[i] Includes all federal non-military payroll and ½ state and local, non-education payroll.

[ii] Median Income by County. www.mncompass.org. retrieved October 16, 2012.

Cook County Economic Analysis

APPENDICES

APPENDIX A: AFFORDABLE HOUSING STRATEGIES

Affordable housing is an important issue in Cook County. The County's median home price increased by inflation adjusted 78% from 20000 to 2010. Real median household income only increased by 2.5% during the same time period. (Median home value of $107,000 in 20000 compared to $240,000 in 2010.)

The following circumstances combine to present an acute problem in Cook County:

- Cook County's amount of developable land is limited to a narrow strip surrounded by protected federal lands and Lake Superior. Topography and environmental sensitivity present challenges to developing the available land.
- The high quality natural amenities and rural character make Cook County an attractive place for part-time homeowners, wealthy retirees, and tourists.
- Cook County must preserve the open space and rural character that contribute to its high quality of life.
- The need for employees to be able to live close to work requires increased affordable housing development near existing nodes where needed infrastructure is limited.
- There are few multi-unit rental properties (apartments). Renters and potential homeowners compete directly for single-family properties. Many rental properties are of low quality.

Cook County needs to provide quality, permanently affordable rental and ownership housing to persons of low to moderate income for the following reasons:

- Young families are leaving because they cannot afford quality housing.
- Home-ownership is many people's dream and need for stability for their family.
- The County needs a strong, stabilized workforce. To develop and keep it housing choices and opportunities are necessary.
- Workers need housing options close to their place of work. Long commutes put financial pressure on workers, create traffic and parking issues, and are environmentally noxious.
- The County's communities need residents to attract and retain businesses and services year-round. A healthy community relies on a diverse labor pool, including professionals, service sector employees, public servants and others.

A wide variety of programs are available for increasing the supply of affordable housing. In order to address affordable housing problems comprehensively it is necessary to think in terms of combinations of programs.

A three-pronged approach to housing affordability includes: increasing the number of housing units, reducing development costs, and keeping affordable housing affordable.

Financing and administration of affordable housing programs is an important umbrella function.

The following methods have been tried by a number of rural tourism communities.

Deed Restrictions – Deed restrictions can be a stand-alone tool but are often used in conjunction with other strategies to guarantee that affordable housing stays affordable. Deed restrictions can be applied to new housing or existing market rate housing converted to affordable housing.

Deed restrictions can work in a number of ways. Generally, full-time residents meeting certain income qualifications – incomes below 80% area median income – can buy a home at below market rate. Generally, buyers must be approved for a normal home mortgage loan and sometimes receive down payment assistance from a complementary program.

Deed restrictions sometimes employ a “price limitation” on the amount of appreciation of the price at resale, usually around 4% per year or the Consumer Price Index multiplier. Some programs employ a “market limitation” that limits the resale of the property to eligible parties participating in the local housing program. Some programs use a combination of these approaches.

Most deed restriction programs apply to owner-occupied housing. Programs can be adapted to allow rental participation as long as the renter’s meet residency and income qualifications.

Down Payment Assistance and Gap Financing - These programs provide down payment assistance to income qualified buyers. The County has participated in a program through the Arrowhead Economic Opportunity Agency. However, the $2,500 in assistance may not meet the needs of Cook County. A larger assistance program should be considered.

A larger program could include deed restrictions on the re-sale of the unit to someone who is income qualified in the future or to limit the appreciation on the resale. In this way, the cost of the house is “bought down” one time and placed into the permanently affordable housing pool.

The administrative responsibilities include recordation of the covenant and follow-up to assure that the requirements of the covenant are met. The program works the best the agency maintain a list of households who are income eligible. This involved on going homebuyer-training programs that culminate in buyers being pre-qualified to purchase homes. Homebuyer fairs are one way of making people aware of the program and also the housing that is available in the community. The fairs can involve local lenders, Realtors and others who want to make their products available to homebuyers.

Rehabilitation Loans - Home rehabilitation loans can be used by low to moderate income households for the purpose of making code and safety repairs. The main outcome of this program is to preserve the quality of existing affordable housing stock. Loans are typically repaid at the time a home is sold, with a modest interest rate. Cook County has implemented this approach utilizing grant funds. A local revolving loan fund could be established that provides dollars for maintaining the program over time.

Planning and Zoning

Changes to planning and zoning regulations and procedures to encourage an increase in the number of housing units and lower development costs is a basic and potentially effective technique for promoting housing affordability. In affordable housing developments the number and types of units produced depends upon the size, zoning, and other characteristics of the parcel, however, medium to high-density zones work the best. The higher the density the less per unit in land cost, which helps the overall affordability of the home.

Higher Density (upzoning) – Allowing higher density residential development is one of the most basic and potentially effective techniques for promoting housing affordability. Higher density can include both multi-family and single-family housing. Communities that allow higher densities may also enact special design requirements to ensure that new higher density developments are compatible with existing neighborhoods in the community.

Incentive Zoning - Incentive zoning is a system by which zoning incentives are provided to developers on the condition that the development includes a specified percentage of affordable housing units. Incentives include increases in the permissible number of residential units or gross square footage of development, or waivers of the height, setback, use, or area provisions of the zoning ordinance. Incentive zoning can provide an economic incentive to set aside a number of affordable housing units.

Density bonuses - Density bonuses allow developers to build more units than otherwise permitted, in exchange for construction of a certain percentage of affordable units. Density bonuses allow developers to build additional market-rate units without having to acquire more land, thereby reducing land cost per unit, and providing an economic incentive to construct affordable housing units. Where water and sewer infrastructure can accommodate increased density, reducing lot sizes lessens the cost of construction, with savings that can be passed along to buyers.

Both zoning and subdivision regulations can be modified to allow density bonuses for development of affordable housing as follows: (1) reduce minimum lot sizes, (2) reduce minimum unit sizes, (3) allow multiple units per lot.

Parking waivers / Relaxed Parking Requirements - Reducing the requirements for parking spaces per unit reduces overall costs and increases land efficiency and housing units per site. Measures to reduce parking burden include reducing the minimum number or size of spaces, and allowing underground, structured, or tandem parking. Parking requirements are easily controlled by linking to the number of bedrooms per unit

Street Right-of-Way Reduction **-** Reducing minimum width of streets and drainage infrastructure reduces costs of development.

Fee Waivers, Reductions, or Deferrals **–** Reducing costs by waiving the impact or permit fees that support infrastructure development and municipal services provides an economic incentive to provide affordable housing. A municipality must budget for this, since it will mean a loss of revenue. Alternatively, allowing delayed payment of impact or permit fees reduces the developer's carrying costs, while placing minimal burden on municipalities. One approach allows developers to pay fees upon receipt of certificate of occupancy, rather than upon application for a building permit.

Fast Track Permitting **-** Streamlining the permitting process for development projects reduces developers' carrying costs, such as interest payments on predevelopment loans and property taxes. Fast track permitting is facilitated by quick design reviews, clear information on design requirements provided early in the design process, and prompt answers to inquiries.

Accessory Units - Accessory units are optional, smaller second units attached to or within single-family units, also known as "caretaker units" or "mother-in-law units." Such units often provide desirable housing for singles, couples, and entry level and seasonal employees.

Public sector responsibilities relative to accessory dwelling units are generally limited to the administration of zoning and/or deed restrictions designed to ensure occupancy by targeted groups of people. It is critical that short-term rentals are prohibited and measures taken to ensure that such units are actually rented to employees.

Concerns over the impact of such units upon the overall community growth rate and quality of life are usually addressed with size limitations; off-site parking, siting, and locational requirements; and occupancy restrictions. Visual impacts of accessory dwelling units may best be mitigated by requiring the units to be attached to or included within a single-family dwelling or accessory structure like a garage. Thus, the property may continue to visually read as a single-family dwelling.

Cluster and Tandem Development - Cluster development allows more compact lot sizes and arrangements, more efficient use of infrastructure and greater densities than those allowed under traditional zoning, resulting in lower development costs. A 1978 HUD report notes that the cost of street pavement, clearing and storm sewers for cluster development is only 62 % of these costs for comparable traditionally zoned development. Permitting cluster developments "by-right" in certain zones can provide a relatively straightforward (and therefore, less costly) way of encouraging economical development without increasing overall density. Tandem development, or the development of two single-family units on a single lot, also reduces development costs.

Expanding Housing Choices

Multifamily - Multifamily housing consists of separate units for more than one family, and includes a variety of types of apartments and condominiums. Due to reduced cost per unit compared with single-family homes, multifamily housing represents important opportunities for affordable housing. By housing more people on less land, multifamily housing developments make it possible to preserve more open space and natural features than do single-family housing developments, and require less public infrastructure, including roads, sewer and water pipes, and electricity and gas lines. Integration of affordable housing into market-rate multifamily developments is also easy.

Multifamily living often is the best or preferred housing solution for many people at different stages in their lives for a variety of reasons. It provides an important housing option for young people just starting out in a career or saving to buy a home, as well as for senior citizens who no longer care to maintain a single-family home yet want to remain near their children and grandchildren.

Mixed-Use - Allows a variety of land uses, often including office, commercial, residential, and light manufacturing combined within a single development or district. Mixed-use zoning allows a balanced mix of office, commercial, and residential uses in close proximity to increase convenience for residents and to lessen the need for commuting and/or shopping trips needed. Mixed-use developments can range in size from single buildings, with apartments located over retail uses, to large-scale projects that include office and commercial parcels along with hotels, convention centers, theaters, and housing. Mixed-use development often allows diverse residential opportunities, and encourages more efficient land-use. For example, allowing second floor housing above retail space will lower cost of housing and improve the efficiency of public transit.

Mixed-use developments can be regulated in various ways. Some communities allow residential uses by-right or by special permit in certain identified commercial zones. Other communities allow mixed uses within a planned unit development or in special mixed-use districts which would allow this type of development by-right in designated areas.

Mobile and manufactured homes - Transportable dwelling units on permanent chasses, connected to plumbing, heating and electrical systems, often without permanent foundations. Mobile/manufactured homes have production costs substantially lower than conventional built housing, and represent a significant source of affordable housing for low- and moderate-income households. With improved construction quality in recent decades, manufactured housing provides a viable option for people seeking affordable homeownership. Towns can develop design standards for manufactured housing to ensure quality design and siting. Municipalities can increase the areas zoned to accommodate these new homes in order to enhance the location options for mobile/manufactured home buyers and contribute further to their affordability.

Senior Citizen Housing -Senior housing includes a variety of senior housing types, including:

- Senior apartments - multifamily residential properties for persons age 55 years or older. Senior apartments do not have central dining facilities and generally do not provide meals to residents, but many offer community rooms, social activities, and other amenities.
- Independent living communities - age-restricted multifamily properties with central dining facilities that provide residents as part of their monthly fee with access to meals and other services such as housekeeping, linen service, transportation, and social and recreational activities.
- Assisted living residences - state regulated properties that provide the same services as independent living communities, but also provide supportive care from trained employees to residents who are unable to live independently and require assistance with activities of daily living (ADLs) including management of medications, bathing, dressing, toileting, ambulating, and eating.
- Alzheimer's/Dementia Care Facilities **-** state licensed settings that specialize in caring for those afflicted with Alzheimer's disease and/or related dementias.
- Continuing care retirement communities - a combination of independent living, assisted living and skilled nursing services (or independent living and skilled nursing) available to residents all on one campus. Resident payment plans vary and include entrance fee, rental, and condo/coop programs.

Organization and Methods

Community Land Trust - A community land trust (CLT) is a non-profit housing organization that owns the land in perpetuity. Land trusts can be active in the acquisition and development of affordable housing. The land trust has a covenant that runs with the land that requires that the improvements are sold and/or leased to households that meet defined income requirements. Usually, the cost of the land is taken out of the cost of the housing as a way to make it affordable

There are few public administrative responsibilities with a land trust. Typically, a non-profit is established that oversees the administration of the land trust. If a jurisdiction were to donate the land, they could control its use through the terms of the land lease that is administered by the land trust board of directors.

The number of units produced depends upon the underlying zoning. It seems to work best in medium to high-density zones. The primary group served under this model tends to be households earning between 60% and 80% of the area median income.

The primary legal issues involve the land lease. These are usually 99 -year leases that carry affordability requirements and require a small fee or land lease payment to be made to the CLT. It takes a significant amount of time to educate lenders about the use of land leases.

Land Banking - This is a tool that has been used successfully by many communities. Land is purchased or donated and held for future affordable housing development. A local housing authority or non-profit entity may hold title to the land and earmark it for future development. It may also be purchased by the city. The cost of the land becomes relatively more affordable over time (in high cost areas). Also, it becomes understood in the community that this is a site for future affordable housing development. This is a very effective tool in areas with limited land and high land costs.
It may be possible to acquire land for affordable housing development when acquiring property for other public purposes such as a park and open space.

The number and types of units produced depends upon the size and zoning of the parcel, however, medium to high-density zones work the best. The higher the density the less per unit in land cost, which helps the overall affordability of the home.

Community Development Corporation (CDC) or Other Entity As Developer – this is a program model where a housing authority or non-profit assumes an active role as developer of affordable housing. These entities may develop and/or acquire housing which meets the needs of the local community including for-sale or rental housing. If new development is selected, the CDC has the same responsibilities as a private sector developer for developing a site. This includes site design, gaining development approvals through the local government, construction monitoring, financing, and property management. Some agencies have the private sector develop the site and "turn-key" it back to the entity when the project has been built.

Local government is responsible for assuring its development standards are met, administering zoning and imposing deed restrictions. Typically, local housing authorities and non-profits have missions to serve low -income households. This does not preclude them from developing market rate housing. With declining federal resources to develop exclusively low income housing, in conjunction with the desire to distribute assisted housing throughout the community, has led many of these entities to develop mixed income projects. Large amounts of housing for low- and moderate-income households may be produced serving entry level employees, seniors, singles, couples, and young families.

This approach is limited only by financial capability, staff capacity and political will. It may be used to develop all types of housing.

A deed restriction should be used to guarantee the long-term availability of housing produced by a community develop corporation or other similar entity to a target group of residents meeting community priorities.

Program Financing

The County should continue to leverage State, federal, and non-profit grants, loans, and other financing. Local sources of funding are likely necessary to seed affordable housing programs and create a sustainable program.

Fee-based Programs - These programs involve the use of multiple, dedicated funding sources to that accrue to a local housing fund. These funds are usually used to "buy-down" the cost of acquiring, developing or rehabilitating housing that is to be made affordable to households that meet defined income guidelines. These funds may be used by the private sector, local housing authority, non-profit or a combination of entities as long as they result in the production/acquisition of affordable housing.

Examples of funding sources include business license fees, linkage fees or real estate transfer fees. Fee based approaches usually require demonstration of a nexus, or strong rationale linking the collection of the fee to mitigating some impact created as the result of some action

Fee-based programs may involve zoning provisions that tie new development to requirements for providing funds or mitigation to meet some portion of the identifiable impacts of new development. Developers may elect to pay the fee rather than develop the housing within a specific site.

- Commercial/Industrial/Lodging Linkage **-** These are zoning provisions that require new development to provide funds or housing to mitigate some portion of identifiable housing needs created by the new development. The rationale for this program is that these uses are the direct source of most permanent and seasonal employees.

Tax-based Programs –These programs involve the use of dedicated tax sources to raise funds to be used to develop, acquire and/or maintain affordable housing. Tax-based programs can be highly flexible and made available for use by the private sector, non-profits or local housing authorities. Once funds are available, those funds may be redirected as necessary to respond to changing housing needs in the community.

Funding sources may include excise taxes on new development, sales tax, or property taxes. Dedicated funding sources may be used to back the sale of mortgage revenue bonds and thus to leverage fees into more housing benefits. With tax-based programs, local government usually assumes more direct responsibilities for administering the funds and assuring program compliance.

Referenced sources - Affordable Housing Strategies. Healthy Mountain Communities. 2005.