

**CITY OF SANDSTONE
BUSINESS RETENTION AND EXPANSION
RESULTS AND RECOMMENDATIONS**

PREPARED FOR THE CITY OF SANDSTONE

by

The Northspan Group, Inc.

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EXECUTIVE SUMMARY

In Fall 2019, The Northspan Group, Inc. conducted 15 business visits on behalf of the City of Sandstone. These small businesses, many of them located in the city's downtown, form the core of the local economy, and many are longtime community institutions. The visits allowed business owners and managers to speak candidly to a third party about their business situations and perceptions of the community. Based on these visits, Northspan identified numerous trends among Sandstone businesses and offers this report as a snapshot of current conditions.

Overall, Sandstone businesses are:

- Stable and evolving with the times while shying away from dramatic changes
- Owned by individuals with strong local roots, though many live outside the city proper
- Adapting to workforce challenges through higher wages and pipeline creation
- Concerned about high taxes and crime
- Interested in finding ways to make a more welcoming community

We make five recommendations based on the feedback we compiled:

1. Encourage the formation of a tourism board that emphasizes the Sandstone area's natural assets
2. Improve community wayfinding to highlight access points to the Kettle River and downtown business district
3. Aggressively pursue efforts to clean up blighted properties
4. Consider possible incentives for business improvements
5. Plan proactively for changes in the downtown core

No silver bullet can improve Sandstone's economy, but more collaborative efforts to market its most unique assets, improve its visual attractiveness, and plan for future changes can position it to succeed in a twenty-first century economy. This report was written in tandem with a cluster and rail study that provided a more comprehensive overview of the Sandstone economy and offers a series of supporting recommendations. Together, these two documents lay the groundwork for future economic growth.

OF SANDSTONE BUSINESSES:

60%

HAVE PLANS
FOR NEW
INVESTMENTS

33%

STRUGGLE TO
FIND EMPLOYEES

33%

PLAN TO ADD
NEW PRODUCTS

73%

APPRECIATE A
SUPPORTIVE COMMUNITY
AND CUSTOMERS

87%

REPORT STABLE
OR INCREASING
REVENUES

60%

ARE CONCERNED
ABOUT TAXES

INTRODUCTION

Northspan completed 15 visits with Sandstone businesses between August and November 2019. These visits aimed to gauge businesses' current operations and perceptions of the business climate and broader community conditions. These visits largely targeted smaller businesses in the city's core instead of focusing on the larger institutions and well-established major employers in Sandstone. With one exception, the businesses visited had ten or fewer full-time employees.

Northspan's survey questions are clumped into two distinct areas:

1. business operations and
2. community opportunities and challenges.

While these distinctions sometimes blur in the eyes of business owners, Northspan's survey work aims for a comprehensive understanding of the situation in each community and aims to provide solutions for more than just businesses' immediate needs.

BUSINESS OPERATIONS

GENERAL BUSINESS CHARACTERISTICS

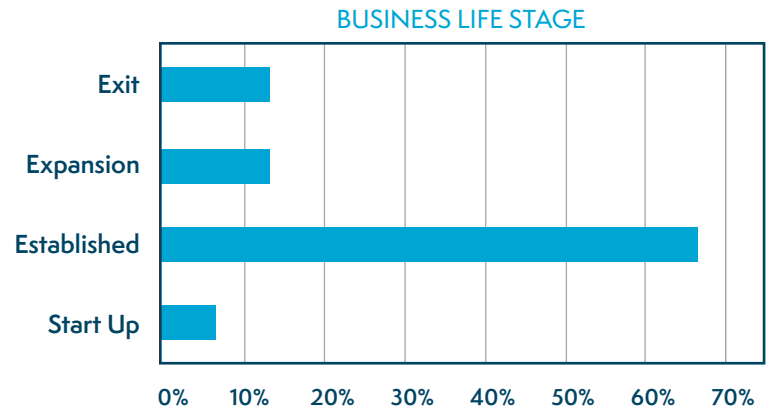
Nine of the 15 businesses are locally owned and three are locally owned franchises, while another three are satellite locations of companies based elsewhere in Minnesota. Seven are retailers and three fall into the bucket of recreation, accommodation, and dining; the rest are scattered across sectors including health care, transportation, wholesale trade, and other services. As these businesses were not randomly selected and include several that replaced others that were unwilling or unable to meet during the time Northspan conducted the visits, they are not a complete cross-section of local industry, but their perspectives do provide valuable insight into the state of affairs in Sandstone.

BUSINESS OWNER/MANAGER CHARACTERISTICS

Northspan talked to 19 individuals tied to the 15 businesses, including the 12 individual owners or managers, two couples and a father-son combination who jointly own and operate businesses, and one business that included both a local representative and the regional manager to whom she reported. Of the 16 households included in the sample, 11 are natives of the greater Sandstone area or have lived there for over 15 years (though several moved away for some time and moved back), while five moved to the area in the past ten years. All save the regional manager (who had lived in Sandstone at an earlier stage of her career) currently live in the Sandstone area, though only six of them reside in the city itself. The interviewees tend to share deep roots or connections to the Sandstone area, but the housing stock and desire for a rural setting have driven many of them outside of the city limits for their residence.

BUSINESS LIFE STAGE

Most of the business owners know the Sandstone area and its history well. The 15 businesses were largely in a well-established phase of their business life, with ten in an “established” phase that foresees continued operations with little immediate change likely and a median founding date of 1995. These businesses are largely longtime community institutions, and some newer businesses are nearly identical to predecessors that had different ownership in the same location.



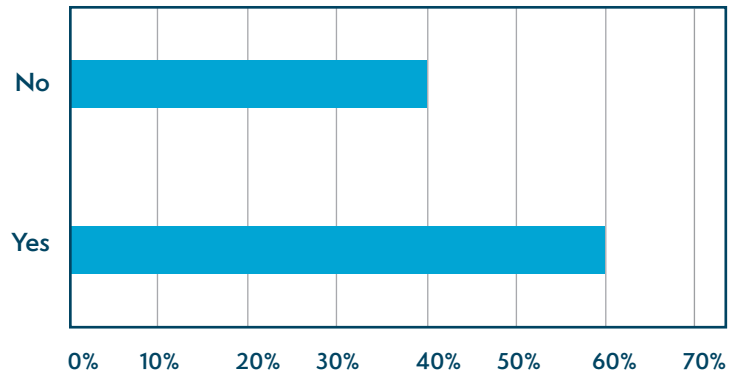
CURRENT FACILITIES

Thirteen of 15 businesses own their own buildings, and the other two are tightly held leases either from the same owner using two separate business entities or a former owner renting to a current owner. In general, Sandstone lacks quality leasable space for businesses, and while commercial buildings in the city tend to be affordable, leasing options could help grow businesses in Sandstone, particularly for those that are in a start-up phase and do not have the funds necessary for a down-payment.

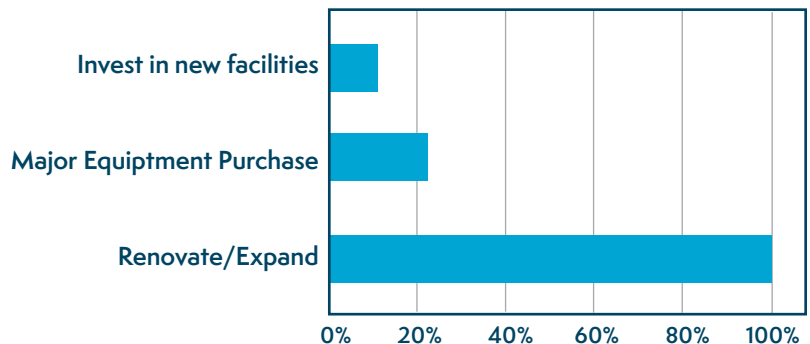
INVESTMENT PLANS

Despite the established nature of these businesses, many do foresee future investment to support their operations. Renovations to existing buildings are a frequent aim of these businesses, suggesting that tools to help with upgrades would be of particular interest. The businesses recognized the need to make gradual changes to product offerings and gradual improvements to their spaces, even if they do not plan radical departures from the past. All nine businesses considering new investments plan to renovate or expand their existing facility, while two of those nine are also planning a major equipment purchase that will help expand their offerings and one is acquiring a neighboring property for an additional facility. Given these plans, one of the most effective ways public policy can support Sandstone businesses is likely through incentives that support these gradual renovations and upgrades.

INVESTMENT PLANS AT CURRENT LOCATION



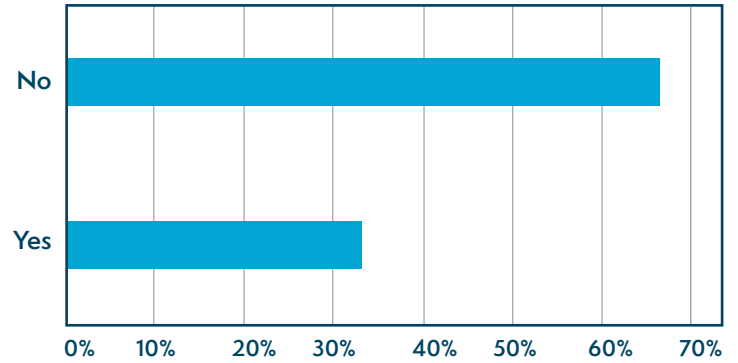
TYPE OF INVESTMENT PLANNED



NEW PRODUCTS OR SERVICES

A smaller but still significant number of Sandstone businesses are also exploring new products or services to add to their offerings. Five of fifteen businesses plan to add new offerings. Two are adding technology to enhance their offerings, two are expanding their offerings to fill a perceived need in the community, and one is adding additional services to keep up with changes in consumer demand.

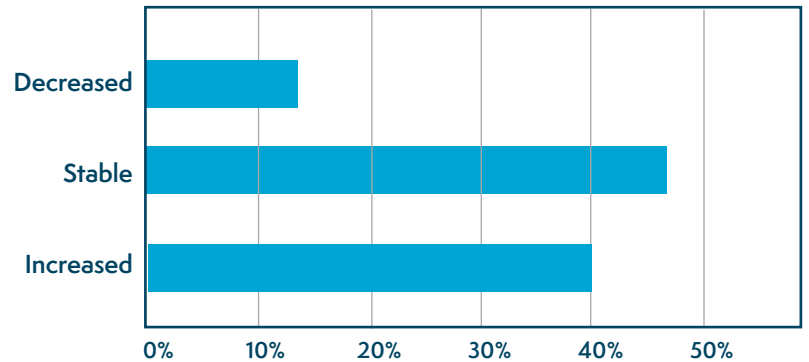
PLANS TO ADD NEW PRODUCTS



REVENUE TRENDS

Overall, business is going reasonably well for most of the surveyed Sandstone establishments. Seven reported stable revenues over the past year, while six reported growth; only two said their revenues had declined. These largely positive business conditions map on to broader economic trends. Those that did encounter difficulties cited weather issues and broader trends in retail for their challenges. Except for one business that planned to close, the rest all predicted stable or increasing revenues in 2020. The three that expected growth included one that is in the start-up phase and two that have added new services or products that they believe will expand their capacity.

CHANGE IN REVENUE IN PAST YEAR



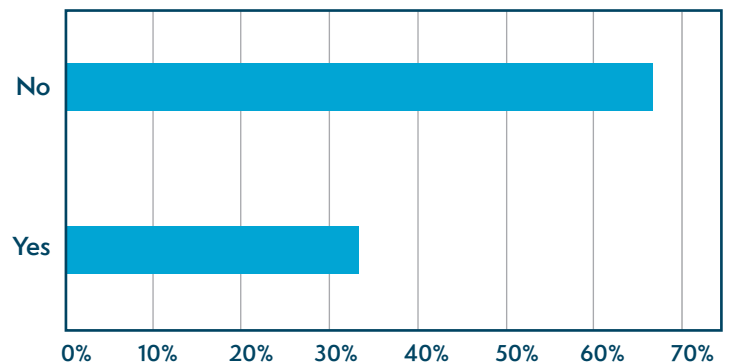
MAJOR EXPENSES

Nine businesses identified a factor that has driven rising costs in the past year, though few trends emerge among these costs. Retailers of products manufactured abroad noted some impact from tariffs, which have been reflected in their prices; others reported shipping costs, raw materials prices, and their own renovations driving up expenditures. Several also noted some seasonal effects due to poor spring weather in the area in 2019. Property taxes were the only expense mentioned by businesses with any real local decision-making oversight.

WORKFORCE

As most Sandstone businesses are in a stable stage, many do not face the workforce crunch prevalent in some sectors of the economy. Only five of the 15 expressed difficulty finding new employees, though seven of these ten simply do not hire with any regularity. Success stories include businesses whose reputations are large enough (and pay rates are high enough) to pull from beyond the immediate area and one that has a strong relationship with the high school that allows it to obtain quality referrals for students who will be good fits. By building longer-term relationships and investing in their training, this business is frequently able to retain employees, even as some of them leave for college or other opportunities outside the area; many of these employees return to work on breaks or on a temporary basis before moving on to careers elsewhere.

DIFFICULTY FINDING EMPLOYEES



Still, as shown by the following “Business Negatives” section, workforce emerged as an issue for three businesses, and others expressed some concern that it could become an issue in the future. Three business owners are struggling to find employees who want to work for any reason other than a basic paycheck or failed to pass drug tests, while two were looking for more technical skills that were often lacking in applicants.

COMMUNITY OPPORTUNITIES & CHALLENGES

BUSINESS AND COMMUNITY POSITIVES

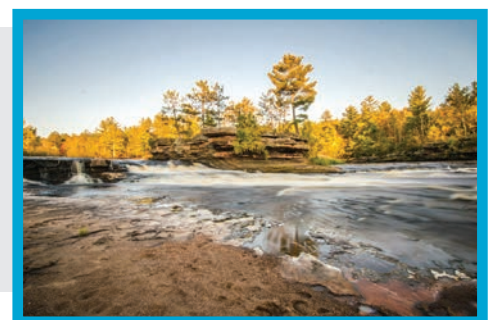
A supportive local community was by far the most cited positive for business in Sandstone. Business owners reported that Sandstone customers are loyal to local businesses and remain committed over time, which was frequently a source of gratification. Some businesses partnered to market the city collectively, and meetings around major issues such as transportation, when they happen and bring people to the table, are valuable. Two businesses expressed unprompted newfound optimism for the direction of the city, and five had positive comments about the city administrator.

Business and Community Positives	No. Mentions
Supportive community and customers	11
Small-town feel	6
Quality of grocery store	5
Progress under current city administrator	5
Natural beauty and riverfront	2
Welcoming of new people	2
Newly optimistic about city’s direction	2

Numerous residents recognized Chris’ Foods as a unique asset that many towns of Sandstone’s size do not enjoy. The area’s natural environment, a comment that goes somewhat in tandem with fondness for the small-town feel, also received recognition.

The effort to rehabilitate the former school property (The Rock), when mentioned, received general but not universal support, as business owners looked forward to seeing the property put to use but had some concern about the price tag. Businesses in the core of the city were generally pleased with their internet service, usually through SCI Cable, though those further on the outskirts reported considerable difficulty in obtaining quality access. Despite some concern about vacant properties, some noted that, for a community of its size, Sandstone’s downtown remains relatively robust when compared to neighboring communities.

Business owners were very loyal to Sandstone, and those located in its downtown would prefer to stay there in order to keep it as vibrant as possible. They recognized the potential damaging effects to the downtown area of relocation to the business park or areas adjacent to the interchange. Several seemed skeptical of the entire business park project, which suggests they may not be aware of potential lost business that would have occurred if not for its development. Once again, additional messaging



around this issue could help to build community support; anchor institutions like Essentia could help educate the public on the value of different types of development and the level of investment created by the business park.

BUSINESS NEGATIVES

Taxes rose to the top of business owners’ list of concerns in nearly two thirds of the visits. While such sentiment is not uncommon among business owners everywhere, it had an intensity in Sandstone that Northspan has not witnessed in other communities, and several believed that businesses were unfairly burdened.

While the sentiment was not universal, several business owners who had come from other locations or moved away before returning found Sandstone a difficult place to do business. One specifically cited an older generation of involved community members as an impediment, while another decried city interference and attempts to take control of areas better left to the private sector. One said a previous expansion attempt in Sandstone had been “set up to fail” because the community had worked to bring the company in but had provided no actual support once the business arrived.

Several businesses noted difficulty with access to funding sources, including a city downtown revitalization fund that they would have used if eligible. Several expressed an opinion that any future city funding programs should apply to all businesses in the city, not just those in the downtown area; others expressed concern that future tenants of the business park would receive incentives that longtime businesses did not. Similarly, several criticized the Kettle River townhomes project from different angles; one critiqued the city support, while another questioned the decision to sell an asset for a one-time benefit instead of continuing to collect rent. The city could benefit from further messaging around this decision.

Petty crime and vandalism were frequent concerns among businesses, particularly those located in the downtown core. Most of these businesses have experienced some issues in recent years, including shoplifting (even by young children) and occasional break-ins or damage, though most have avoided major issues. The lack of police presence in the city troubled some of the businesses, though most owners appeared to understand the city’s staffing arrangement with Pine County and were resigned to it.

Business Negatives	No. Mentions
Taxes	9
Crime/vandalism	5
Needs to better promote tourism	4
Not welcoming/lack of support for new businesses	3
Workforce issues	3
Access to capital	3

COMMUNITY NEGATIVES

While often not directly related to business success, business owners also identified a number of drawbacks related to living in Sandstone.

Concerns about drugs in the community had business owners feeling most pessimistic about the community. Drug use, business owners explained, led residents to and has created spillover effects such as vandalism and theft. Many business owners told stories of their own experiences with individuals on drugs; their perspectives were firsthand, not based on rumors or speculation.

Sandstone Negatives	No. Mentions
Drugs in the community	5
Quality of housing stock	4
Lack of different types of restaurants/cafes	4
Need for family activities	3

COMMUNITY OPPORTUNITIES & CHALLENGES, CONT.

The housing stock in Sandstone was another frequent source of consternation. Aging and declining properties, primarily rentals in the central part of the town, came up repeatedly as a liability for the city. The fact that only six of the fifteen locally based business owners or managers interviewed lived within the physical city limits underscores the lack of desirable housing for the Sandstone business community.

Several respondents argued Sandstone should better promote its natural assets, which they saw as its strongest method of drawing visitors, and this opinion extended beyond obvious tourism businesses to include local establishments that would enjoy indirect benefits from tourism. On a related note, Sandstone's limited dining options frustrated numerous business owners, who pined for the addition of evening dining options and coffee shops.

Business owners recognize the complex interplay between success in the downtown area, the business park, and outlying areas beyond Sandstone's city limits. The movement of both businesses and people outside of the city limits concerned some interviewees. One bemoaned the lack of big box stores, though numerous other businesses took care to note that their survival depends on the absence of such stores from the community.

CONCLUSIONS

Northspan's 15 interviews with Sandstone businesses produced the following conclusions:

- The businesses interviewed are largely longtime community institutions in a stable state.
- Few are planning major changes, but many are looking to evolve as markets change and updates to their facilities become necessary.
- Workforce challenges are real for businesses that hire regularly, but Sandstone businesses have successfully blunted these issues through higher wages and pipelines into the high school.
- Businesses appreciate the small-town feel of Sandstone, build strong relationships with their customers, and seek to maintain this comfortable way of life.
- Generally, businesses have a positive perception of the direction of the city in recent years.
- Taxes and crime are among the foremost concerns for their business operations, while drugs, poor housing, and a lack of amenities are challenges for the city as a place to live.
- By being more welcoming to both new residents and visitors, businesses believe Sandstone can make further progress.



RECOMMENDATIONS

Based on analysis of the data collected in the 15 visits, we recommend the following steps in response to Sandstone's needs and the opinions of local business owners:

1. Encourage the formation of a tourism board that emphasizes the Sandstone area's natural assets.

Northspan recommends that Sandstone spearhead a group that will encourage tourism in and around Sandstone. The value of this new group would be in its emphasis on natural beauty and opportunities for outdoor recreation. Sandstone currently receives some recognition with the [Old Highway 61](#) tourism initiative in Carlton, Pine, and Chisago Counties. While the city and area businesses should certainly continue to support this group if they find value in it, we recommend either working with the group to carve out a distinctive space for outdoor recreation within the site or beginning a new initiative. Old Highway 61 places its emphasis on a roadway that now predates the memories of several generations and runs the risk of burying Sandstone's unique appeal beneath a broader regional effort in which it is just another town along a highway.

In order to attract new demographics and carve out its own identity, Sandstone should seek to lead a new vision for its area. We recommend that this effort be regional in order to capitalize on assets that are not within the city limits and avoid rehashing any past disputes over the marketing of Sandstone proper. Successful examples include [Visit Cook County](#), the [Iron Range Tourism Bureau](#), and a number of other local tourism boards in communities and regions large and small. While northern Pine County would be the most obvious starting point, this effort could even extend further in all directions to serve other communities that serve as gateways to the Northwoods based on interest and available resources.

2. Improve community wayfinding to highlight access points to the Kettle River and downtown business district.

Wayfinding in the Sandstone area remains difficult, and gems such as Robinson Park, Big Spring Falls, and even Banning State Park are not always easy to find. The business park monument is an example of a theme the city could replicate at key intersections to push traffic toward local attractions. Additionally, Sandstone could work with the Department of Natural Resources to develop better connections through Banning State Park, as its southern areas abutting the city are not well-marked. This project would be a logical first task for a new tourism board, and even if the city does not pursue that option, signage within city limits would still be helpful.

3. Aggressively pursue efforts to clean up blighted properties.

The quality of Sandstone's rental housing stock repeatedly emerged as a concern that dragged down the city's reputation and drove people to seek housing outside city limits. While Sandstone currently has general ordinances related to the state building code and nuisances and an additional ordinance for vehicle-related blight, other communities have successfully implemented strong blight ordinances that require residents to clean up substandard properties. Communities across the country have imposed restrictions on many other unsightly objects found on properties, including:

- Parts of machinery, metal, or wood in the yard
- Unused appliances in the open
- Uninhabitable structures
- Storage of building materials beyond a set time frame
- Vacant structures that are not locked or neatly boarded up
- Partially completed structures no longer in the course of construction or lacking a building permit
- Requirements related to grass-cutting and snow removal

RECOMMENDATIONS, CONT.

Additional details are available through the [League of Minnesota Cities](#). Details would require a community conversation and legal counsel; ordinances should aim to assist with community cleanliness and not punish low- or fixed-income residents who may not have the resources to make substantial changes. However, aggressively pursuing blight would demonstrate community commitment to making improvements, and small Minnesota communities have successfully implemented these ordinances and enforce them through various means.

4. Consider possible incentives.

Should the city pursue a new business incentive, we recommend one that focuses on assistance for building renovation or expansion, particularly for some of the out-of-sight upgrades necessary to keep older buildings viable. Funding to support upgrades roofs, heating and cooling systems, doors and windows, and facades could help businesses stay in their current locations and maintain property values for downtown buildings. This incentive should be available to all businesses in the city, regardless of location or franchise affiliation; in order to pool more resources, Sandstone could encourage a regional effort through groups such as GPS 45:93 or Lakes and Pines. As an example, the Arrowhead Economic Opportunity Agency and Department of Iron Range Resources and Rehabilitation jointly offer a [Business Energy Retrofit \(BER\) program](#) that helps improve businesses' energy efficiency and outward appearance.

5. Plan proactively for changes in the downtown core.

The redevelopment of The Rock received widespread (though not universal) support in business interviews. However, if current community institutions such as the historical society and the library move to a successfully renovated building, Sandstone runs the risk of ending up with more vacant properties in its downtown core. Proactive plans for these properties, whether they involve the buildings' reuse or demolition, are vital. The city should consider incorporating incubator space into its plans for downtown buildings to give new, innovative businesses a potential starting place.



