



"An enlightened citizenry is indispensable for the proper functioning of a republic."
Thomas Jefferson

Position Paper # 5

It Will Not Bring New Businesses to Fairmont

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A common refrain among those in favor of building the community center (CC) is that it will serve as an enticement to bring new business to Fairmont,

“Both men said that a community center would grow Fairmont’s population by serving as a desired perk for people considering a move to the city for employment. As the population increases, the number of restaurants, retail options and businesses will follow.”¹

This comment demonstrates a serious misunderstanding why businesses and people move into a community. Another similar comment is that a CC provides a competitive advantage for a business seeking to recruit new employees.

“Matt Huset, 3M-Fairmont plant manager, supported the community center as competitive advantage for local businesses to attract talented employees. While a job is important, many potential workers ask another question. “What is life like outside of work?” he said.”²

The above comment demonstrates a failure to properly recognize that a CC is only one, among dozens of amenities, resources and services that people might consider (“...what is life like outside of work?”) when moving into a community. Mr. Huset’s comment, “...while a job is important...” is an understatement of the truth. A job is the most important factor why an individual would move to a town like Fairmont. A person who is looking for work does not move to a town because it has a CC — This is especially true if they don’t have a job available in Fairmont. The same is true for any town.

Still, another example of this idea that a CC will attract people, with no data provided to support such a claim, included comments from a councilmember,

“‘I’m in support of the community center for a number of reasons,’ Council member Brittany Kawecki said. ‘One I just know from personally having small children that this is something families can enjoy. I also think that there’s something else to think about in what Fairmont needs and that’s people. We need to attract people and when you want to attract people from bigger communities like Mankato or the Twin Cities we need to have things that will attract them.’”³

Although Councilor Kawecki is correct that communities need to have things that will attract people, she either fails to understand, or does not mention that Fairmont already possesses many amenities and resources that attract people to our community that “...families can enjoy”. The single most significant factor is job availability. Unless a person has a potential job available they are not going to leave their

¹ Sentinel, “*Community Center Envisioned*”, Fairmont Sentinel, Fairmont, MN October 24, 2015. This is a reference to comments made by Mr. Dale Martins and Randy Lubenow.

² Ibid., “*City Commits To Community Center*”, December 10, 2019.

³ Ibid., “*City Discusses Community Center*”, March 9, 2021.



current place of employment or location where they live.⁴ Furthermore, for some people it makes no difference what amenities a town like Fairmont might possess. Some people are simply not interested in living in rural communities. They prefer the “action” of living in a metropolitan area such as Minneapolis.

The CC will not bring new business to Fairmont. Businesses do not move into a town because it has a community center. The primary reasons a business moves into a town are listed below. Various surveys list these reasons in different order of importance as reasons a company moves or starts up in a community.⁵

Reasons Why Businesses Relocate

- A. Need more space — Typically driven by growth of the company.
- B. Reduce operating costs.
- C. More business-friendly environment — lower taxes, less regulation, other incentives.
- D. Move closer to clients.
- E. Move into new markets.
- F. Lease expiration.
- G. Better labor market.
- H. Strategic Growth — Companies looking for more capital to grow.

Quality of life

This addresses the problem where a business is experiencing a decline in the quality of life for their employees in their current location. That decline can include things such as: rising energy costs, increasing violent crime rates, increasing taxes with fewer services, declining quality of available healthcare, etc.

The desire is to move to an area with lower crime, lower taxes, better education and improved medical and health care. Why? When a community begins to show decline in various areas as those mentioned above, those businesses begin to lose their higher-performing employees who have other employment options elsewhere away from the area of decline. If a business wants to keep those employees and remain competitive they have to consider the option of moving to an area that is not experiencing such declines.

Historically, why a company may move to another community typically has not included issues related to the quality of life as one of the top reasons why companies relocate. Nevertheless, given events during

⁴ The exception to this rule are those people who don't necessarily need a job. This is because they are retired, or they may have family with whom they can live until such a time when they can locate a job,

⁵ Priceonomics. *Why Do Companies Move Offices?* Team Recurrency. November 15, 2018. See also: CV Fixed Freight, “*Top Five Reasons Businesses Relocate HQ to a Different State*”, April 16, 2018 (cvff.org/reasons-businesses-relocate-hq-different-state/). See also: Entrepreneur. *How To Relocate Your Business*, December 1, 2005 (entrepreneur.com/growing-a-business/relocate-your-business-entrepreneurcom/81406)



the past 4-years with the radical increase in crime in major cities, which has led to the destruction of private and corporate property, loss of business inventory through rioting, looting, etc. it is increasingly becoming a significant factor that companies take under consideration whether to move their offices.⁶ All businesses rely on efficiency of operations and keeping costs to a minimum, so that they can maintain a profit that will sustain the business over the long-term.

All of the above factors cited by companies make it clear that possessing a CC isn't even on a company's radar screen when it comes to a business considering whether to expand operations or move to another location. Anyone who says that they are having trouble recruiting new employees because Fairmont does not have a CC is either deliberately, or unwittingly engaging in a false narrative. The more likely reason is that the company is offering too low a wage or salary, a poor benefits or healthcare package, or both.

3M, Railway Motors, Stokely Van Kamp, Weigh-Tronix and even the Mayo Clinic did not startup, expand, or move to Fairmont because the town had a CC. Some will say, "That's not fair, times have changed since those organizations came to Fairmont. The new generation is looking for the amenities of a CC as their primary objective." If this were true then cite the studies and statistical data that support such claims. They can't because this claim is entirely false. People need to eat and have shelter. Both require that they work so they can afford to pay for food and a place to live. Times have not changed in regard to the fundamental needs of every business and all human beings.

It Will Entice People to Move to Fairmont

This argument that a CC will entice people to move to Fairmont, also conflates individuals with businesses. Businesses will move into a town for the reasons stated above. People move into a town for one, and only one primary reason — The availability of jobs. The only time a CC becomes a factor is if an individual has a job opportunity in two or three towns from which they can choose, or they don't need a job because they are retired.

People who are retired look at other factors such as social security taxes, property taxes, cost of housing, crime, healthcare, security, cost of goods, and available recreational amenities, for which a CC is but one amenity among many (e.g. lakes, fishing, restaurants, hiking and biking trails, hunting, arts & entertainment, sports & training facilities, etc.) for comparison purposes. But, in the vast majority of instances the basis for any move on the part of a family or individual to a town such as Fairmont is directly related to the availability of jobs.

Since the time when mankind began farming, they have been seeking food, clothing and shelter. Those have not changed and continue to be the primary issues of life that all of humanity seek to obtain. A CC is simply icing on the cake, and it is a very thin layer of icing when compared to the entire cake of needs and wants facing a company or individual who may be considering a move to Fairmont.

⁶ The list of major corporations leaving cities, such as Chicago, Portland, San Francisco, New York, Minneapolis and other cities, where crime has increased dramatically, is growing and looking more like a who's who of the Fortune 500. Companies such as JP Morgan, Walmart, Tesla, Charles Schwab, Oracle, Citadel, Boeing, Aldi's, Whole Foods, Tyson Foods, and Caterpillar are just a few to cite as examples. This doesn't begin to address the dozens of small businesses that are fleeing these high-crime cities.



Poor Financial Return on Investment

A CC is a want. It is not a need. It is a consumer of wealth and not a generator of wealth. It provides the worst return on investment when examining the cost of building such a facility versus the number of individual jobs and income it will bring to the town. Since the YMCA is a not-for-profit organization it will add \$0 in property tax income to the city.

It has been estimated that the CC will employ somewhere between 17 and 44 part-time employees and 1 - 3 full-time managerial positions.⁷ This would come at a startup cost, just using the base construction figure of \$47.6 million, of roughly \$1.01 million to \$2.4 million per employee. Even if you increase the number of employees to 100 the startup cost per employee would be \$476,000. These figures do not include wages and salaries.⁸

A single fast food restaurant like a McDonalds will make, on average, \$2.6 million to \$2.8 million per year.⁹ Taco Bell restaurants make, on average \$1.6 million¹⁰, and Chick-fil-A rakes in a whopping \$3.2 million per store.¹¹ Roughly 40% of that money is taxable income paid in wages to the employees. Furthermore, each fast food franchise, such as McDonalds, Taco Bell, Chick-fil-A, Burger King, Wendy's, Carl's Jr., In-An-Out Burger, Subway, and Arby's typically employ anywhere between 16 and 25 workers per shift (three 4-hr to 6-hr shifts). This equals a total of 48 - 75 individuals.

Depending upon location and the size of the facility, the startup costs for most of these franchises ranges anywhere from as little as \$150,000 to \$3.5 million.¹² This is a far cry from the base \$47.6 million for the proposed YMCA Gym & Swim and Ice Hockey arena CC, or the \$24.3 million for just the YMCA Gym & Swim. This breaks down to roughly \$9,400 to \$46,000 (\$29,400 median) startup cost per employee at a fast-food restaurant. This is somewhere from as little as 1/50th to as much as only 1/5th the cost per employee for the CC. Again, these figures do not include wages and salaries.

⁷ Ballard King Associates, Ltd. "Market Analysis & Feasibility Study, Fairmont, MN". Also, during the question and answer period when the YMCA gave a presentation in the Southern Minnesota Education Campus building in 2020, Dennis Dieser stated that they were projecting the number of part-time employees to be around 24 with 2 or 3 managerial positions. However, these numbers can change depending upon the final size of the facility, the amenities that will be included in the facility, and the programs that will be offered at the facility. At the time Mr. Dieser made that statement the design for the CC was 130,000 square feet — significantly larger than the current design.

⁸ Even if you consider just the \$24.3 million for the YMCA Gym & Swim this still equals roughly \$552,000 per employee for 44 employees or \$243,000 per employee for 100 employees.

⁹ Franchise Chatter. "FDD Talk: McDonald's Franchise Costs, Fees, Average Revenues and/or Profits (2022 Review)", (www.franchisechatter.com/2022/09/22/fdd-talk-mcdonalds-franchise-costs-fees-average-revenues-and-or-profits-2022-review/)

¹⁰ Liveabout Dotcom. Daszkowski, Don. "Owning A Taco Bell Franchise". (www.liveabout.com/taco-bell-franchise-review-1350384.)

¹¹ Mashed. "The Untold Truth of Chick-fil-A". (www.mashed.com/32659/10-things-didnt-know-chik-fil/)

¹² TopFranchise.com. "The Best 10 Fast Food Franchises in USA in 2021". (www.topfranchise.com/articles/most-popular-10-fast-food-franchises-in-usa/).



Also, compare these figures for the CC to the existing fitness centers in town. Those facilities were started up at \$0 cost to the City. Whatever loan that these businesses may have taken out with the City are being paid back, or have already been paid back to the City. They were all done with private money from the owners and their investors. It is the owners and their investors who have taken, and continue to take, ALL of the risks associated with building, operating, maintaining, expanding and growing those businesses.

Taxes

Also, these fast food facilities pay significant property taxes.¹³ Combined, the six most popular fast food franchises located in Fairmont paid more than \$100,000 in property taxes in 2021. And, their combined assessed value is less than \$3.5 million! A CC managed by a non-profit organization (YMCA), as proposed by the FACCF will not have to pay property taxes. Combined, the two largest fitness centers in Fairmont pay more \$31,000 in property taxes each year. Both fitness centers currently have a combined membership of approximately 2,500.¹⁴ In order to recoup that expense these fitness centers have to add an average of \$12.25 per member to the cost of an annual membership.

Re-Purposing Proposal

Also, consider the remodeling proposal for the Southern Minnesota Education Campus (SMEC) presented to the City Council by Citizens 4 A Strong Fairmont. This proposal offered an alternative solution that would only cost the City around \$1.7 - \$1.9 million. It also met the stated objectives of the Re-Use or Re-Imagine Our Vacant Buildings group setup by Project 1590.¹⁵ Furthermore, the claim that the SMEC proposal was somehow not viable was a partisan statement that is simply wrong. That building is well-equipped with two elevators to handle all age groups, including seniors, who are already making use of the facility's senior center. It offers almost 30,000 square feet of space where citizens can get together in various social settings and participate in a myriad of different activities.

Analysis Results of the Original Ideas Database

In a previous study we examined and categorized the results of the original Excel database of 1,327 ideas provided by Project 1590. The number #1 category of ideas was Business/Economic Development/Jobs. Many of the ideas had a lot of merit and are worthy of further consideration. However, there were also several problems with those ideas — particularly those related to retail stores and restaurants. We briefly discuss these issues below.

¹³ For example, we checked Martin County Assessors office tax records for several fast food restaurants operating in Fairmont. I label them as A, B, C, D, E, F and G. Restaurant "A" paid over \$30,000 in 2021. Restaurant "B" paid almost \$10,500 in 2021. Restaurant "C" paid almost \$6,500 in 2021. Restaurant "D" paid over \$21,000 in 2021. Restaurant "E" paid almost \$6,500 in 2021. Restaurant "F" paid over \$14,000 in 2021. Restaurant "G" paid over \$13,000 in 2021.

¹⁴ Tax and membership figures were provided to the author by LiveFit and Cutting Edge Fitness.

¹⁵ Sentinel. "Panel Aims For New Use of Buildings", Sentinel, Fairmont, MN. September 4, 2015.



Retail Stores and Restaurants

The problem with many of the ideas in this category is that Fairmont cannot simply add retail stores or restaurants. When we add another retail store or restaurant there must be enough disposable wealth / income in Fairmont to support that business. Wealth / Income must be increased before you can add another retail store or restaurant. If this is not done then the existing wealth / income gets diluted further among the existing retail stores and restaurants. This increases the financial strain on those businesses.

It is true that to a minor degree retail stores and certain types of restaurants will pull income from outside of Fairmont, and even a small percentage from outside of Martin County. However, these percentages are quite small when compared to the percentage of income that a manufacturing / production facility will pull in from outside of Fairmont or Martin County. Perhaps the following discussion will help to clarify this issue.

For example, adding an Olive Garden restaurant to Fairmont may pull in a certain percent of its income from outside of Fairmont. This may even be as high as 20% or 30%. However, it is important to keep in mind that the remaining 70% or 80% of business income will occur at the expense of other restaurants already operating in Fairmont. This is because there is a limited population in Fairmont and Martin County from which to draw that income.

And, that population has been continually decreasing for the past 40-years!¹⁶ Most importantly, adding a restaurant, such as an Olive Garden to Fairmont will depend upon the financial analysis and performance thresholds that the corporation's Board of Directors uses to determine whether to expand their restaurants into a community like Fairmont.

Recreational Activities

When we consider recreational activities they generally do not bring in significant income to the community. However, configured with the right equipment and other physical resources some of these activities can be designed to host regional events. This could have the potential to bring in significant cash to the community during those events. This is particularly true for hockey and other ice-related activities such as curling, figure skating and broom ball. This can also be true for other activities such as disk golf, swimming, and paint ball. Even target shooting, which would include trap and skeet shooting could, with the right facilities, be used for regional and state-wide, even national competition events.

Disk golf deserves some serious consideration. The town is already hosting regional events. If some attention and analysis was performed to assess what changes and/or additions might need to be made to the existing facilities, it is not inconceivable that for a modest investment, Fairmont may become a host city for national, and even international events. Such events would enhance the reputation and visibility of the town. These events would bring in more competitors and their fans, which would increase the use of our hotels, restaurants, service stations, etc.

¹⁶ Census figures indicate that between 1980 and 2020 Fairmont decreased in population from 11,506 to 10,487 or 1,019 people. Martin County had a similar experience. Between 1980 and 2020 the county population decreased from 24,687 to 20,025 or 4,662 people.



Also, if a pool was designed so that it was large enough to host regional competition meets (e.g. olympic-sized 8-lanes with one end deep enough for diving competition) then it could also have the potential to bring in significant income from regional and state competition events, rental for training, etc. However, this would have to be weighed against the cost of maintenance and upkeep, which can be substantial for this type of facility.

The key to developing any of the above ideas is to take them one at a time. This will require some market analysis, and cost versus return on investment studies. Based on those results, prioritize which to approach first. Conducting the above analysis may reveal that, for certain ideas, it would only take a small investment to realize significant improvements and enhancements that could be leveraged to turn those ideas into profitable endeavors for the community.

Manufacturing

It is our belief that manufacturing offers Fairmont the best opportunity to increase its wealth / income base without sacrificing profit among retail stores and restaurants. We provide detailed analysis supporting this belief in our Position Paper #6 — *The Strategic Importance of Manufacturing*.