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M I N N E S O T A

# DEPARTMENT OF TRADE & ECONOMIC DEVELOPMENT



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1998 AGENCY PERFORMANCE REPORT

EXECUTIVE SUMMARY





# 1998 Agency Performance Report

*The purpose of the Department of Trade and Economic Development is to advance the economic vitality of Minnesota. The department will employ all available resources to generate high quality jobs; expand foreign direct investment and exportation of Minnesota products; and encourage travel. - DTED mission and vision statement*

JAN 21 1999

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The department is organized into three operating divisions.

**Business and Community Development** (BCD) facilitates the growth of new and existing Minnesota businesses by providing financial assistance, training services and technical resources to communities, businesses and economic development professionals.

**The Minnesota Trade Office** (MTO) promotes and assists in the expansion of exports and foreign direct investments that contribute to the growth of the Minnesota economy. Primary functional areas include education and training, information and marketing, counseling and export finance.

**The Minnesota Office of Tourism** (MOT) markets Minnesota as a travel destination to tour operators, group tours and travel agents; promotes coverage of Minnesota in international and travel trade media; and initiates, develops and coordinates activity with travel industry buyers and sellers in the U.S. and throughout the world.

Providing support to the three operating divisions are the divisions of **Information and Analysis** and **Administration**. Information and Analysis provides centralized communication, public relations, marketing, research, analysis, program evaluation and governmental liaison services. Administration offers cost-effective and efficient administrative, fiscal, human resources and information services.

## Key issues for 2000:

*Worker shortage  
Employee training  
Labor productivity  
Infrastructure revitalization  
Competitiveness of tourism and trade*

## The department has four agency wide goals:

- *Facilitate growth of business by influencing private sector investment and quality job creation.*
- *Promote Minnesota as an excellent business location and travel destination.*
- *Remove government impediments to doing business in Minnesota.*
- *Deliver programs and services efficiently and cost-effectively.*



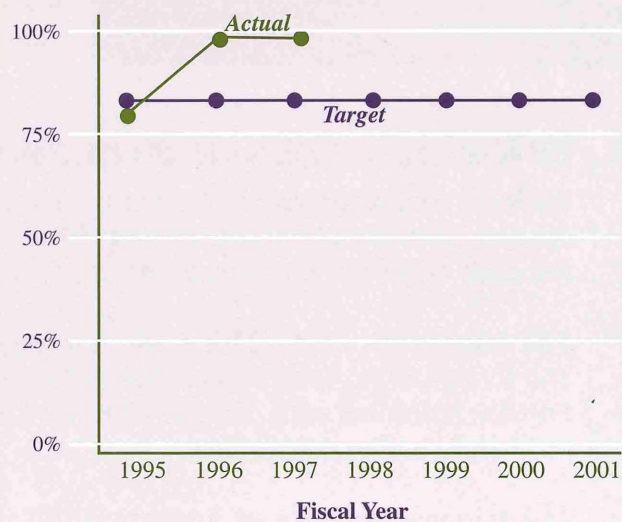
## In FY 1998-99

■ *Minnesota Job Skills Partnership grants awarded will provide training for an estimated 17,500 workers and students.*

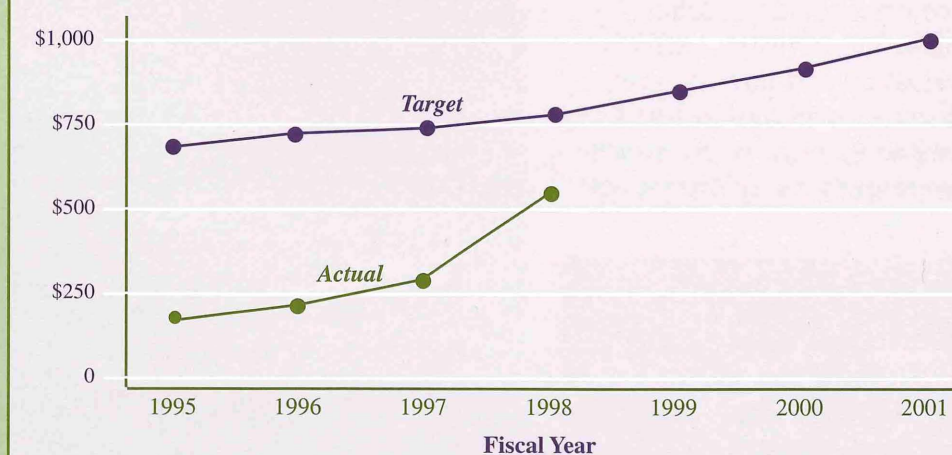
■ *Pathways grants are projected to support the training of nearly 4,000 people who are moving off public assistance to jobs.*

■ *MJSP grant requests exceeded available funding by more than \$3 million in the first quarter of 1998 alone.*

Percent of Minnesota Job Skills Partnership Trainees Placed into Training-Related Employment



Minnesota Job Skills Partnership Training Costs per Trainee





## Minnesota business growth depends on a skilled workforce

The state's strong employment growth combined with slower labor force growth has resulted in worker shortages in many industries and regions.

The Business and Community Development Division is working to combat the shortage of skilled workers by increasing both the quality and the quantity of Minnesota workers, and encouraging capital investment by businesses to improve labor productivity.

The quality and productivity of our workforce is being addressed through the Minnesota Job Skills Partnership which funds the state's educational institutions when they work hand-in-hand with businesses to tailor technical training that meets their specific and immediate needs.

An example: Last October the MJSP board awarded \$120,000 to Pine Technical College in Pine City to develop and supply training for the employees of MedAmicus Inc. of Plymouth. MedAmicus manufactures fiber optic medical devices used by internal medicine practitioners. MedAmicus' 150 employees will soon be gaining new skills that will make the company more competitive and more productive. Training areas include ISO 9000 quality standards, safety and compliance management, world-class manufacturing techniques and planning and project management. The training addresses the need for new and re-trained skilled high technology workers.

Two of Job Skills Partnership's latest initiatives -- Pathways and the proposed HELP (Higher Education Loan Program) were developed in response to changing conditions.

### Pathways evolved out of national welfare reform.

In Minnesota, the reform meant that 38,000 families receiving public assistance would be required to become gainfully employed over the next two to five years. While jobs are available (an estimated 400,000 new jobs between 1994 and 2005) there had been no means to connect unemployed public assistance recipients with the growing number of private sector jobs.

Pathways is that link between the people on public assistance who need to be trained for a job and the employers, educators and other service providers.

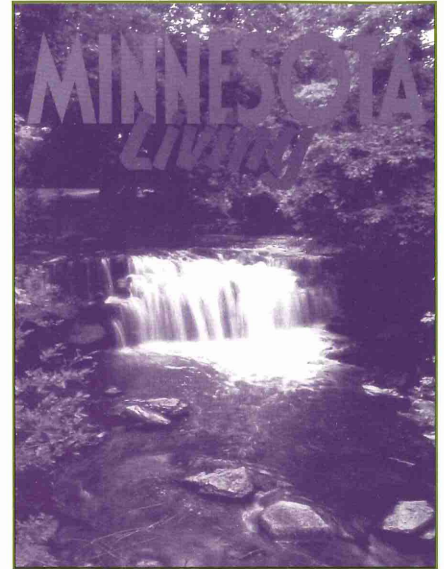


*Lieutenant Governor Joanne Benson addresses attendees at one of the Minnesota Job Skills Partnership grant signing events held throughout the state in 1998.*



## **"Come Home to Minnesota" worker recruitment campaign aimed at former Minnesotans**

The state agency charged with advancing Minnesota's economic vitality has developed a strategy to counter the growing shortage of technical and professional workers.



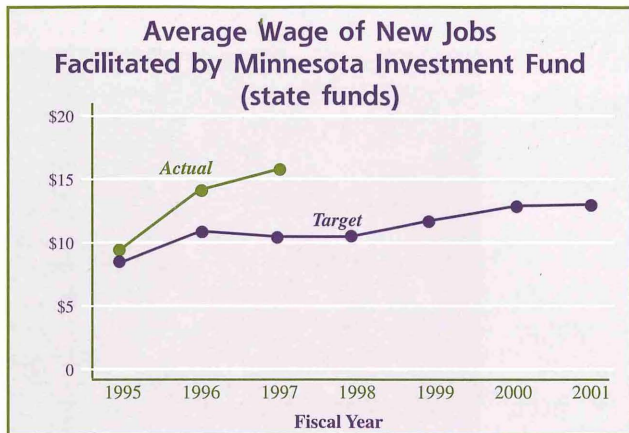
Business and Community Development staff sought input from communities and firms in developing a response to the worker shortage. They found concern among communities that their populations are aging rapidly and the impact that will have on the future.

A resulting partnership between DTED, local communities and their businesses is the "Come Home to Minnesota" campaign to bring former Minnesotans back to the state. One partner, the City of Willmar, recently contacted 4,000 former Minnesotans identified by the community from high school reunion lists, college outplacement lists and other local resources.

As part of the program, Business and Community Development published a new recruitment brochure, *Minnesota Living*, that is available at no cost to communities and businesses.







## Minnesota Investment Fund

The Department of Trade and Economic Development's strategy has focused on increasing the numbers of high quality, well-paying jobs in traditional and emerging industries. The department is also working on enhancing the productivity of business by facilitating capital investments which reduce the need for labor while increasing wages for Minnesotans.

Through its state-funded Minnesota Investment Fund, DTED facilitated the creation of more than 1,503 jobs by 20 companies through \$5.4 million in loans or forgivable loan packages in FY 1997. The average hourly wage for these jobs is an impressive \$16.74 with nearly all (99%) providing benefits. More than 56 percent of these jobs pay in excess of \$12 per hour. The FY 1998 performance is expected to be strong as well with \$6 million in funds facilitating the creation of 1,608 jobs that are expected to pay an average wage of \$14.66 per hour. All these performance measures far exceed the program targets.

DTED also helped 12 Minnesota companies gain \$3.0 million in FY 1997 federal economic development funding. These companies have created 277 jobs for low-to-moderate income people. All of these jobs provide benefits and the average employee earns an hourly wage of \$11.77 (50% above \$10.00).

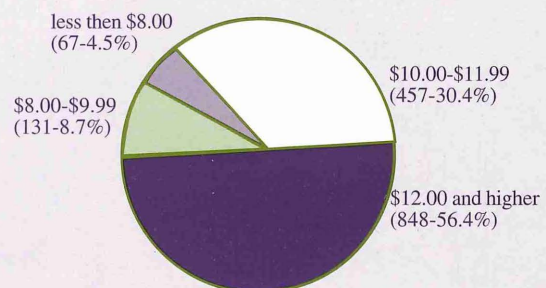
The Minnesota Investment Fund is an important component of DTED's technical and financial assistance. In each of the following examples of 1998 expansions involving the Minnesota Investment Fund, companies chose Minnesota ahead of other states during their national search for a new site.

■ New Flyer, based in Winnipeg, decided to build a bus manufacturing facility in St. Cloud that represents the largest expansion ever of a non-Minnesota manufacturer into Minnesota. The St. Cloud manufacturing plant will employ up to 1,600 Minnesotans.

■ Andersen Corporation chose Cottage Grove as the site of its new manufacturing facility for "renewal" replacement windows. Wisconsin commerce had recruited Andersen heavily.

■ Western Digital chose Rochester over California for development of a new disk drive R&D facility that will employ more than 220 people earning an average of more than \$20 per hour.

**Distribution of Wages for FY 1997 Minnesota Investment Fund State-Funded Projects**





## Community Infrastructure and Redevelopment

### Redevelopment program targets unusable sites

Created by the 1998 Legislature and funded with \$4 million, the Redevelopment Grant Program helps finance costly and complex redevelopment projects that probably wouldn't occur without public involvement.

Redevelopment of unused sites such as the Southeast Industrial Area (SEMI) and the Software Technology Center underway in Duluth, will diminish urban blight, and will create new infrastructure, new jobs and increase the tax base.

Total application requests during the program's first half-year were \$6.5 million. In 1998, the Department of Trade and Economic Development awarded \$2 million in redevelopment grants or six of the 26 total requests for funds, to the cities of Minneapolis, St. Paul, Duluth, South St. Paul, Detroit Lakes and Racine to redevelop parcels and bring them back into productive use. Another \$2 million round of grants will be announced after April 1, 1999.





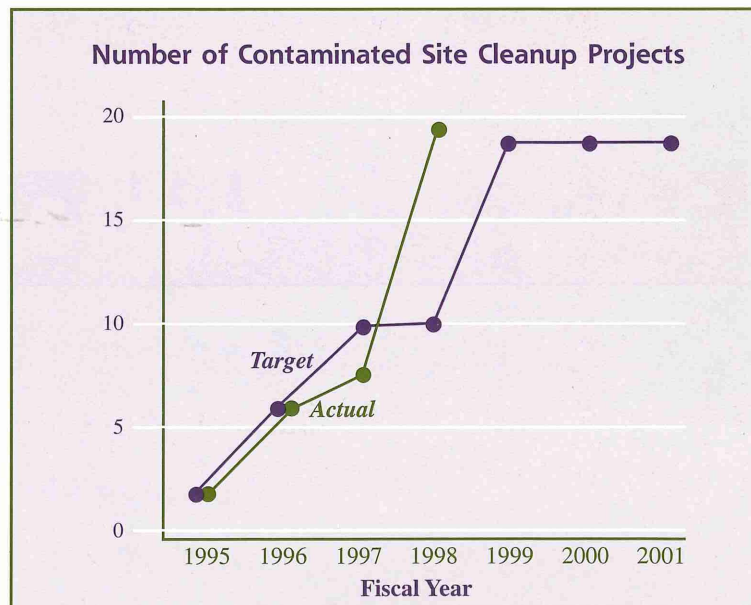
### Contaminated sites

The Contaminated Site Cleanup and Investigation Grant Program provides \$19.4 million per biennium to clean polluted industrial sites, primarily in the metro area, and make them ready for industrial redevelopment.

Since the grant program began in 1994, nearly 40 sites have been or are in the process of being investigated or remediated. Remediation of these sites is expected to stimulate almost \$200 million in private investment and more than 4,000 new jobs.

One very visible example of the how the Contaminated Site Cleanup program works will be the cleanup of the contaminated site of the 5.3 acre Milwaukee Depot complex on Washington Avenue in Minneapolis. The depot was once used as a rail yard for the Chicago, Milwaukee, St. Paul and Pacific Railroad Company. Years of spills and leaks from fuel oil tanks and equipment left the ground contaminated and unsuitable for new development.

The contamination grant of \$857,250 awarded for cleanup of the site will clear the way for developing the area for needed single and multi-family homes and small commercial development. The redevelopment is expected to increase the property tax base by \$1.65 million.





## **Minnesota has a growing demand for wastewater, drinking water system improvements**

With the demand for wastewater loans increasing and the addition of the safe drinking water mandates, the Public Facilities Authority (PFA) must strike a balance between the amount of loans made each year and the need to preserve the future lending capacity of the fund. This is becoming increasingly challenging as the water and wastewater infrastructure needs across the state far exceed the current capacity to make those loans.

The PFA has made more than 228 loans totaling more than \$500 million since 1989, with the majority of the funding coming from revenue bonds. In some cases the state has had to provide grant funding to supplement the loans to keep high cost projects affordable for community residents. The PFA provided grants to 20 communities for \$26.8 million under the Wastewater Infrastructure Funding Program to supplement loans and has \$15.6 million reserved for nine more communities prepared to proceed.

With the tremendous success of the Clean Water Revolving Fund in Minnesota and throughout the United States, Congress passed a similar program under the Safe Drinking Water Act, to provide funding for states to create drinking water revolving funds to combat health threats from antiquated systems and to treat contaminated water. Consideration is being given on the state level to expanding the Wastewater Infrastructure Fund to include high cost drinking water systems.

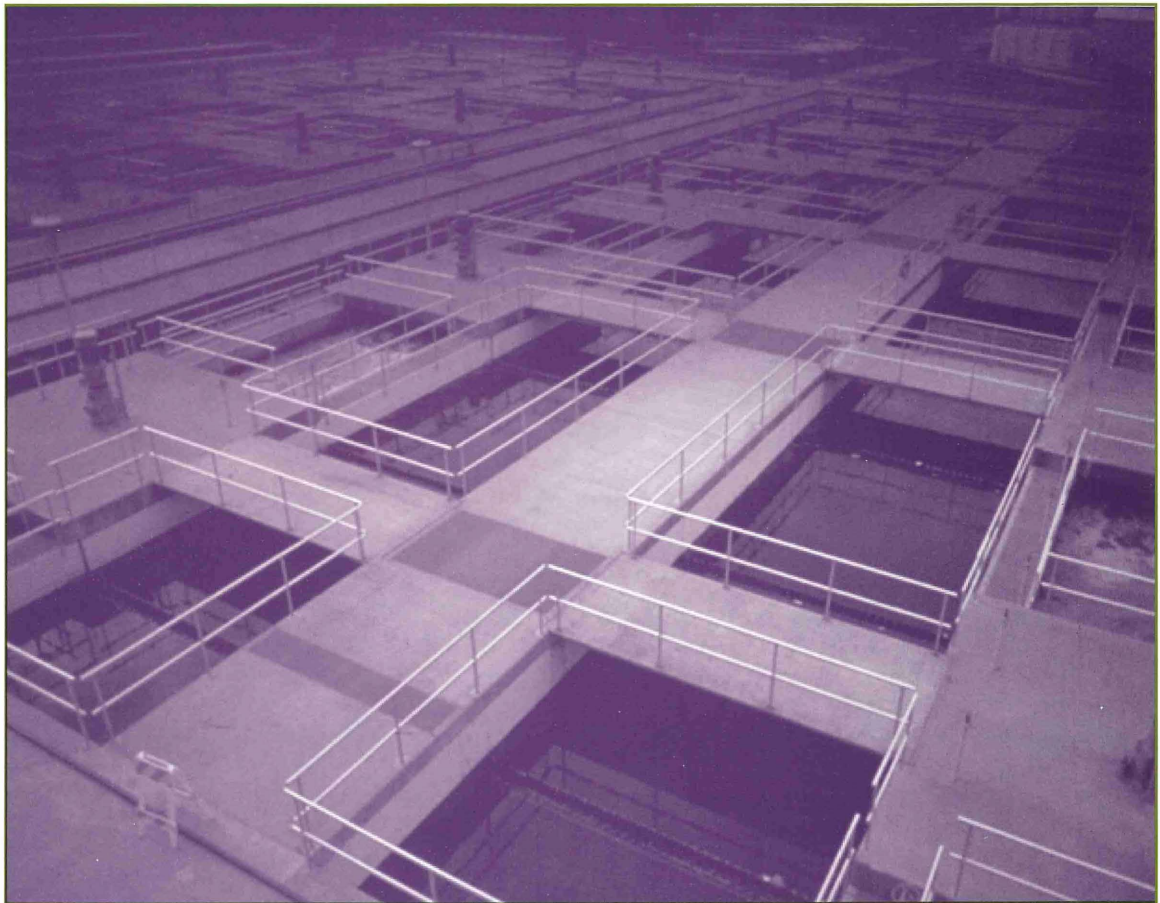
**The Minnesota Public Facilities Authority, which manages the state's revolving fund for municipal wastewater projects, in December gained its third AAA bond rating for its water pollution control revenue bonds from Fitch IBCA, one of the nation's three leading financial ratings services. The PFA received the AAA rating from Standard & Poors in 1995 and from Moody's Investor Services in 1996. Both financial ratings services have reaffirmed their AAA ratings for the PFA annually.**

**In 1998 the PFA marked its 10 year anniversary of providing below market rate loans to Minnesota municipalities for wastewater projects.**



## *Infrastructure revitalization*

- In 1998, the Public Facilities Authority provided its first year of grants and loans for municipalities to fund 57 drinking water projects, in cities ranging from Comfrey to St. Paul.
- Currently 141 communities have submitted applications that meet the guidelines for drinking water and wastewater funds.
- The U.S. Environmental Protection Agency estimates that Minnesota communities will need to make more than \$2 billion in improvements to their drinking water systems over the next 20 years to stay in compliance with the Safe Drinking Water Act.



*The Public Facilities Authority financed 57 drinking water projects in 1998.*



## Trade initiatives target emerging markets

In 1999, the Minnesota Trade Office begins its 16th year as the state's lead agency responsible for developing international trade activity. Its mission is to be an advocate for Minnesota businesses pursuing international markets and to promote, assist and enhance exports and foreign direct investments in Minnesota that contribute to the growth of the state's economy. Today, the staff of 28 provides services to approximately 2,000 Minnesota companies.

Minnesota's exports have grown steadily in a variety of markets over the past few years, including a 7 percent increase in manufacturing exports between 1996 and 1997, to \$9.5 billion. Agricultural commodity exports were an additional \$2.6 billion.

The number of foreign-owned affiliates in Minnesota has increased from 750 in 1990 to 864 in 1995 (most current figures available) – an increase of 15.2 percent. About 80,000 Minnesota workers are employed by foreign-owned firms.

The MTO contributes to the development of Minnesota's trade activity through four major activities: information services including an international library, education and training, export finance, and export marketing and counseling.

The financial difficulties facing the Asian economies and the emergence of the European Monetary Union provide both challenges and opportunities for the MTO staff and their client companies in the coming year.

In 1997, the MTO launched a successful Minnesota-China Initiative aimed at expanding the trade relationship between Minnesota and China. The plan encompasses frequent educational opportunities, as well as targeted industry trade shows and trade missions.

The highlight of the initiative was Governor Arne Carlson's mission to China in 1998 where he met with China President Jiang Zemin and other members of the Chinese cabinet, only the second U.S. governor to do so.

More than 140 people have attended the MTO's "China Practicum", a one-day intensive course on China's government, history, culture, business opportunities and business practices.





**The MTO provides basic and topical export training workshops and seminars to increase company export-related knowledge, skills and abilities. These education programs are offered approximately twice a week to audiences statewide. During 1997, more than 5,600 individuals attended these seminars which were either sponsored or cosponsored by the MTO.**

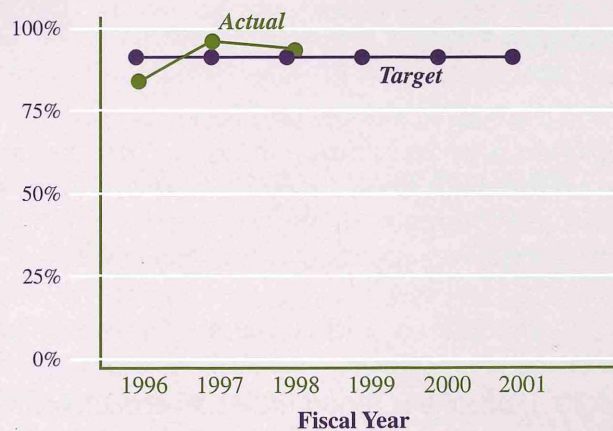
**Ninety-three percent of participants stated they were satisfied with their MTO-sponsored seminar, up from 84 percent who reported satisfaction in 1996. (The MTO surveys participants immediately following completion of the training session.)**

The Minnesota-China Initiative is a two-way street. Many delegations have traveled to Minnesota throughout the year, including Ambassador Li who arrived in October to open a China representative office in the Minnesota Trade Office.

Despite the economic troubles in other Asian markets, Minnesota's exports to China are growing. In 1997 Minnesota exported \$382 million in manufactured goods to China, including Hong Kong, an increase of about 18 percent over 1996. The growth trend continued through the first three quarters of 1998.

The Minnesota-China Initiative will help lessen the impact the Asian crisis has on Minnesota's economy.

Percent of Customers Satisfied with MTO-Sponsored Education Seminars



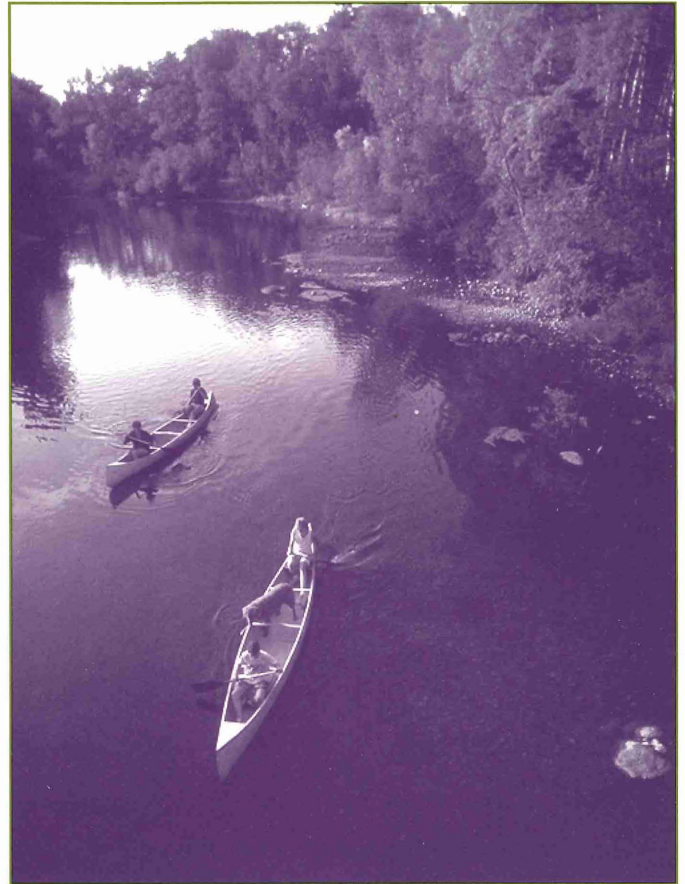


## Tourism promotion aimed at out-of-state travel dollars

The Minnesota Office of Tourism's (MOT) primary mission is to increase state travel related tax revenues through profitable investment of travel marketing dollars.

The MOT markets Minnesota, in North America and internationally, as a travel destination to consumers, tour operators, tour groups and travel agents, and promotes coverage of Minnesota in international and travel trade media.

Travel and tourism have become one of the state's largest and fastest growing industries. Tourism currently generates about \$9 billion annually in economic impact, produces \$1.1 billion a year in tax receipts, and results in jobs for more than 170,000 people with an annual payroll of \$3.7 billion.



Rapid and significant changes and fierce competition for the travel dollar are occurring in the global travel and tourism industry. Organizational restructuring within the MOT has shifted the office toward a more research driven, target market oriented, and outcome based program. Marketing strategies are primarily directed at non-resident travelers to maximize the state's return-on-investment.



The MOT's performance has improved as a result. In 1997, 82 percent of non-resident customers who received information from MOT, and who subsequently traveled to Minnesota, indicated that they were influenced by MOT services, up from 80 percent in 1995 and 72 percent in 1993.

For many years, the state's travel and tourism industry and tourism-related sales and tax revenues have grown proportionately and above that of the national average. Minnesota's strong economy and near full employment saw tourism employment grow 7.5 percent between 1991 and 1995.

The ability to attract new travelers into Minnesota, while retaining Minnesota resident travelers, is directly related to the state's ability to compete with other states and regions of the country to stimulate statewide economic development benefits.



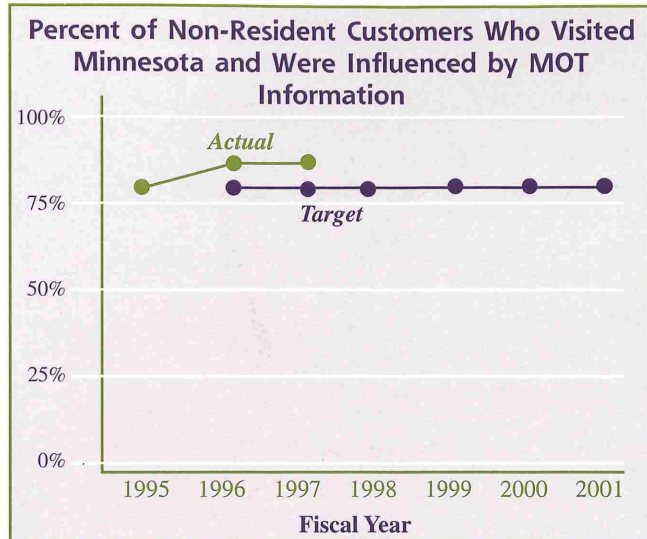
## Competitiveness of tourism

According to an August 1998 report by an industry association called the Minnesota Tourism Promotion Coalition, "Without increased funding for the Office of Tourism, Minnesota will have little choice but to enter the next millennium watching its neighboring states capture the economic fruits of U.S. and international business and pleasure travelers who have come to visit their state's natural resource and urban attractions – not Minnesota's."

Minnesota's competitive position and the resulting economic benefits in the marketplace are increasingly threatened as competitive states begin to out-spend Minnesota's tourism promotional efforts on more than a 2:1 basis.

While the MOT's advertising budget is currently what it was in 1986, its buying power has declined by about one-half. As inflation has taken its toll on the budget, the MOT has focused a greater share of its budget on identified target markets in specific out-of-state markets, the markets that provide new dollars to the state's economy.

Based on the MOT's most recent return-on-advertising-investment research, conducted with travelers in 1996, the total return on the MOT advertising budget is indeed significant.



*One program designed to increase travel revenues is the MOT's advertising program.*

*The advertisements are designed to spur a potential traveler to call the Minnesota Office of Tourism for travel information and ultimately influence their vacation destination decision.*

For every dollar spent on the direct advertising campaign, the state of Minnesota realized:

- \$79 of economic impact
- \$9.46 in tax receipts

For every dollar spent on the direct advertising to non-resident markets, the state of Minnesota realized:

- \$59 of economic impact
- \$7.09 in tax receipts



# *Department of Trade and Economic Development 1998 Highlights*

## **Business and Community Development**

### **Small Business Assistance Office**

- Completed, for the DTED web site, an electronic catalog of state required licenses and permits.
- Provided 39,129 hours of business counsel to 3,535 small firms through the Small Business Development Centers in calendar year 1997 (the most recent data available). Recipients of that counsel raised \$85.4 million in capital and created 1,182 jobs.
- Distributed more than 100,000 copies of the office's small business assistance publications.

### **Minnesota Job Skills Partnership**

- In FY 1998 and 1999, MJSP grants awarded will provide training for an estimated 17,500 workers and students.
- Pathways grants awarded in FY 1998 and 1999 are projected to support the training of nearly 4,000 people who are moving off public assistance to jobs.

### **Public Facilities Authority**

- Received its third Triple A bond rating.
- Funded 57 community drinking water projects in 1998, its first year of providing these types of grants and loans.
- Made the first loans from the Drinking Water Revolving Fund.
- Completed rules for the Transportation Revolving Fund.

### **Business Finance**

- Coordinated 31 Minnesota Investment Fund projects which will yield 1,608 new jobs paying \$14.66 an hour on average.
- Managed the federal business incentive program which awarded 15 companies with \$3.7 million which will spur the creation of 665 new jobs paying an average wage of \$10.38 per hour.



## Community Finance

- Administered \$12 million in federal relief for several tornado-damaged cities.
- Awarded \$2 million to six cities for redevelopment of unproductive parcels.
- Awarded \$20.4 million in federal Small Cities Development Program grants to 34 communities for infrastructure, housing and commercial rehabilitation projects — often in partnership with other funding programs.

## Marketing and Business Development

- Successfully launched major expansions including: Andersen Corporation in Cottage Grove, CENEX/Harvest States in Fairmont, and New Flyer Industries in St. Cloud.
- Expanded departmental marketing efforts to local governments, organizations, and businesses. Established three regional field offices to increase access to departmental services.

## Professional and Technical Resources

- Organized the Governor's Economic Summit to create discussion on economic development in the next decade. The program drew nationally recognized speakers and 500 attendees.
- Initiated "Come Home to Minnesota" worker recruitment campaign aimed at professional and technical workers living outside the state. The cost-effective program works in tandem with communities and local businesses.
- Updated or added detailed summaries of 360 communities featured on DTED's new online Community Profile system. More than 70,000 visits to the site have been recorded.





## Minnesota Trade Office

- Hosted 150 foreign delegations comprised of more than 550 people.
- Coordinated four governor-led international business development missions.
- Arranged agricultural trade tours to Denmark (hogs) and New Zealand (dairy) involving 80 Minnesota growers, processors and educators.
- Organized 154 Minnesota firms' participation in 23 international trade shows.
- Launched the Minnesota-China Initiative, including a governor-led trade mission to China, a dozen education programs on the China market, two trade tours to China and two major industry trade shows in China. In addition, the China Council for the Promotion of International Trade selected the MTO as the location for one of its four U.S. trade representative offices.

## Minnesota Office of Tourism

- "Take Home a Story" campaign won the award for best state tourism campaign from the Travel Industries Association of America.
- Provided information to 546,000 on-the-road travelers through its 12 Travel Information Centers.
- 70 communities entered into marketing partnership agreements with the MOT.
- Technology enhancements increased application times for Journey, the MOT's customized travel planning service, by 2.5 times to provide better customer service.
- More than 250,000 visitors stopped in the MOT's Explore Minnesota USA store at the Mall of America.
- In FY 1998, the consumer marketing group provided travel information services to 264,000 customers via telephone, fax, mail and the internet.

