Economic impact of proposed food entrepreneurship incubation center in North Minneapolis

A report of the Economic Impact Analysis Program

Authored by Brigid Tuck and Eric King
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March 2022

Authored by Brigid Tuck, senior economic impact analyst, and Eric King, Extension educator

Editor:
Elyse Paxton, Senior Editor, Center for Community Vitality

Report Reviewers:
Bruce Schwartau, Program Leader, Center for Community Vitality
Ann Fix, Director of Business Development, NEON

Partners/Sponsors:
Northside Economic Opportunity Network (NEON)

With support from the U.S. Economic Development Administration University Center program

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Executive Summary: Economic Impact of Proposed Food Entrepreneurship Incubation Center in North Minneapolis

The Northside Economic Opportunity Network (NEON) has been pursuing its mission “to build wealth for low- to moderate-income entrepreneurs in North Minneapolis and surrounding communities” for more than a decade. NEON’s current portfolio includes technical assistance, business advisory services, and grants and loans. In 2020, NEON provided 6,780 hours of technical assistance to more than 1,350 clients—more than double its service in 2019. Forty percent of its clients are food entrepreneurs.

The increase in demand has led NEON to consider future plans for growth and development. One goal is to develop a food entrepreneurship incubation center to provide a reliable and affordable facility for NEON entrepreneurs to start and grow their businesses. The food incubation center will have multiple service levels, including dedicated kitchen space, shared commercial kitchen space, business services, space for pop-up stores and farmers markets, and an event space. NEON will use the food incubation center to continue to offer services to clients. It will offer training and educational programs focused on food preparation and safety, marketing, financing, and accounting at the center.

As NEON moves forward to raise funds for the food entrepreneurship incubation center, the company was interested in understanding ways the center could potentially contribute to the economy of North Minneapolis. University of Minnesota Extension conducted a study of the economic impact of the proposed center. The analysis included the impact of construction activity related to the building of the facility and of operations activity related to businesses and programs offered through the center. Extension considered the two separately, as construction has a shorter-term impact, lasting only during the construction phase. Operations have a longer-term impact and will be annual.

Economic impact includes direct, indirect, and induced effects. Direct effect is spending by the company or organization itself. Indirect and induced effects are the ripple effects created across the supply chain when direct spending occurs. Extension used the input-output model IMPLAN to measure the economic impact of the proposed food incubation center.

**Construction Impacts:** NEON estimates construction of the food entrepreneurship incubation center will cost $12.5 million. Including indirect and induced effects, the construction of the proposed food incubation center will generate an estimated $19.0 million in economic activity. This includes $8.2 million in labor income for 261 workers whose jobs will be supported by the construction. The model estimates $615,415 of state and local tax revenues will be collected due to the construction.

**Operations Impacts:** The direct effect of operations of the proposed food entrepreneurship incubation center is an estimated $14.8 million in output and 205 jobs. With indirect and induced effects, operations of the center will generate an estimated $26.2 million in economic activity, including $10.9 million in labor income. The center will support an estimated 265 workers. Operations of the proposed food entrepreneurship incubation center will bring in an estimated $1.1 million of state and local tax collections annually. During a 10-year period, the food center will generate $28.11 in economic activity for each dollar invested in construction.

**Food Entrepreneurship Incubation Center in the Context of the Economy:** Much of North Minneapolis is a food desert with limited access for residents to affordable and healthy food. The incubation center would help alleviate this issue, plus create economic development opportunities for residents of the area.
Project Overview

The Northside Economic Opportunity Network (NEON) has been pursuing its mission “to build wealth for low to moderate-income entrepreneurs in North Minneapolis and surrounding communities” for more than a decade. NEON’s current portfolio includes technical assistance, business advisory services, grants, and loans. In 2020, NEON provided 6,780 hours of technical assistance to more than 1,350 clients—more than double its service in 2019.

The increase in demand has led NEON to consider future plans for growth and development. From these discussions, NEON developed three funding priorities: 1) increasing staff in the next three years, 2) purchasing and renovating NEON’s current building, and 3) building a food entrepreneurship incubation center.

The goal of the food entrepreneurship incubation center is to provide a reliable and affordable facility for NEON entrepreneurs to start and grow their businesses. NEON has a history of assisting food entrepreneurs—40 percent of its clients are in the industry. Despite the interest in food-based businesses, there are no shared commercial kitchens in North Minneapolis for entrepreneurs to experiment and grow.

Since entrepreneurs are in varying stages of business development, the food incubation center will have multiple service levels. Twenty tenants will be able to rent dedicated kitchen space. Additional businesses will also be able to rent two shared commercial kitchen spaces. It is anticipated that 40 to 50 businesses will rotate through the space. The shared space will target food truck, trailer, and mobile food service operations. The incubation center will also provide services, such as rented food storage (dry, refrigerated, and frozen), consumer packaging, food labeling, and menu printing.

The food incubation center will also engage the public. The center will feature space for pop-up stores, a marketplace, and farmers markets. An event space will be open for receptions, private parties, and corporate and cultural events. The center will also work in partnership with the neighboring Capri Theater to provide multicultural food and services.

Finally, NEON will use the food incubation center to continue to offer services to clients. NEON will offer training and educational programs focused on food preparation and safety, marketing, financing, and accounting at the center.

As NEON moves forward to raise funds for the food entrepreneurship incubation center, the company was interested in understanding ways the center will contribute to the economy of North Minneapolis. The Near North neighborhood is highly diverse. Eighty-three percent of the population are people of color. Nearly two-thirds (61 percent) are black or African American, and 12 percent are Asian or Pacific Islander.

University of Minnesota Extension conducted a study of the economic impact of the proposed food entrepreneurship incubation center. The analysis included the impact of construction activity related to the building of the facility and of operations activity related to businesses and programs offered through the center. Extension considered the two separately, as construction has a shorter-term impact, lasting during the construction phase. Operations have a longer-term impact and will be annual, as long as the center operates at projected levels.
This report summarizes the results. The University of Minnesota Economic Development Administration (EDA) Center supported this analysis of the economic impact of the potential food entrepreneurship incubation center.²

**Economic Impact of Proposed Food Entrepreneurship Incubation Center**

Economic impact includes direct, indirect, and induced effects. Direct effect is spending by the company or organization itself. In this analysis, it includes the construction investment and spending for operations. To quantify the direct effects, NEON provided Extension with budgets for construction and operations. They also provided estimates of employment for the anchor tenants and commercial kitchen users.

Indirect and induced effects are the ripple effects created across the supply chain when direct spending occurs. Indirect effects are those associated with business-to-business transactions. For example, if the construction company building the food incubation center hires a local contractor to lay concrete, the concrete contractor has to increase purchases from its suppliers, creating an increase in the supply chain.

Induced effects are those associated with consumer-to-business transactions. For example, the construction company pays its employees. The employees then go buy groceries, pay rent, and so forth, generating impacts on that supply chain. In essence, indirect effects arise from purchases of inputs, and induced effects arise from payments to workers.

Extension used the input-output model IMPLAN to measure the economic impact of the proposed food incubation center.³ Input-output models capture the flow of goods and services within an economy. Once the pattern is established, the model can show how a change in one area of the economy (say, construction spending) affects other parts of the economy (such as manufacturing and health care).

**Construction Impacts**

NEON estimates construction of the food entrepreneurship incubation center will cost $12.5 million. Of this, the majority will be for building construction, equipment, and furnishings.

In total, the construction of the proposed food incubation center will generate an estimated $19.0 million in economic activity (Table 1). This includes $8.2 million in labor income for 261 workers whose jobs will be supported by the construction.

<table>
<thead>
<tr>
<th>Category</th>
<th>Output (millions)</th>
<th>Employment</th>
<th>Labor Income (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>$12.5</td>
<td>225</td>
<td>$5.6</td>
</tr>
<tr>
<td>Indirect</td>
<td>$2.4</td>
<td>11</td>
<td>$1.0</td>
</tr>
<tr>
<td>Induced</td>
<td>$4.1</td>
<td>25</td>
<td>$1.6</td>
</tr>
<tr>
<td>Total</td>
<td>$19.0</td>
<td>261</td>
<td>$8.2</td>
</tr>
</tbody>
</table>

Source: NEON and Extension estimates

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² The EDA Center at University of Minnesota is part of the University Center network. University Centers have the mission of connecting University resources with the economic development community. They are funded by the U.S. Economic Development Administration, which is a bureau of the U.S. Department of Commerce.

³ IMPLAN model version 3.1 with SAM multipliers was used in this analysis.
Of the $19.0 million in economic activity, $6.5 million will be at businesses not directly tied to the construction. The highest indirect (or supply chain related) effects will be in other real estate, durable goods merchant wholesalers, and architectural and engineering (Chart 1). The highest induced (or labor income related) will be in owner-occupied dwellings, hospitals, and other real estate. Other real estate includes rent. (For induced effects it would include workers paying to rent apartments; for indirect effects, it would include businesses rents.)

The construction activity will also generate tax revenues. The model estimates $615,415 of state and local tax revenues will be collected due to the construction (Table 2). Major tax collections include income and sales taxes.

### Table 2: State and Local Tax Impact of Proposed Construction of Food Entrepreneurship Incubation Center, North Minneapolis

<table>
<thead>
<tr>
<th>Tax Category</th>
<th>Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$186,146</td>
</tr>
<tr>
<td>Income</td>
<td>$205,160</td>
</tr>
<tr>
<td>Property</td>
<td>$142,843</td>
</tr>
<tr>
<td>Other</td>
<td>$81,266</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$615,415</strong></td>
</tr>
</tbody>
</table>

Source: University of Minnesota Extension estimates

### Operations Impacts

Once construction ends, the food entrepreneurship incubation center will begin operations. Operations can be divided into those primarily driven by NEON and those primarily driven by the affiliates located in the incubator. Affiliates include the dedicated tenants, renters of the commercial kitchens, and other users of the facility.

To measure the direct effect of NEON-driven operations, NEON provided Extension with estimated employment, revenues, and expenditures. As with all projects, expenses and employment are expected to increase slowly as the facility builds up to full capacity. Because the goal is to understand the potential economic impact of the facility, this analysis focuses on the revenues,
expenses, and employment anticipated for the fifth year of operation. NEON anticipates spending $1.3 million to operate that year (Table 3). They will also directly employ 15 workers. Since NEON is a non-profit, expenditures and revenues are projected to be nearly equal.

To quantify the direct effect of affiliate-driven operations, NEON provided Extension with estimates of the number of employees for each of the proposed activities. In total, NEON anticipates the affiliates will employ 190 people. The IMPLAN model estimates the 190 employees would generate $13.5 million in sales. Thus, in total, the direct effect of operations of the proposed food entrepreneurship incubation center is $14.8 million in output and 205 jobs.

<table>
<thead>
<tr>
<th>Category</th>
<th>Output (millions)</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>NEON operations</td>
<td>$1.3</td>
<td>15</td>
</tr>
<tr>
<td>Incubator affiliate operations</td>
<td>$13.5*</td>
<td>190</td>
</tr>
<tr>
<td>Total</td>
<td>$14.8</td>
<td>205</td>
</tr>
</tbody>
</table>

Source: NEON and Extension estimates
*Expenditures are estimated from the model based on employment

In total, operations of the proposed food entrepreneurship incubation center will generate an estimated $26.2 million in economic activity (Table 4). This includes $10.9 million in labor income. The center will support an estimated 265 workers.

<table>
<thead>
<tr>
<th>Output (millions)</th>
<th>Employment</th>
<th>Labor Income (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>$14.8</td>
<td>205</td>
</tr>
<tr>
<td>Indirect</td>
<td>$6.1</td>
<td>29</td>
</tr>
<tr>
<td>Induced</td>
<td>$5.3</td>
<td>31</td>
</tr>
<tr>
<td>Total</td>
<td>$26.2</td>
<td>265</td>
</tr>
</tbody>
</table>

Source: NEON and Extension estimates

Consistent with the direct impacts, the incubator affiliates will drive much of the economic impact (Table 5). NEON’s operations will contribute an estimated $2.5 million to the economy. Operations of businesses in the incubator—anchor tenants, commercial kitchen tenants, and business support services—will generate an estimated $23.7 million.

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* Extension mapped the jobs to the appropriate industries to estimate sales. NEON also provided Extension with estimates of potential output per worker.
Table 5: Total Economic Impact, Proposed Operations of Food Entrepreneurship Incubation Center by Category, North Minneapolis

<table>
<thead>
<tr>
<th>Category</th>
<th>Output (millions)</th>
<th>Employment (millions)</th>
<th>Labor Income (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NEON operations</td>
<td>$2.5</td>
<td>20</td>
<td>$0.7</td>
</tr>
<tr>
<td>Incubator affiliate operations</td>
<td>$23.7</td>
<td>245</td>
<td>$10.2</td>
</tr>
<tr>
<td>Total</td>
<td>$26.2</td>
<td>265</td>
<td>$10.9</td>
</tr>
</tbody>
</table>

Source: NEON and Extension estimates

The top industries benefiting from operations of the proposed entrepreneurship incubation center include other real estate, management of companies, and owner-occupied dwellings (Chart 2). The housing and health care industries will experience high impacts related to labor income spending (induced impacts). Since housing and health care are a major component of a household budget, it would make sense that labor income would be spent on these items.

Chart 2: Top Industries Affected, Indirect and Induced Effects, Proposed Operations of Food Entrepreneurship Incubation Center, North Minneapolis

Operations will also generate tax revenues. Operations of the proposed food entrepreneurship incubation center will bring in an estimated $1.1 million of state and local tax collections annually (Table 6).

Table 6: State and Local Tax Impact of Proposed Operations of Food Entrepreneurship Incubation Center, North Minneapolis

<table>
<thead>
<tr>
<th>Tax Category</th>
<th>Tax Collections (dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$404,840</td>
</tr>
<tr>
<td>Income</td>
<td>$257,250</td>
</tr>
<tr>
<td>Property</td>
<td>$306,520</td>
</tr>
<tr>
<td>Other</td>
<td>$143,570</td>
</tr>
<tr>
<td>Total</td>
<td>$1,112,180</td>
</tr>
</tbody>
</table>

Source: University of Minnesota Extension estimates
Economic Impact Return on Construction Investment

In summary, NEON will invest $12.5 million in the construction of the food entrepreneurship incubation center. This will generate $19.1 million in one-time economic impact from construction and $26.2 million in annual economic impact from operations. Thus, during a 10-year period, for every dollar invested in construction, $28.11 will be returned in economic activity (Chart 3).

Chart 3: Summary Statistics: Economic Impact of Food Entrepreneurship Incubation Center in North Minneapolis

Food Entrepreneurship Incubation Center in the Context of the Local Economy

Food Deserts

In 2008, the United States Congress, recognizing that many households faced limited access to affordable and healthy foods, directed the United States Department of Agriculture (USDA) to assess the extent of the issue. From this assessment sprung the concept of a “food desert,” or areas where residents have barriers to finding healthy foods. These barriers include incomes, location of grocery stores, and access to vehicles.

Many census tracts in North Minneapolis are defined as food deserts. According to NEON, North Minneapolis is the fifth-largest food desert in the United States. In the Near North neighborhood, 31 percent of households have income levels below the poverty level, 44 percent of households make less than $35,000, and 23 percent of households have no vehicle.

USDA statistics (Map 1) show which census tracts of North Minneapolis are food deserts. Areas in green are census tracts that meet both the definition of low income and where residents have to travel more than one mile to find a grocery store or supermarket. Those colored in orange are areas where residents are low income and have to travel more than a half mile to find groceries.

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Economic Development

The strong growth in demand for NEON’s services points to North Minneapolis residents’ desires to develop their entrepreneurial skills. Given some of the challenges for North Minneapolis residents, a food incubation center may provide pathways into jobs and careers. Currently, only 68 percent of the Near North neighborhood’s working age adults are employed (Chart 4). People of working age choose, for a variety of reasons, not to work. They may opt to stay at home with children, have a disability that prevents work, or have taken an early retirement. During 2015-2019, Near North unemployment was at nearly 11 percent, double that of Minneapolis’ rate.


Additional training and educational opportunities in the neighborhood could also help increase levels of educational attainment. More than 50 percent of the neighborhood’s population has a high school diploma or less.
The food entrepreneurship incubation center appears to both capitalize on some of North Minneapolis’ economic strengths and increase opportunities in certain sectors. In terms of employment, major industries in North Minneapolis include health care and social assistance, manufacturing, and other services (Chart 5). Having some manufacturing employment in the area (although not necessarily food related) can lead to some spillover effects in skill building. The area also has a fair number of jobs in the accommodation and food services industries that provide an opportunity to develop the industry further.

**Chart 5: Employment by Industry, North Minneapolis (zip code 55411)**

Local Supply versus Local Demand
Further, there is opportunity to meet current demand in the area with local supply. According to the EMSI database, 25 percent of construction demand in the zip code is currently being met by local construction supply (Chart 6). The ratio for the accommodations and food services industry is 22 percent. However, for manufacturing, only 3 percent of local demand is satisfied by local supply. Food manufacturing is at 5 percent.
Notes on the Analysis

This analysis focuses on the economic impact of a proposed food incubation center. For projects under development, it is not unusual for operational plans and projections to shift. Economic impact changes accordingly. The numbers in this report are valid as long as the project comes together as proposed. This report, however, gives some insight into the project’s potential to generate economic activity in the neighborhood.

Since the project is still in development, one key element is hard to quantify with economic impact—the potential tourism-related activity in the area. The proposed food incubation center includes an event center, pop-up shop space, and room for a farmers market. All of these will draw people to the site and to North Minneapolis. This report does not measure the economic impact of the visitors drawn to the incubation center. Once the facility is operational and people are visiting, the author recommends conducting an economic impact study that includes this component.
Appendix: Methods and Terms

Special models, called input-output models, exist to conduct economic impact analysis. There are several input-output models available, and IMPLAN (IMpact Analysis for PLANning, MIG, Inc.) is one such model. Many economists use IMPLAN for economic contribution analysis because it can measure output and employment impacts, is available on a county-by-county basis, and is flexible for the user. While IMPLAN has some limitations and qualifications, it is one of the best tools available to economists for input-output modeling. Understanding the IMPLAN tool's capabilities and limitations helps ensure the best results from the model.

One of the most critical aspects of understanding economic impact analysis is the distinction between the “local” and “non-local” economy. The model-building process identifies the local economy. Either the group requesting the study or the analyst defines the local area. Typically, the study area (the local economy) is a county or a group of counties that share economic linkages. In this report, the study area is Hennepin County.

A few definitions are essential to properly interpret the results of an IMPLAN analysis. These terms and their definitions are provided below.

Output
Output is measured in dollars and is equivalent to total sales. It can include significant “double counting.” Think of a baker making artisan wheat bread, for example. The value of the wheat is counted when the farmer sells the wheat to the baker and again when the baker sells the bread. The value of the wheat is built into the price of each of these items, and then the sale of each item is added to determine total sales (or output).

Employment
IMPLAN includes total wage and salaried employees, as well as the self-employed, in employment estimates. Because employment is measured in jobs and not in dollar values, it tends to be a very stable metric.

Labor Income
Labor income measures the value added to the product by the labor component. So, in the wheat example, when the wheat is sold to the baker, a certain percentage of the sale is for the labor to grow and harvest the wheat. Then, when the artisan bread is sold to the final consumer, it includes some markup for the baker’s labor costs in the price. These individual value increments for labor can be measured, which amounts to labor income. Labor income does not include double counting.

Labor income includes both employee compensation and proprietor income. It is measured as wages, salaries, and benefits.

Direct Impact
Direct impact is equivalent to the initial activity in the economy. In this study, it is construction spending generated by the food entrepreneurship incubation center and then its operations.

Indirect Impact
The indirect impact is the summation of changes in the local economy that occur due to spending for inputs (goods and services) by the industry or industries directly impacted. For instance, if employment in a bakery increases by 10 jobs, this implies a corresponding increase in output by the bakery. As the bakery increases output, it must also purchase more inputs, such as electricity, wheat, and yeast. As the bakery increases its purchase of these items, its suppliers must also
increase production, and so forth. As these ripples move through the economy, they can be captured and measured. Ripples related to the purchase of goods and services are indirect impacts.

**Induced Impact**

The induced impact is the summation of changes in the local economy that occur due to spending by labor—that is, spending by employees in the industry or industries directly impacted. For instance, if employment in a bakery increases by 10 jobs, the new employees will have more money to spend on housing, groceries, and going out to dinner. As they spend their new income, more activity occurs in the local economy. This can be quantified and is called the induced impact.

**Total Impact**

The total impact is the summation of the direct, indirect, and induced impacts.