

Economic Base and Trends

Businesses at the forefront of innovation will be actively encouraged and nurtured. Duluth's technological communications infrastructure, together with community support for small, high tech start-up businesses, will spur economic growth.

*Businesses and industries which value the natural environment will find Duluth attractive because the highly skilled people they want to employ want to live here. As a regional health care center, Duluth will continue to expand related employment.
 Duluth 2001 and beyond*

The Economic profile provides a foundation of information on the strengths, weaknesses, trends, and growth potential for Duluth's economy. This information is presented to put comprehensive plan decisions within the context of where Duluth is now, how the City arrived at this juncture, and what the City appears to be facing as it moves into the 21st century.

Duluth in the Regional Economy

Duluth is the County seat of St. Louis County, the central city of the three-county, two-state metropolitan Duluth-Superior Metropolitan Statistical Area, and the population and economic center of Minnesota's Arrowhead region. Duluth has nearly 87,000 residents, comprising 43 percent of St. Louis County's population. Duluth workers comprise 44% of the County's labor force and over a quarter of the labor force in the entire Arrowhead region.¹ Duluth businesses and institutions provide 62% of the County's total jobs, and 42% of the total jobs in the Arrowhead region.²

Duluth's population base, tourist-based businesses, higher education institutions, regional health care system, and retail and service centers make it the center of the region's economy. Over 40% of all jobs in the Arrowhead region, and over half of all the employment opportunities in St. Louis County are located in the City of Duluth.

Figure E-1

Employed Labor Force					
Year	City of Duluth	St. Louis County	Duluth % (of County)	Arrowhead Region	Duluth % (of Arrowhead)
2004	43,874	99,192	44.2%	159,841	27.4%
2003	43,547	98,453	44.2%	158,338	27.5%
2002	43,730	98,657	44.3%	158,579	27.6%
2001	43,669	98,339	44.4%	157,451	27.7%
2000	44,903	101,135	44.4%	160,557	28.0%

*Covered employment only, includes approximately 97% of all jobs
 Source: Local Area Unemployment Statistics, DEED*

¹ Local Area Unemployment Statistics, Minnesota Department of Employment and Economic Development

² Covered employment only, data from the Department of Economic Security and reported by the Department of Employment and Economic Development under the Quarterly Census Employment and Wages (QCEW) program



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Duluth in the Regional Economy

The Duluth/Superior shipping infrastructure and intermodal systems makes Duluth not only a regional economic attractor for spending, but a key link in the movement of commodities in the upper Midwest. The Duluth/Superior transportation/shipping hub continues to provide a competitive advantage for economic development in the area, while adding unique diversity to the local economy.

The Arrowhead region in northern Minnesota (composed of seven counties from Cook in the northeast to Aitkin in the southwest) is strongly dominated by natural resource-based employment, both extractive (mining, forestry) and services (tourism, recreation). Mining and taconite processing operations have been the most visible industry over the last century due largely to the concentration of employment in a few companies. Corporate restructuring or expansion can result in mass layoffs or massive investment and hiring, either of which make headlines.³ The forest products industry similarly experiences cycles of investment and disinvestment that draws a great deal of attention, and creates local economic opportunity or hardship. The mining and forestry industries continue to be important basic industries in the region, but the days of a one or two-industry region are long over. The Minnesota Department of Employment and Economic Development (DEED) recently noted that the natural resources and mining sector of the economy in the Arrowhead region comprises only 7% of the region's payroll.⁴ The region has been diversifying over the last 20 years, with an increasing inflow of tourist dollars and growth of a manufacturing base that is less dependent on natural resource inputs. The forestry industry has been relatively stable in the recent decade, and while the taconite industry has seen significant disinvestments, the regional effect of closures has been less devastating than in past cycles of downsizing. Duluth in particular is less affected by closings or disinvestments on the Iron Range due to its increasing economic diversity.

Figure E-2

Average Annual Number of Jobs (Covered Employment)					
Year	City of Duluth	St. Louis County	Duluth %	Arrowhead Region	Duluth %
2004	57,932	93,382	62.0%	138,351	41.9%
2003	58,212	92,840	62.7%	137,462	42.3%
2002	58,533	93,535	62.6%	138,692	42.2%
2001	57,913	93,773	61.8%	139,032	41.7%
2000	58,058	95,157	61.0%	140,081	41.4%

*Covered employment includes approximately 98% of all jobs.
Source: Quarterly Census Employment and Wages (QCEW) program,
Minnesota DEED*

³ "Town Is Losing the Reason It Was Born" Minneapolis Star Tribune, May 25, 2000, discussing the impending closure of the LTV taconite mine in Hoyt Lakes that would result in the layoff of 1,400 workers in a community with a population of 2,300.

⁴ Arrowhead Economic Update, Presentation by DEED Commissioner Matt Kramer, August 15, 2005

Significant regional investments over the previous 10 to 15 years in the health and education sectors has resulted in large numbers of new jobs. Education and health care sector employment grew by 74% between 1990 and 2004, now accounting for over a quarter of regional payroll.⁵ Growth in tourism and recreation resulted in significant growth (31%) in the leisure and hospitality industry, although the relatively lower wage and seasonal jobs in this sector means that annual wages account for approximately 5% of the region's total payroll.

In addition to the extraction and harvesting of natural resources, the region has another large natural resource based industry – tourism and recreation. This industry is annually cyclical, with a weather-related dependency that sees the greatest influx of tourists during the warm weather months. Winter outdoor recreation continues to grow, but variations in snowfall make tracking the growth of winter recreation somewhat more difficult. Duluth's expanded convention center and its ability to handle more and larger events will help tourist-based facilities balance revenue levels during cold months, but most lodging and tourism businesses currently have substantial unused capacity from November through April, or simply shut down for the non-summer months.

Jobs and Payroll

Jobs and payroll show the following trends over the last 15 years:

- Over the 1990s, Duluth increased its share of regional employment. Between 1990 and 2000 the number of jobs in the city increased by 21 percent to an annual average employment base of 60,436 jobs – a gain of 10,372 jobs or over 53 percent of the regional job gain. The health services industry accounted for the most substantial growth during this time.⁶
- Since 2000, Duluth's economy reflected the 2001 national recession, but net job losses have been minimal between 2000 and 2004. Duluth has fared slightly better than St. Louis County as a whole, and better than the Arrowhead region of Minnesota.
- Payroll has continued to increase since 2000, in spite of a downturn in the number of jobs. Total wages increased almost \$250 million between 2000 and 2004, a 14 percent total increase and an average annual increase of 3.4 percent.
- The service-providing industries are heavily dominant over the goods-producing industries in Duluth's overall economy, accounting for approximately 90% of total payroll.⁷

⁷ 2004 NAISC data, Minnesota DEED

⁵ Arrowhead Economic Update, August 15, 2005

⁶ *City of Duluth Minnesota Market and Demographic Profile: Duluth in Context*, p. 1

Economic Profile

Jobs and Payroll

- Duluth's manufacturing base is a much smaller component of the local economy (as measured by number of jobs) than it was in decades past. Manufacturing businesses account for just 5% of total jobs and 6% of total payroll. Manufacturing remains, however, a critical component of Duluth's diverse economic portfolio, and includes some of Duluth's fastest growing and highest profile businesses.

After years of economic difficulties and industrial disinvestment, Duluth experienced substantial economic growth during the 1990s. The economic growth of the 1990s included a number of distinct trends that demonstrated significant changes in Duluth's economic base. Despite an overall slight increase in Duluth's share of regional employment, the City's share of the region's jobs in several industry sectors actually declined. The largest share of declines occurred in the lodging and wholesale trade industries. The decline in wholesale trade reflects the evolving relationships between manufacturers and retailers, dramatic reductions in inventory for some industries, just-in-time manufacturing, and greater emphasis on direct-to-market sales. The lodging share decrease, in contrast, reflects the enormous growth of the tourism industry across northern Minnesota and along the North Shore in particular. Despite a rapid increase in the number of lodging facilities in Duluth over the 1990s, the City's share declined as lodging grew even faster outside Duluth.

The City's largest gains, relative to the region, between 1990 and 2000 occurred in employment in food stores, eating and drinking places and in apparel and accessories stores. These gains likely reflect the influence of the retail development around the Miller Hill Mall as well as the substantial gains in retailing (especially entertainment-oriented retailing) in the downtown and Canal Park.⁸ These gains also reflect improved regional economic health that allows Duluth's role as a regional retail center to expand, and the large increase in tourist dollars flowing through City businesses during these years. Since 2000, the influence of the Miller Hill Mall area has become more significant within the City's retail base, comprising over 40% of the City's retail sales in 2002,⁹ while the City's downtown area has seen a decline in retail activity.

While manufacturing and goods-producing business now play a small role in Duluth's economy, some of the most prominent businesses, and some of higher paying jobs, are in the manufacturing sector. Cirrus, a manufacturer of small airplane, was noted on Duluth's DEED economic profile as providing almost 600 jobs. The Cirrus facility is actually in a rapid expansion mode, and will likely have well over 1,000 employees within a few years. Some of Duluth's traditional manufacturing base remains in operation, including the Stora Enso paper mill along the industrial waterfront, providing approximately 280 jobs.

⁸ Duluth in Context, p. 1

⁹ West Duluth Analysis Update, Memorandum to SVCNDA, J. Powers, 2003.

Locations of Employment Centers

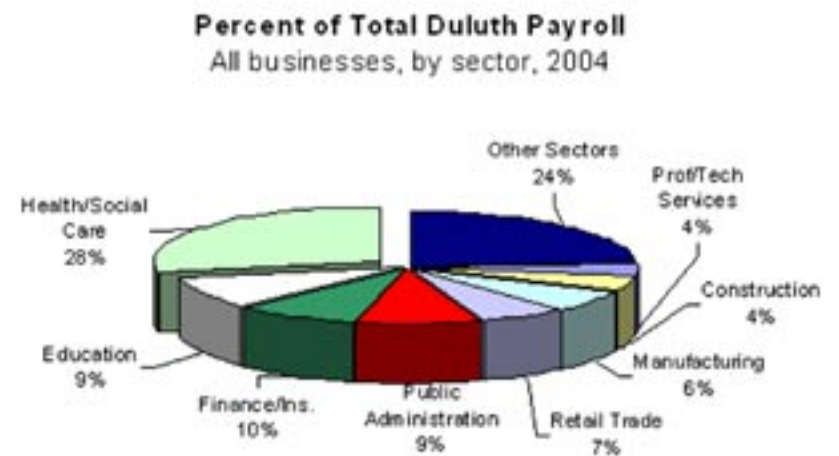
Figures E-5 through E-7 show the locations of Duluth's primary employment areas. These data are drawn from the Traffic Analysis Zone (TAZ) analysis conducted by the Metropolitan Interstate Council, and are based on an extrapolation of job location data from the Department of Economic Security (analysis conducted by the Metropolitan Interstate Commission). The data are separately shown for retail jobs, services jobs (including personal services, medical services, and educational services), and other jobs (including manufacturing, warehousing, government, and utilities jobs).

Traffic Analysis Zones - Transportation analysis zones are subdivisions of geographical areas, frequently based on Census blocks, delineated for travel analysis and modeling purposes. The zones in Duluth initially coincided with Census block boundaries, but were modified by the Metropolitan Interstate Commission to provide for smaller zones and more precise modeling.

Figure E-3



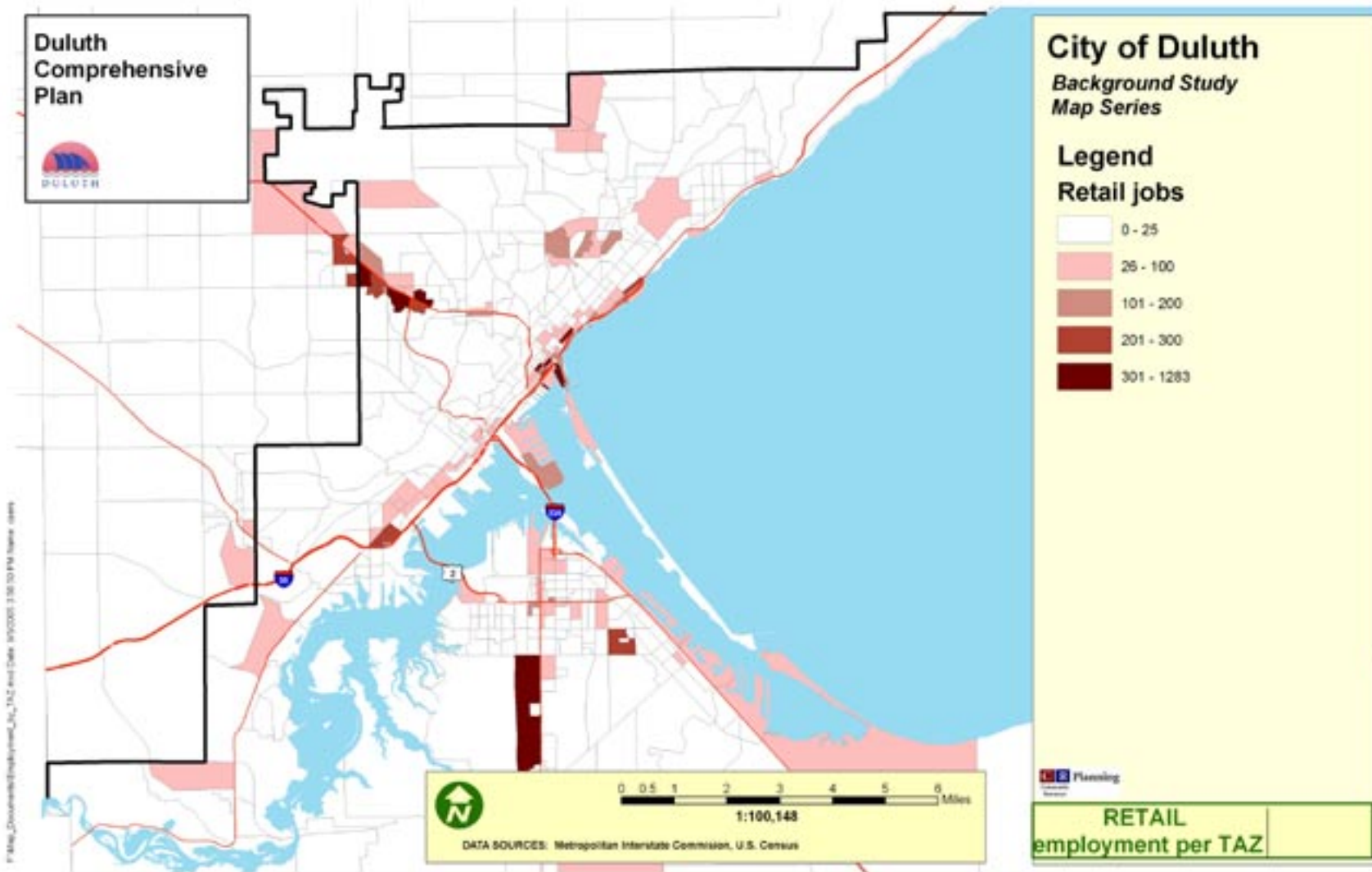
Figure E-4



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Jobs and Payroll

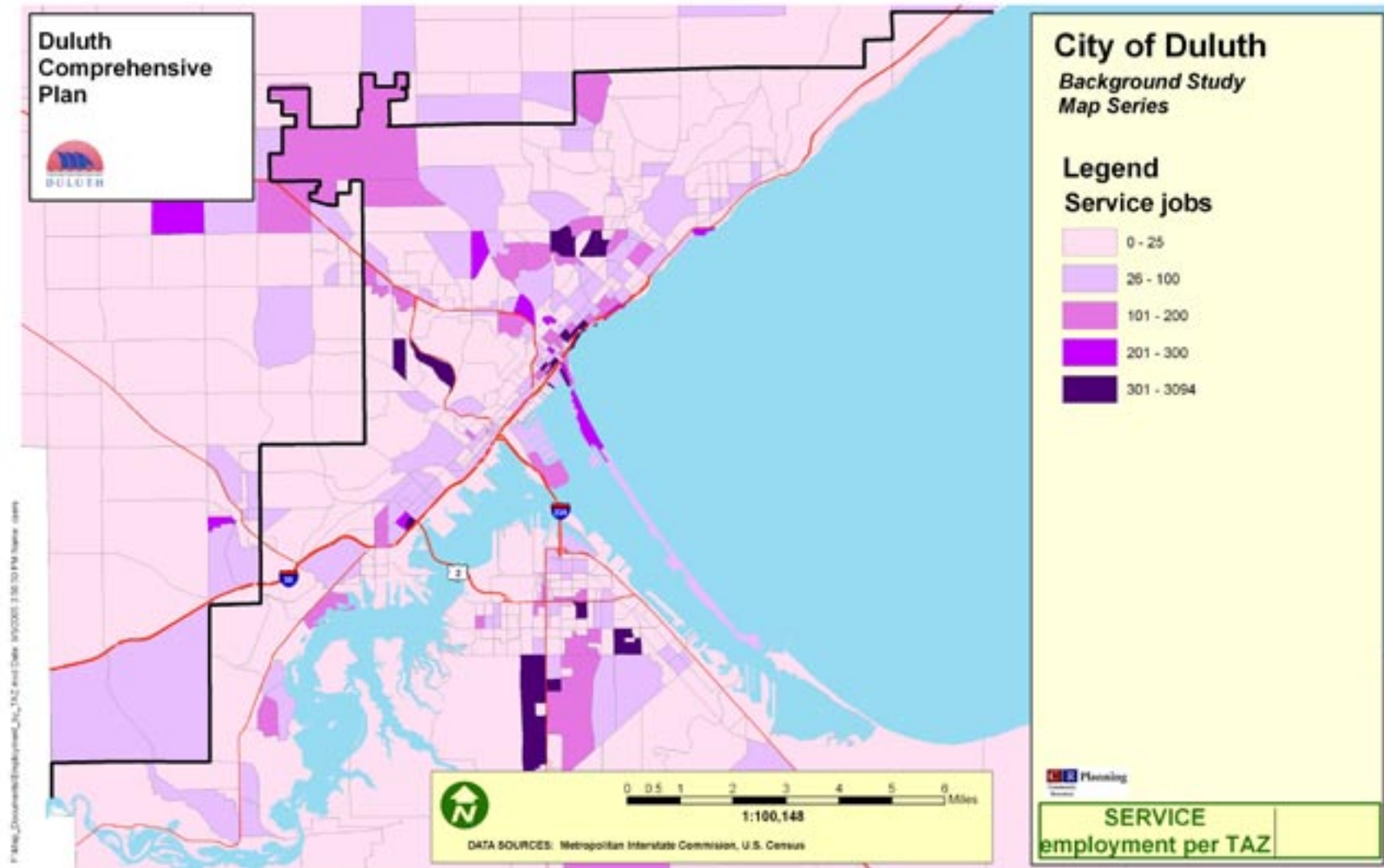
Figure E-5: Retail Employment



Economic Profile



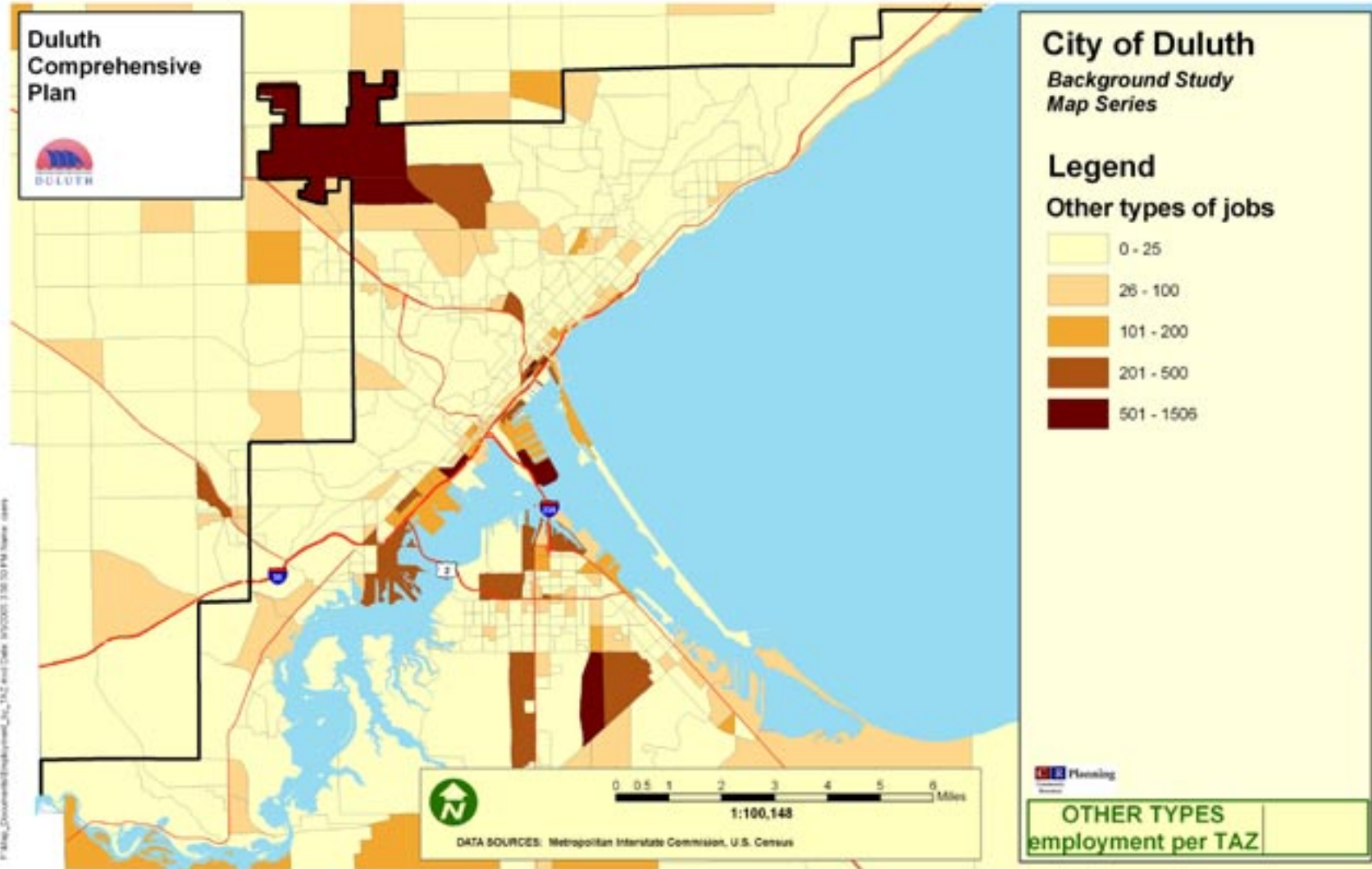
Figure E-6: Service Employment



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Jobs and Payroll

Figure E-7: Other Employment



Economic Profile



Major Employers

From an economic perspective, jobs and payroll can be divided into two general categories, basic and non-basic, that distinguish their relative role in supporting the local and regional economy. Basic industries are those that connect the local economy to the regional, national, or international economy, bringing in revenue from outside the community. Non-basic industries, in contrast, provide for primarily local markets and circulate dollars within the local economy. Both kinds of businesses are necessary for a local economy to be sustainable over time.

Basic industries include manufacturing, export-related services such as shipping and manufacturing facilities (such as Cirrus), regional service providers (education and medical) that earn most of their revenue from non-residents, and state or federal government. The tourism industry is also a basic industry when the tourist market is regional in size.

Non-basic industries include local service providers, retail businesses, local government, construction businesses, and local utilities. These businesses generate their income primarily from residents, and spend much of their earnings locally in the form of wages to employees, local materials, and local taxes.

Duluth's economic sectors with the greatest employment are the medical/health care sector and the retail industry. Major employers located in Duluth include several health care and hospital systems: St. Mary's/ Duluth Clinic (4,665 employees); St. Luke's Hospital (1,592 employees) and Uniprise (United Health Care, 913 employees).¹⁰ Because wages in the medical/health care industry are typically above the average for all industries, the large number of medical/health care jobs translates into an even larger percentage of total payroll attributable to this sector. Medical and health care jobs account for approximately 25% of all jobs and 28% of total payroll in the City of Duluth.¹¹

Basic/Non-Basic Economic Model - An economic theory and model which analyzes urban and regional growth assuming a division of the economy into basic and non-basic (or local or population-serving) sectors. Basic sectors are those producing for export and nonbasic are those serving the needs of the basic sectors and of the population.

Source: www.rrz.nve.edu/WebBook/Briassoulis/glossary/

¹⁰ Data are reported in NorthlandConnection.com (<http://www.northlandconnection.com/>), a database of economic and business development information administered by The Northspan Group, a non-profit economic development organization for the Arrowhead region

¹¹ NAICS data from the Quarterly Census Employment and Wages program, Minnesota Department of Employment and Economic Development

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Major Employers

The retail sector, unlike the medical sector, is dominated by smaller businesses, lower wage jobs, and part-time or seasonal employment patterns. The retail sector grew between 1990 and 2000, with the number of jobs increasing by approximately 15%, and total payroll increasing by over 20%.¹² Since 2000, however, the retail sector has been shrinking in the number of businesses and the number of employees. Retail payroll has, on an adjusted basis, remained stable. The retail sector included 6,800 employees in 2004 with a total payroll of \$137 million.

Educational institutions are also large employers in the City. The largest of these are the University of Minnesota Duluth (1,700 employees) and the Duluth Public Schools (1,426 employees). Additional educational institutions include the College of St. Scholastica and Lake Superior College, as well as other private institutions.

Government is a significant employer as well. St. Louis County has 1,640 employees, many based in the City of Duluth, while the City of Duluth itself employs 1,060. Other governmental or quasi-governmental employers include the Air National Guard (1,097), the U.S. Postal Service (930), and the U.S. Federal government (850).

Retail Sector

In 1990, there were 2,645 establishments (including, but not limited to the retail sector) paying sales taxes in the city. This increased slightly to 2,688 in 1998, but decreased by 2000 to 2,621.¹³ The number of establishments reported by the Minnesota Department of Revenue show a large decline by 2003. This decline, however is largely attributable to a change in record keeping by the Department of Revenue to better capture the actual location of sales rather than corporate headquarters.

Total gross sales at these establishments in the city represented 60 percent of total county sales in 1990, increasing to 64 percent by 1998. However, the growth in county (outside Duluth) sales has increased much faster than in the City for the last eight years. While the retail businesses in Duluth continue to play the single largest center for retail activity, gross sales of goods dropped below 50% of total sales in the County by 2003. In 2004, gross retail

¹² Id.

¹³ Minnesota Department of Revenue, Sales and Use Tax data. After 2000, the State improved its data collection process to more accurately identify the city or town where businesses making sales were located. Businesses that were located outside Duluth but which used a Duluth address were grouped by their actual location. Although by 2003 the number of businesses was at 2,131, the decline does not necessarily reflect a trend of the magnitude suggested.

sales in St. Louis County was reported to be \$2.36 billion, while Duluth had sales of \$1.1 billion.¹⁴ Some of this decline is also, as with the number of establishments, attributable to better reporting and data management rather than dramatic shifts in investment or markets.

Retail sales are generally considered a non-basic industry, meaning that retail activity tends not to bring dollars into the local economy, but reflects movement of dollars within the local economy. Economic development professionals thus tend to equate retail growth to growth in the number of rooftops – residential growth translates to retail investment. While this rule of thumb is true to an extent in Duluth, several factors may lead to a different conclusion about Duluth’s potential for additional retail investment:

- Duluth is a regional retail center, drawing shoppers in from a wide area outside the City.
- Duluth is a major tourism center, and many retail businesses have tourist markets rather than local markets.
- Retail spending by part-time residents with second homes (a small but growing market in Duluth) blurs the line between the basic and non-basic function of retail investment.

All these factors considered, a substantial amount of retail activity in Duluth should be considered as basic, rather than non-basic. The draft report on economic development from the 2001 comprehensive plan process suggests similar conclusions:

- While Duluth’s population has not been growing substantially, household wage levels have grown faster.
- As the demographics of the area change (older households, smaller households, more retirees, a growing median wage), retail growth is supported by increasing expendable income, in spite of slow population growth.
- Duluth’s role as a regional retail center remains, for now, largely undiminished.¹⁵

Duluth’s regional retail role cannot, however, be taken for granted. To support continued demand for the city’s existing establishments and to attract new establishments, enhancements to the city’s residential base may be warranted, to increase the mix, diversity and price points of its housing stock and to increase opportunities for housing near established employment and shopping areas – like the downtown.

¹⁴ Duluth Economic Profile, DEED website, page 7

¹⁵ Duluth in Context, P. 4

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Major Employers

Economic development professionals generally consider household income to be a strong determinant of a community's retail potential. In both 1990 and 2000, the Decennial Census found that Duluth household median income was slightly higher than that of the region. However, income gain between 1990 and 2000 among the city's residents was stronger than the income gain for virtually any other nearby area, except that of the Minneapolis/St. Paul metropolitan region. The City's median household income increased by 50.8 percent compared to a 49.4 percent gain in the MSA, 48 percent in the Arrowhead region and 50.9 percent in Minnesota.¹⁶

While the City's average household income level remains lower than either the state of Minnesota or the state of Wisconsin, Duluth's average income does not create the adverse influence on its retail potential suggested by the data. Duluth is the major city for a large rural hinterland extending north and west as well as east into Wisconsin. Duluth's sizeable retail trade area is confirmed by the successful performance of the Miller Hill Mall and nearby smaller shopping facilities, and the ongoing strong appeal of the major tourist attractions in the downtown and within a short walk of the downtown.

Duluth in Context noted the potential for some erosion of Duluth's retail capability.

Several other shopping centers serve city residents as well as residents of the surrounding communities. The majority of these facilities are, like Miller Hill Mall, located along the Miller Trunk Highway. In recent years, retail growth in the adjacent city of Hermantown has occurred, most of which are the result of the proximity of that city to the Miller Hill Mall. Hermantown is also a focus of a variety of several single-family residential initiatives as well as having an active resale housing market. As development continues to occur outside the city limits, retail demand in these outlying areas will follow. Over time, this may adversely impact the retail base of the city.¹⁷

Keeping Duluth's retail center viable requires that the City's regional centers have good access to regional transportation routes, reasonable internal access and convenient parking to accommodate convenience, and sufficient opportunity for new investment and redevelopment. Regional retail centers must 'reinvent' themselves in a cycle that runs 5 to 10 years in order to continue

¹⁶ Decennial Census data, 1990 and 2000.

¹⁷ Duluth in Context, p. 5

to be competitive. Economically sustaining Duluth's regional retail requires that sufficient opportunity exists for transforming the physical retail infrastructure as markets and expectations evolve, and that new investment is directed into older retail centers in order to prevent blight.

Neighborhood Retail

Neighborhood retail and service establishments operate in a substantially different market than regional and highway-oriented retail establishments. Neighborhood retail is, furthermore, generally an issue of quality of life and neighborhood character rather than significant economic development. Removing all the neighborhood retail from the retail base would not drastically change the City's job base or tax base, but it would drastically change the livability, walkability, and visual appearance of many of Duluth's neighborhoods. Private investment in neighborhood commercial areas will sustain commercial buildings that are endowed with community or neighborhood character, but the return on that investment must be self-sustaining to prevent disinvestments and blight.

Neighborhood retail is much more dependent on sufficient density of households nearby than are retail establishments oriented to tourist, regional, or highway markets. Ensuring sufficient household density around priority neighborhood commercial areas is critical to maintaining the often low margins of these establishments. Convenience will offset the price elasticity associated with many retail goods; people will pay a higher price if they can avoid driving through traffic to the mall. Convenience for neighborhood retail centers generally means being able to walk to the store or keep the drive short. However, as average household size shrinks, and traditional neighborhoods become less dense, convenience cannot by itself sustain neighborhood retail investment.

Shipping and Commodities

The Duluth-Superior port is the largest port on the Great Lakes and one of the premier bulk cargo ports in North America. Duluth is at the western end of the Great Lakes St. Lawrence Seaway System, a 2,340 mile water-borne shipping route connecting Duluth with Detroit, Montreal, and the Atlantic Ocean. Iron ore docks, coal docks, grain elevators and specialized cargo facilities line the industrial waterfronts of both Duluth and Superior. The waterfront is 49 miles long and served by 17 miles of dredged channels. The Port covers 19 square miles of land and water in a naturally protected harbor.

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The Duluth Seaway Port Authority (DSPA) indicates that the port is called on by an average of 1,100 vessels annually, and that the port is first-ranked nationally for iron ore, fifth for coal, and 18th for total cargo volume (2002 figures). Among Great Lakes ports the Port of Duluth is the top Great Lakes port for grain tonnage. The port has a direct employment of approximately 435 jobs. The Port Authority estimates the economic impact as \$210 million annually, supporting 2,000 jobs.¹⁸

The port is a major shipping point for bulk cargo from Minnesota and more western farmlands, for coal and for iron ore. The tonnage shipped annually through the port since 1990 has ranged between a low in 1993 of 34 million metric tons (MT) and a high of 41.4 million MT in 2004. The total tonnage for the last 5 years is 38 million MT, with the 2004 season running eight percent higher than the 5 year average.

The continuing shakeout in the iron ore industry in Minnesota's Iron Range communities (located northwest of Duluth within St. Louis and adjacent counties to the west) have impacted iron ore shipments in recent years. Since 2000, coal shipments have exceed iron ore shipments in several years, an event that occurred only once in the previous 100 years. A rebound of U.S. steel mill production in 2004 brought iron ore shipments back slightly higher than coal. Coal and iron ore represented approximately 80 percent of all shipments.

The Duluth Port competes with other regional shipping centers. *Duluth in Context* noted the following in regard to some of the recent trends in shipping:

While trends in containerization of shipped products have adversely impacted a variety of Great Lakes ports, Port Authority representatives do not consider this as a significant factor for this particular port. The port has had a pattern of minimal container traffic being shipped by water through the port. Rather, container traffic is hub and spoke dependent and, without year-round navigational capacities at the port, it is difficult to promote. Further, the traditional core shipments routing through the port are not well suited for containerization (bulk coal, iron ore, grain) and as such are unlikely to be substantially impacted by recent trends. Further, the port does receive some cross-dock container traffic that is not ship related, but rather involves truck to rail or rail to truck movement of bagged commodities such as beans or wheat. The port is a route for six separate rail lines.

Conversations with Port Authority officials confirmed this general outlook regarding the risk from containerization. Off-setting this risk, furthermore, is the trend of rising energy prices. Water-borne shipping is perhaps the most energy-efficient means of shipping goods. The long-term prospects of continuing escalation of energy prices could increase the economic viability of water-borne shipping for all ports.

Tourism and Entertainment

Tourism has always played an important part in Duluth's economic portfolio, but the role of tourism in the local economy increased significantly starting in the 1980's and into the 1990s, as traditional economic sectors contracted. The draft economic profile from the 2001 Comprehensive Plan process, *Duluth in Context*, included a detailed examination of tourism trends. Conversations with tourism analysts and regional studies on tourism show these trends to largely be continuing, albeit at a somewhat slower level after the 2001 recession. *Duluth in Context* noted the following trends.

Economic Impact of Tourism

A study conducted by the University of Minnesota Extension Service/Minnesota Sea Grant Program in 1998 estimated that tourism and related activities had an economic impact on the Greater Duluth Area of \$395 million. The Office of Tourism calculated the leisure and hospitality industry economic activity by county for 2004, based on NAICS data from Minnesota DEED. St. Louis County saw gross sales for the leisure and hospitality industry categories of \$368 million, with taxable sales of \$344 million. Taxable sales are particularly important for the City of Duluth, as the City's revenue from local sales tax exceeds property tax revenues. In 2006, the City budget showed that sales taxes generated 50% more local revenue than property taxes.

Lodging Facilities

Between 1990 and 2000 the number of lodging facilities (hotel/motel, B&B) in Duluth increased by 47 percent. This same 11-year period saw the number of guestrooms at lodging facilities increase by 46 percent.

- The majority of guestroom growth occurred at facilities classified as the most exclusive (hotel) by the Duluth Convention and Visitor's Bureau. This class of properties increased by eight facilities from 1990 (117% growth) and by 767 guestrooms (85% growth). The average facility size decreased from 150 guestrooms in 1990 to 128

“Starting in the mid 1980s, the City of Duluth began to upgrade existing tourist attractions and develop new ones. In particular, the city supported expansion of the Spirit Mountain Ski Area and the Lake Superior Zoo. New publicly-supported attractions include the William A. Irvin ore boat, the Lake Superior Lakewalk multi-use trail, the Duluth Entertainment and Convention Center, Bayfront Festival Park, skywalks and decorative brick street and sidewalk improvements downtown, and major infrastructure improvements in Canal Park to support the development of tourism and entertainment business development.” *“Trends in tourism visitation – Duluth, Minnesota, 1980 – 1994, Kreag and Moe, Minnesota Sea Grant, <http://www.seagrant.umn.edu/tourism/trends.html>*

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guestrooms in 2000 (15% decrease).

- The mid-level lodging facilities (motels) contained 985 guestrooms in 2000. This category of property increased by only one facility and by 38 guestrooms since 1990. Its average size at 39 rooms remains unchanged.
- Bed and breakfast facilities increased most rapidly in terms of number of properties, growing from six facilities in 1990 to 15 in 2000 and from 25 guestrooms to 80. Despite the rapid pace of growth of this facility type in the city, it remains a minor participant in the overall lodging trade. However, it is a type with potential for relatively low-cost envelopment and the capacity of being readily physically accommodated in many existing urban sites in both the neighborhoods and downtown.

Conventions

In February of 2001, the 68,000 square foot HarborSide Convention Center opened as an expansion to the Duluth Entertainment Convention Center (DECC). This new facility increased the overall convention center space to 240,000 square feet. The opening of the new space has enabled the Duluth Convention and Visitors Bureau (DCVB) to increase bookings of larger groups by affording it the ability to book multiple groups as well as permitting groups to overlap their bookings.

Prior to the opening of the new center and between 1990 and 2000, the Bureau averaged 38 major conventions per year that were hosted at the DECC. From 1995 through 2000, the average increased to 42, with a peak of 51 conventions experienced in 1995. DCVB representatives anticipate the expanded facility will enable them to increase major bookings to 60-65 per year.

Figure E-8

Hotels and Rooms - Duluth Only	1990	1995	1999	2000
Lodging Facilities	36	40	51	53
Lodging Rooms	1,872	2,214	2,694	2,732
Lodging Tax (3%)	\$591,566	\$770,770	\$1,025,412	\$1,110,474
Lodging Room Revenues	\$1,971,887	\$2,569,233	\$3,418,040	\$3,701,580
Lodging Room Revenues/Room	\$1,053	\$1,160	\$1,269	\$1,355
Lodging Room Revenues adjust for inflation	\$1,392	\$1,316	\$1,312	\$1,355

Source: Duluth Convention and Visitors Bureau, Duluth Treasurer's Office, Minnesota Department of Economic Security

The previous average size of major conventions hosted at the DECC is estimated by the DCVB to be around 600 people. The expansion now enables DCVB to book single groups in the 800-900 person range and/or multiple smaller groups.

In 2001, DCVB representatives indicate that there were about 1,270 guestrooms generally available for group booking for a convention that are within either a reasonable walk or a short shuttle bus distance. Thus, there was a close match between rooms avail-

able and potential convention attendees. DCVB representatives indicate that lodging in and adjacent to Canal Park is typically first requested by most groups. Planning expansion of downtown hotel capacity will help meet the potential booking capacity at the DECC, and help extend the economic viability of Canal Park to some under-utilized areas in and near the downtown.

Tourist Attractions

An ever-increasing number of tourist-oriented attractions are found within Duluth, many of which also have a year-round influence on the city's cultural and educational life. The attractions range from Spirit Mountain (downhill skiing) to a variety of museums, the Fond-du-Luth Casino and Omni-Max Theater as well as the North Shore scenic Railroad and the Great Lakes Aquarium. Additional discussion of recreation, park, and cultural attractions can be found in the Parks, Recreation, and Open Space profile.

Attendance reported by tourist and cultural (e.g., museum) attractions located in the city itself increased from 1.3 million in 1991 to over 2.6 million in 2000 – a 90 percent increase. The Omni-Max Theater at the Convention Center and the Vista Fleet Excursions (harbor cruises) did not report their attendance.

Research conducted by the Minnesota Department of Employment and Economic Development (DEED), as well as surveys conducted by Minnesota Department of Natural Resources, indicates that the Duluth area consistently ranks at the top of Minnesotans' spring/summer travel destinations. Similarly, Duluth ranks immediately after Minneapolis and St. Paul as a travel destination among non-residents.

A 1999 Visitor Intercept Study conducted by HT Klatzky & Associates for the DCVB identified the following:

- The average length of stay in Duluth was about three days, with 62 percent indicating overnight stays in a Duluth hotel or motel. This proportion was somewhat similar among both Minnesotans and non-residents.
- Frequent visitors had a higher reported incidence of trip purpose as visiting friends or relatives or attending special events. Less frequent visitors were more drawn to the city's tourist sites.
- Roughly, half of respondents indicated Duluth was their final destination while nearly the entirety of the rest indicated the lake area/North Shore as their final destination.

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Economic Base – Where is Duluth Heading?

- Of activities undertaken, besides visiting the lake as the number one activity, dining in area restaurants, walking the Lakewalk, visiting the Canal Park and Aerial Bridge and shopping all received 80 percent or more of visitor interest.

Economic Base – Where is Duluth Heading?

Over the last 50 years Duluth's economy has radically shifted from a heavy manufacturing and shipping-based economy to a diversified service-based economy. Manufacturing and shipping continue to play an important role as basic industries bringing in investment and export dollars. But the primary economic role that Duluth now plays in the region and the state is as a regional service center, with its medical and educational institutions providing the largest portion of jobs and local payroll. Tourism continues to grow as a basic industry, with Duluth's image increasingly being the gateway to the most popular outdoor recreation areas in the state. Some of the issues addressed in the comprehensive plan include:

- Duluth's traditional economic base was in its shipping and natural resource based manufacturing industries. The shipping industry, primarily tied to port operations, continues to be a vital component of the regional economy, but competes with other economic sectors and natural resource functions for access to the Lake and the shore areas. The Comprehensive Plan identifies protection criteria for port operations and similar land uses that require specific geographic access to remain viable and to be able to grow in response to market changes.
- The medical services sector is Duluth's largest sector as measured by jobs and payroll. As a regional provider of health care services, Duluth's medical sector businesses are poised to grow. Yet the medical district is largely constrained by existing residential and commercial development. The Comprehensive Plan identifies solutions that enhance economic growth opportunities while minimizing the risk to Duluth's affordable housing stock and community character.
- Duluth's higher educational institutions are an economic and cultural asset to the City. The universities and colleges have been expanding, both physically and in their enrollment. The Comprehensive Plan identifies opportunities to accommodate expansion and growth of the higher education institutions, while managing the risks to adjacent neighborhoods and nuisance issues associated with rental properties.
- Emerging industrial opportunities have been helping to diversify Duluth's economy. Large companies such as Cirrus are in a growth mode, and smaller companies can use Duluth's well-educated and stable labor force to grow. Integrating industrial land uses

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into the land use patterns of the existing community can, however, present real challenges. The Comprehensive Plan identifies methods and suitable areas for integrating compatible industrial uses with other commercial or residential uses, and where traditional separation of uses might be necessary.

- Duluth's tourism and recreation sector businesses have dramatically expanded within the local economy over the last 20 years. These businesses contribute substantially to the City's budget, providing local revenue that ultimately supports City services. Tourism also tests City infrastructure and services, such as the evolving traffic patterns and land use competition with other economic sectors. The Comprehensive Plan identifies how tourism businesses are integrated with local services, industrial activities, natural systems, and residential neighborhoods.

Economic Profile

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