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Business Climate for Resorts in Otter Tail County

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Business Climate for Resorts

PREPARED FOR OTTER TAIL COUNTY TOURISM AND ECONOMIC DEVELOPMENT

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KEY FINDINGS

Background

Main question: What are the challenges facing resort businesses and what might the County do to intervene and sustain vitality?

Project Phase 1: Letters with a link to a survey were mailed to 139 resort owners in March, 2016. The survey contained questions about how they attained ownership, location of their resort, available accommodations, amenities offered, and their future plans.

Project Phase 2: All 139 resort owners were invited to attend a retreat where group discussions were organized to discuss their businesses in more detail. Over 30 resort owners attended the retreat which took place on April 19, 2016.

Respondent Profile

Of the 39 survey responses, 89% purchased their resort, 71% of them have owned it for 11 years or longer, 60% own resorts of 10 acres or less, and nearly 50% have 500 linear feet of lake shore or less.

Future Plans

- A majority of resorts are considering a major transition over the next 5 to 10 years as they consider selling their business (Figure 1).
- 73% of the respondents are considering selling their business as a resort in the next 10 years (Figure 1).
- Of the resorts considering to sell their business as a resort, a majority are also considering selling as an association (Figure 3). 30% are considering selling as separate parcels (Figure 3).
- Of the resorts considering closing, selling, or downsizing, a majority responded that high *local* taxes, and land/resource regulations as the main reasons. Retiring, high *state* taxes, and cost of insurance were just under 50% (Figure 4).

Barriers to Future Growth

In group discussions, resort owners were asked to describe what they felt were the biggest barriers to future growth for their businesses. The following points were summarized from those discussions and are considered perceived issues by the owners.

- Taxes, regulations and insurance costs are perceived as significant barriers to business growth. The following list contains the main themes summarized from discussions with resort owners focused on these topics.
    - **The amount of rules and regulations is seen as a major barrier to expanding or growing a business and contributes to negative feelings about the future success of resorts.**
        - Owners believe that many rules and regulations are very difficult to interpret and comply with, and sometimes there are conflicting rules between different levels of government (i.e. County vs. State Agency).
        - They also feel that rules and regulations change frequently and resorts find it difficult to know when they are in compliance.
        - Owners perceive inconsistencies in what they are supposed to do in order to be in compliance, leading to variation in the adoption of rules.
        - Owners report that historically, restrictive County land and resource regulations have specifically impeded resort and campground growth.[1]
        - It was stated numerous times that the costs of staying in compliance can be very difficult for resorts to afford, specifically ones focused on wells, septic systems, and lakeshore management.

[1] Note: While this study was underway, Otter Tail County adopted a less restrictive SMO ordinance

- Owners feel limited on the amount of maintenance and repair they can do themselves due to rules and regulations.
- **Owners feel that the costs of permits are excessive and are not proportional to the size of a business.**
- **Owners expressed frustration over the amount of shoreline they owned.**
  - Over the past several decades many resorts have sold off adjoining but unused resort property for private development. During that same period, lakeshore prices have risen significantly and regulations for development have become increasingly restrictive. Today, as referenced above, 60% of Otter Tail County resorts and campgrounds are on 10 acers or less. The lack of land and inability to affordably purchase and expand the resort property is a significant barrier to an owner's ability to add more density.
- **Many owners stated that taxes are high and a disincentive to make improvements and grow.**
  - Owners felt that current tax values far exceed the value of most resort or campground businesses.
  - Resorts are reluctant to make improvements to their property/business due to high valuations and increased property taxes.
  - Owners reported that the timing of taxes owed do not align with the business's cash-flow. It would be very beneficial if the deadline of taxes owed for the 1st quarter were pushed back.

Economic Impact of Resorts in Otter Tail

- There are 114 resorts operating in the county and serve an estimated 8,550 guests.
- The resorts earned $9.6 million in gross sales (2014 MN Dept of Revenue)
- Resort guests spend $48 more per day while visiting Otter Tail County than seasonal residents. The following table compares spending of resort guests with seasonal residents (Ryan Pesch, 2014).

Spending Category	Seasonal Residents		Resort Guests	
	Per person per day	*Total for Otter Tail*	*Per person per day*	*Total for Otter Tail*
Groceries or Liquor	$3.87	$11,684,160	$8.00	$6,361,200
Dining or Bars	$2.39	$7,205,232	$21.00	$16,698,150
Transportation (including gas and auto service)	$2.39	$7,205,232	$16.00	$12,722,400
Entertainment and Recreation	$2.42	$7,302,600	$14.00	$11,132,100
TOTAL	$11.06	$33,397,224	$59.00	$46,913,850

- In relation to lakeshore frontage, the resort and campground industry comprises 1.5% of all lakeshore in the County, whereas 24.5% of lakeshore is comprised of seasonal residents (Figure 25).
- When applying the local spending to linear feet of lakeshore, second homes spend approximately $32/linear foot, whereas resort guests spend $764/linear foot.

COUNTY SUGGESTIONS

The following is a list of suggestions Otter Tail County could consider acting on based on owner input and research findings. It should be noted that the County may not have authority over some of the suggestions, in which case, partnering with the resort industry to influence policy makers and other decision makers may be warranted.

1. **Property tax policies that encourage investment in new resorts and campgrounds as well as the redevelopment of existing properties. Given the significant local revenue and taxes generated by transient visitors, County tax policies should encourage traditional, transient-based lodging. Examples may include:**
    - Consider property tax assessments based on the utilization and auxiliary economic impact of the property. Current values far exceed the value of most resort or campground businesses. Rather, property taxes reflect highest and best use which is typically redevelopment as individual parcels or common interest communities. As a result, assessment practices are actually encouraging the exact sales behavior which you hope to slow and/or reverse.
    - Consider tax abatement opportunities for significant development or redevelopment of transient-based resorts and campgrounds. Many owners expressed reluctance in making significant improvements to their business as a result of the tax implications.
    - Flexibility in tax deadlines to align more with seasonal revenue.
2. **Assist developers and existing resort and campground owners in finding capital for development or redevelopment.**
    - The County should compile resources and develop partnerships with banks, credit unions, DEED, SBDC, USDA, the local RDC, MMCDC and others in order to assist resorts and campgrounds in locating necessary capital for expansion and/or improvements.
    - The County should consider partnering with USDA to create a Rural Economic Development Loan and Grant Program for the tourism industry.
    - The County should work with the industry to identify and market resort/campground properties that are available for recreational redevelopment.
3. **Much of the participant feedback related to zoning and less restrictive shore land ordinances. Coincidently, the County Board has recently adopted the statewide shore land ordinance which affords greater development opportunities for resorts and campgrounds. Suggestions for complementing the new policy include:**
    - Consistent application of rules and regulations. Many resort and campground owners expressed concern that the interpretation of the ordinance varied considerably.
    - Develop a rules and regulations guide book commercial planned unit developments so they are easy to interpret and find.
    - When proposing and/or changing shore land rules and regulations, invite the industry to a public input meeting, expand the window for public comment, and avoid the summer months.
4. **Continue to invest in infrastructure that makes Otter Tail County an attractive destination for visitors.**
    - This includes public infrastructure such as roads, bridges, and broadband, as well as recreational destinations and activities such as trails, parks, nature preserves, public beaches, events and festivals.
    - To assist developers in identifying redevelopment opportunities, Otter Tail County should consider the development of a county-wide comprehensive plan that incorporates recreation and tourism.
5. **Continue to invest in marketing Otter Tail County as a tourism destination.**
    - The resort and campground industry has been fundamental to regional marketing efforts over the past 50 years. However, the decline of resorts and campgrounds has also impacted the availability of resources available for

regional marketing. Otter Tail County spends considerably less than similarly sized and positioned tourism destinations. Continue to partner with the industry on strategies for developing a more robust marketing budget.

- According to Explore Minnesota, every $1 invested in tourism marketing returns an estimated $7 in state and local taxes and $75 in traveler spending.

6. **Enforce policies related to the licensing and inspection of vacation rentals (e.g. private properties for rent via VRBO and Air BNB).**
   - Private vacation rentals have the potential to replace some of the lost visitors due to resort and campground closures. The resort and campground industry stressed the importance of consistent and fair licensing and enforcement.
   - As the local health inspector, it is important that Otter Tail County enforces such ordinances as a matter of 1) public safety, 2) to ensure appropriate zoning, 3) environmental protection, and 4) to create a fair and level playing field with the resort and campground industry.
7. **In partnership with Otter Tail County's resort and campground industry, encourage the legislature to adopt policies that protect and preserve the industry. Examples of important topics and legislation include:**
   - Sensible Statewide Shoreland Ordinances
   - Increased Explore Minnesota Tourism Funding
   - Brick and Mortar Sales Tax Exclusion
   - Funding and Initiatives to Prevent the Spread of Aquatic Invasive Species
   - Maintain Traditional Post-Labor Day School Start
   - Sensible Minnesota Pollution Control Agency Rules on Septic System Permitting, Design and Operation
   - "One State – One Rule" **-** Consistent Labor Standards in Minnesota
   - Vendor Allowance for Collecting and Remitting Sales and Use Tax

BACKGROUND

The University of Minnesota Morris | Center for Small Towns worked with the University of Minnesota Extension | Community Economics, the University of Minnesota Extension | Tourism Center, and Otter Tail County | Tourism and Economic Development to identify the challenges facing resort businesses and steps the County can take to intervene and sustain vitality, as well as estimating the economic impact these businesses have in the County.

The project engaged resort owners in two ways.

Project Phase 1: Letters with a link to a survey were mailed to 139 resort owners in March, 2016. The survey contained questions about how they attained ownership, location of their resort, available accommodations, amenities offered, and their future plans.

Project Phase 2: All 139 resort owners were invited to attend a retreat where group discussions were organized to discuss their businesses in more detail. Over 30 resort owners attended the retreat, which took place on April 19, 2016.

In addition, data from the MN Department of Revenue, Otter Tail County Assessor, and other resort studies completed by the University of Minnesota Extension were used to develop an economic impact of resorts and their guests compared to seasonal residents.

ABOUT RESORTS

In the late 1800's and early 1900's, resorts started popping up among Otter Tail County's wooded hills and 1,048 crystal clear lakes. Those early resorts are responsible for much of the County's early infrastructure and economic development. Today, tourism and hospitality remain Otter Tail County's second largest industry. However, resorts are disappearing. Since 1985, over 50% of Otter Tail County's resorts have closed. Given the cultural and economic significance of resorts in Otter Tail County, it is important to better understand the implications of their decline.

There are many aspects of resort businesses that are comparable to farms. They are largely seasonal operations where cash-flow peaks during the summer months and is very limited in the other seasons. They are dependent on external factors outside of their control such as the weather, and they have a vested interest in taking care of the natural resources on which they depend.

SURVEY FINDINGS

Future Plans

When asked what they are currently considering to do with their business in the next 10+ years, a majority of respondents reported "sell as a resort" (Figure 1). When asked what they are considering to do in the next 0 to 5 years, "sell as a resort" and "expanding at this location" received the largest responses (Figure 2).

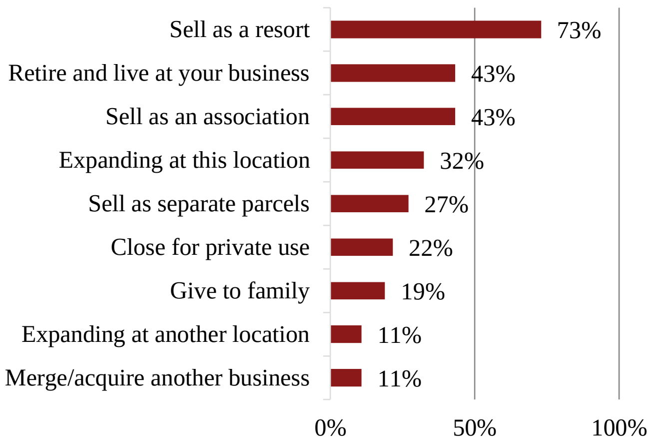

Figure 1: % of respondents by their future plans in next 10+ years (n=37)

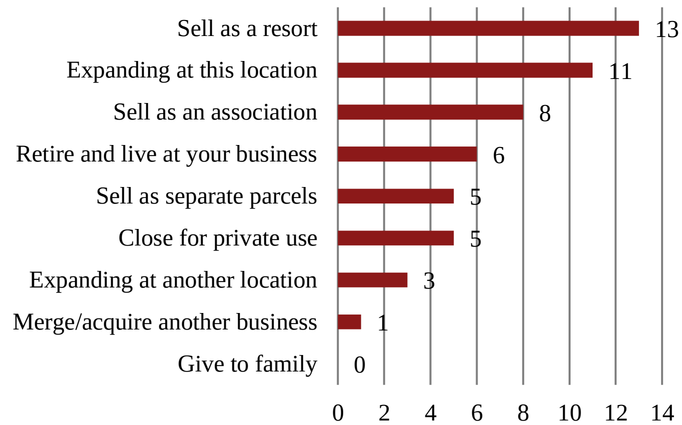

Figure 2: # of respondents by their plans with their business in the next 0 to 5 years

Of the resorts considering selling their business as a resort, 52% of them are also considering selling as an association. 33% of them are considering retiring and living at the business while 30% are considering selling as separate parcels (Figure 3).

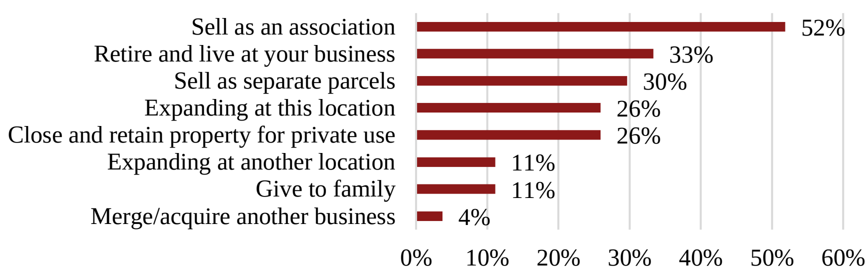

Figure 3: % of resorts considering selling their business as a resort by other considerations

Of the resorts considering closing, selling, or downsizing, a majority responded that high local taxes, and land/resource regulations as the main reasons (Figure 4). Retiring, high state taxes, and cost of insurance were just under 50%. Taxes, regulations and insurance costs were also reported as significant barriers to business growth (Figure 5).

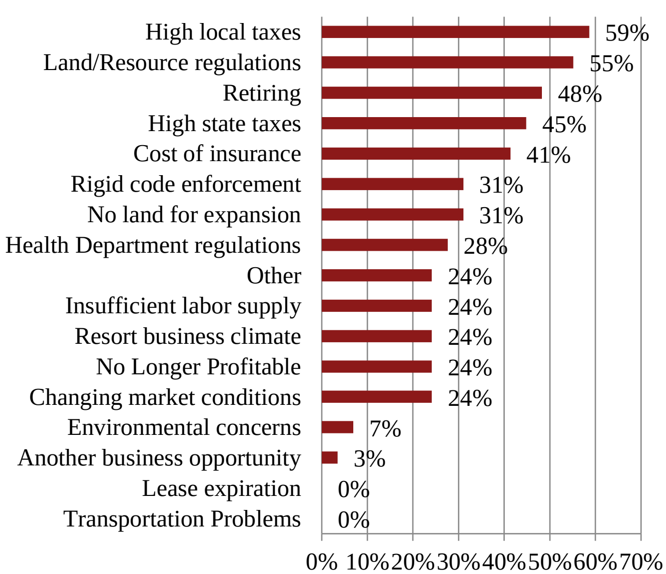

Figure 4: % of respondents by reasons for selling, closing, or downsizing (n=29)

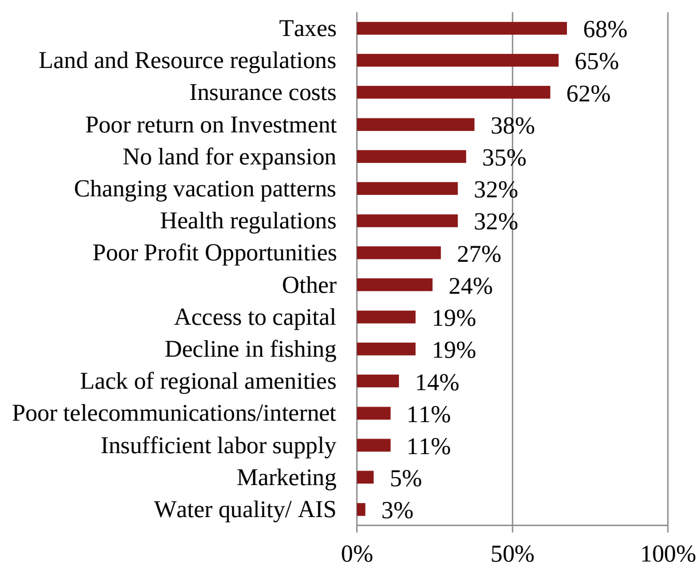

Figure 5: % of respondents by their feelings on biggest barriers preventing business growth (n=37)

When asked to breakdown expenditures in percentages of their annual gross income, taxes/fees/insurance costs received the highest average of 22% (Table 1).

	AMENITIES	LODGING	OTHER REPAIRS	TAXES/FEES/ INSURANCE	LABOR/WAGES	MARKETING
MIN	0%	3%	0%	0%	0%	0%
MAX	60%	75%	50%	85%	40%	16%
MEAN	8%	16%	12%	22%	10%	4%
MEDIAN	5%	10%	10%	16%	5%	2%
ST. DEV	10	15	10	17	11	4
COUNT	33	33	33	33	33	33

Table 1: Expenditures in % of gross annual income (n=37)

Taxes, regulations and insurance costs are perceived as significant barriers to business growth. The following list contains the main themes summarized from discussions with resort owners focused on these topics.

- **The amount of rules and regulations is seen as a major barrier to expanding or growing a business and contributes to negative feelings about the future success of resorts.**
  - Owners believe that many rules and regulations are very difficult to interpret and comply with, and sometimes there are conflicting rules between different levels of government (i.e. County vs. State Agency).
  - They also feel that rules and regulations change frequently and resorts find it difficult to know when they are in compliance.
  - Owners perceive inconsistencies in what they are supposed to do in order to be in compliance, leading to variation in the adoption of rules.
  - Owners report that historically, restrictive County land and resource regulations have specifically impeded resort and campground growth.[2]
  - It was stated numerous times that the costs of staying in compliance can be very difficult for resorts to afford, specifically ones focused on wells, septic systems, and lakeshore management.
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[2] Note: While this study was underway, Otter Tail County adopted a less restrictive SMO ordinance

- Owners reported that the timing of taxes owed do not align with the business's cash-flow. It would be very beneficial if the deadline of taxes owed for the 1st quarter were pushed back.

About the Ownership

A large majority (Figure 6) of the owners purchased their resort rather than inheriting the business. Most of them (Figure 7) have owned their business for more than 11 years and most of them reside on the property all year (Figure 8). Only one of the respondents indicated they own the property with a non-family member (Figure 9).

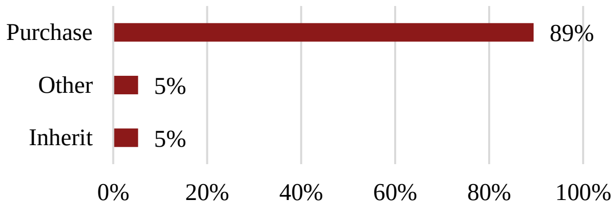

Figure 6: % of respondents by how they gained ownership (n=38)

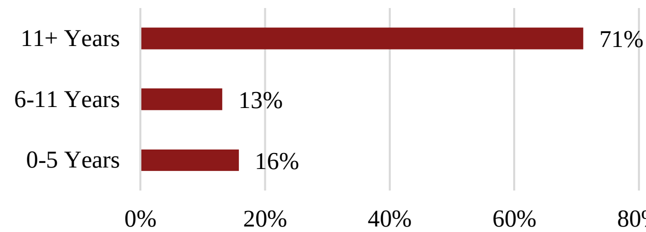

Figure 7: % of respondents by the number of years of ownership of current resort (n=38)

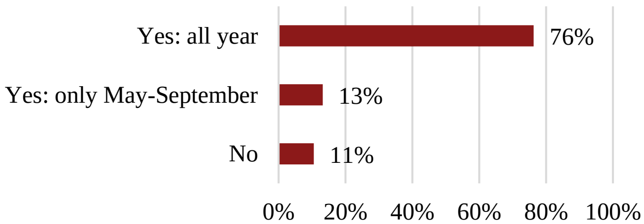

Figure 8: % of respondents by whether they reside at the resort (n=38)

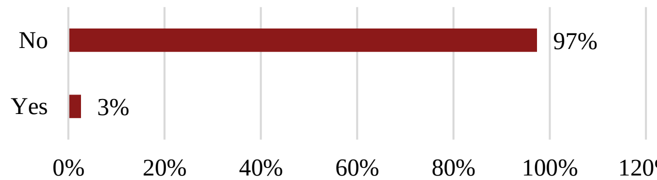

Figure 9: % of respondents by ownership with non-family members (n=38)

When asked during the resort owners meeting/discussion why they chose to own a resort, it was overwhelmingly about the "life-style". This was true for old and new owners. Many owners commented about wanting to be closer to family, be near a lake, and teaching their kids to work. Most owners said they used small business and bank loans to purchase the resort. However, long-term owners were more likely to have purchased via contract-for-deed.

Location of Resorts

Respondents reported a wide range of resort sizes they own, with a majority (Figure 10) being 10 acres or less.

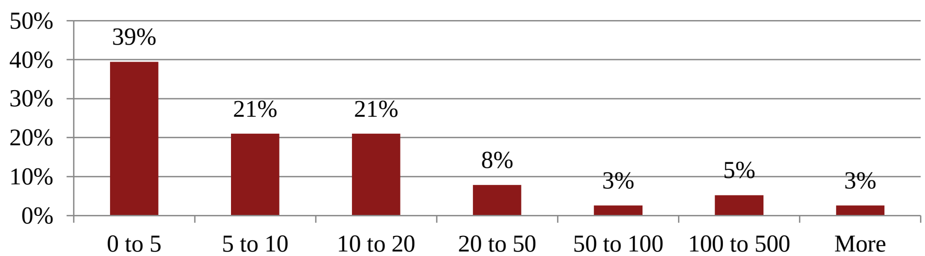

Figure 10: % of respondents by lot size in acres (n=38, mean=40, median=8)

All but one of the respondents reported that their resort abutted a lake (Figure 11), with those reporting lakeshore having a mean of 639 and median of 539 linear feet (Figure 12).

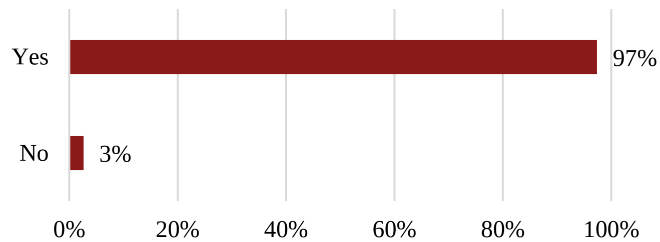

Figure 11: % of respondents by whether the resort abuts a lake (n=38)

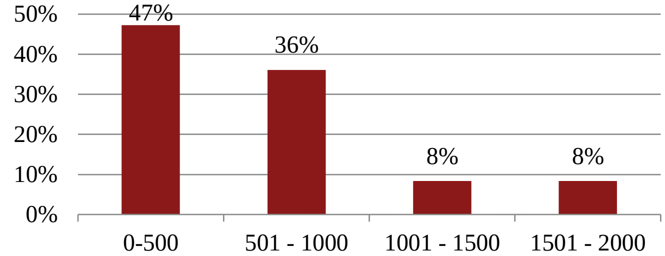

Figure 12: % of respondents whose resort abuts a lake by linear feet of lake shore (n=36, mean=639 ft, median=539 ft)

A majority of respondents reported that their resorts were located near snowmobile (88%) and hiking/walking trails (67%), while just under 50% reported being near biking trails (Figure 13). In addition, all of the respondents reported that their resort was located within 0 to 5 miles of a restaurant, bar, gas station, town/city, liquor store, and a grocery store (Figure 14).

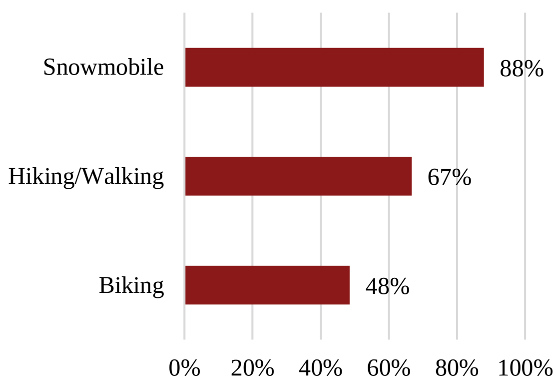

Figure 13: % of respondents by trails nearby their resort (n=33)

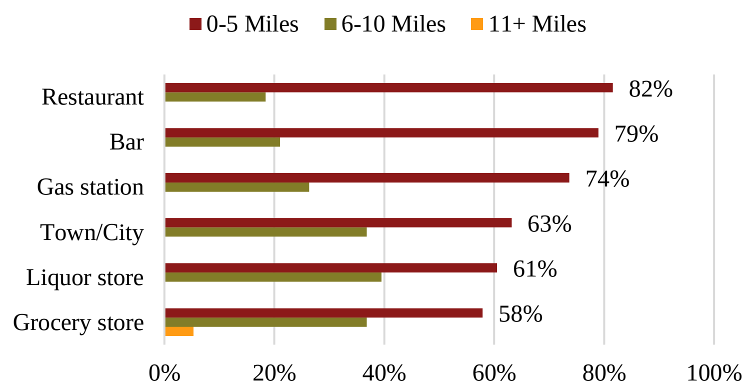

Figure 14: % of respondents by the distance the resort is from the nearest...(n=38)

Accommodations

Weekly reservations were the most common type of reservation offered by the resorts (94%), while less than a majority offered nightly or seasonal reservations (Figure 15). In addition, only a third of the resorts reported being open during the winter months (Figure 16).

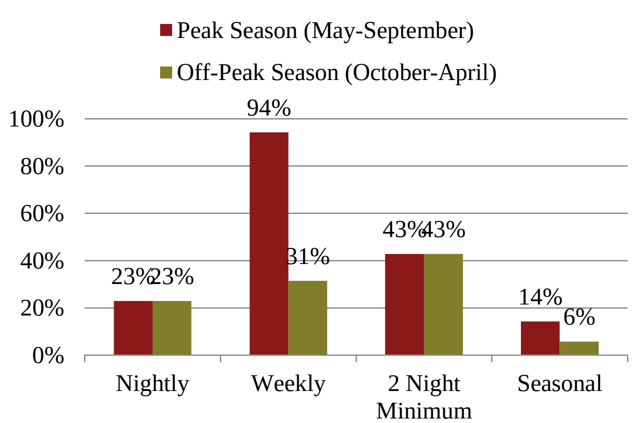

Figure 15: % of respondents and the type of reservations they offer by season (n=35)

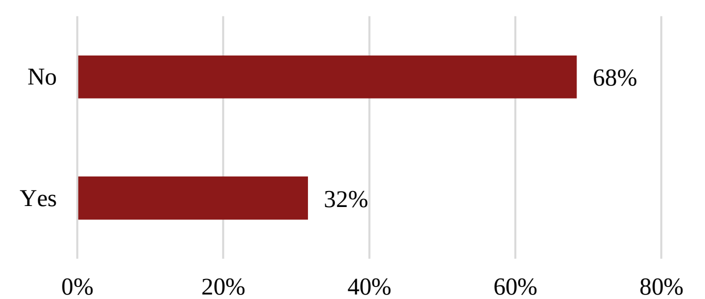

Figure 16: % of respondents by whether they are open in the winter (n=38)

The median[3] of the total capacity of the resorts surveyed was 75 people (Figure 17). In a typical season, the resorts reported a median of 465 guests served per season, although there was a large amount of variation with over a 25% serving 1,400 guests or more (Figure 18). A majority of resorts reported that over 75% of their guests return annually (Figure 19).

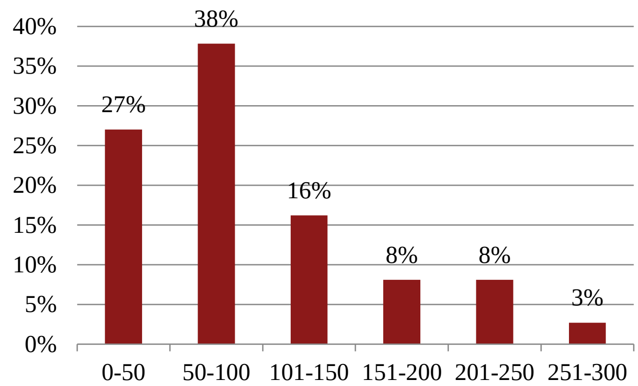

Figure 17: % of respondents by total capacity in persons (n=37, mean=100, median=75)

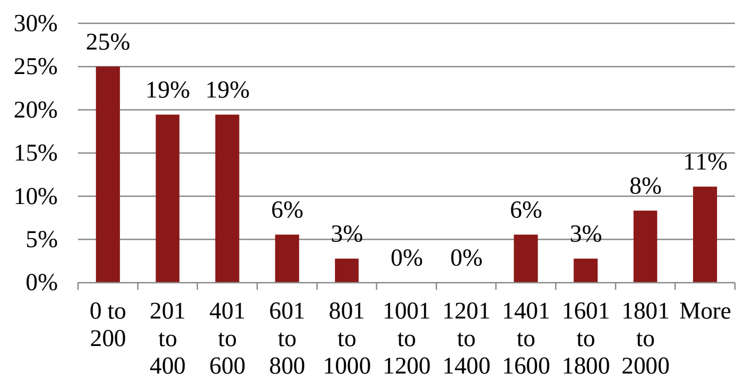

Figure 18: % of respondents by total guests served per season (n=36, mean=1,666; median=465)

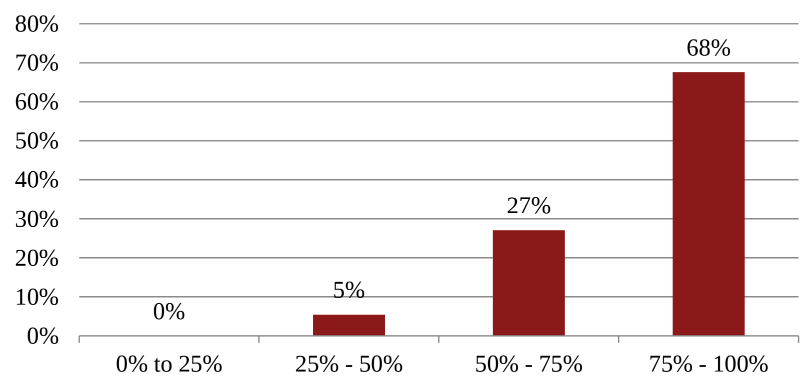

Figure 19: % of respondents by what percentage of guests return annually (n=37, mean=82%, median=85%)

Owners expressed during the resort owners' discussion changes they have been making to their businesses to keep families returning to their resort. Where fishing was the main draw to resorts, owners believe that their clients' demands have shifted more towards having access to Wi-Fi, exercise rooms, access to trails, jet-ski rentals, and providing more modern amenities in the units. They have also tried to accommodate their guests demands by providing larger housing units that can host multiple families.

Owners also expressed the demographics of their clients are starting to change and they are seeing younger, and more diverse families.

[3] Median is the middle value within the entire range of values, arranged in order lowest to highest, reported in the survey

Recent Upgrades

All but one resort reported conducting recent upgrades to their business (Figure 20), with a large variation in the amount spent (Figure 21, Table 2).

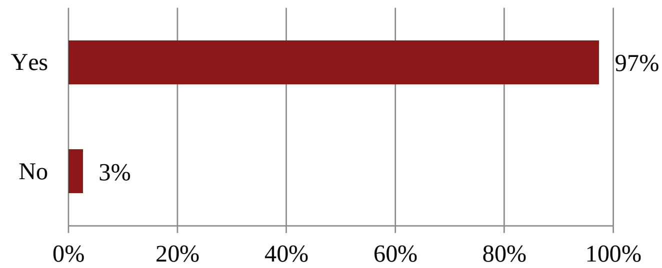

Figure 20: % of respondents by whether they have made upgrades (n=38)

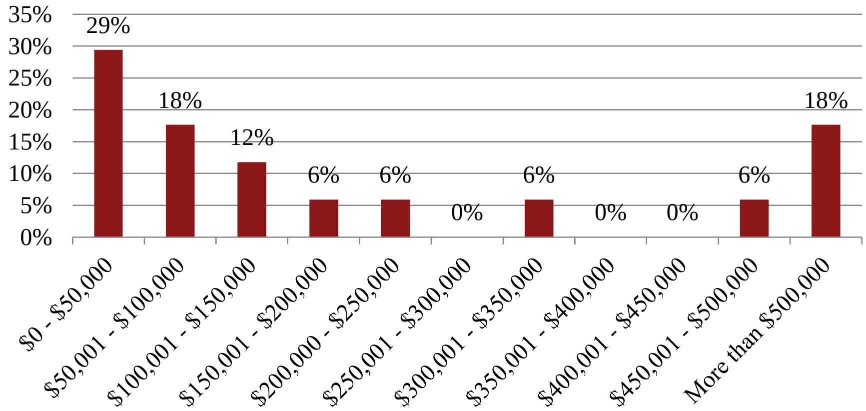

Figure 21: % of respondents by cost of upgrades (n=17)

Minimum	$ 100
Maximum	$ 3,500,000
Mean	$ 420,859
Median	$ 125,000
Standard Deviation	$ 816,538
Count	17

Table 2: Stats of responses to cost of upgrades (n=17)

Even with current renovations, a majority of resorts reported plans to renovate both their non-lodging (54%) and lodging (73%) spaces in their business (Figure 22: % of respondents by whether they plan on remodeling any lodging or non-lodging space within 10 years (n=37)).

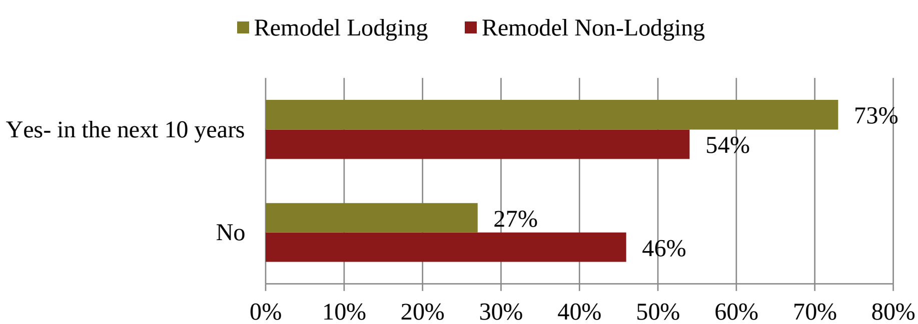

Figure 22: % of respondents by whether they plan on remodeling any lodging or non-lodging space within 10 years (n=37)

Amenities

A majority of resorts offered internet, boat rental, a playground, and canoe/kayak rentals for their guests (Figure 24). Only 9% of the resorts had agreements with local businesses that allow guests discounted services or products (Figure 23).

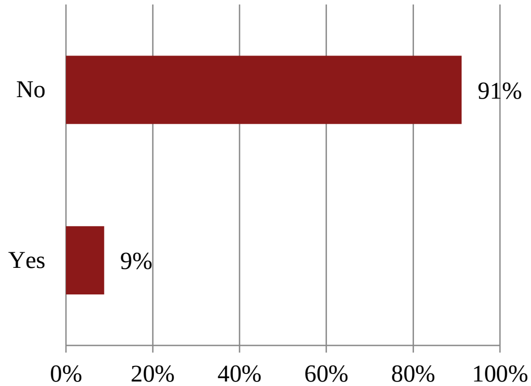

Figure 23: % of respondents by any agreements with local businesses allowing guests discounted services or products (n=34)

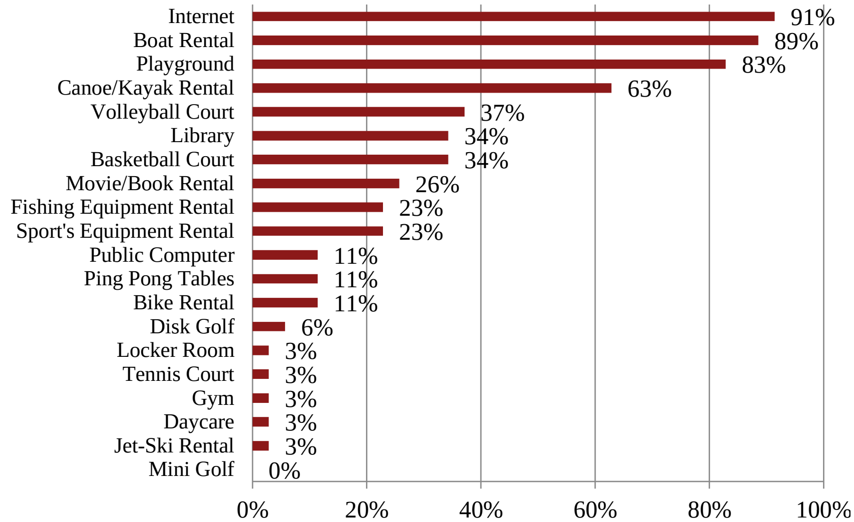

Figure 24: % of respondents by what is offered at their resort (n=35)

ECONOMIC CONTRIBUTIONS OF RESORT VISITORS

The guests who stay at Otter Tail County resorts impact the local economy not only through their spending with resort operators, but, more importantly, with retail and service operators in the county. Otter Tail resorts brought in $9,638,388 in gross sales according to 2014 Minnesota Department of Revenue sales tax statistics, the most recent year available[4].

Based on property tax records, we estimate that 114 resorts operating in Otter Tail County serve an estimated 8,550 guests at full capacity. We conservatively estimate that these 114 resorts host over 1,000,000 people-days (number of people multiplied by the number of days occupying a facility), assuming 93 days at full capacity. While some seasons resorts may fall short of full capacity due to inclement weather, for example, this estimate remains a conservative one since we are not taking into consideration winter and shoulder-season (early spring and late fall) stays at Otter Tail resorts even though some 30% of our survey respondents reported winter operations. Basing this estimate on 93 days of full capacity also allows for a good comparison with the economic contributions of seasonal residents who occupy their second homes an average of 93 days annually (see section below).

Data from an Extension 2001 study in the Detroit Lakes area was used as a proxy to estimate the spending of resort guests in Otter Tail County where visitors were intercepted on-site and asked about their spending while on vacation. Due to the age of this visitor profile data, we updated the spending per person per day across multiple categories using 2015 data from an Itasca County area visitor profile. (Itasca County area visitors were similarly profiled in 2001 using similar methodology as the Detroit Lakes study, but the fact that it was updated in 2015 allowed us to project how the Detroit Lakes area visitors may have changed in the same period.) Based on these profiles we estimate that overnight guests spend an average of $77 per person per day in spending categories besides lodging. Based on 795,150 people-days, resort guests spend a total of $61,226,550 in and around Otter Tail County annually (Table 3).

[4] (http://www.exploreminnesota.com/industry-minnesota/research-reports/researchdetails/?nid=147

CATEGORY	SPENDING PER PERSON PER DAY	TOTAL SPENDING
RESTAURANTS OR BARS	$21.00	$16,698,150
TRANSPORTATION (INCLUDING GAS)	$16.00	$12,722,400
GROCERIES	$8.00	$6,361,200
SHOPPING	$17.00	$13,517,550
RECREATION OR ATTRACTIONS (INCLUDING GUIDES OR OUTFITTING)	$14.00	$11,132,100
MISCELLANEOUS	$1.00	$795,150
TOTAL	$77.00	$61,226,550

Table 3: Estimated non-lodging spending of resort guest in Otter Tails County

Seasonal Resident Impacts vs. Resort Guests

Seasonal residents are also an important customer group to Otter Tail County businesses, and, at times, comparisons are made between the economic contributions of seasonal residents and tourists. Recent University of Minnesota Extension research, Profile of Second Homeowners in Central and West Central Minnesota (Ryan Pesch, 2014) brought attention to seasonal residents and their local spending where they second home resides. Since Otter Tail County has many second homes (8,114 with a building value $20,000 or greater, according to 2014 property tax records), a person may conclude that the contributions of resorts guests are inconsequential or minimal in comparison. However, our research finds that resorts guests and overnight visitors spend significantly more per person than a seasonal resident (Table 4).

Focusing on the spending categories both research groups have in common for a good comparison, resort guests spend $59 per person per day (assuming Otter Tail resort guests are similar to Detroit Lakes area visitors), whereas a seasonal resident spends $11.06 per person per day (Table 4).

Even though there are many more seasonal residents spending more days in the county, the per day spending of resort guests more than makes up for their smaller numbers. Research on seasonal residents found that they spend an average of 93 days at their second home and four people on average occupy the residence when in use. At full capacity for 93 days, resorts are hosting 795,150 people-days, whereas seasonal residences hold 3,018,408 people-days (8,114 homes hosting an average of 4 people occupied for 93 days).

Spending Category	Seasonal Residents		Resort Guests	
	Per person per day	*Total for Otter Tail*	*Per person per day*	*Total for Otter Tail*
Groceries or Liquor	$3.87	$11,684,160	$8.00	$6,361,200
Dining or Bars	$2.39	$7,205,232	$21.00	$16,698,150
Transportation (including gas and auto service)	$2.39	$7,205,232	$16.00	$12,722,400
Entertainment and Recreation	$2.42	$7,302,600	$14.00	$11,132,100
Total	$11.06	$33,397,224	$59.00	$46,913,850

Table 4: Comparison of Seasonal Resident and Resort Guests Spending Estimates for Otter Tail County

***Based on 93 days full capacity of all seasonal residences with over $20,000 building value and all resorts in Otter Tail County.**

Another perspective is to breakdown the economic impact based on lakeshore frontage. Figure 25 is a breakdown of the percentage of lakeshore in Otter Tail County by each type of property. Seasonal properties own 43% of the lakeshore in the county. The resort and campground businesses are within the “commercial” category and make up 1.5% of all lakeshore.

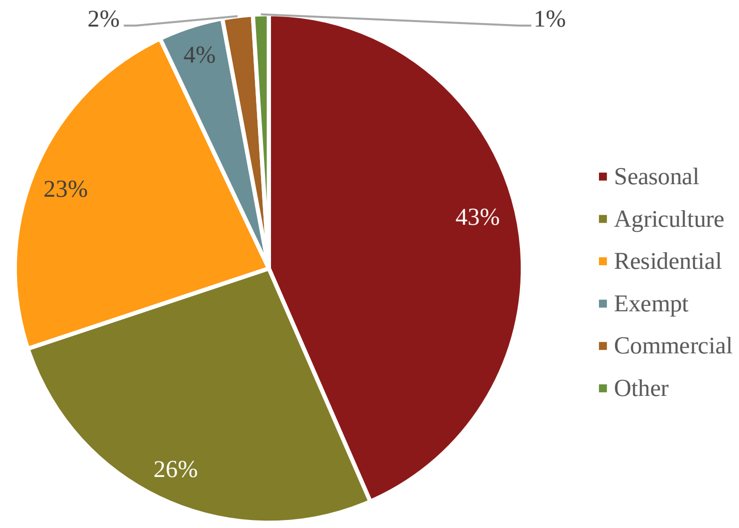

Figure 25: % of lakeshore owned by each category

Using the total spending per day from before and applying it to linear feet of lakeshore, it is estimated that seasonal homes spend $32 per linear foot, while resorts spend $764 per linear foot.

WORKS CITED

Ryan Pesch, M. B. (2014). *Profile of Second Homeowners in Central and West Central Minnesota.* St. Paul: University of Minnesota Extension.