Since the kick-off in October 2003, Bemidji Leads! has created quite a stir in the Bemidji community and throughout the Region. In Bemidji, people are energized. New and exciting projects are starting, and a group of community stewards, led by Jim Bensen, has stepped to the plate to help this community forge ahead.

What is a steward? The Alliance for Regional Stewardship defines it well: “Stewards are more than leaders. Stewards are special leaders who cross boundaries, take an integrated approach, and build coalitions for action. They have 360 degree vision, recognizing the interdependencies between the economy, the environment and social equity. Stewards operate at the center of tough issues, not on the edges. They are risk-takers. They are passionate and energetic. They are people of vision.”

The goal of Bemidji Leads! is simple, yet bold: Identify Bemidji’s destiny before someone else does. The HRDC believes the Bemidji community needs to come together, dream together, (See Community Stewards continued on page 6)

I would like to take this opportunity to personally thank and honor the HRDC board members, who, by their demonstrated commitment and example, inspire others to engage in volunteer service. This is a group of modest folks who have faithfully attended and courageously participated in meetings to make the Headwaters Region a better place to live.

Recognizing and honoring volunteers sets a standard of service to others. It encourages a sustained commitment to civic participation and inspires others to make volunteering a central part of their lives. HRDC board members know and do not meddle in the management of the organization. The function of the staff is to implement the vision and bring the strategy into operation. Staff members can deliver invaluable critiques of the existing vision, based on their day-to-day frontline experience working with critical stakeholders. Reflection and questioning, reframing and reassessing are key responsibilities of the governance function. Therefore, a board performing that function can challenge the administration’s vision, ask whether it is in alignment with the environment, assess the risks implicit in it and obtain assurances that the staff is implementing it effectively.

No governance is being performed if the board merely rubber stamps old ideas and programs. The sad outcome is an organization that risks being limited by an outdated view of the world, blind to events happening in it.

The HRDC is a multi-county development organization that provides the catalyst for strategic planning in the Region. In addition to planning, the HRDC sponsors many programs, including services for communities, their citizens, and businesses. The organization is well equipped to help the Headwaters Region because the board of directors provides the critical mass of expertise needed at the local level. Because the board is flexible, our Region has become more creative in seeking innovative solutions to local problems.

The HRDC functions as a laboratory of new ways of governing. Many thanks to the board . . . It’s long overdue. I take my hat off to each and every board member.
Organizations and Communities Demand More of Themselves

It does our heart good to see organizations and communities that are not satisfied with the status quo. As we tell organizations that we help, the best ones are always those toughest on themselves.

Who were some of these over the past year, and what did we help them with?

- Bemidji and Beltrami County explored ways to collaborate on shared priorities.
- The Bemidji Area Council of Non-Profits (BACN) charted a new course.
- The Leech Lake Reservation Business Corporation laid a foundation for continued improvement.
- The American Indian Resource Center (AIRC) at BSU defined its future direction.
- The Minnesota Board of Water and Soil Resources altered a statewide service delivery program.
- Supervisors of SWCD’s were challenged to aspire to excellence.

Do these activities better position the Headwaters Region for future success? You bet. Organizational improvement and enhanced strategic focus both contribute to organization effectiveness.

But that’s not all — the HRDC is also committed to helping communities think differently about how to organize for success. These initiatives are summarized in the lead article in this report.

What is it going to take for the Headwaters Region and its communities to be successful? What are the barriers we need to confront? And what, if anything, is the HRDC going to do about it?

These are the fundamental questions that this organization keeps asking itself as it goes about its business.

Our goal is a successful region, and our approach has had two parts: to help our customers solve today’s problems, and take advantage of tomorrow’s opportunities. You will find plenty of both here: we have our loan funds in countless businesses, are broadening our geographic reach with the houses we build, and have helped communities solve some of their most pressing problems.

But as our lead article suggests, these initiatives alone will not lead us to the promised land. Rather, success will be found only if we find ways to come to collective agreement on a shared vision, and develop ways for our communities to sustain civic effort. We are convinced that Stewards (see sidebar), working together, can be an effective response to the latter (see lead article). Bemidji Leads! and other initiatives percolating up throughout our Region, hold much promise.

How do we encourage and support these efforts? To paraphrase Suzanne Morse of the Pew Partnership for Civic Change, the HRDC can act as “irritant — the grain of sand that helps change the habits, attitudes and practices that become embedded in a community.” We can also staff these efforts (with the financial support of forward-thinking organizations like the Northwest Minnesota Foundation).

Our ultimate aim is to be Stewards of the Headwaters Region — an organization committed to the long-term well-being of the Region, at the center of tough issues, taking risks, and building coalitions for action.

From The Executive Director — Cliff Tweedale

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* * * * * * *

One last comment on this annual report: This is a slightly revised, printable version, accessible from our web site home page (www.hrdc.org) of our web-based annual report. While traditional reports have their scope, content and approach defined by print technology, our web version is different. Web technology has freed us from many previous constraints, and can therefore allow us to reinvent the tool.

The web version of our annual report not only provides you with a snapshot of our work, but is a forum to advance our principle mission — to help our Region be successful. We will do that by connecting you with other people, information and tools, and by encouraging an exchange of information between us and you.

We hope you find this change intriguing and challenging — go to our web version to let me know what you think!
Managing Our Resources

Bemidji Outdoors! Initiative Takes Shape

Inspired by the tremendous number of outdoor resources in the area, a group of outdoor education and recreation providers came together to see if there was a way to collaborate on common issues. With planning assistance from the HRDC, financed by the Northwest Minnesota Foundation and local partners, the group soon grew to include over a dozen different organizations. Their vision is to create a community identity that supports a sustainable relationship with the environment. Through the work of Bemidji Outdoors!, the people who live, work, and vacation in the Bemidji area are able to easily find and access outdoor opportunities, and do so more often. The objectives of their work program are to: develop the organization and attract new partners; attract users to the variety of outdoor recreation opportunities in the area; and collect and develop the area’s recreation resources into a web site that helps users find the types of activities they desire.

Lake of the Woods Makes Commitment to Improve Drainage Planning

With the valuable help of a citizen’s advisory committee, Lake of the Woods County has been working on developing a management plan for its extensive drainage ditch system. Led by the County Highway Department, the HRDC provided assistance in developing a GIS inventory, identifying the high priority systems, and creating a management framework for improvement and maintenance. Over the summer the advisory committee will finalize the details of the plan, with final approval by the County Board to follow.

Hazard Mitigation Planning Advances

At the direction of the Federal Emergency Management Agency, counties are required to complete an All-Hazard Mitigation Plan. The objective of the plan is to minimize the human and structural impacts of a major disaster by improving preparation and prevention. Completing the plan will open the door for federal assistance on local projects that are designed to reduce the impacts of future disasters. Central to each county’s plan is the identification of the key hazards and their associated impacts. Using an initial assessment of potential hazards, a technical committee in each county chose the most probable hazards in different sections of their county. The committees then developed a list of locally acceptable strategies for implementation. Public open houses and adoption by local governments will conclude the planning process later this summer.

Other Activities

- Facilitated strategic planning for the new Beltrami County Lakes and Rivers Association.
- Provided technical and planning assistance for the Lake Country Scenic Byway Resource Enhancement Project.
- Completed a study of the supply of and demand for aggregate resources on and near the Chippewa National Forest.
- Began a natural resources planning process for Beltrami County.
- Completed the Clearwater County Comprehensive Local Water Plan.
Improving Infrastructure and Communities

Bemidji, Townships Join Forces to Improve Growth Management and Service Delivery

One plan, one ordinance for a regional center city and surrounding two townships? Extension of city services to township land prior to any annexation? Major shifting of jurisdiction boundaries, resulting in a larger city?

If this scenario was described a year ago to the City of Bemidji, and Northern and Bemidji Townships, they would have laughed us out of the room. “Too big, too bold,” they would have said. “Can’t be done, too much animosity,” would have been another comment.

Well, these three jurisdictions, with the help of HRDC staff over a year, are right at the door of this historic effort to improve growth management and service delivery in the area. A task force of 12 members — four from each jurisdiction — studied the efforts of other communities, educated themselves about the tools available, and, most importantly, worked hard to develop relationships between themselves, and delivered a detailed framework that will benefit the entire community over the long run.

The effort was borne out of the collective frustration of all jurisdictions concerning the way decisions were made on growth-related issues. Fights over zoning, sewer and water, and annexation created a climate that was not conducive to doing “the right thing” for the community. Agreement on a different way to collectively accomplish the work of the public was needed.

This effort was the first funded by the Northwest Minnesota Foundation under its new strategic plan. It would be an understatement to say that these jurisdictions set the bar high for future growth management efforts in the area.

Ken Howe, Bemidji Township Chair, put it this way: “I believe this initiative will result in a better ‘Greater Bemidji’ community for all constituents. Removing the existing barriers between the governing entities will allow us to focus our energies on cooperation rather than conflict and allow us to approach growth management planning and implementation in a more unified way.” (khowe@paulbunyan.net)

Beltrami County HRA Provides Down Payment Assistance

For the past 18 months, the Beltrami County Housing and Redevelopment Authority has been a partner organization of the HRDC. One significant result of this partnership has been the provision of down payment assistance on a countywide basis. The initial down payment program assisted 35 households throughout the county to purchase new single family houses. The HRA plans to help five additional families in northwest Beltrami County with Con-Con funds provided by Beltrami County. The HRA has also created a new down payment program with local lenders. This new Entry Cost Home Ownership (ECHO) Program is expected to be available in the fall of 2004 and will help at least 30 families with children to become home owners.

CN Rail Safety Improvements Recommended

A technical advisory committee, made up of local transportation staff, MN/DOT staff, and Canadian National Railroad officials worked for nearly a year to develop a safety improvement plan for the CN line through Lake of the Woods and Roseau Counties. The process included an inspection of each of 45 crossings, a number of committee meetings to propose improvements, and public meetings to discuss the proposals.

Overall, the improvements recommended in the plan will provide a safer transportation system for local residents. All high speed, high volume rail lines in the state are scheduled to have a similar process completed over the next few years.
New Subdivision Development Underway!

Success! After several years of planning, the Headwaters Housing Development Corporation (HHDC), a non-profit subsidiary of the HRDC, has begun construction of infrastructure in the Lincoln South Development. The development, which was purchased by the HHDC with grant funds from the Minnesota Housing Finance Agency, is a ten acre site platted for 33 building lots which will be used in the construction of affordable, single family homes by the Northwest Technical College.

The City of Bemidji provided 0% loan funds that will be used for engineering and design work, site preparation and grading, and construction of the sanitary sewer, water and storm water systems, curb and gutter, and streets. The installation of utilities will be done by local utility companies. All construction will be completed in early July. The loan funds will be repaid to the City as each house is built and sold. The homes will be sold to working families. Thank you, Bemidji!

HRDC Helps Obtain Affordable Mortgage Financing

All five counties in the Region requested an allocation of low interest mortgage funds through the Minnesota Housing Finance Agency’s Minnesota City Participation Program. The total 2004 allocation was $1,160,348, and $989,800 was already committed as of mid-June. Additional funds may be available this fall in high use areas as remaining resources are reassigned into a statewide pool.

Lenders in the Bemidji area and Park Rapids have also obtained low interest mortgage funds through the Community Action Set Aside program, also administered by MHFA. Bemidji area lenders received $2.1 million, while Park Rapids lenders received $1 million. Those funds were awarded to support local housing initiatives. Almost $600,000 has already been committed from the Bemidji area pool. The Park Rapids initiative has just begun.

Blackduck and Bemidji Community Development Projects Completed

The HRDC assisted Blackduck and Bemidji administer Small Cities Development Program grants. Blackduck successfully completed construction of a new water treatment facility as part of an overall water system upgrade. Bemidji completed the renovation of a residential neighborhood including rehabilitation of 15 substandard houses and development of several new affordable houses. Two communities, getting better — congratulations!

MN/DOT Long Range Planning

The HRDC has been helping MN/DOT’s Northwest District with the development of its long-range plan. Building upon the statewide plan, the District effort will measure the performance of the area’s transportation system and quantify the potential costs for the 2008-2030 time period. The planning process began in October 2003 and will conclude in November 2004.

In the spring of 2004, the HRDC helped MN/DOT hold focus groups in each county, listening to the public’s comments about transportation. Participants provided detailed comments about the condition of the Region’s transportation system, as well as guidance to MN/DOT about prioritizing the policies laid out in the statewide plan. Follow-up public meetings to review the draft plan will be held this fall.
Improving the Economy

Regional Knowledge Cluster Project Moving Forward

Does Northwest Minnesota have a competitive advantage in any knowledge and skill area? For the past year, the HRDC has been working in close partnership with the Northwest Minnesota Foundation (NMF), the Northwest Technical College (NTC) and the Minnesota Department of Employment and Economic Development (DEED) to answer just this question.

Phase I of the project focused on examining the existing and emerging knowledge clusters that drive innovative growth in Northwest Minnesota, assessing the economic intermediaries and institutions that support them, identifying potential supply-chain opportunities in the Region, building interest and participation among the various groups that will be needed to advance the project, and bringing together business and economic institutions to concur on a set of strategies for knowledge cluster development. The partners did background research, completed extensive industry interviews and worked hard to build partnerships throughout the Region around the concept.

Phase II of the project involves the development of specific action plans to capitalize on the Region’s knowledge cluster. Action teams have been formed in the areas of innovation, education and training, marketing and business development.

The HRDC would like to thank its close partners on this project. NMF, NTC and DEED are part of an outstanding core team. Also, a special thanks goes out to all those involved in the action teams, including representatives of industries, higher educational institutions, and economic development organizations.

The HRDC believes other communities can learn from Bemidji Leads! Learn what?:

- Communities can be successful only through collective, sustained, strategic effort. Collective: Communities can afford to have only one strategic direction. Strategic: It doesn’t make any difference how fast you are climbing if your ladder is on the wrong wall! Sustained: There are no short-term solutions to our long-term challenges.

- The only way you create and sustain the civic effort necessary to succeed is through the emergence of community stewards ready and willing to act passionately on the community’s behalf.

The HRDC is ready to help communities move forward in creating a better future. We are committed to work in support of stewards groups focused on making a difference in their communities. Contact Dave Hengel to learn about Bemidji Leads!, community stewardship and how the HRDC is mobilized for action.

“Northwest Minnesota appears to have a competitive advantage in the knowledge and skill area of applied engineering and manufacturing. The HRDC and its partners will be working hard over the next year to build on this advantage to improve the economy of the Region.”

“Bemidji has to choose its destiny or someone else will,” states Jim Bensen, Chair of the Bemidji Leads! Stewards. “The Bemidji Leads! stewards are a group of leaders passionate about helping Bemidji to define its destiny, then working tirelessly to get there. I am proud of this group and all it has already accomplished.”
Business Development/Loan Fund Activities

Low interest rates, coupled with a slow-down in the economy, resulted in less loan activity over the past fiscal year than in past years. In the past couple of weeks, however, inquiries have increased with rumors of rising interest rates, and as more businesses explore expansion opportunities with JOBZ tax benefits. The Headwaters Regional Finance Corporation (HRFC—a non-profit subsidiary of the HRDC) has an asset base of $3.7 million.

Over the past year we worked with the Northwest Minnesota Foundation, the Northwest Small Business Development Center, and the Minnesota Women’s Business Center to reach out to our communities by scheduling Business Outreach meetings in various locations. As a result of these meetings, the Small Business Development Center has scheduled specific times in several communities to provide more accessible service to residents in the Region.

We are also actively involved in a Regional Economic Developers organization and a Business Development Network. Both organizations provide opportunities for networking and collaborating with other agencies to ensure a more seamless delivery of business services for the Region.

JOBZ Regional Update

The Job Opportunity Building Zone (JOBZ) program was created by Governor Tim Pawlenty as his showcase effort to stimulate job growth and economic expansion in greater Minnesota. Through JOBZ, new and expanding businesses in state-selected JOBZ sites will be free from nearly all state and local taxes for up to 12 years. The focus of the JOBZ program has primarily been the creation of good-paying, manufacturing jobs, although each local community has some discretion on how to use the program to stimulate economic growth. Passed by the legislature in 2003, the JOBZ program officially began in January 2004.

The Headwaters Economic Opportunity Zone is the name of the JOBZ initiative for the Headwaters Region. The HRDC is already into the sixth month of administering this program. It has been a steep learning curve for our local communities, for the HRDC staff, and for the Department of Employment and Economic Development (DEED). Although no regional projects have been finalized, there are currently eight businesses that are in various stages of expansion planning and one business that is planning to relocate from another state. We continue to work with these businesses and will be happy to meet with businesses in your community that are interested in knowing more about this program.

The Department of Employment and Economic Development has been very supportive and extremely helpful as we develop the procedural aspects of the program. Recently, Brad Canham and Kari Howe, representatives from DEED, kicked off a regional marketing meeting for the JOBZ program. Representatives from each of the subzones (the communities involved in this project) attended the meeting with the goal of developing a strategy to highlight the benefits of locating in a JOBZ community in the Headwaters Region. We are excited about the potential economic opportunities that this program will bring to Northern Minnesota!
HRDC 2004 Annual Report

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Community Development Director
David Hengel
Economic Development Director
Susan Hoosier
Business Loan Specialist
Tony Mayer
Technical Planner
Joan Randt
Office Manager
Anne Sand
Housing Specialist
Mary Thompson
Financial Officer
Cliff Tweedale
Executive Director

HRDC Members
Lawrence Anderson — Beltrami County Small Cities
Steve Belz — Clearwater County Cities
James (Butch) Boe — Clearwater County Townships
Kim Bredeson — Lake of the Woods County
Mark Edevold — Labor
Quentin Fairbanks, Chair — Red Lake Reservation
Viki Haugen — Beltrami County
Cal Johannsen — Hubbard County
Ron Johnson — City of Bemidji
Don Krueger — Agriculture
Lorna LaGue — Beltrami County
Robert Milne — Forestry
Jean Nelson — Mahnomen County Townships
John A. Nelson — Clearwater County
Charles Pazzernik — Mahnomen County
Joyce Powell — Hubbard County Cities
Leroy Riewer — Business
Rick Rone, Vice Chair — Lake of the Woods County Cities
Tom Ryan — Mahnomen County Cities
Frank Schaap, Secretary — School Districts
Duane Splittstoesser — Hubbard County Townships
George Swentik — Lake of the Woods County
Emmet Weidenborner — School Districts
Victoria White, Treasurer — Leech Lake Reservation

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Floyd Frank, Chair
Brian Freeberg
Bruce Hasbargen
Jim Heltzer
Dave Heyer
Mike Kammikar
Sean McKnight
Brad Monson
Jean Nelson
John Nelson
Curt Oakes
David Olsonawski
Dan Sauve
George Swentik
Betty Thomsen
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Headwaters Housing Development Corporation
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Rick Rone
Tom Ryan
Doug St. Onge

Headwaters Regional Finance Corporation
Rick Rone
Frank Schaap
Terry Matson
Victoria White
Royce Peterson
Quentin Fairbanks
John Masog
Peter Haddeland
Cliff Tweedale

Operational Budget

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<th>Expenditures</th>
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<tr>
<td>Total Expenditures</td>
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The 2004 figures shown above are unaudited figures. The latest audit, covering Fiscal Year 2003 finances, was performed by Miller, McDonald, Erickson and Moller, Ltd., Certified Public Accountants, and dated November 6, 2003. An unqualified report was issued.