

CENTER *for* RURAL POLICY and DEVELOPMENT

MINNESOTA STATE UNIVERSITY • MANKATO

Seeking Solutions for Greater Minnesota's Future

NEWSLETTER No. 7

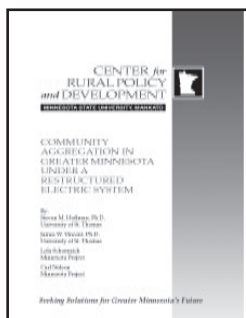
JANUARY • FEBRUARY 2001

Electric Deregulation is focus of new Center report

Proponents of electric deregulation have generally argued that competition in the electricity market will yield considerable economic benefits to all segments of the consuming public, including residential and small commercial businesses. Unfortunately, deregulation or "restructuring" efforts to date in those states around the country where competition has been legislatively mandated, has yet to produce any of these predicted benefits.

Rather, in many of these deregulated states residential customers are experiencing substantial increases in certain charges and little in the way of general price increases. And in California, where the situation is the most acute, some electric utilities are predicting massive financial losses and potential bankruptcy if electric rates are not substantially increased.

Here in Minnesota discussions regarding the restructuring of the electric industry have been occurring since the establishment of the Minnesota Legislative Energy Task Force in the mid-1990s. In response to the growing interest in restructuring the electric market, the Center for Rural Policy and Development commissioned a study to examine this growing trend and its potential impact on rural Minnesota residents and communities. Professor Steven Hoffman from the University of St. Thomas led the team of researchers who in November released the report "**Community Aggregation in Rural Minnesota Under a Restructured Electric System.**"



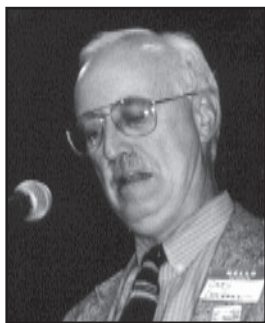
The report notes that in general, distant customers, whether on farms or in relatively isolated communities are still costlier to serve than customers of equal size and load in a metropolitan area. Consequently, under a rationally performing competitive market, and in the absence of alternatives, these rural customers will be the last served and will be charged the highest rates. The study also cites the substantial shift in the customer mix for Minnesota's rural electric cooperatives and municipal utilities. This shift reflects the changing demographics and economy in rural areas and can generally be described as a shift from farm to non-farm customers and from industrial to commercial customers.

The study goes on to explore various strategies that could aggregate rural Minnesota residential and small businesses customers into larger buying units. And discusses how these aggregation strategies might be used to avoid the potentially negative consequences of a restructured electric system. The study does not recommend that Minnesota legislatively restructures its electric system at this time, but recommends that if the legislature chooses to do so, that the legislation allow various aggregation options for residential and small business customers.

A copy of the report can be obtained by calling the Center for Rural Policy and Development at 507-389-2599. Copies can also be downloaded from our website at www.ruralmn.org

Rural Perspectives...

*Gary DeCramer,
State USDA Rural Development Director*



Q Please take a moment to inform our readers about USDA Rural Development. It's history, mission, programs and scope in Minnesota.

A USDA Rural Development was created in 1994 when rural economic and community development programs of various USDA agencies, namely, Farmers Home Administration, Rural Development Administration, Rural Electrification Administration and Agricultural Cooperative Service were joined.

USDA has the unique responsibility of coordinating Federal assistance to rural areas. Our mission at USDA Rural Development is to "enhance the ability of rural communities to develop, to grow, and to improve their quality of life by targeting financial and technical resources in areas of greatest need through activities of greatest potential." Rural Development does this by providing financial assistance for housing, community infrastructure, water, wastewater, telecommunications, electricity, and business development. Recently, we have instituted a Community and Cooperative Development section to provide technical assistance in rural Minnesota.

Fiscal Year 2000 was a huge success for our partners and us. USDA Rural Development alone provided over \$230 million in assistance to rural Minnesota. Additionally, our partners leveraged this amount with millions of dollars. If you want specific information about USDA Rural Development, I encourage readers to check our website: www.rurdev.usda.gov.

Q How does USDA Rural Development, as a federal agency, interact with state and local governments?

A We leverage our federal dollars with state and local funds, which is one way we interact with other agencies. Leveraging is one of our guiding principles; however, we could not do this effectively without our focus on collaborative partnerships. As we all know, doing more with less is the challenge that we are continually being asked to live by, and I don't think that will go away. USDA Rural Development has invested great energy in developing trust-based relationships with our partners, which makes our work more complex, more effective, and more fun.

Minnesota is blessed with an enormous pool of talented people and organizations to help our rural communities and citizens. State agencies like the MN Department of Trade and Economic Development, MN Housing Finance Agency, MN Planning, regional organizations such as the six Initiative Foundations, the Regional Development Commissions, the University of Minnesota, especially the Extension Service, Minnesota Rural Partners, and of course the

Center for Rural Policy and Development — all of these partners help us do our work. We are continually sharing our information and knowledge to best utilize the tools that each of us has to improve rural Minnesota.

Much of our interaction is with the leaders of Minnesota's small towns who come to us seeking resources. That inquiry is a great opportunity to draw in our partners and work together in a comprehensive effort to leverage technical assistance and financing to accomplish the dreams of those towns.

Q Many people suggest that the traditional ties between rural/community development and agriculture are not as appropriate today as it might have been 50 years ago. Do you agree? Has working within the USDA structure limited your activities any?

A Great questions. Yes, I think that the traditional ties between rural/community development and agriculture need to be rewoven. There is no way the two can be totally uncoupled. However, historically, rural policy meant agricultural policy. I believe that today, a comprehensive approach to rural policy development must include agriculture, but recognize the need for greater diversification of community and economic development activities. To have credibility in the northeast parts of Minnesota, where mining, forestry, and tourism are dominant economic factors, Rural Development has learned some lessons about the need to diversify beyond ag. We have a full range of community and economic development tools for rural areas, but too often the perception is that we do ag. Because we are a Mission Area within USDA, people hear the "A" in our name, and expect that agriculture is our focus.

As a Mission Area under the USDA, Rural Development focuses on rural residents, rural communities and rural businesses. When people ask - what does Rural Development do? I tell them - we do towns and tribes. Our sister agencies, the Farm Service Agency and Natural Resource Conservation Service do farms and natural resource conservation.

Q When one looks at rural economic development statewide, you can't help noticing that activity, local focus and demographic change has been substantially different in Western Minnesota than in the other rural regions of the state. Not by coincidence, this region is also the most agriculturally dependent. Is it time to develop new rural policies focusing on these agriculturally dependent areas?

A We have learned that we must approach each area or region of the state recognizing that there are significant economic, social, cultural, and demographic differences. This knowledge needs to be reflected in new policy development. As the agriculture industry continues to evolve in this technology-based era, we see two distinct agriculture business forms developing, large "quantity-oriented" production units and smaller "quality-oriented" niche operations. We need to develop policies aimed at these different kinds of farming, and we need to develop rural policies to work in concert with these farming methods and for those rural communities where no farming exists. The largest overlap with agricultural interests lies in the work we do to provide technical and financial assistance to value-added and marketing cooperatives. Coops remain absolutely critical to rural people gaining some control over their own economic interests.

New rural policy needs to address structural changes brought on by technology. Everything from the definition of a telework center as a community facility,

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Center Hosts Telecom Workshops for Local Leaders

Four workshops held around the state in October gave local leaders the opportunity to ask questions and get answers about advanced telecommunications and how to bring the technology to their communities. The workshops took place in Grand Rapids, Crookston, Windom and Owatonna and attracted a range of community leaders, from municipal officials like mayors and planning directors, to business leaders to state legislators.

"I was very pleased with the breadth of the communities that showed up," said Center president Jack Geller. At least 30 cities, townships, counties and regions were represented at the workshops. The communities the attendees represented seemed to fall into two groups, said Geller: those who didn't have high-speed telecommunications technology and wanted to know how to get it, and those who had the technology and are now looking for smarter ways to use it.

The October workshops followed a workshop held for state legislators in July. The forums were an offshoot of the Center's report on rural telecommunications released to the legislature last February. The report outlined the unique issues that surround supplying high-speed telecommunications to rural communities, and it provided a number of recommendations developed by a panel of individuals representing various areas of telecommunications, including government, industry, education, health care and others.

(The original "Rural Telecommunications Initiative" report can be downloaded in PDF format from the Center's web site at www.ruralmn.org.)

"Bringing together people from the community, telecommunications providers and resource providers, especially on both a regional and statewide basis, was a meaningful investment of time," said Don Koverman, community development director for The Initiative Fund of Southeast

and South Central Minnesota.

Koverman attended the Owatonna workshop. He sees the workshops as a beginning point for people who want to learn just what telecommunications is, what it can do, and how it can be used in their community. The task now, he said, is to move that discussion from statewide to regional.

"Now each region needs to take the same format, use it as an educational strategy for their smaller areas with the same stakeholders, and ask 'How do we advance telecommunications in our community?'" said Koverman.

Telecommunications and its possibilities for rural towns and cities is one of the hottest topics in rural America today. As more and more companies adopt advanced telecommunications technology, access to the services are becoming an increasingly important factor in their location decisions, and communities are looking at high-speed communications as a vital economic development tool for attracting and keeping businesses. High-speed telecommunications are also being adapted in communities for distance learning and in health care, opening up more opportunities for rural residents while saving them time, money and travel.

These advances come more slowly to rural communities, however. Because of the distance between customers, it costs more to build a telecommunications

network in a rural area and bring services to far-flung populations. In densely populated urban areas, markets for telecom services form themselves as providers compete for customers, but in rural areas, the markets don't form automatically. For that reason, residents of rural communities across the country are starting to look into how to speed up the process of bringing advanced telecommunications to where they live.

The attendees learned through presentations and group exercises about the first steps of what it takes to bring a high-speed telecommunications system to a community and what to do with it once it's there. As participants were led through the exercises, several common themes surfaced, mostly around needs: the need for a "champion," someone who would lead the charge to develop a community plan and see it through; the need for a common vision; the need for cooperation, public awareness and public discussion.

"The interest level was very high," said Geller. People wanted either to learn how to engage in a starting process or, if they already had high-speed telecom in their city, they wanted ideas on how to use it in a better, more productive way.

"The communities seemed to be at different levels of urgency," said Geller, "but they were all curious and they all had a sense of being deprived of something by not having high-speed telecommunications or not knowing how best to use it. There was a feeling of wanting the state to do something but not quite sure what."

The workshops were sponsored by the Center for Rural Policy and Development, the Iron Range Resources and Rehabilitation Board, the League of Minnesota Cities, the Hubert H. Humphrey Institute of Public Affairs, the Blandin Foundation, the Northern Great Plains Initiative for Rural Development and Minnesota Municipal Utilities Association.



Rep. Elaine Harder and constituents in Windom

New research panel studies potential for hybrid poplars

The Center for Rural Policy and Development is on schedule to release a new panel report in February on the potential benefits of growing hybrid poplars and other short-rotation woody crops in Minnesota. The trees are one of a number of species known as short-rotation woody crops (SRWCs), trees that grow quickly and can be grown on farmland like a row crop. Proponents of SRWCs are looking at them as a way to supplement an impending shortage of trees that could result in serious consequences for the state's forest products industry and the 61,000 jobs it supports.

The panel met for the first time in the fall 2000. Its members represent a collection of state and federal agencies, forestry research, the timber industry and environmental concerns. The goal for the group is to produce recommendations for the state legislature on how it can help support this relatively new form of agroforestry and issues legislators need to be aware of if they choose to support the crop. The Center plans to have the final report and recommendations completed and ready for distribution to the legislature by mid-February.

Hybrid poplars have been shown to be of equal quality to the timber industry's current tree of choice, aspen, and can be made into pulp or oriented strand board. The primary advantage of SRWCs compared to traditional trees, however, is the growth rate. SRWCs have a turnaround time from planting to harvest of less than 10 years, compared to 40 to 60 years for a typical aspen. Also unlike standard trees, SRWCs can be grown like a crop, in rows in a field, using crop management practices. Proponents consider SRWCs a source of diversification for farmers' crops and their income, especially if timber demand and timber prices continue to rise.

SRWCs are being explored now because evidence is showing by 2014 there will likely be a serious shortage of harvestable trees in Minnesota. Timber mills need a volume of 2.3 million cords of aspen a year to support current harvesting levels. A research report prepared for the Center by the University of Minnesota's Erik Streed, Dr. Dietmar Rose and Karen Updegraff indicates that the available timber will fall below that level in less than ten years, and by 2014 the level will have dropped to well under 500,000 cords a year.

According to studies by the Minnesota Department of Natural Resources and several forest products companies, the shortage will be caused by "age-class imbalance." Because harvesting of mature aspens began in earnest about 20 years ago, the trees that are left now are of mostly the same age. When that supply is exhausted, around 2014, a serious shortage of usable trees will result. By 2025, the amount of available timber will increase again as the next generation of trees matures, but supply is expected to stay well below the levels needed, according to the research report.

Demand, on the other hand, is expected to continue to increase. If it does and supply falls at the same time, the result could be disastrous for the timber industry. Minnesota has 14 mills producing paper or oriented strand board, and aspen is the primary wood used in both products. The forest products industry has been a large part of northern Minnesota's economy and the state's economy as a whole since the region was first settled.

"The intensive culture of hybrid poplars and other fast-growing species will be a vital component of the forest product industry's fiber strategy," said Alan Ek, a faculty member of the University of Minnesota's Department of Forest

Resources and a member of the Center's panel. Hybrid poplars and similar trees could play an important part in the economy of rural Minnesota both as a crop alternative and a value-added industry, Ek said.

Whether SRWCs will be as profitable as traditional crops, like corn, still has to be studied. Because the long-term nature of the crop means a grower has to wait upwards of ten years for a harvest payoff, cash flow becomes a crucial issue in any kind of program. There is also the question of profitability and how SRWCs compare to a traditional crop like corn. The research report suggests that corn grown in highly productive soil will generally show higher profits than poplar grown in the same soil, but SRWCs grown in less-productive soil could fetch a better price than corn. Of course, prices for either crop depend on many different factors.

The trees promise several environmental benefits, like erosion and flood control, water quality improvement and lower overall need for chemicals. However, there are several issues that need to be considered as well. The trees have to be grown in the right places. Some land is more suitable for trees than others due to soil type, local habitat and a number of other factors.

Planting SRWCs in natural grasslands and prairies could have serious effects on prairie wildlife, especially grassland birds, which refuse to nest within a certain distance of trees of any sort. And while they may require fewer chemicals and less maintenance overall, the initial use of chemicals is more intense.

These and other issues are all ones the panel will address in its list of recommendations in its final report for the legislature. The process of generating recommendations has involved several meetings and intense discussion among participants, who are working to meet an aggressive schedule. If the report is to be considered at all during this legislative session, it will have to be gotten to the legislators by mid-February.

Members of the hybrid poplar panel are:

Tracy Beckman, Farm Services Agency, USDA
 Bill Berguson, Natural Resources Research Institute
 Wayne Edgerton, Minnesota Department of Natural Resources
 Alan Ek, University of Minnesota, Department of Forest Resources
 Don Frerichs, Minnesota Department of Commerce
 Jack Geller, Center for Rural Policy and Development
 Gabe Horner, The Nature Conservancy
 David Jensen, Minnesota State Senate
 Wendell Johnson, University of Minnesota, Crookston
 Wayne Marzolf, Minnesota Department of Agriculture
 Tom Murn, Potlatch Corporation
 Greg Nolan, Snowy Pines Reforestation
 Dean Schmidt, WesMin RC&D
 Erik Streed, University of Minnesota/ CINRAM
 Steve Taff, University of Minnesota, Department of Applied Economics
 Edward Wene, Agricultural Utilization Research Institute
 Darryl Anderson is the panel facilitator and Marnie Werner is the panel manager.

One of the policy areas that received a great amount of attention during the recent presidential campaign was education reform. From debates on teacher and student accountability, to the when, where and ifs of school vouchers, it was interesting to listen to the debates on how to “fix” our ailing educational system.

Here too in Minnesota, the discussions on education have been front and center. During the last two legislative sessions our state policymakers have labored over key educational issues; all in an attempt to “fix” what they believe are the shortcomings of the system. From how to (or whether to) implement the Profiles of Learning, to increasing the state funding formula for basic instruction, to teacher compensation reform, the discussions have been both valuable and productive.

From my perspective it’s good to see policymakers vigorously debating educational issues. After all, unlike other key policy areas such as economic development, educating Minnesota’s children is one of the few constitutionally mandated functions of state government. Given the weight and importance of the issue, it seems reasonable that the least they can do is to take the time needed for a thorough airing of ideas and potential improvements.

However, I must confess that my primary gripe in all this talk about educational reform is often the perspective from which the discussion starts. What I mean is that the starting point always seems to be the recognition of a problem or shortcoming in the system, which inevitably leads to a discussion on how to “fix” the problem. This of course is natural. But what if our starting point was to identify those structures that function well? Would that not then lead to a discussion on how to preserve those well-functioning structures? And it is from that perspective that I would like to spend a moment discussing Minnesota’s small rural schools.

For decades Minnesota has been one of the leading states in educational achievement and funding. Time and time again the “Minnesota Miracle” has led to Minnesota kids being at, or near the top in national achievement tests. I believe that a great deal (but not all) of that credit goes to Minnesota’s small rural schools. Let’s be honest, small, rural schools work and they work well. Yet at the same time, economic, demographic and political pressures have been encouraging (forcing?) small rural schools to consolidate in an effort to become more efficient. But what exactly is an efficient school?

In September 2000 the Minnesota Department of Children, Families and Learning released the findings of its “Completion Study” for the Class of 1999. This was a 4-year examination of those kids who entered the ninth grade in the 1995/96 school year and were scheduled to graduate as the Class of 1999. Well, how did they do?

I did a quick pencil and paper calculation on the kitchen table last night and

On Small Rural Schools

by Jack M. Geller
President
Center for
Rural Policy
and Development

found that of the smaller schools districts that reported having 99 or fewer students entering the 9th grade in 1995, 93.5% of those students graduated as part of the Class of 1999. And what of the larger, “more efficient” districts? Well, of the districts reporting at least 500 students entering the 9th grade in 1995, only 80.5% of those students graduated as part of the Class of 1999. Now granted, adding in the St. Paul school district with its 59.8% “on-time” graduation rate certainly didn’t help. So after removing the St. Paul district, the average on-time graduation rate for the larger schools rose to 87.1%, 6 percentage points behind the smaller inefficient school districts.

Such figures make me wonder what exactly is an efficient education system? Does one simply look at the overall costs of providing educational services and divide it by the number of students being served? The implication being those schools with the lowest “per unit cost” are the most efficient? Maybe we should look at the cost of graduating a student? I bet if we divided the total educational costs by the number of

graduates, small rural schools would look a lot more efficient. It makes you wonder!

It has always struck me odd that many education experts who advocate for smaller class sizes, greater parental participation and safer schools fail to recognize these very same attributes of small rural schools. To bring it closer to home, I should confess that I am a product of one of those large schools. In fact it was a VERY large school in New York City. My high school graduating class was approximately 1,500 and we had so many students, we had to attend school each day in shifts (the high school couldn’t fit all 4,000+ students at one time). I knew my teachers’ names and they knew mine and that’s about it. I didn’t know where they lived, if they had children of their own, or any of their personal preferences or circumstances outside of the 50 minutes per day they instructed me.

At the opposite end of the spectrum, my wife attended a school in rural Nebraska with a K-12 enrollment of approximately 250. Her graduating class consisted of herself and 18 other classmates. She knew all of her teachers, babysat many of their kids, sat along side of them in church and saw them as an integral part of the small farming community she grew up in. Is there any doubt that her school was safer, better disciplined, more participatory, and created a superior learning environment?

So from my point of view, here’s what it all boils down to. As the legislature once again meets to discuss education reform, let’s not just focus on how to fix those parts of the system that are not functioning well. But let’s also focus on how to protect and preserve those parts of the system that are doing the job. And for my money, small rural schools are just that.



Center Adds New Staff Member



Marnie Werner
Production Manager

The Center for Rural Policy and Development has added a new member, Marnie Werner, to fill the position of Program Manager.

Marnie came to the Center in November from the State and Local Policy Program at the Hubert H. Humphrey Institute of Public Affairs at the University of Minnesota, where she worked during and after her time as a student in the Master’s program there. At the State and Local Policy Program, she worked on a number of telecommunications and transportation projects before being tapped to produce the Center’s Rural Telecommunications Initiative report. Her duties at the Center include managing various research projects, including the Small Grants Program, and managing the Center’s external communications.

Marnie grew up in Coon Rapids, a suburb of Minneapolis, but while most kids went to summer camp, Marnie and her brothers and sisters spent their summers in Albert Lea and northern Iowa visiting friends and relatives. Marnie graduated from

Bethany Lutheran College in Mankato and received a B.A. in journalism from the University of Minnesota’s School of Journalism in 1990.

From 1989 to 1993, she worked as a reporter and copy editor for the Anoka County Union, covering the communities of northern Anoka County. In 1993, Marnie became the Capitol reporter for ECM Publishers, the parent company of the Union, covering the legislature for ECM’s nine community newspapers. In 1997, she left the paper to attend the Humphrey Institute, which she graduated from in 1999.

Marnie feels the Center is the right place for her because of its focus on research and its focus on results. “I really enjoy conducting research, but what I think I like even more is to take that research and put it in an understandable, useful form.”

“In the eight years I spent observing government at the local and state level, I noticed a lot of talking and a lot of good intentions, but not very much communication going on. But I also noticed that when the connection was made, it was almost always because someone sat down and told a clear, compelling story, then produced solid, understandable evidence to back it up. When the evidence is both solid and understandable, that’s very hard to argue with.”

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120 Alumni Foundation Center • Mankato, MN 56001
(507) 389-2599 (V) (800) 627-3529 (MRS/TTY) • FAX (507) 389-2813

e-mail: crpd@mnsu.edu
web: www.ruralmn.org

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Gary DeCramer...

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to the reimbursement rate to doctors working via telemedicine, to the way we measure successful business investments in knowledge-based businesses. The number of jobs created is not a good measure; the quality of those jobs is a better measure.

Institutionally, we are treating western Minnesota differently. We have created three new positions, community and cooperative development specialists located in western Minnesota, who have the responsibility to join with our partners to bring about opportunities to form cooperatives and to assist communities in diversifying their economic base. To find out more about those folks and what they do, give Joe Folsom, our Community and Cooperative Development Program Director (651-602-7803), or Deb Miller Slipek, our Rural Development Coordinator (651-602-7799) a call.

Q

With 3 1/2 years under your belt as the State Director for USDA Rural Development, what are you most proud of during your tenure?

A

As I've told many people, the job of USDA Rural Development State Director is the best job I have ever had. We have a great staff of 124 employees who know their jobs - I have just given them permission to do their jobs. My job has allowed me and the employees of Rural Development to help the people of rural Minnesota create their future. We have made great strides in reaching unserved and underserved rural citizens. This job has given me a chance to bring some focus and assistance to the 11 American Indian Nations in Minnesota; to encourage and fund the development of value-added cooperatives; to institutionalize a Community and Cooperative Development section within our organization; and, to encourage our own staff to embrace life-long learning in order to deal with a continuously changing world. But to

name just one thing that I am most proud of - well that's a tough one. I'd have to say "forming partnerships." Through the success of our partners, we succeed, and rural Minnesota benefits.

Q

As we close this interview, what do you think will be your agency's greatest challenge in this new decade?

A

USDA Rural Development's greatest challenge in the next decade will be to obtain adequate financial and human resources to meet the needs of the most unserved and under-served rural communities and citizens. Changes in demographics and their affect upon our representative form of government will drive the need for many new alliances and partnerships between rural, urban and suburban folks to be formed. As the rural landscape changes, all citizens will need to decide what it is they want rural to look like and what are they willing to invest to have it that way.



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