

I. Executive Summary

Like nearly every community in the United States today, Pequot Lakes is struggling to figure out how to transition to a set of new economic realities. The hyper-growth of the recent past covered up a lot of the financial imbalances created by the City's development pattern. This pattern – typified by horizontal, decentralized growth with a strong auto-orientation – created a lot of long-term liabilities for infrastructure maintenance that the City will now struggle to meet in a more austere age.

As the City is positioned today, the places where it has the greatest level of public investment – the downtown and its surrounding neighborhoods – are also the places where private-sector investment has lagged the most. Unless there is a dramatic shift in this imbalance, large amounts of public infrastructure will need to be abandoned and/or large subsidies from other property owners (predominantly higher-value lake property owners) will be necessary to meet the City's maintenance obligations.

These are not easy challenges, particularly since they call into question the prosperity and growth the City has experienced over the past two decades. The greatest level of prosperity Pequot Lakes has experienced came in the years prior to the housing collapse, a market correction that began nationwide in 2008. It is difficult to confront the realization that our local prosperity was not “real” financially. It would be comforting to believe that the growth and success experienced locally was the result of wise local decision-making, instead of factors beyond the City's control. And it is difficult to acknowledge today that there is no mix of incentives or local programs that can bring back the conditions of 2005.

In short, Pequot Lakes is in a new, evolving reality. It is unclear precisely what the future will bring, but it is becoming apparent that the City will need to adapt to a new set of local economic realities, including:

- **Inconsistent property values.** Since the City's primary revenue source is a tax on property values, it should be keenly aware that property values can vary as the economy fluctuates.
- **Highway realignment.** With the Highway 371 realignment becoming a reality, it's important to recognize the opportunities, challenges and uncertainties ahead.
- **Reduced state and federal support.** As with most small towns, Pequot Lakes has relied on the state and federal governments to fund and finance major infrastructure improvements. Of course, the state and federal governments have long-term, structural financial problems that make them unreliable sources of future funding. Maintaining the City's sewer and water infrastructure – let alone local roads and streets -- without major state and federal assistance is currently unthinkable, but it is likely to be a reality we have to face.
- **Private sector indebtedness.** In recent decades, the City has grown used to the private sector investing large amounts of leveraged funds to develop, and subsequently purchase, both commercial and residential properties. The emerging economic realities of our time suggest this is not a trend likely to continue, which will have large cash-flow implications for the City.

- **Higher energy costs.** Higher energy costs will dramatically change life in Pequot Lakes. Over 70% of the food consumed in Minnesota comes from outside of Minnesota, so energy costs will dramatically impact the cost of food. Every business in Pequot Lakes currently relies on automobiles to deliver their patrons, so current business models will be challenged. Nearly 40% of Pequot's residents are seasonal and there is still a large transient population during tourist season, all of whom will have their mobility decisions challenged. While it is true that higher energy prices present tremendous opportunities, those will only be realized with a change from the status quo.

To be successful in this new age, the City must reorient its initiatives to focus on obtaining a higher return on the public's investments. Nowhere is the disparity greater between the City's financial obligations and the revenue generated by those investments than the neighborhoods surrounding the historic downtown.

Revitalizing the downtown of Pequot Lakes and the neighborhoods that surround it is critical to the long-term financial health of the City.

This plan is an update of an earlier effort that was never formally adopted but was instrumental in shaping City policy over the past nine years. It details the rationale and strategy for renewing downtown Pequot Lakes and the surrounding neighborhoods. It is a practical plan that is in touch with the new realities facing the City.

And in that context, it is important to note that the difficult economy can actually assist us in our revitalization efforts. For example, the typical family spends \$7,000 per year for each automobile they utilize. Where Pequot Lakes can offer a family a high quality of life that only requires them to own one car, the resulting savings can pay for a \$108,000 mortgage. By focusing on this hypothetical family – and what would allow them to live in the downtown neighborhoods of Pequot Lakes without needing that second car – we can start to see a path to renewed private-sector investment.

Pequot Lakes is already a great place to live, with a downtown area that has much to offer. Building on this will not be difficult in a physical sense. Our greatest challenge is not physical, however, but social. We must collectively adapt to the changing world around us, acknowledging that we can't bring back what we never really had. Instead, we must realize that we have the capacity – here in Pequot Lakes – to build a future that is even better than what we dreamed at the height of our "prosperity". This is our challenge.