RMJ

Rural Minnesota Journal

RMJ

Rural Minnesota Journal

A Letter to the Next Governor of Minnesota

2010

CENTER for RURAL POLICY and DEVELOPMENT
Seeking solutions for Greater Minnesota's future

The Center for Rural Policy and Development, based in St. Peter, Minn., is a private, not-for-profit policy research organization dedicated to benefiting Minnesota by providing its policy makers with an unbiased evaluation of issues from a rural perspective.

Any opinions voiced in the Journal are those solely of the authors and not necessarily of the Center.

Center for Rural Policy and Development
600 S. Fifth Street, Suite 211 • Saint Peter, Minnesota 56082
(507) 934-7700 • (877) RURALMN

RMJ can be found on the web at:
www.ruralmn.org

Acknowledgements

The Center for Rural Policy & Development gratefully acknowledges our friends who have made this issue of RMJ possible.

BLANDIN FOUNDATION

THE McKNIGHT FOUNDATION

Bush Foundation

The State of Minnesota

Table of Contents

Editor's note
Marnie Werner

This year is something of a standout year for Minnesota. The gubernatorial race we have coming up in November is a big one, and it will be hard fought, with numerous significant issues to debate over: the deficit, jobs, health care, education, and did we mention the deficit?

As the slate of candidates narrowed throughout this year, however, we at the Center (and a few other rural observers) noticed one interesting trend: all of the candidates (at present, six) live in the Twin Cities metropolitan area. Some of the candidates live on the edge of the Twin Cities, and some were raised in rural Minnesota but have not lived there for many years. This idea intrigued us here at the Center, and we thought, why not assemble our next issue of the *Rural Minnesota Journal* around this fact? After all, rural Minnesota, like the Twin Cities, is constantly changing and developing. Why not create an *RMJ* that addressed the issues facing the rest of the state and how those may differ from those in the Twin Cities and its suburbs? The resulting idea is this issue, "A Letter to the Next Governor of Minnesota."

As always, we have invited experts from around the state to comment on matters of importance in rural Minnesota. This time, though, the authors are less on the academic side, and are instead mostly leaders of organizations that deal with and look out for rural interests. The Governor and the Legislature hear from these organizations often during legislative sessions, but we wanted to give these folks the chance to put forth their issues in their own words.

For instance, Lee Warne, executive director of the Minnesota Rural Education Association, has contributed a piece looking at the many questions facing education and how they affect schools, students, teachers and administrators in rural parts of the state. Chris Radatz of Minnesota Farm Bureau and Doug Peterson of Minnesota Farmers' Union discuss in their articles what the future holds for agriculture in this state and ways to think about keeping one of Minnesota's major industries strong into the future.

Steve Perkins of Luverne, Minn., is a director of the Minnesota Hospital Association. His piece discusses the impact of hospital closures on rural communities and the many ways that today's health care system works for and against small towns and their health care communities. Jim Miller, executive director of the League of Minnesota Cities, talks about the hazards facing our cities in Greater Minnesota in the form of deficits and drastic budget cuts, but also discusses how the state can help these struggling communities.

King Banaian and Rich MacDonald, professors of economics at St. Cloud State University, discuss the results of their annual survey of businesses in St. Cloud and how that city's economy is indelibly connected with the rural economy around it. Dane Smith, president of the organization Growth & Justice and a long-time political reporter, makes observations on the challenges and opportunities facing rural Minnesota, especially its businesses, and why it's worth the investment.

And finally, Brad Finstad, executive director of the Center for Rural Policy and Development and former state legislator, and yours truly, Marnie Werner, research manager for the Center and former Capitol reporter, discuss the effects of policy created in St. Paul on the rest of the state and the law of unintended consequences.

Throughout the year, the Center for Rural Policy and Development seeks to raise awareness of rural issues through research and outreach, and the Journal is a key piece in this work. We hope giving these leaders the venue to discuss the issues they're passionate about will raise awareness of where rural Minnesota is today, and the possibilities that abound for the future.

Foreword: Greater Minnesota Can Make Minnesota Even Greater

Gov. Tim Pawlenty

Minnesota's continued success depends on the whole state — not just parts of it — doing well. Success doesn't happen overnight or by accident. It's the result of good ideas, hard work and strong values. Greater Minnesota has all of those qualities and more.

Our enviable quality of life depends on citizens having access to good jobs and economic opportunities wherever they live. Unfortunately, some Minnesota policy makers appear "pro job," but their approach is anti-business. That's like being pro-egg and anti-chicken. It just doesn't work in today's hyper-competitive global economy.

The best way government can help Minnesota compete is to remove burdens and avoid adding barriers to business. This means being job-friendly, holding the line on spending and reducing taxes.

We've made good progress on that front, and because part of our state faced extraordinary circumstances, we took extra measures to encourage investment and job growth in the most challenged parts of Minnesota.

JOBZ was created to provide local and state tax exemptions to qualified companies that expand or relocate into targeted regions outside the Twin Cities metropolitan area. It's not a silver bullet, but it's one tool being used to target help to Greater Minnesota. The program has worked, so far saving or creating more than 11,000 jobs and helping keep 300 businesses moving in the right direction.

Minnesota's next leaders would be wise to renew and expand JOBZ and also offer tax credits for small business start-ups, expansions or research and development activities.

They should also expand the "Angel Investment Tax Credit" we created that helps early stage companies raise capital and can especially help in Greater Minnesota. Likewise, they should continue efforts to reduce taxes and cost burdens on businesses more broadly.

But reducing government costs and taxes on job creators alone is not enough. Our workforce must be as educated, skilled, innovative and productive as possible to attract business development to our state, and matched with a modern, efficient and safe infrastructure to support prosperity.

We've advanced the ball on these measures over the last eight years, but we need to push harder.

Recently, many Minnesota teachers began being paid for performance, but more schools need to be held accountable for better results, not just given more money without showing reform or improvement. This includes higher education, where Minnesota's State Colleges and Universities are providing great opportunities through expanded online learning — ideal for advancing workers and job creators.

Schools and government programs need to utilize technology, shared services, and cost structures that are more closely in line with the private sector, rather than the outdated approaches too often used in government today.

Greater Minnesota's existing strengths also present strategic opportunities. With world demand for food projected to double over the next 40 years, Minnesota can benefit by aggressively encouraging and promoting value-added agriculture ventures, including livestock production, renewable energy, food processing and related activities. With help from research at the University of Minnesota focusing on innovations in these areas, we can lead the world.

Minnesota must also safely but quickly embrace the next generation of mining projects in northeastern Minnesota. Large-scale projects are now lined up and will bring thousands of new jobs for decades to come as the demand for metals in America and around the world continues to accelerate.

In addition, Greater Minnesota can greatly benefit from continuing efforts to export as many products as possible. There is increasing demand for our home-grown products, and Minnesota companies are tapping into rapidly expanding markets around the world. Since 2003, Minnesota-manufactured exports have increased 39% to $14.6 billion in 2009.

Although there is much more to be done, I am optimistic about Greater Minnesota's future. Good ideas, hard work and strong values have always been the ingredients of success, and Greater Minnesota is proving that to be true.

Toward a Logical, Equitable and Successful Learning Experience for All

Lee Warne

Driving from one corner of our state to another provides an opportunity to experience the breadth of diversity Minnesota has to offer. The diversity we see comes in the form of its citizens, housing, industry and opportunities. The incredible vistas of fields of grain, lush forests and myriad lakes are so important to us that we have made them indelible on our license plates. This great state with so many resources of people and places has much to offer and many challenges before it. Our ability to maintain what we value about where we live is under stress by our current economic conditions with little expectation of improvement in the near future.

Minnesota's education is a foundation for our way of life. We have long placed deep value in the quality educational system we have today. This system is, however, under great stress — like all aspects of our state today. It is incumbent on our future leaders to act to keep this quality educational system thriving.

This is particularly true for rural education. It is under fire by some because critics believe it is "too small," "costs too much," "isn't efficient," among other comments. The difficult part for critics of small schools to overcome, though, is the success that rural districts have in educating their kids. Highest graduation rates, highest percentage moving on to post-secondary training, lowest violence rates, and strong community support for schools — the list could go on, but what is important is that small schools work. This success is evidenced by how many larger systems try to create smaller units within their buildings, or pod building styles for grouping students, or focusing on mentors who follow students year after year – most of these efforts are designed to create the "small school atmosphere." So if small schools are successful, what can we do in today's environment to keep them open?

So what's a new leader to do? I'm glad you asked.

Learners first — always

We must make sure that all children have an equal opportunity to succeed. It is obvious to anyone who looks at the course offerings that all things are not equal. It might not be necessary that they are equal, but all children should have access to the instruction that will get them to the standards the state has set. All children should have access to high quality instruction that will help them be successful and become the positive asset that our state and economy needs for the future. Each of the decisions regarding education should pass through the decision-making sieve of "Is this good for kids?" Too often we have been making decisions based upon issues other than what is best for our children.

Mandates: The bane of innovation and the guarantee of uniformity

Last legislative session, many legislators looked at the wide list of mandates that education groups wanted to have reduced. Most agreed that during a time of no money, we should be reducing the unfunded mandates and those that were simply not necessary. However, as the list began to circulate, it became obvious that the mandates were important to other folks, and they expressed the need to keep those mandates for specific reasons. As a result, there were perhaps six or seven mandates removed and another eight or nine added during the legislative session.

The stress on the educational system of continuing to require more with less is at a point of diminishing returns. There is only so much time to do all that is required, only so much time to submit all of the needed reports and only so much time for state-level folks to use the data. A great example of this happened a few years ago when the Minnesota

Department of Education required districts to complete and submit a special report, which had to be done by a particular timeline. During this process, one district superintendent had met with the individual receiving the reports in the department and found out this person liked a special Finnish coffee cake. So as part of the submission of his district's report, this superintendent included one of these fancy Finnish coffee cakes. A couple of months went by without any acknowledgement of the receipt of said cake. Then one day the superintendent happened to be in the department and stopped by the office of the official responsible for the reports. When the inquiry about how they liked the cake was made, the response was pointing to the pile of reports heaped up in the corner and saying they hadn't had the time to get to them yet. Upon finding the box and opening it up, the mold had completely covered the coffee cake!

Data is great if it has a purpose and is used, but there is no time for activities that will not make a difference in the process of teaching and learning or for collecting data that will not be used. Data-driven decision-making is only as good as the quality of the data and the utilization of the data. Many mandates were installed for good reasons, but like data, if it isn't necessary or funded by the state, it should be eliminated.

An example might be the requirement to publish minutes or announcements in a legal newspaper, generally a local newspaper, but not all districts have a local newspaper. They are forced to choose an area newspaper which might not be widely read. On the other hand, districts have the ability to post these items on their web sites, where almost everyone could access them. Another mandate provides for prevailing wage to be paid when a district does some construction or other work. Prevailing wage is set at the state average, which is usually higher than the actual prevailing wage in most rural communities. As a result, rural districts typically pay higher wages, which causes the costs of construction or remodeling to increase.

Technology and its impact on rural students

There is no doubt that the cost effectiveness of schools is dependent upon numbers. While these numbers do not always equate with successful learning, they do play a role in being able to provide equal opportunities. By the creation and continued funding of telecom equity aid, the legislature has recognized that there isn't a fair playing field in terms of access to the Internet. In fact, in parts of our state, the costs for access to the Internet can be 10 times higher than in those areas of dense population. Educators generally believe that some great learning takes place when the right teacher is in front of a student. But when it comes to the quality and equality of teaching, technology may be the great leveler. A recent development will allow the unused portions of over-the-air TV broadcasting frequencies to be used to provide Internet service in underserved areas. This system provides for a longer-reaching high bandwidth that is not as prone to changes in topography or trees. This could provide a better opportunity, along with greater bandwidth delivery, for students to receive instruction. There will also be new gadgets and technology that can be applied in the process of teaching and learning, but we must use a systemic approach to choosing the right tool for the right job.

The ability of some software to guide students while learning and then route them back to what they have trouble with, when coupled with a classroom teacher may provide new opportunities to ensure that all students learn. This changing role for classroom teachers from "sage on the stage" to "guide on the side" certainly will bring a point of discussion and perhaps contention. Nevertheless, technology is a major tool to be used to make sure that we reach our goal of all learners having the opportunity to succeed.

Recent years have been particularly hard on rural districts, which have had little room to cut as a result of limited funding. The importance of rural teachers having the ability to access content and provide a wider range of programming for their classroom is especially needed today. The state of Minnesota has to take a focused approach to what technologies will do the best job. When it comes to driving around the state, you will see every model of car offered for sale today. We all have different preferences. The same is true for technology coordinators and teachers. We all want to use what we know and are comfortable with, but it may not be the best option for the job. The state must provide leadership by training and providing for the shared purchase of proven technologies that will help students learn. This kind of focused approach will be a change from the way we do business today, but will result in a more uniform and cost-effective system that will provide learning opportunities for kids.

Special Education : The impact of cross-subsidy costs on education

Educators will try to help every child succeed. It is what we have chosen to do with our lives and what motivates us to teach. The Individuals with Disabilities Education Act law is supported by educators because it provides for that equal opportunity for children. The problem is that what has been required by law and what has been funded are two entirely different things. The requirements outweigh the revenue, and districts have had no choice but to transfer money from the general fund to pay for special education costs that are not reimbursed by the state or federal authorities. This "cross-subsidy" if paid in full would eliminate much of the financial burden for many districts. Districts in the state want all children to succeed regardless of how they arrive at the schoolhouse door. This issue is important to all schools and is a pivotal point of correction needed in state funding. Future leaders must demand that mandated expectations of schools need to be paid in full. Holding Congress accountable for financing the law they put in place and providing the state's share of the difference would have a major impact on the financing of education in Minnesota.

Shared Services: The art of survival in rural Minnesota

Most rural educators were surprised when it was suggested that we need to mandate cooperation. Cooperating through sharing is what has kept most rural districts in business. In addition, district officials have figured out the delicate balance of local business relationships and cooperative purchasing some years ago. Districts understand the need to purchase locally and yet need to find the best potential prices for goods and services. The shift of financing schools to dependence on local levy referendums has heightened this balance to an art form. Without the support of local business leaders, no district will pass a referendum needed to fund schools. With over 90 percent of districts using this electoral process to fund schools, they definitely understand how it works.

At the same time, we might also be moving to a new era of shared services in terms of the people we share. Many districts have become used to having their own business manager, superintendent, head custodian, or other experts in their buildings. Some years ago, the state provided incentives for districts to cooperate, for example, providing $100 per pupil in year one and $200 per pupil in year two to encourage cooperation. If the districts did cooperate, the funding would be extended. The state of New York goes even further, providing a dollar-for-dollar incentive to districts that cooperate with each other. As declining enrollment and financial pressures continue to squeeze down on school districts, these bastions of local schools are coming under new scrutiny. Never before have we had so many shared superintendents or part-time leadership in rural districts. School boards are looking for any way they can to ensure that they don't cut programs for kids, and the back-office functioning of a district is getting a deep review. Now is the time to provide for leadership in this change by offering incentives. These incentives could lead districts toward the savings they desire and maintain the high quality equal opportunities we all seek for kids.

A state investment in education that works for rural students

School districts cannot continue to find out what their funding for the next school year is after they are committed to staff contracts. There was a reason why many years ago the legislature told schools what kind of money they were going to be receiving over two years. That reason was because it allowed schools to adequately plan and adjust so that the system didn't suffer. There are only two variables to schools budgets: revenue and expenditures. Since schools are not like businesses where they can just sell more stuff, there is little they can do to effect immediate change to their bottom line. Referendums cannot be done at any time they are needed. This lack of information about what revenue is going to be results in districts having to cut teachers or programs to balance what schools think will be their budget. Many times teachers don't know if they have a job for the coming year, and districts have an impossible time preparing for the upcoming year. Minnesota leaders need to find a way to deliver a stable funding stream that districts can see well in advance.

We know that the first few years of a child's educational experience can determine their success or failure. Because we know that, we should provide the funding necessary to ensure their success, including early childhood programs and all-day, every-day kindergarten. This one event might have a huge impact on closing the achievement gap and ensure that we have successful learners in Minnesota.

All districts are not the same and neither are their needs. A "one size fits all" funding might not be in the best interests of kids when it comes to issues of facility maintenance, health, safety and energy costs. Since local school boards stand for elections the same as city, county and state officials, they ought to have much the same authority when it comes to decision-making. School boards should have some form of levy authority to pay for these items. This system might need oversight or guidelines of some kind, but for children to have equal opportunities to learn, some of these issues can get in the way financially. The place to start would be to provide levy authority for districts to deal with their health and safety issues, since these are funded with almost 100-percent local money. And rural school boards could benefit by having levy authority for facility maintenance to keep buildings functional in the long run.

Vision for the future — not always as clear as we would like

No one expected that being elected to a state-level office would be easy nor would it provide a simple process once you got there. A legislator once told me that the process of legislating is a lot like making sausage: it isn't that nice to watch, but end product is usually OK to eat. Right now we need leaders who are focused on the end product. Bold vision is needed to make sure that the most precious commodity our state has to offer succeeds. The choices made today will not come to fruition for a number of years, but without them our future is sure to be less than rosy. This vision must include all parts of our state being successful. This vision must include all children having the opportunity to succeed. This vision must be one that we can all believe in.

Making the Old Economy the New Economy

Doug Peterson

This year I participated in a conference where one speaker stated that in 40 years the world will need 100 percent more food to feed the world, and 70 percent of this food must come from efficiency and improved technology.

If those numbers are accurate, farmers need to continue their production of good, high-quality food, but we also need to take advantage of the impending new economy right in front of us.

In agriculture, the old economy may indeed be the new economy.

During a University of Minnesota conference, it was stated that by 2030, we will have a perfect storm in which the demand for food, water and energy will outstrip the supply. For farmers, this presents us with both a challenge and an opportunity to create a new economy based on our ability to feed the world, protect water and land resources, and provide energy.

We can only meet this challenge and this opportunity if we seize the moment to adopt new technologies and use our creativity in food production.

Farmers have always been the stewards of land and water, those precious resources necessary for high quality and quantity food production. Now, we will see a new demand for conservation of water, and it will come about both in policy discussions and adoption, and in real-life practice.

This perfect storm, made more complicated by the ever-increasing world population, means that farmers and rural areas must now look at real answers and real solutions to meet the needs this storm places in our path. The new economy will demand an independent domestic food supply for the United States, and a robust export economy to feed the world.

In the energy aspect of this new economy, we have taken steps to address the need with biomass, solar, wind, ethanol and biofuels. These, too, must have a solid independent supply for domestic use, and a potential for export as well.

The United States has a large rural land-base, and a significant farmer base to provide these critical resources of food and energy for this new economy. At the same time, we will be charged with an increased guardianship and stewardship for water resources. It will mean new technology development and implementation, and potentially new growing, cropping and harvesting systems. It may demand the creation of new jobs, underpinned by the conservation of water, and increasingly sustainable and measurable energy production.

Moving toward this new rural and agricultural economy requires investment at both the public and private levels. Much of the groundwork to do this has already been created in past congressional farm and energy legislation with biofuels, wind, and with the Renewable Electricity Standard and Renewable Fuels Standard requirements.

Our rural areas are the foundation of this new economy. Now, it will take hard work, and cooperation and leadership, from everyone from elected leaders to land owners, to conservationists, to all of us. We each have a role to play to bring this new economy to maturity.

To succeed, there will be requirements on how we produce energy; how we conserve and protect water; and how we grow and produce food. These requirements must be science-based, and common sense-based, forged and developed in transparency and open dialogue and debate. While moving toward a new economy with a new jobs model may test the patience and dedication of all involved, it is not only worth it, it may be our only choice.

As farmers and rural people, we must insist on being at the table as this new economy evolves. Independent farmers and rural citizens should control the direction of food production, energy, and water conservation.

The bottom line is that we as farmers will do our part. We have always done so. That is why the new economy — with its dependence on the full and active participation of the agricultural sector — will look a lot like previous economies: it will be food based, water and land protection based, with the participation of rural people. It will succeed because in the end result, farmers will do our part.

Without full farmer and rural participation, we would just have production without profit, production without protection, production at the expense of a socially and financially disadvantaged rural area, and a failing economy.

Using biofuels for energy would provide Minnesota businesses with profit delivered to our local sectors, fostering a healthy business climate throughout rural Minnesota that would create jobs that would enhance tax structure and economic future of all of Minnesota, yet be independent of the downturns and recessionary trends we have experienced because of our dependence on foreign goods, foreign energy and foreign capital.

Developing Minnesota industry and businesses based on Minnesota energy will avoid recessionary trends, which deprive rural Minnesota, and the whole state, of economic growth.

Property taxes have been going up dramatically for most of rural Minnesota over the last eight years, sometimes as much as 100 percent, and that has happened more than once for some farmers. We need to get control over tax cuts that end up dramatically increasing property taxes. It is simple to understand that if taxes are cut on the state level, that taxes increase on the local level, and there needs to be some common solutions to the problems of ever-increasing local property tax.

We need programs that help farmers enter and exit farming. We need to keep farmers on the land, and as independent operators, making sure that those exiting have the ability to transfer farm ownership to the next generation of farmers. As United States Department of Agriculture Secretary Tom Vilsack stated, anyone can grow up to become a lawyer or a doctor, but not everyone can grow up to be a farmer. Family farmers are conscientious of their practices and of the products they deliver. The food they raise is the food they eat, delivering a quality product at great financial risk. That is why we need to keep programs like the Rural Finance Authority around with the full capacity to help community banks support our current farmers and those who want to enter farming.

Resources must be made available to keep young people in rural Minnesota. Broadband accessibility and adequate and affordable healthcare are a couple of the biggest needs.

To have a real, new, rural, agricultural economy means we will take the reins, we will insist on helping create and drive this new economy, and we will, as Minnesota Farmers Union, fight for the economic interests and quality of life for family farmers and rural communities. The stark reality is that farmers can do everything right when it comes to crops being planted and marketed, but Mother Nature always bats last and always bats clean up. Farmers must swing for the fences and hit a homerun if they are to continue to farm and provide for their families while supplying a safe, abundant, affordable food supply for this state, country and the world.

What the Next Governor Needs to Know About Minnesota Agriculture

Chris Radatz

Minnesota's agriculture has a long history of serving as an economic cornerstone for the state's economy. According to 2007 information from the Minnesota Department of Agriculture:

- Minnesota agriculture (including production and processing) is the second largest economic sector in Minnesota.
- Agriculture is the second largest employer in Minnesota.
- Employment in agriculture and the food industry accounts for 15 percent of total jobs – 24 percent in rural areas and 13 percent in metro areas.
- Agriculture and food exports account for more than 20 percent of Minnesota's total exports from all industries.
- The "multiplier effect" of Minnesota's agriculture production and processing generates $55 billion in economic activity for the state.

What can the next Minnesota governor do to build on agriculture's strong economic cornerstone and rich history, ensuring that agriculture is a vibrant contributor to Minnesota's future? To answer that question we need to look at specific areas and examine the interrelationship between the state of Minnesota and its farmers and ranchers.

One of the biggest roles the governor of Minnesota plays in supporting Minnesota farmers and ranchers is developing and implementing state programs and policies that promote a positive business climate, one that encourages growth and investment by Minnesota farmers and ranchers and builds on the strengths agriculture has in Minnesota: people, technology, land, water and air.

By 2050, the world population will require 100 percent more food. The United Nations Food and Agriculture Organization (FAO) reports that added farmland will help produce only 20 percent of the additional food our planet will need in 2050, and 10 percent will come from increased cropping intensity. Accordingly, the FAO concludes that 70 percent of the world's additional food needs can be produced only with new and existing agricultural technologies.

Currently, Minnesota agriculture is a major producer of food in our nation and the world. We rank:

- First nationally in the production of turkeys, sugarbeets, sweet corn and green peas for processing
- Second for spring wheat, oats, dry edible beans, canola, and cultivated wild rice;
- Third for soybeans and hogs
- Fourth for corn, sunflowers, flaxseed and total crop production
- Fifth for total cheese and honey
- Sixth for dairy, red meat, barley and total agricultural production
- Seventh for all wheat, potatoes and total agriculture exports
- Eighth for total livestock production, and
- Tenth for cattle and calf production

Real leadership will be required of the next governor of Minnesota to ensure that we continue our current level of food production and also fulfill what some would say is our moral obligation to meet the growing food demands of the world as outlined in the FAO report. Agriculture is under daily attack for some of the technology and production methods used in bringing crops and livestock to consumers across the globe. Many of those attacks are clearly based on a lack of knowledge and absent any sense of reality. The next Minnesota governor must be able to look at the facts, set aside emotion and chart a course that will lead to the state of Minnesota being an important partner with agriculture and not a burden on the backs of farmers and ranchers.

Minnesota agriculture plays an integral role in supplying bio-energy to our state and nation, which lessens our dependence of foreign sources of energy. This new, developing opportunity for Minnesota agriculture does not come without controversy and will require a balancing act. We do not yet know what the next commercially viable source of bio-energy will be, but it is a safe bet that Minnesota agriculture will be an important player. Leadership will be required to sort through the controversies while continuing to support the current production of bio-energy, sending a strong signal that Minnesota is the place to invest in the future of bio-energy production.

Property taxes are taking a bigger bite out of the bottom line of Minnesota farmers and ranchers every year. In 2010, many in production agriculture saw double-digit increases in property taxes on their farm land. The next Minnesota governor needs to examine our property tax system, a system that was put in place years ago when there were more people living on the land and a closer relationship existed between the ability to pay property taxes and the income generated from the land. In more and more areas throughout the state, farm land makes up the majority of the property compared to residential or commercial/industrial property, resulting in farmers and ranchers paying a disproportionate amount of the cost of local government services, including schools, compared to other property owners.

The next Minnesota governor needs to look beyond the numbers. While the economic numbers on the important contributions of agriculture to our state and nation are impressive, agriculture is not just about the numbers. It's about people, it's about rural development, and it's about tradition. Thousands of farm and ranch families across our great state have worked the land, raised their families and passed on the strong tradition of agriculture for generations. Since 1976, over 8,000 farms have been recognized as being in the same family for 100 years or more.

Minnesota farmers and ranchers have a strong sense of community. They actively participate in township and county government, schools, churches and community organizations of all types. A key to this dedication to remaining in the community where they were raised is an education system for their children that ensures everyone has an equal opportunity to receive a quality education, which is not determined by school size, class size or where you live. We all need to work together to carefully examine our current education system, particularly how we fund rural schools, and implement a sustainable system for the future that meets the needs of students and employers of tomorrow's workforce.

Many who read this will have been born and raised on the farm or have close relatives who farmed. Every generation we become further removed from having close contact with a farmer and/or rancher. Today's farmer and rancher is not the same as they were five or even ten years ago.

Many of today's farmers and ranchers do not just use cell phones — they carry smartphones with them to check their emails. They regularly post stories about their farms and ranches on social media networks. They have global positioning systems installed in their combines and tractors. They have real-time data on how much and where fertilizer and crop protection products are applied. They know instantly how their crops are yielding and what moisture the harvested crop is at. They search the Internet for the latest scientific information to assist them in making management decisions.

Along with increased use of modern technology, Minnesota farmers and ranchers continue to explore ways to add value to their produce. Organic production, selling directly to consumers and participating in local markets are just a few of the marketing techniques today's farmers and ranchers are using to meet the demands of today's consumers.

Minnesota agriculture is a big tent with room for all. Minnesota farmers and ranchers live and farm in a large, diverse geographic area. They produce hundreds of different products and byproducts that are used daily in the lives of people literally across the globe. Their production comes from farms ranging in size from less than 10 acres to farms with thousands of acres, using many, many different production and management styles. Minnesota's next governor must be an advocate for all Minnesota farm and ranch families. There is no right size, production method or management style for Minnesota farms. All farmers and ranchers are part of the agriculture community that takes pride in meeting the growing demands of consumers.

Finally, Minnesota farmers and ranchers are looking for a Minnesota governor who will listen to them and engage them early and meaningfully in the legislative and regulatory process. Minnesota farmers and ranchers have a vision of a bright future for themselves, their families, their communities and agriculture. They look forward to partnering with Minnesota's next governor to achieve that vision.

Minnesota's Rural Health Care: There is no 911 to Call

Steve Perkins

An open letter to the next governor of Minnesota:

Most people know that if you have a medical emergency, you call 911. We still have many people in our smaller rural communities, however, that would say, "You call the doctor," and that is what my mother did a few years ago when my dad died of an apparent heart attack.

This may seem strange to someone who has lived in a more densely populated area (we call metropolitan areas) all their life and has not even memories of a more trusting, close, and caring life (some might mistakenly call it simple) of our smaller communities, not just in rural Greater Minnesota but throughout America.

Our historical rural lifestyle

Governor, we can only hope you have both a real understanding and appreciation for rural lifestyle. If not, then we in Greater Minnesota must take action to get you, Governor, and I might add, metropolitan legislators, into Minnesota's great vastness to understand its heritage and how this rural heart really works. I am convinced that if we look deep enough, we will find answers to many of today's complex problems our fore-parents also faced but learned to solve by simply working together, helping each other out, communicating with one another, sharing and sacrificing together. When all else failed, they renewed yesterday's prayers for cures and asked God to help them bear the grief or failure and to endure life's hardships. Maybe if families just practiced being families again, if we could revitalize the sense of community we once had and see a rebirth of faith-based and other community organizations, some of our problems would not be so insurmountable.

What does all this have to do with the problems we face in rural healthcare? It has everything to do with it. Rural people long ago realized that life was more than just quantity and a length of years, it was the quality of family, neighbors, friends and relatives, the community and everything it was and would be. Leaving this life only meant that you were going to a better one: it was called faith and everybody had it. The doctor was one of the town's most revered citizens. God healed people through his hands. The hospital was one of the key pivotal centers to each "big town" that had one, because after all only the big towns had hospitals, big stores and movie theaters, the circus, banks, and usually the courthouse. The hospital was where kids were born (starting just before WW II, when home birthing stopped, until today's natural birthing commenced), people had operations, and great healing occurred after heart attacks, strokes, pneumonia and a host of other ailments. Relatives and families always visited the hospital's patients. Most folks "had to leave the hospital and go home to rest up," I heard many times as a youngster while our family visited at the hospital.

Today's hospital and the community

Today's Greater Minnesota hospital is still the same institution. They still heal the sick and bring new life into the community, while some a few doors down depart this life for the next. Some hospitals still occupy the same original building, and the old timers refer to the Hill-Burton Act hospital as the "new one." They have been around a long time and always will be — or will they? Just who do you call when the hospital, the small town doctor, even the ambulance is sick and needs care?

What makes the question even more critical, pandemic to many rural towns, is that the hospital and medical clinic is a huge part of the local non-government economy. The best jobs with the highest pay are centered on the hospital. Other than the school, the hospital and clinic represent the citizens with the highest education. At the core of local leadership and volunteers, you find people and their families that in many cases are directly tied to the hospital's existence.

Let me use my own community of Luverne as an example. The situation here would not materially differ from other smaller county seats so prevalent in Greater Minnesota. The hospital and clinic represents the largest employer at 220 employees, and if our two nursing homes are added (another 265 employees), the direct healthcare industry is nearly 500 people, better than 10 percent of the Rock County workforce. Hospital and clinic revenues are over one-fourth of all the items included in our community's gross retail sales. Clearly the economic impact would have significant adverse effects if any part of our local healthcare delivery system left the scene. To further illustrate, our local hospital has analyzed the effect of losing one general surgeon. In just a short time, a loss like that can take a positive-bottom-line hospital into an unsustainable negative. Other support employees start to leave, and a difficult-to-reverse downward spiral commences.

While the numbers of the financial impact are direct and convincing, ask anyone in Luverne what would happen if the hospital closed, and you would hear about a lot more than financial effects. In my opinion, a hospital's closing guts a community like nothing else, even more than losing your school, because no one, not even the elderly, wants to live in a community that does not have medical care. Further, the community's leadership, volunteers, and pride suffer immense damage. In essence, the very lifeblood of the community drains away, and all of this "patient's" critical stats start to "yell" alarm alerts.

Let me further illustrate my point from a recent interview with Ben Winchester, research fellow at the University of Minnesota Extension Center for Community Vitality, about research he is in the process of completing on community leadership. Ben finds that every community has both its physical maintenance needs and also, but many times forgotten, its social maintenance needs. Small communities populating Greater Minnesota are not the same towns and villages of a few decades ago. Leaders were an abundant commodity into the 1980s when the World War II generation started passing from active community life to more passive roles, and a growing number actually began receiving for the first time in their lives versus giving. These activists were simply not replaced.

Today, Ben notes that in communities with fewer than 1,000 citizens, more than one in four community leaders will have to hold elected public office during their leadership career, but that number drops to just one in twenty for cities over 10,000. In addition to public office, our small rural communities have dozens and dozens of other private community, church and other non-profit groups to lead. Ben said, "To complicate matters the modern groups we are adding today are more activity oriented and less community centered."

The whole point, Governor, is for you to keep in mind with every bill you sign and every commissioner you appoint that every new increased regulation or requirement the state puts on essential community services has a cost. We only have so many leaders and volunteers in our rural communities to be volunteer ambulance attendants, firefighters, council members, Meals-on-Wheels drivers, leaders in the PTA, community clubs, Chamber of Commerce, our churches, the Red Cross, American Legion, and all the other groups and organizations that make our communities worth living in. If you make government so complicated that the mayor has to go to a host of out-of-town meetings to learn how to do this "volunteer job," then he or she won't be there to be on the ambulance squad. If you mandate more training hours for the EMTs or firefighters, we might have a better-trained department but so few volunteers that they cannot function. The hospital and medical clinics in rural Minnesota provide many of these leaders. Losing the hospital or seeing it decline will indeed have a big impact on the community far beyond healthcare and the walls of the hospital.

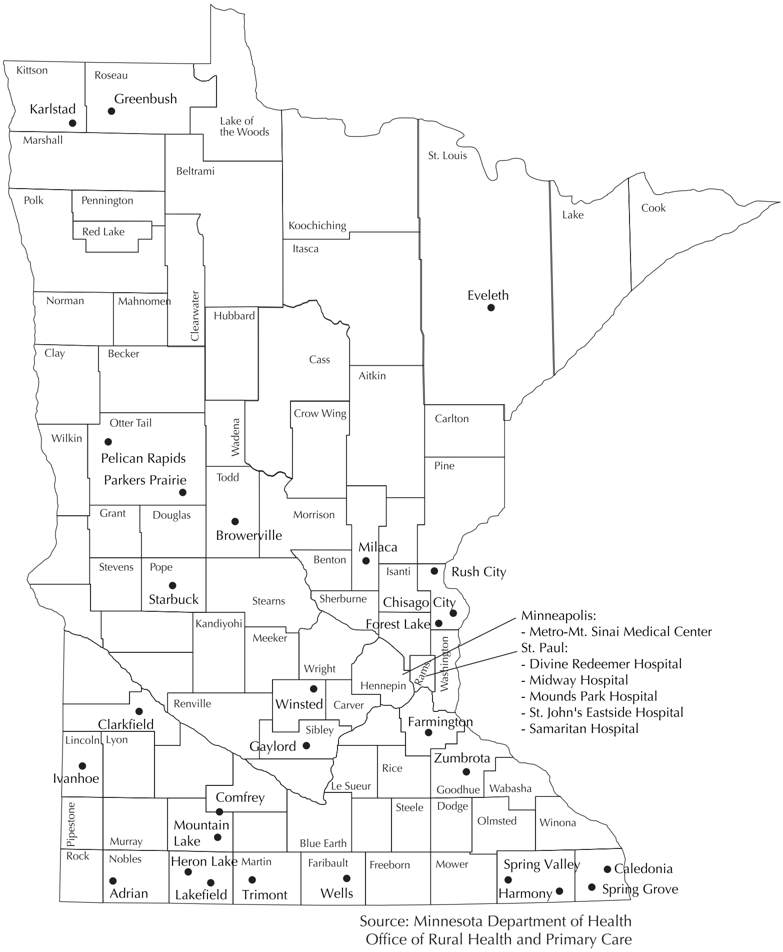


Figure 1: *Minnesota hospital closures, 1987 to present.*

The state of Minnesota's rural hospitals

Since 1984 America has lost nearly one-fourth of its rural hospitals. Minnesota had 168 acute care hospitals in 1987; today we have 134, and 28 of those 34 closings occurred in Greater Minnesota. The 1990s were particularly hard years and brought forth many rural facility closures. Figure 1 details those communities that suffered the hardship of closing a hospital. Many would argue that it is merely a sign of the times and necessary for the efficient practice of medicine. Likewise, hardware and clothing stores have closed.

Such is true, but nonetheless, the traumatic rippling effects throughout the community are far greater than a closing in the metropolitan area, where you simply travel to another part of the city for the same or better service, and there is no mass exodus of healthcare workers selling their homes.

Why did this happen? Many of the rural hospitals were simply too small to compete and maintain a strong market share in their ever-decreasing market area, combined with declining population. Lifestyle in the rural areas was changing and most doctors, particularly those entering the practice, did not want to pull 24-hour call in a two- or three-day rotation. Keeping a doctor in a small hospital setting with little money for new technology is difficult. Recruiting a new physician to such a facility and a small practice is impossible. Without doctors, these small hospitals soon starve out and close.

Will more follow? In my opinion the answer lies entirely in the ability of the hospital and the community to recruit quality physicians. Physicians will not come to an outdated facility or a depressed community. If the hospital's market area is not large enough to support at least three or four physicians and/or mid-level physician assistants or nurse practitioners, then the hospital should look at a different model while it has resources to change and become something new with longer-term possibilities. All of this will test the community's leadership to realistically look ahead and face the facts, the "hard, cold facts," never losing sight of reality, as Admiral James Stockdale, the highest ranking POW of the Vietnam War, would say. Many of these closures are related to more external factors beyond material control by the hospital.

Of course, there are internal factors that can lead to hospital closures as well. There certainly will be closings related to mismanagement. There are factors within the control of the hospital, which, if properly exercised, could positively affect its outcome and maintain financial viability. Just as businesses with potential close, the same factors affect hospitals, and most relate to having the wrong people in place at the wrong times. Hospital governing boards must exercise strong leadership and assure a competent CEO is at the helm. After all, it isn't just the hospital at stake but a large part of the community.

Critical Access Hospitals to the rescue

As previously noted, Minnesota lost a number of smaller rural hospitals in the 1990s. This phenomenon was not unique to us and, in fact, its effects were more pronounced in the deep rural areas to our west. In 1988 Montana became a Federal pilot project that was really the forerunner to our current-day critical access hospital. As Medicare's prospective payment system squeezed more money out of the reimbursement program and seniors required and demanded more care, rural hospitals with high percentages of elderly felt the pinch. The next year South Dakota got Congressional approval for its pilot project. In a few more years hunters, travelers, skiers, and hikers visiting from metro areas realized that even they may need emergency medical treatment in these well traveled but sparsely populated elderly meccas. Thus in 1997, after the closing of many rural hospitals, Congress passed the Medical Rural Hospital Flexibility Program, and the Critical Access Hospital (CAH) program began.

CAH allows smaller (25-bed maximum) limited-stay hospitals to be reimbursed based upon their overall cost of operation plus 1 percent. Usually, this reimbursement method amounts to more than the "one rate fits all" prospective payment system, where Medicare pays smaller, rural hospitals the same base amount as larger, non-CAH hospitals (with material adjustments based upon area and labor costs, etc.) for each diagnosis-related group ("DRG") illness or injury. For many small hospitals, it literally saved the day. It all depended on the case mix, the proportion of publicly funded to privately funded reimbursement. For many rural Minnesota hospitals, the case mix is about 50 percent to 60 percent Medicare, 5 percent to 10 percent Medicaid, and the balance private pay, with 1 to 2 percent charity care. The CAH program works well for these hospitals. It also helps for those hospitals with higher Medicaid, but it is not the complete life vest needed to stay afloat. Think of it this way: if you are only recovering your cost on half the business (Medicare) and you lose 15 percent on 30 percent of your Medicaid business, the 15 percent you make on the remaining 18 percent with 2 percent written off means you are still not breaking even. Thus CAHs in very poor areas

Source: Minnesota Department of Health
Office of Rural Health and Primary Care

***Figure 2:** Critical Access Hospitals in Minnesota.*

still have financial problems given the very low, below-cost reimbursements for Medicaid. Over time these hospitals will either have to change their case payment mix or risk closing.

Before Medicare closed the CAH program to new applicants, 79 of Minnesota's 151 hospitals converted to CAH status. The economic benefits for many were by and large continued economic survival. As the above analysis shows, it did not take a long time for communities to do the numbers. I remember the Luverne board advised the Sanford system to convert to CAH at one meeting; it was a true "no-brainer."

In fact, in the western 100 miles of Minnesota from Iowa to Canada (the part of Minnesota west of a line from six miles east of Fairmont to eight miles east of Baudette), there are only eight non-CAH hospitals remaining: Worthington, Fairmont, Hutchinson, Willmar, Alexandria, Detroit Lakes, Fergus Falls and Bemidji. Fifty-two CAH hospitals serve this 40,000-square-mile area about the size of Ohio and larger than 16 of our states. Imagine if these 52 hospitals had not been able to stay economically viable and only the eight non-CAH hospitals were left to serve this 43-county area — the western half of Minnesota's residents.

It isn't just about keeping the doors open, however. CAHs with a more typical case mix have actually been able to make significant improvements over the last 10 years to plant and equipment. Ronald Wirtz in the Minneapolis Federal Reserve System's *Fedgazette* pointed out in March 2007 that millions of dollars in new construction were being invested in district states. Of greater importance was the finding that a 2005 Stroudwater Associates and Red Capital Group study found that in 20 such improved facilities "admissions and total patient days increased, total staffing actually went down on an adjusted unit measure and earnings before various accounting charge-offs (so called EBIDTA) went up significantly." This report concluded that "rural communities that built new CAH hospitals not only experienced increased market share, but also report enhanced clinical performance, improved workforce recruitment and retention, and improved quality performance."

I can attest to this personally with Luverne's experience of building a new hospital and medical clinic. Not only did efficiency, quality and gross revenue increase, but becoming a CAH consistently adds significant sums, at least half or more of total margin, to the bottom line. Converting to a Medicare critical access hospital was an obvious choice, and many states, including Minnesota, did all they could within Federal rules and regulations to permit hospitals to opt in.

Make no mistake about it, the CAH program did save and continues to save many rural hospitals. Without CAH, western

Minnesota would have more than eight hospitals, but many current CAHs that are clearly needed to provide emergency and convenient hospital care to considerable numbers of residents would not survive. In 2008, a decent year for hospital operations, 10 of 78 Minnesota Hospital Association CAH members had negative operating margins. Nine more had margins below $300,000. Given the minimum $500,000 ball park increase that CAH brings to a hospital's bottom line, it is conceivable that one-third to one-half of our current CAH hospitals could close in a five-year period if the CAH program were discontinued. Many of the remaining would be wounded soldiers in the community health fight. It truly is about access and maintaining basic life-sustaining services in our rural areas.

How far should people live from emergency medical care and at what population density? Is it acceptable that large areas of a thousand or more square miles (like Rhode Island or Delaware) with populations of 25,000 or more people would not have a hospital? Our climate does not allow for consistent air rescue and pick up or even dependable ground travel. Financial savings statistics would not soothe the nerves of a heart attack or hunting gunshot victim facing a 60-plus-mile trip to the nearest hospital. We have a greater percentage of auto accidents with deaths and serious injuries in rural areas. In America, 25 percent of the people live in rural areas, yet only 10 percent of our doctors practice there. CAH does more than keep rural hospitals open: it also allows them to recruit physicians and other health professionals essential to even basic-quality health care. Without the CAH program, much of rural Minnesota would be a medical ghost town.

While the CAH program breathed life into many rural facilities, it is not a perpetual panacea. In the long run, no one can operate a growing portion of their business on a 1-percent margin that does not allow 100 percent of the costs to be included; it also calculates the costs historically and does not pay prospectively. The small hospital still needs more, and if it is to continue to replace plant and equipment, it will need more debt coverage ratio than CAH provides. CAHs must have a constant eye on their patients' payers and also may need the financial horsepower of a larger system to borrow the money for needed future major capital improvements. The old days of saving up are no longer possible. If your community is dying, the hospital might not be far behind. As Mitch Leupp, CEO of Mountrail County Medical Center in Stanley, N.D., said about CAH in the Wirtz article, “It is not a silver bullet.”

Charge vs. cost: no relationship

Hospitals flourished in the 20 years following World War II. Medicare became a reality, and what had been a service financed by the private sector started to grow with the effects of tax dollars subsidizing the cost of care. We also expanded care for the poor from a mostly charity care-based system to one of government medical assistance or traditional welfare. Spurred by these new revenues, just as the technology explosion started, we experienced great strides and advances in medical care. At the same time, even small business started to offer employees and their families the benefit of free or reduced-cost healthcare insurance. In essence, families found a product that they could consume, and they only had to pay part of the cost.

Soon not only did patients stop asking the cost of a treatment or alternatives, but even doctors and hospitals stopped giving prices. It became too difficult to even give a price, and no one really asked anyway because someone else was paying for such a large part of it. In the 1970s and 1980s consumerism drove legislators to require morticians to give itemized charges, auto repair garages had to give estimates and could not bill for increases unless prior approval was given, landlords had to detail damage deposit withholdings, grocery stores had to show unit pricing, and a whole host of other such proposals hit the legislative bill hoppers, but doctor and hospital bills became incomprehensible even by the best educated. It really was more of a joke, because after all, Medicare or insurance handled these details.

The effect became even worse, in my opinion, on physicians and hospitals. So much time was spent on analyzing numerous and now dozens and dozens of reimbursement payment systems, healthcare providers forgot to do what every other industry does, real cost accounting. Setting the price became more a guess and simply a percentage increase over last year and had little, if any, basis in the actual cost to provide such item or service. It was found in the $5 aspirin. To the public it generates more laughs than serious questions to the provider because someone else is paying the bill. To providers, they realized that it really does not matter because no one pays the "retail rate." Medicare has its way of paying, and medical assistance another, then the "Big Blues" negotiated hard for deep discounts. In essence, nobody with government or private insurance has a real idea of actual cost; even the doctors and nurses providing the service often cannot understand the system. As healthcare spending accounts (HSAs) are more fully understood by the consumer, questions and behavior are starting to change.

For a number of years I have asked almost every hospital or clinic CEO and CFO if they could tell me the costs of the various services they provided, much like I could tell them the exact cost of cut steak or a raised pig from my former businesses. To this day I have never found one that could. Some mentioned doing analysis when a new service or product was offered, but it really came down to what they could charge and what Medicare or some other large insurer would pay. Whether we made or lost money on an individual item or procedure seemed to be largely irrelevant. I did hear a lot that cost analysis in medicine cannot be done, because every person is different. The same could be said for many other industries. I do know that every pig is not the same: some get sick, some die. But understanding in detail the costs and the cost drivers and differences is critical to managing costs.

As costs continued to rise, the government programs simply cut more and more, which shifted the costs to the conventionally insured. The powerful big private insurers had more power and negotiated deeper discounts. The whole pricing system became absurd. One way to look at this is to look at what hospital-stated charges are versus actual payments (net revenues) received (not including bad debt), or in Medicare terms the "CMS charge-to-cost ratio," which is over 250 percent for Minnesota. Minnesota Hospital Association data shows that in 1988, stated charges for all hospitals were $3.2 billion and the amount actually paid (net revenue) was $2.6 billion, about a 20-percent discount. Twenty years later (2008) it was $26.2 billion and $12.2 billion respectively, more than a 50-percent discount. (This also represents an 8-percent gross cost inflation rate versus a general CPI rate of less than 5 percent.) Stated charges listed by a hospital is of little value in understanding what a hospital is unilaterally "given" by the government or "negotiates" with private insurance payment plans. While CAHs may appear to have some advantage in that costs are recovered, this really is only in an aggregate sense, and thus understanding what individual procedures and services actually cost is still imperative.

CAHs and reform: the art of politics

Today, Governor, with all the discussion of health care reform, for all the politics that have been played, and all the talk of change, it is the hope of many that we could truly look at healthcare through non-political eyes and hear the concerns of people without filtering the sound waves through partisan ears. If we do, (to paraphrase the Hippocratic Oath) maybe we can actually "prescribe regimens" that are accountable and monitored, and above all "never do harm" in the same way a lot of small rural towns apolitically decide issues of small and great importance.

For at least 30 years we have seen healthcare costs in aggregate rise by at least double the growth rate for other major economic sectors. Overall healthcare costs have risen to about one-third our entire national economy. We have heard from Washington a lot that the real concern is not only the percentage when compared to other industrialized countries but the trend. We continue to see costs rise substantially faster than the general growth rate of the economy. As Alan Greenspan told the American Hospital Association at its 2008 annual meeting, "If healthcare costs continue to rise like they have in the past 30 years, they will exceed the entire GDP in the next 30 years." He quickly went on to acknowledge that

that was impossible by definition, but it detailed a hard fact: the increasing healthcare cost curve has to be more than bent. It needs to be cut, particularly with the pending increased utilization by Baby Boomers.

Not only is the Federal budget busting over healthcare costs, but we finance healthcare reform by taking $500 billion out of Medicare to finance coverage for all while Medicare is already underfunded. *The Wall Street Journal* on January 8, 2010, noted that premier providers like the Mayo Clinic have started the process of no longer accepting Medicare patients at one of its Arizona primary care clinics. It is part of a two-year-long pilot by Mayo to see if additional facilities should be added. Clearly half of America's doctors will not take Medicaid and a rural Minnesota dental patient may have a day's drive to get essential dental care. State budgets including our own are also strapped with higher and higher healthcare costs.

So what about the American family? I recently saw data that shows American families are spending only 5.9 percent of their disposable income on health care. If it is a third of the economy and we are paying less than 6 percent of our pocketbook dollars, it seems no wonder what the problem is. What would happen if someone else paid such a significant part of our housing costs? What about food? Or clothing? Wouldn't everyone desire the penthouse apartment in the luxury apartment complex? We would all be shopping in the most expensive deli and eat at the best restaurants. For clothing, only the very best. The point is that the demand for healthcare service is nearly endless if the controlling buyer is only paying 25 or 30 cents, at most, on the dollar.

Now I can hear the feathers ruffling already, saying, "Healthcare is a right" or "We must have equal access for all regardless of financial status." I will not debate the point because I really believe only a very few would argue that we should allow sick people to die on our streets or be turned away from our hospitals because they have little or no ability to pay. To any who would advance this argument that medicine is a 100-percent personal responsibility, I would simply say, "Fine, you can site at the door to the emergency room and tell those who cannot pay to go away." Hospitals are the only business I know that are mandated by law (and have been for many years) to serve their customers knowing that they cannot pay anything. Truly, America is a Good Samaritan society, and we want to see our less fortunate friends and neighbors treated and cared for. I would, however, also advance the point that isn't food, clothing, and housing also essential for life? We could also discuss education. The point is, Governor, we have to look at the cost and services provided even for the absolutely essential things for life. Not every part of medicine is essential for life. Capable individuals must also be accountable and responsible for that part of their wellness under their control.

This is where we can look back at what we find in almost every small town in Greater Minnesota. First, it is the core part of the community and its people that we are like a large family. If someone is sick, we care for them. We read their names in the newspaper and pray for them in church. Their condition is a topic around the coffee shop and the dinner table. It is a common occurrence to have a flier advertising a benefit dinner or auction to help someone in need. I honestly believe most small towns would start unraveling if homeless people curled up in downtown store alcoves. We not only have the same government programs as are available in the metro areas, but we also have massive communitywide support. Our churches, community funds and organizations are always helping. Charity and caring starts with each individual. It still happens that misbehaving kids are corrected by their community "parents."

Whatever you do, Governor, please support this spirit that has glued us together from the days when it was all we had and the prairie fires, grasshoppers, and drought challenged our very existence. Make fun of it or whatever you will, but there is not enough money in our state or the entire country to begin to pay for public programs to replace America's and particularly Minnesota's commitment to one another so materially demonstrated in its small towns and rural areas. We take care of each other. Please, "never do harm" in this area.

So what comes next for our rural hospitals and Greater Minnesota healthcare in general? With the newly enacted Patient Protection and Affordable Care Act and the accompanying reconciliation act, what can we expect?

In reviewing the new law, there is some good news for rural Minnesota hospitals, but also the potential for adverse items. For example, the new law will give a 10-percent increase in Medicare reimbursements to primary care physicians and general surgeons in medical professional shortage areas (almost all of rural Greater Minnesota), but on the other hand, Congress instructed a new Independent Payment Advisory Board to cut $13 billion from CAHs and physicians for FYs 2014-2020. While CAHs will now be able to participate in the outpatient prescription drug rebate program, there are penalties for even CAHs that fall in the bottom 25th percentile of hospital-acquired infections.

Clearly 30 million new people coming into the system with insurance cards in hand will have a big effect. While the effect in Minnesota may be felt less here since we have one of the lowest uninsured rates in the nation (number two behind Massachusetts), the payer mix could change. Depending on what a hospital's patient payer mix is, it could be good or not so good. This demand for primary care physicians could steal away our docs or those likely to replace them.

Generally speaking, but depending on what the Minnesota legislature does, we may see people actually moving from lower reimbursement rate Medicaid to private insurance plans. Minnesota currently covers families with children to 175 percent of the Federal Poverty Level and 150 percent for couples under Medicaid with its well-below-cost reimbursement rates. The new law takes this down to 133 percent and includes singles, which Minnesota covers by General Assistance Medical Coverage with even lower reimbursement rates for this very transient and multiple-illness population. If those "higher income" Minnesotans now covered by Medicaid find their way to private plans with individual tax credit premium subsidies, reimbursements could rise significantly. Individual state legislatures will have the right to determine if additional subsidies are due to various income levels over what the Federal government provides.

In essence, it is difficult to determine how the new law will affect individual hospitals and providers without further analysis. Generally it should provide more money to well performing high quality hospitals (most in Minnesota are).

In the longer term I think we could well see a push for small individual hospitals to, at a minimum, coordinate and collaborate regionally. As the complexities of reimbursements and performance regulations increase, the need for more analysis and management talent also increases. We have seen this trend over the last 20 years. For example, in the far eight counties of southwest Minnesota, only one hospital is still independently owned and managed, while the balance are either owned or managed by one of the two large Sioux Falls-based systems — Avera or Sanford-MeritCare. In fact, Sanford MeritCare is now the largest rural healthcare provider in America.

The world gets even more complex in Minnesota as we look at a legislature that desires even more reform. So-called "baskets of care" is now the law, and while no hospitals have signed up to provide care at predetermined rates for certain treatments and/or chronic illnesses, it could well be a sign of what is to come. We are seeing providers that are applying to become Minnesota "healthcare homes." In this program providers get monthly payments, between $10 and $60, to manage and coordinate the care of those with chronic conditions. It is hoped that with close management, outcomes can be improved and cost reduced.

Conclusion

In the end we do know that Americans spend up to 150 percent to 250 percent more on healthcare than any of the other industrialized nations. A number of physicians and medical practitioners would argue that these other countries get very good results, better than ours. Others would say there are problems in the data. It is true that we do an excellent job of medical treatment in America, which accounts for around a third of an individual's overall health. The second third relates to genetics: no one can cure poor genetics, but clearly the way we live our lives can reduce adverse odds and has everything to do with the last third, lifestyle and wellness. Most of America's healthcare cost is paid for by either the state and/or Federal government or private employers. Our international competitors by and large provide it as a government service paid for with tax revenues. Can America continue to compete if we finance our healthcare on our goods and services through employers?

Americans and Minnesotans clearly are saying they do not want to pay higher taxes but at the same time really have not shown any great desire to reduce consumption of government goods, particularly healthcare. Is this any surprise? Wouldn't we expect any good or service paid by and large by someone else to have increased consumption? There is little financial incentive for even a wellness lifestyle. Thus, until we deal with a realistic demand, either free-market based or artificial barriers (rationing), the present trend will most likely continue and providers will see smaller and smaller government reimbursements for services provided to an ever-increasing patient base.

The inefficient provider will fail, and those who do not know their true costs and work to reduce "the losers" will fail first. No one has the perfect crystal ball, but it is quite likely that we will see more and more "pay for performance" type reimbursement programs, and the likelihood of seeing parts of the former HMO like fully (or partially) capitated plans or baskets of care for disease specific treatment are high. It likely seems to be the only politically acceptable way to control demand. If we cannot control the aggregate cost through free market economics because everyone is entitled to quality healthcare, then the only way to control demand is to assure that only the most efficient best practices are being followed and paid for. How this will all work in the world's — beyond question — most litigious legal system remains to be seen. It is possible that we will see an expansion of what I call the "concierge physicians," those who for a fixed subscription fee provide 24/7 private medical service to their patients, which may simply be the beginning of a two-tier healthcare provider system.

While the future will be challenging, particularly for rural providers, I am convinced that the best and brightest providers will survive by finding their proper niche. Unfortunately for those that cannot, their rural communities will suffer a very big blow, when one of the traditionally best contributors to the community's financial and social capital will be gone, never to return. For them, there is no 911 to call.

Rural Minnesota Cities at Risk: State Leaders Can Take Steps to Curb the Trend

Jim Miller

When the new Governor and Legislature take office a few short months from now, their collective energy and attention will be directed to how to solve yet another state budget deficit, most likely several times larger than the $1 billion deficit that proved so difficult to resolve in the last session. The task will be even more difficult because most, if not all, of the relatively easier options have already been implemented; stark choices between deep service cuts and higher taxes will be the reality.

For cities across the state as well, budgets are at the top of the list of concerns today and when looking ahead. The economic downturn afflicting the state and the nation has hit greater Minnesota cities directly in the form of foreclosures, unpaid utility bills, rising unemployment, business closures, and indirectly as the state, buffeted by the economy, cuts local government aid and credit reimbursement payments. City officials are burdened with balancing their budgets in light of these financial stressors. They struggle to do so in the face of rising expectations from residents and business owners that they will deliver quality local services with little or no property tax increases.

Over the past few months, the League of Minnesota Cities has administered two research projects and also conducted anecdotal tracking of city budget actions in an effort to better understand the depth of fiscal challenges facing our state's communities.

City officials pessimistic about future finances

Recent survey data from the League's 2010 *State of the Cities* report shows that most city officials are very pessimistic about their cities' financial circumstances. Greater Minnesota city officials were slightly more likely to express optimism about their fiscal conditions in 2009 and 2010 than were officials in cities within the seven-county metro area. While 92 percent of metro cities indicated they were less able to meet their financial needs in 2009, 76 percent of greater Minnesota cities offered that response. While the same holds true for looking ahead to 2010, the gap does narrow a bit (87 percent metro vs. 76 percent greater Minnesota).

Many greater Minnesota cities that responded to the survey were spared the cuts to Local Government Aid in 2008, 2009 and 2010, but did experience significant reductions to credit reimbursements for 2010 as a result of the supplemental budget passed by the State Legislature and signed into law by the Governor. Given the magnitude of the state's projected deficit for the upcoming biennium, there is serious concern within the city community that future cuts will certainly occur and will likely impact all cities.

Other *State of the Cities* report data shows that city officials in greater Minnesota are more likely to expect recovery from the recent economic recession to take a significant amount of time. While four out of five metro officials predict that their cities will recover in the next two to five years, only half of the officials in greater Minnesota share that view. The portion of greater Minnesota city officials who consider recovery to be more than five years away is more than twice as large as the portion of metro officials that do so. Cities in the metro area and in greater Minnesota report many symptoms of the economic downturn at similar rates, including unpaid utility bills, unpaid property taxes and requests for tax and utility bill payment deferrals. In the seven-county metro area, almost two-thirds of cities have witnessed business closures while slightly more than 40 percent of greater Minnesota cities have done so.

Some budget decisions made at the state level will, of course, affect Minnesotans regardless of where they reside.

An increase in the state income tax rate would impact people with similar incomes the same whether they live in Afton or Warroad. Yet, most certainly, some decisions will affect residents differently because of where they live. Those cities that are heavily dependent on local government aid, for example, may see significant erosion in their budgets if that program is cut again, as it most assuredly will be considered. For residents in those cities, which disproportionately are in greater Minnesota, the impact will be higher property taxes, fewer services, or both.

City budget-balancing strategies include service cuts, capital reductions

Since December 2008, the League has been informally tracking — through compiling news clips and collecting member city anecdotes — budget-balancing strategies undertaken by cities throughout the state. Administrative cuts, capital cuts, and park cuts are most common among greater Minnesota cities. Administrative cuts can mean a reduction in staff hours, which may limit the time that staff is available to serve the public or may lead to longer processing times for licenses or permits. Other administrative cuts taken by greater Minnesota communities include decreasing training and travel budgets, hiring fewer part-time seasonal staff, and reducing or eliminating overtime.

Capital cuts have come in the form of delayed or cancelled building or infrastructure projects and equipment purchases. Several cities have put off purchasing new squad cars for the foreseeable future. City residents may see fewer lifeguards, have fewer options for summer recreation programs, and encounter longer grass in city parks due to cutbacks in parks and recreation services. Other difficult budget-balancing choices include closing community centers, reducing hours at senior centers, or scaling back funding for playground equipment.

An individual city's options, of course, are limited by the menu of services it provides, its local ordinances and policies, citizen demands, and opportunities for raising revenue. Regional centers have taken a greater number of actions, likely because more options are available to larger cities. Regional centers tend to serve residents of surrounding communities and offer more services than smaller rural localities. Of the cities included in the LMC tracking list, regional centers have taken an average of 15 actions while the average non-regional center city in greater Minnesota has employed just five strategies.

Cities can only make cuts in areas they control. In interviews conducted as part of another study completed for the League by the Hubert H. Humphrey Institute at the University of Minnesota, several officials from small rural communities expressed the difficulty in making cuts when there are few services from which to make cuts. City officials were also asked about service cutbacks or elimination on the League's survey. Greater Minnesota cities were more likely than metro cities to maintain the level of service cuts and less likely to increase the level of cuts. No metro cities reported not having authorization to make service cuts while 6 percent of greater Minnesota cities did. In the area of law enforcement specifically, greater Minnesota cities were slightly more likely to make changes to the way in which this service is delivered than to make cuts to the level of service (10 percent vs. 8 percent). It is also true that cities with small staffs do not have the option to reorganize departments or gain significant savings through furloughs or wage freezes. Survey data shows that metro city officials were more likely than greater Minnesota officials to report decreasing the workforce over the last year (53 percent vs. 21 percent). Almost three-quarters of greater Minnesota cities reported maintaining the size of the workforce over the last year.

For decades, Minnesotans have taken for granted that regardless of where we lived or traveled in this state, we could expect to receive essentially the same level of basic local government services. Needing police attention in Winona or Wayzata was expected to, and for the most part did, result in the same type of response. That has been changing in recent years as the state's budget dilemma has grown and funding for programs such as local government aid were consequently reduced. The result is a growing disparity in the ability of

Minnesota's 854 cities to provide similar services. While not exclusively a function of geography, many communities in greater Minnesota are among the most adversely affected.

This has not been the result of an overt policy shift; rather it has occurred because of the cumulative effects of individual decisions about where to find money to balance the state budget, with programs important to cities often being the choice. This outcome might even be described as an unintended consequence since most of the attention has been on solving the budget problem and not so much on understanding the consequences of those decisions. The salient question facing the new Governor and the 2011 Legislature is whether this kind of piecemeal public policy making can continue without even more negative results. Hopefully, our new state leaders will make difficult budget decisions having first answered such important public policy questions as: Do we want to sustain a vibrant rural Minnesota, and what are the consequences if we don't?

Nearly all cities face deficits by 2025

At the core of the Humphrey Institute analysis mentioned earlier was a projection, based on historical revenue and expenditure trends, of what city budgets would look like in the year 2025. Overall, cities across the state will face a deficit of 30 percent of revenues by that year. When considering cities outside the Twin Cities metropolitan area, regional centers will have a 2025 deficit of 30 percent of revenues. Other large cities as a group will face a 2025 deficit of 25 percent. Small cities in greater Minnesota will see a deficit overall of 29 percent in that year, and exurban fringe cities as a group will face the smallest deficit — 9 percent in 2025.

As important as the question of how we can retain an effective state/local fiscal partnership to curb these disturbing projections is, we know there are also many other stresses facing communities outside the metro area — declining and aging population; inadequate housing stock to meet job growth when that does occur; in other instances, a workforce lacking in numbers or training to attract growth; distances between cities that makes collaboration to provide services difficult if not impractical, and more. Solutions, on the other hand, are much more difficult to identify. One-on-one interviews with city officials across the state conducted as part of the Humphrey analysis shed some light on how these trends impact city conditions. One official from a small rural community discussed the challenges changing demographics have created for the city. That official's city has been unable to retain younger residents due to a lack of job opportunities, and the city is feeling this loss through a decrease in local tax and fee revenue. The city now has more elderly residents than school-age children. Other communities expressed concern over the fact that many seniors live on fixed incomes and, thus, are sensitive to property tax increases.

Information garnered from the interviews showed that another rural community is meeting the challenge of population change by taking a leadership role in helping residents understand what the demographic shift means. The city has held community meetings to explain potential impacts on families and city services. That city is also working with banks and utility companies to print bills with larger, easy to read text. Yet another city official commented that his city will hope to retain its elderly population thanks to inexpensive housing and easy living.

Through all this demographic change and the fiscal stress it brings, it seems increasingly clear that cities can no longer expect the state government to be the great equalizer. Communities are going to need to find local solutions to local problems. To do that, the state will need to loosen its hold on local governments. When the "Minnesota Miracle" was embraced in the early 1970s, it meant not only relatively uniform revenues for cities, but with that, the expectation that cities would be more tightly regulated. In addition, with state funding came an increasing number of mandates which have proliferated over the years adding cost for local governments as well as inflexibility. The new Governor and Legislature should rethink this part of the state/local relationship: if the revenue side of the partnership is no longer relevant, then neither should be constraints on local control.

State can take specific actions to ensure a better future for cities

Aside from this overarching and important public policy issue that must first be addressed, there are specific actions our state leaders can take to help secure the vibrancy of rural Minnesota, starting with mandate reduction. Virtually every year, legislators ask local officials to submit their list of those state imposed mandates that, if relieved, would have the greatest benefit. Those requests, while undoubtedly well intentioned, yield little or no results. Why, for example, should local governments be forced to publish official notices in a newspaper when other media may reach more residents? Of course, every mandate has its own constituency, and preserving any particular mandate may not seem especially onerous to legislators, so the newspaper lobby preserves this anachronistic requirement year after year. Cumulatively, however, mandates increase the cost of providing local services and limit flexibility and creativity.

Additionally, revenue options for all cities are limited by state statute. Cities do not have general authority to impose a local sales tax, but can only raise revenue through the property tax, and fees and charges. According to the interviews done as part of the Humphrey Institute research, many cities strive to maintain a flat property tax rate. Others try to keep the rate low while also providing the services their residents have come to know and expect. Several of the smallest greater Minnesota cities interviewed acknowledged that, due to state aid cuts and rising costs, property taxes will likely go up in the community. The survey results show little difference between the share of greater Minnesota cities and metro cities reporting property tax increases for 2010. The survey does indicate a difference in the share of cities raising fees, charges and licenses. Almost half of metro cities reported increasing these revenue streams while just one third of greater Minnesota cities did so.

To offset cuts in state aids to cities and to minimize constant property tax increases, cities need more flexibility in raising revenues. Cities must currently petition the Legislature for local sales tax authority and, even on rare occasions when granted, the authority has been for limited purposes. In recent years, the Legislature has become increasingly reticent to grant even that limited authority. Certainly not all cities in greater Minnesota could benefit by having the ability to impose a local sales tax, but many undoubtedly would. City council members are in a much better position to decide if a local sales tax makes sense than are legislators.

Rural communities also need a stronger state commitment to infrastructure, especially roads and broadband. The geographic disadvantage of distance facing many communities cannot literally be shortened, but it can be addressed. The economy of many outstate communities depends on a good road system to get products to market, and our investment in that part of the transportation system has been woefully inadequate. Likewise, more than ever, rural communities need high-speed Internet access to attract and retain business and allow children in those communities to compete with their urban counterparts.

Land use controls (or lack thereof) are yet another area in need of gubernatorial leadership and legislative reform. Many communities in greater Minnesota find that their economic vitality is strangled by development just outside their borders. While township government is an important part of Minnesota's heritage, current land use laws do not encourage compatible co-existence between cities and adjacent townships, but rather are often the source of non-productive competition. Township residents benefit from strong cities and they, in turn, are part of the city's economy.

Developing incentives to promote collaboration among cities is also another way that state and local governments can work together, though geography is a strong consideration. Cities that are located in close proximity to other communities may have more opportunities for collaboration or consolidation of duplicative services than extremely rural cities. Almost one-third of metro area city officials responding to the *State of the Cities* survey reported increasing inter-local collaboration while just 10 percent of greater Minnesota cities did so. Rural cities were more likely to report not having the authority to increase collaborative agreements (21 percent vs. 2

percent of metro cities). One area where many rural cities have collaborated is in law enforcement. Many cities contract with the county or other local entity for coverage in the community.

It is clear that Minnesota will have fewer resources to invest in its future. Rather than making those decisions based on immediacy or politics, the state would be well served to have an overall vision of where and how state investment will have the largest return and benefit. Answering questions such as how can the resources of greater Minnesota help the state compete in the global economy and what needs to be done to take full advantage of that potential will be increasingly important. That kind of vision would undoubtedly reveal the wisdom of strategic investment in rural Minnesota.

All that said, however, it is clear that the success of greater Minnesota will increasingly fall on the shoulders of those who live there. That success will demand greater creativity and a willingness to break down long standing barriers and ways of thinking. It will no longer be helpful to think in terms of “city,” “school” or “county” problems or responsibilities. Rather, they must be seen as *community* challenges and opportunities. Simply because the city or school district has traditionally provided a service does not mean it continues to make sense, and local officials will need to be willing to look at how best to meet community need regardless of how that might change how things have been done.

Rural Minnesota and the Great Recession: A Look at St. Cloud and Beyond

King Banaian & Rich MacDonald

St. Cloud, Minnesota, grew from its inception as a trading post for pioneers in two main directions. Like other river cities of the upper Midwest, it provided a transshipment point for farmers sending goods out and receiving finished products into their homes. It also developed fairly quickly its own resource extraction in granite. (It is referred to as the Granite City to this day; its former minor league baseball team was called the Rox.)

Today, the city and its surrounding communities compose an area of about 200,000 inhabitants, making it the fourth-largest metropolitan area in Minnesota (after the Twin Cities, Duluth and Rochester.) It has grown into a regional retail center for Central Minnesota, an education hub with over 20,000 students in colleges and universities, and a regional health care provider through the St. Cloud Hospital and its affiliated medical practices. It has a workforce over 100,000 and area personal income of $6.12 billion in 2008.

Calling St. Cloud a "metropolitan area" carries a connotation that it has changed from its roots. Whereas nineteenth century St. Cloud had much of its trade oriented between St. Cloud and rural Minnesota, by the twentieth century it had started to think of itself as an exporter to the world. From the granite of its quarries to the catalogs and legal forms of its printing presses, St. Cloud imagines itself as engaged in world commerce. In the 1950s and 1960s, the area diversified its manufacturing base and embraced its location as a regional shopping hub by building Crossroads Mall, which spawned a host of other retail shops and restaurants.

The city estimates that shoppers from surrounding areas double St. Cloud's population on weekends.

This is thought to have changed the structure of St. Cloud's economy. By structural change we mean that the direction of trade has moved toward a more global orientation. The area has not just more diversification in businesses, but diversification in customers and suppliers. In addition, St. Cloud remains vulnerable to structural change in the allocation of employment opportunities between goods-producing and service-providing industries. St. Cloud has historically enjoyed a disproportionately large share of manufacturing employment. As economic trends have led to more job opportunities in service-providing industries, the share of jobs in the goods-producing sectors of the St. Cloud economy has declined. This change in structure is also apparent in many rural communities around the state.

Many rural communities are also being forced to confront the effects of an aging workforce. While St. Cloud is not immune to the change that results from an aging population, these demographic forces are tempered by the existence of several major institutions of higher education in the St. Cloud area (and the associated influx of young people). In this regard, St. Cloud benefits from a population mix in a way that many rural communities are unable to enjoy.

For the last 11 years, the St. Cloud Area Economic Development Partnership and St. Cloud State University have collaborated on a survey of area businesses regarding the level of economic activity, employment, wages and prices they have experienced and expect to face over the near future. These data are reported in the *St. Cloud Area Quarterly Business Report*, which we have both authored since 2003. The response rate is over 75% most quarters, providing us with a good sample of the experiences and attitudes of St. Cloud business leaders.

There has been no more exciting time to write the *Report* than in the recent period we call The Great Recession. It has led to reflection on what St. Cloud's role is in the larger economy. The area experienced the Great Recession through a collapse in construction, the loss of many jobs in manufacturing, and closing of many retail businesses and restaurants. But parts of the economy remained strong, particularly those that symbolize areas of St. Cloud's historical roots. In a recent survey, we asked these business leaders where they did business. The results surprised us: The durability of those rural connections had survived for many firms still operating here. It is about those connections that we write in this article.

In the first section of this article, we give an overview of the Great Recession's impact on the state and on rural Minnesota. In the next section we outline the industrial history of the St. Cloud area. In the third section we look at the results of the recent survey of St. Cloud firms that show that business owners in St. Cloud recognize their rural connections. We then turn to the future of the rural Minnesota economy. A combination of demographics and medium-term financial challenges face the area and make the future difficult to forecast.

I. The Great Recession's impact on rural Minnesota: An overview

For rural America, the Great Recession of 2008-10 was the deepest recession since the Great Depression on some measures, though not all. It began at the end of 2007 with a combination of declining employment and commodity price inflation. That inflation continued into the middle of 2008. The producer price index for industrial commodities rose more than 17 percent over twelve months to July of that year, led by oil and construction materials. Across all agricultural goods, prices rose dramatically for seven months after the recession began.

The decline thereafter was swift. As Figure 1 shows, 12 months later the decline in producer prices for industrial commodities was nearly as large as the increase in 2007-08. Prices have since rebounded, while the Minnesota economy's level of activity has just begun to recover in late spring. We could redraw this graph with foodstuffs, livestock, seed oils, or any other price index, and the picture would look no different.

Rising prices are good for rural economies, as a substantial part of their income depends on selling commodities. Even

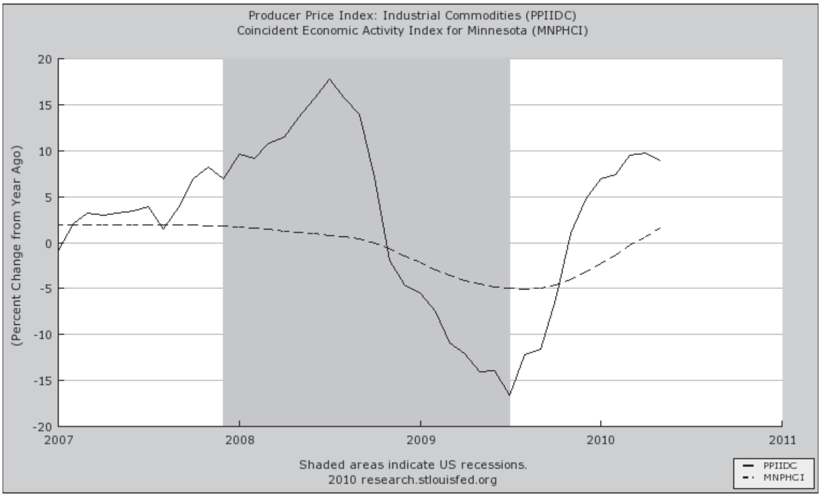


Figure 1: *The Producer Price Index, 2007-2010.*

though fuel and other input costs rose, farming profits were high in 2008. Combined with demand for corn as an input to ethanol, the return on an acre of land put into corn rose in 2008 to $494 from $402 in 2007.

But 2009 was a much worse year, as the recession deepened and demand for food fell worldwide. Declining prices led to a 10.6-percent decline in gross crop revenues in the United States. Jason Henderson of the Federal Reserve Bank of Kansas City writes that dairy and pork producers suffered the most in 2009, and cattle operators were below break-even levels by the end of the year.[1]

In the end, the rural economy suffered the same fate as metropolitan and suburban economies, but milder. While non-metro home prices never rose as much as those in cities, by the end of 2009 these prices were in decline as well, though by far smaller percentages. Agricultural land prices finally reversed their slide in the fourth quarter of 2009. And after three good years in 2006-08, the 2009 experience found rural economies with some cushion to absorb the recession.

The impact on St. Cloud has been to provide some cushion as well. Auto dealers reported as late as early 2008 that rural Minnesotans were buying trucks. St. Cloud's orientation toward rural Minnesota protected some sectors of its economy from deeper declines, even though its manufacturing sector has been deeply cut in this recession (1,400 jobs in the sector were lost in 2009 in the St. Cloud area.)

II. The history of St. Cloud and rural Minnesota

Like many small rural cities on the American frontier, St. Cloud's early economy was based on the surrounding natural resources, and like many cities, it began as a port through which consumer goods for frontiersmen and farmers went west while timber, furs and agricultural goods went east. St. Cloud's birth was as a site for sawmills in the 1850s that sent logs down the Mississippi. The next generation brought granite quarries, and then printing and food processing. Each of the nineteenth-century industries has in one way or another survived to this day, with the exception of the sawmills.

St. Cloud is known as the Granite City. Early quarries on the east side of St. Cloud and near Lake George gave way to Rockville and the Cold Spring Granite Company (originally Rockville Granite Company). By 1920 there were 50 firms in the granite industry in the St. Cloud area. The number was only half that in 1997, but in the last ten years new firms have sprung up. Despite this growth, employment in non-ferrous mineral manufacturing in the St. Cloud area has fallen by almost a third since 1990. The industry has made significant investments in equipment that has increased productivity, however, so while employment is down, it appears output has expanded.

Similar stories can be told in other industries. Located near many rivers, the town became a trans-shipment point for logs to come to area sawmills, and sawmills soon led to paper mills such as the Hennepin Paper Company in Little Falls and Watab Paper Company in Sartell (one is gone and the other merged into a national firm). Lumber continued through places like Matthew Hall Lumber, a company begun in 1889.

Access to paper also provided a comparative advantage in the region for printing. Sentinel Printing, for example, was established in 1854 and continues to this day. Thirty-five printing firms employing nearly 2,600 workers continue in central Minnesota even though the peak of paper milling ended decades earlier.

The Heim Mill is another early St. Cloud firm, established in 1887, that continues to this day. First grinding wheat for flour and feed for animal husbandry, it now grinds more specialty grains. Nearby Pan-O-Gold has ground flour for baking since 1895. Some mills such as the Tileston Flour Mill have left the area, but food processing has remained strong in central Minnesota. Transportation was also a focus at various times as well. What was the Burbank Trading Company (using stage coaches and the river) became the Burlington Northern Railroad. The Pan Motor Company of 1917-22 gave way to International Harvester in the 1930s and to Arctic Cat today.

Beyond its granite quarry roots, the waterways and proximity to agriculture gave much of St. Cloud manufacturing a rural tinge, and much of the employment in the manufacturing sector in St. Cloud turns out to depend on its proximity to the rural economy. Data on the manufacture of goods in the St. Cloud MSA is shown in Table 1, comparing Economic Census data for 1992 and 2007. While some of the production is driven by more short-run factors — wood products increased in demand when homebuilding boomed in the middle part of the 2000s — the steady growth of

***Table 1:** Share of manufacturing employment in the St. Cloud Metropolitan Statistical Area, comparing 1992 and 2007.*

Share of manufacturing employment in:	***1992***	***2007***
Food manufacturing	17.2%	17.7%
Wood products	4.5%	5.8%
Printing & related manufacturing	13.4%	15.7%
Nonmetallic mineral manufacturing	11.2%	8.5%
Fabricated metals	9.0%	6.9%
Machinery manufacturing	5.2%	6.9%
Transportation equipment	3.0%	7.1%
Medical/ophthalmic equipment	11.2%	4.6%
Other	25.4%	23.6%
Note: Total manufacturing employment	13,400	17,503

food products and printing indicate a consolidation of manufacturing in areas of traditional St. Cloud industry. Food and wood are both tied directly to rural economy output. And much of the machinery manufacturing comes from connections to the rural economy with machines built for farm use at firms such as DCI.

Productivity has grown over this period. Value added per worker in manufacturing rose an average of 4.6 percent between 1992 and 1997, 5.1 percent from 1997 to 2002, and 6.2 percent from 2002 to 2007.

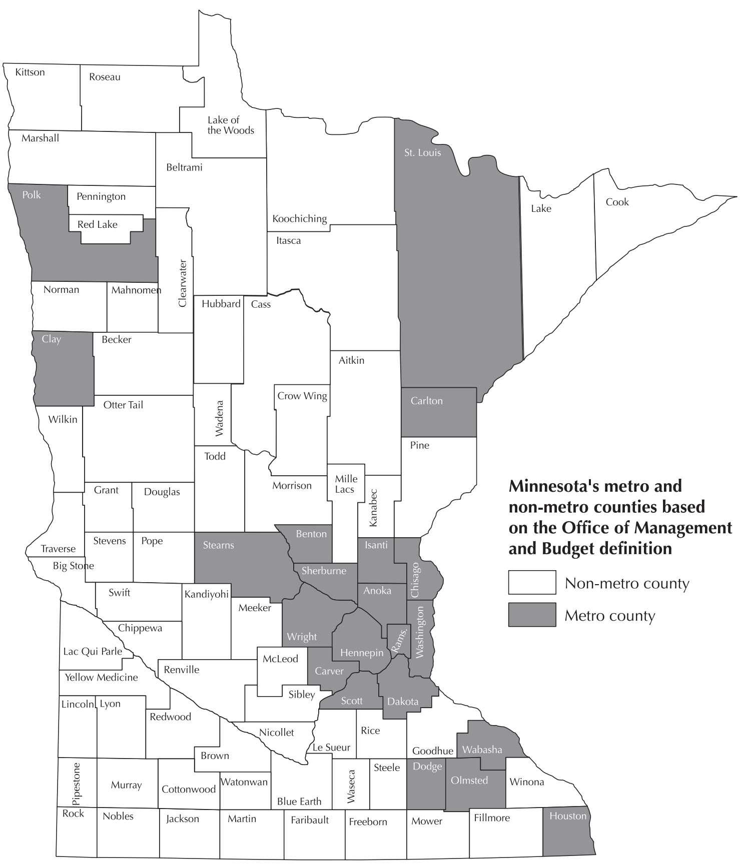
This increase has led to additional hiring in certain fields, assisted by public policy. The increase in transportation equipment employment can be directly tied to tax policies such as JOBZ, which led to the building of Arctic Cat. Such stories can be found historically as well. The Great Depression did not hurt the granite industry or the railcar shops of the Great Northern Railroad, and in fact employment expanded when federal works programs bought granite to build Selke Field on the campus of what is now St. Cloud State University (the field's cornerstone bears the WPA marker, as does a wall that still stands at the corner of Northway Drive and Ninth Avenue).[2]

But most businesses that have survived in St. Cloud through the years have also diversified. Cold Spring Granite moved from lower-value-added stone walls to memorials, which sustained them through the Depression. Food processing has also evolved, as mills that used to grind wheat to flour now produce specialty products used in agriculture as well as higher-end foods. Firms that grew around the west-side industrial area in 1959 grew if they were related to these areas (Dairy Craft, now DCI, e.g.), but the ophthalmic and nondurable manufacturing firms (e.g., Fingerhut) did not fare as well. The diversification of the 1950s and 1960s passed into the current period of consolidation.

III. How important is the rural economy to the state economy? A special case: The importance of the rural economy to firms in the St. Cloud area

The U.S. Census Bureau, the USDA Economic Research Service, and the Office of Management and Budget (OMB) each have alternative measures seeking to define what is meant by the term "rural." It is not our intention to address any controversies surrounding which definition of rural should be used, so we take a practical approach to defining this term — we make use of the term that helps us best organize available data during the most recent recessionary period. We use the non-metro counties found in the OMB's approach to defining rural as a way to construct rural economic performance data. In particular, we use the State of Minnesota Quarterly Census of Employment and Wages

Figure 2: Metro and non-metro counties in Minnesota.



Source: www.ers.usda.gov

(QCEW) data to aggregate employment (see Figure 2) in these non-metro counties for 2007, 2008, and 2009 (available through Quarter 3, 2009).

The 66 counties for which the data are available in this sample had total employment of 562,975 in the third quarter of 2009, representing 22 percent of employment in the state of Minnesota. Agriculture and manufacturing, of course, play a large role in rural employment. For example, these non-metro counties account for 30 percent of total manufacturing employment in Minnesota. Rural counties are particularly vulnerable to economic weakness given their relative dependence on these types of sectors: the employment data bear out the extent to which the goods-producing sector of the economy has been disproportionately affected by recessionary conditions. The Minnesota manufacturing sector has been particularly hard hit in this downturn, and non-metro counties certainly found 2009 to be a tough year in manufacturing. Year-over-year job losses in rural manufacturing continued to pile up through the third quarter of 2009. For example, the third-quarter 2009 loss of jobs in Minnesota rural manufacturing was 13 percent relative to the prior year. This is much weaker than overall rural job loss of 4.5 percent over the same period. These numbers are also similar to those observed for the state of Minnesota as a whole. Rural Minnesota has therefore not been able to avoid the weakness found in the entire state. Over this same period, overall Minnesota employment declined 5 percent and the Minnesota manufacturing sector shed 12.1 percent of its jobs (Figure 3). It remains to be seen if these manufacturing jobs will return when the overall economy returns to its long-term potential growth trend.

We have been studying the St. Cloud area economy for many years. The St. Cloud area has some resemblance to non-metro counties to the extent that St. Cloud has long had a disproportionately large share of its workers employed in manufacturing. It is also located in a county that is in close proximity to numerous non-metro counties. We have therefore had a special interest in the impact of the rural economy on the St. Cloud area.

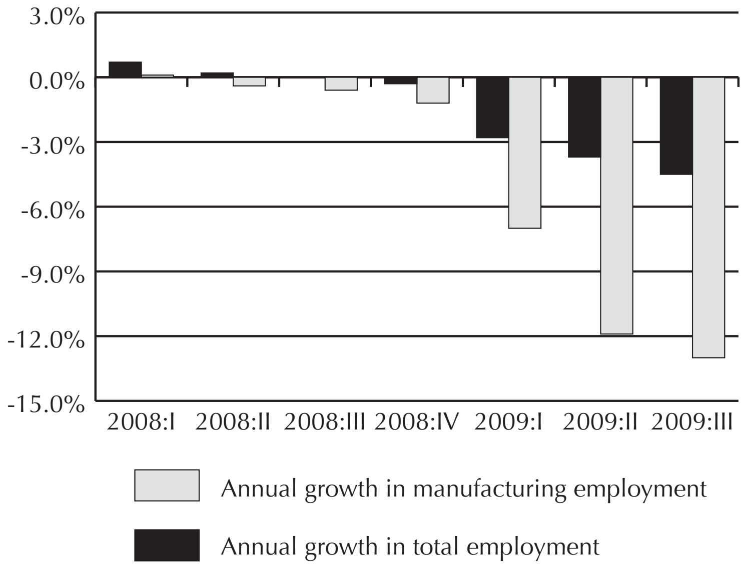


Figure 3: *Growth in manufacturing employment has declined much faster than in overall employment since Q1 2008.*

For the past eleven years, we have been surveying St. Cloud area business leaders each quarter on key business conditions that are affecting their company as well as their future outlook. We also ask them special questions designed to address timely issues. We believe the sample of survey respondents is representative of overall business conditions in the St. Cloud area. Survey results have consistently and reliably tracked the performance of the state and national economy. (While the identities of the St. Cloud area firms responding to the survey have always been kept confidential, key characteristics of those firms surveyed can be found at http://www.scapartnership.com/files/file/reports/qr_oct_2006.pdf.) In February 2010, we surveyed 84 St. Cloud area business leaders about the importance of the rural economy to their firms. (The survey response rate was 79 percent, out of a total of 106 firms that were mailed the survey.) We asked firms the following question:

Approximately what percentage of your company's total revenues comes from each of the following areas?

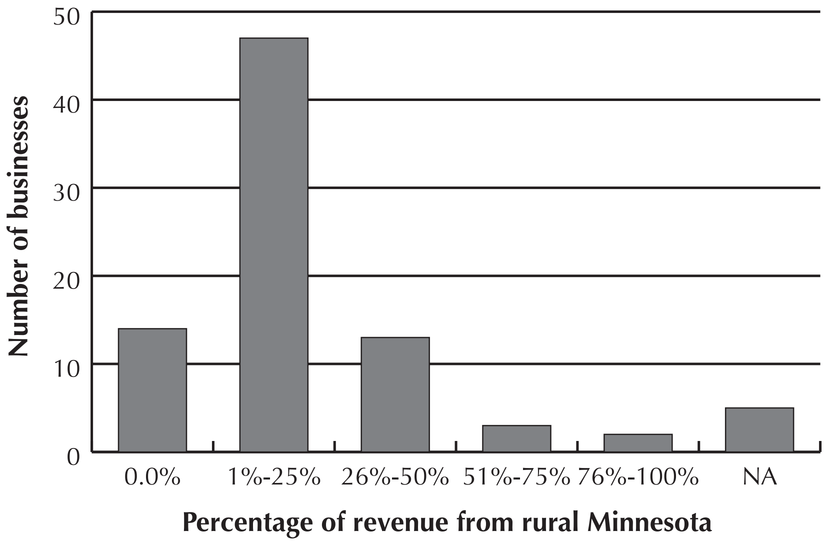


Figure 4: *The percentage of revenue St. Cloud businesses derive from rural customers.*

St. Cloud Area
Twin Cities Metro
Twin Cities-St. Cloud Corridor
Other Minnesota Metropolitan Areas
Rural Minnesota
States in the U.S. other than Minnesota
Foreign Countries

While a full analysis of these results can be found at http://www.scapartnership.com/files/file/Winter%20 2010QBR.pdf, it is interesting to note how important sales in rural Minnesota are in St. Cloud (Figure 4). Only 14 of the 84 surveyed firms indicate they receive no revenues from rural areas. Forty-seven firms receive between 1 percent and 25 percent of their revenues from rural Minnesota, and 13 firms receive between 26 percent and 50 percent of their revenues from rural sources. Five surveyed firms receive more than half of their revenues from rural Minnesota. It should be noted that 41 of the 84 surveyed firms receive *at least* 10 percent of their revenues from rural sales.

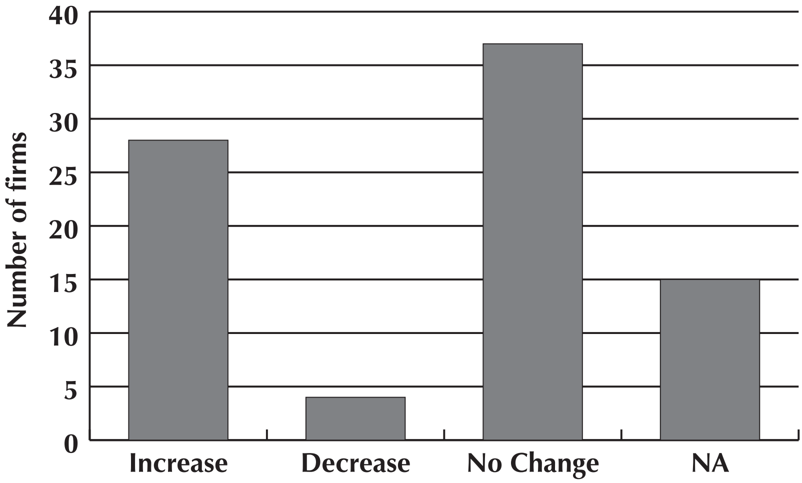


Figure 5: *St. Cloud firms' expectations for revenue from rural customers over the next five years.*

Clearly, most St. Cloud area businesses are highly dependent on rural customers, and this tendency is expected to grow in importance over the next several years. We asked firms:

"Over the next five years, how do you expect your company's share of total revenues to change [in each of the areas asked about in the prior question]?" Twenty-eight (33%) St. Cloud area firms expect an increase in the share of revenues coming from rural areas, while only four firms expect a decrease in revenue share from rural customers (Figure 5). While we have no evidence to suggest that the St. Cloud area results can be generalized to include other areas of the state, we suspect similar results would be found in locations like Mankato, Duluth, Fargo-Moorhead, Grand Forks, and Rochester.

To the extent that these results do apply to other areas in Greater Minnesota, it is interesting to look at how the recession has impacted St. Cloud area firms' sales in rural Minnesota (Figure 6). In the February 2010 survey, we asked St. Cloud area firms:

"To what extent has the recession impacted your company's sales in rural Minnesota?"

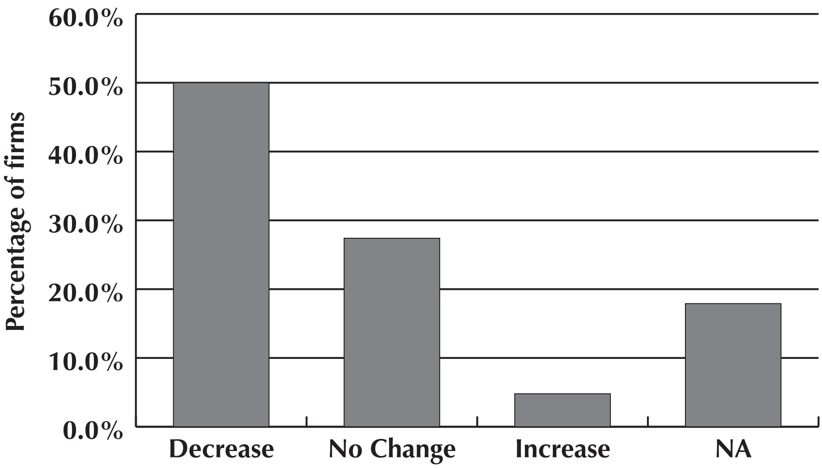


Figure 6: *How the recession has affected St. Cloud businesses' sales from rural customers.*

Fifty percent of surveyed firms report a decrease in their sales to rural areas, while 27 percent of firms report no change. Five percent of firms actually reported an increase in rural sales. The recession and the associated weakness in manufacturing and agriculture has no doubt damaged incomes of rural residents. This shows up in spending in every sector of the area economy — from retail sales to business services.

St. Cloud area firms had some interesting comments regarding the impact of the recession on their rural sales. By and large, most survey respondents report that sales to *all* customers have declined. So, while any firms that are exposed to weakness in rural manufacturing and agriculture are likely to have been disproportionately harmed by a decline in the rural economy, the impact of this weakness has been nearly universally felt. Some firms submitted written comments that are interesting. These comments include:

- From an engineering firm: "We do work for many municipalities. They are doing less."
- From a real estate firm: "Lake shore real estate sales (are) down."
- From a construction firm: "There are fewer construction

projects in general, which causes the decrease."
- From a commercial real estate firm: "Real estate sales volume is down."
- From a firm that relies on advertising sales: "Slight decrease (in rural areas). Sales have decreased faster in our urban markets."
- From a landscaping firm: "I have learned that 25 landscape companies within 50 miles of St. Cloud have gone out of business and that will double if no money or work comes available."
- From a manufacturing firm: "The recession has caused an overall downturn in business. For us, rural Minnesota has followed the trend."
- From a building supply company: "The housing market in rural areas doesn't seem to be hit as hard as metro areas."
- From a professional services firm: "Rural school districts and cities and counties don't have the funds to purchase (our services)."
- From a roofing firm: "More activity from other contractors that didn't work in these areas before."
- From an automobile dealership: "Farm economy seems poor."
- From a public utility: "Decrease in farm prices has reduced sales. Capital investment in agricultural sector is down. Housing-related manufacturing (is) hurting."

Prior to the recession, St. Cloud area firms were benefiting from strong sales to agricultural interests who were enjoying high farm prices. For example, milk prices have only recently started to rebound from a precipitous decline that dates back to the beginning of the national recession in December 2007 (Figure 7). At a current price of $15 per hundredweight, milk prices are still well below the peak price of $22 in late 2007. Wheat and corn prices trade at about half their peaks in the summer of 2008 (Figures 8 & 9). Global recovery and an increase in energy prices can be expected to have a favorable effect on Minnesota agriculture. Corn prices in particular will benefit from an improved economic outlook and the accompanying revival in ethanol demand.

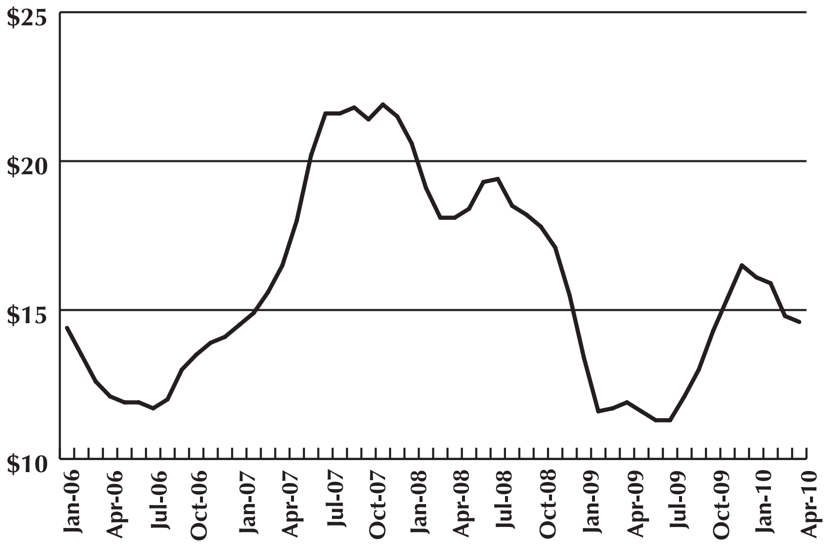


Figure 7: *Milk prices, 2006 to today.*

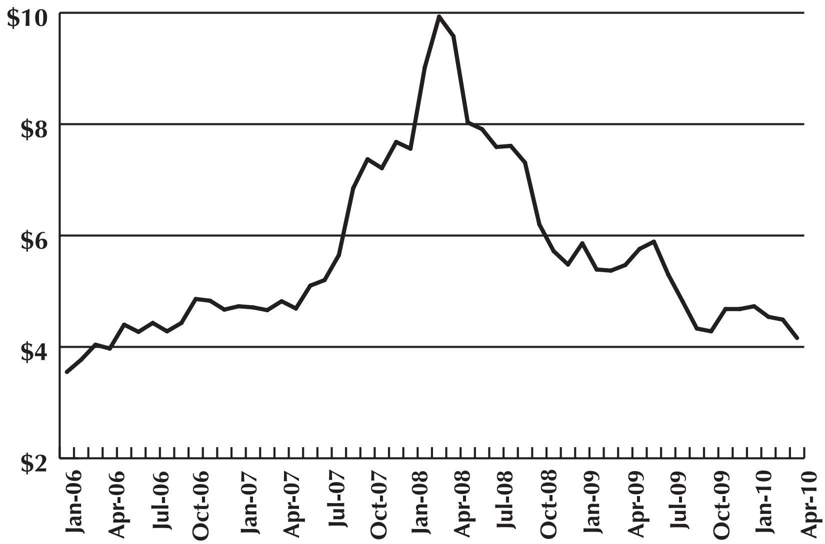


Figure 8: *Wheat prices, 2006 to today.*

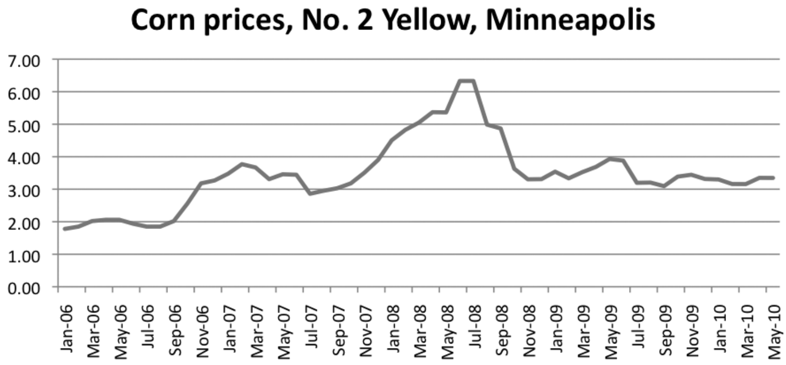


Figure 9: *Corn prices, 2006 to today.*

IV. What does the future look like in the Minnesota rural economy? Some concluding remarks.

We now know that the most recent recession was the worst that the U.S. has experienced since the Great Depression. Indeed, commentators have aptly named it the Great Recession. As we write this article, U.S. unemployment rates are at 9.7 percent, federal budget deficits are more than 10 percent of GDP, the Federal Reserve's balance sheet has expanded by $1.4 trillion from pre-crisis levels as they have become the *buyers of last resort* of varied debt instruments in financial markets, uncertainties in Europe threaten recovery in that part of the world, and a host of other factors make it quite possible that it will be some time before U.S. economic performance returns to what is considered normal. All of these factors make it very hard to figure out what a *cyclical* recovery will look like. Combine this uncertainty with the *structural* change that is also going on in rural Minnesota's demography, and you have a recipe for a very uncertain outlook. Policymakers have been curiously quiet on how to shape public policy when cyclical events collide with structural/ demographic events.

At the same time that rural Minnesota is trying to recover from the Great Recession, it will be experiencing some unpleasant trends. Dependence on agriculture and manufacturing makes rural Minnesota highly vulnerable to conditions that are beyond its control. While the long-term outlook for agricultural commodities seems reasonably favorable, this doesn't always translate into jobs. Combine this with the historical variation in farm prices (and profit margins), and it is easy to see why many young workers flock to urban areas and the relatively abundant service-providing jobs found there. The outlook for manufacturing is decidedly worse. If rural Minnesota continues to hold a 30-percent share of overall Minnesota manufacturing employment, it will only be because other areas are experiencing declines at the same pace or greater.

This reality needs to be translated into rural economic development policy. The economic development literature is full of pleas to pursue more enlightened 21st Century economic development policy, so we will simply add our concerns to those that have already been voiced. There really isn't much we can add to this, other than to simply remind people that if public officials feel the need to direct resources to targeted economic development uses, it will be essential in the coming years to take a regional approach to resource allocation. The traditional approach to using local tax incentives to attract manufacturers (in a heated competition with other localities) is simply too costly relative to any potential benefits it confers. A regional approach will necessarily have to work to a region's strengths—its natural resources, human capital, institutions of higher education, K-12 school systems, successful businesses, nonprofit organizations, transportation infrastructure, etc. — in order to leverage the shared interests of a region.

The federal government will soon need to begin to work down its massive budget deficits. This will happen at the same time that the share of federal spending on entitlement programs (many of which are designed to serve an aging population that accounts for a growing share of the overall population) is increasing. Simply put, governments at all levels are going to be working with very limited budgets. Rural regions are likely to prosper only to the extent that regional cooperation can achieve valued economic development objectives. Unfortunately, these structural/

demographic events are occurring at the same time that the rural economy is trying to recover from a worldwide recession. The temptation will be for public officials to explain weak employment conditions on the slow recovery from the Great Recession. While some of this will no doubt be true, it will be a good idea for these public officials to also keep in mind that they are also battling structural/demographic change. Policy designed to confront this structural/demographic change requires an entirely different arsenal of tools and we cannot expect adverse outcomes to be remedied over a short time horizon.

Endnotes

[1] "Will the Rural Economy Rebound in 2010?" Federal Reserve Bank of Kansas City *Economic Review*, First Quarter 2010, pp. 95-119.

[2] John J. Dominik, *St. Cloud, the Triplet City.* (Woodland Hills, CA: Windsor Publications, 1983) p. 75.

Memo to the Next Governor of Minnesota: Greater Minnesota is Valuable, Vulnerable and Worthy of Public Investment

Dane Smith

MEMORANDUM
To: The Next Governor of Minnesota
From: Growth & Justice President Dane Smith
Re: Things you should know about Greater Minnesota, challenges and opportunities for business growth and economic fairness.

We Minnesotans have built a good and prosperous life from this blessed land of fertile prairies, deep forests, and sparkling lakes and rivers. Our farm fields, woods and waters form a rural mosaic that still defines us as Minnesotans, despite the ascendance of the Twin Cities as one of the nation's most successful urban centers. Just check out our license plates, our state quarter, and those scenic pictures along the concourses at the Minneapolis-St. Paul International Airport.

But the people and communities closest to these natural splendors, and who serve as stewards of these assets, are less well off on average than urban and suburban Minnesotans. Greater Minnesotans are more valuable than they get credit for, worth more to the whole state than the private sector provides them, and are deserving of ample and smarter public investment to preserve and enhance their economies and their communities.

Our sprawling urban-suburban-exurban mass on the east-central border of the North Star State has drawn much

The author would to thank research intern Drew Henry and Matt Kane, Growth & Justice Research and Policy Director, for their valuable contributions to this article.

of its wealth, its brainpower and its spiritual essence and character from Greater Minnesota. And as a new governor, it behooves you to take better care of this golden goose, in the form of more and smarter public investment. Politically, this won't be easy. The reality is that rural and Greater Minnesota counties hold an ever-shrinking portion of our state's wealth, population and political power.

Although the emotional bonds are important and should not be discounted, this special attention and renewed commitment does not need to be motivated by gratitude or sentimentality. It makes pure economic sense in the long run to continue investing in the land itself and the people on it — a sustainable and renewable asset that will keep on giving in perpetuity.

Three sets of facts provide important perspective for developing a state strategy toward improved vitality for rural and non-metropolitan Minnesota.

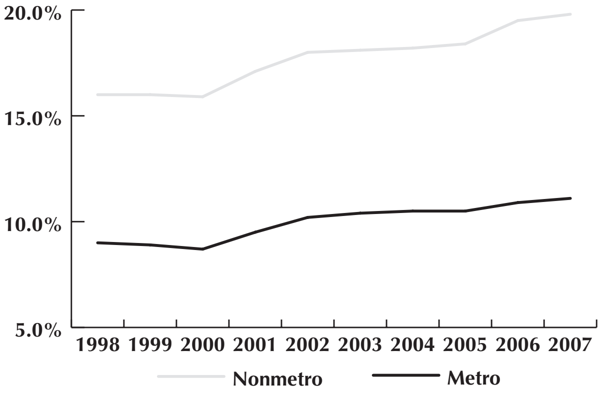
First, rural and non-metro Minnesota is significantly more reliant on public resources and taxpayer dollars than metropolitan areas. Second, current and near-term economic conditions are less threatening, not as dire as in the 1980s, but still worrisome. Third, ample and broad public investments that build the quality of human capital and infrastructure, not tax breaks to recruit specific companies, are the best strategy for rebirth and renewal of our vital heartland

Fact Set #1: Person for person, Greater Minnesotans rely on the public sector — federal, state and local government — significantly more than urban and suburban Twin Cities residents. A continuation or acceleration of anti-government, anti-tax policies and radical public-sector shrinkage is not likely to serve the short-term or long-term interests of Greater Minnesota.

The Minnesota Taxpayers Association, the U.S. Department of Agriculture, the U.S. Census Bureau, and many other reputable research organizations over many years have documented the disproportionate reliance of our non-metro and rural regions on the public sector and taxpayer dollars.

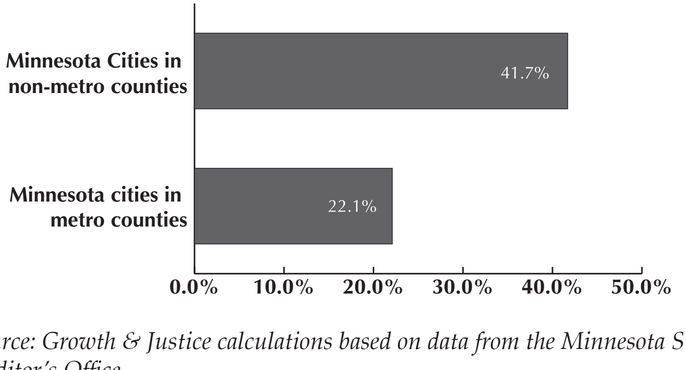
It is well understood that this disparity has been driven by a complex set of factors: an older population relatively more dependent on Social Security and state and federal health programs; farm price support programs and subsidies; a classic economies-of-scale dynamic; and most of all, relatively lower incomes and wealth, triggering higher individual transfer payments that address economic inequality and direct aid to local governments from state and federal sources.

Figure 1: *All government transfer payments for individuals as a share of total personal income for Minnesota, 1998 to 2007.*



Source: Growth & Justice calculations based on data from the U.S. Bureau of Economic Analysis.

Figure 2: *Aid from all levels of government as a percentage of total revenue for cities in Minnesota, 2007.*



Source: Growth & Justice calculations based on data from the Minnesota State Auditor's Office.

So what is the bottom line? Calculations of disparities in regional income by Growth & Justice, based on federal Bureau of Economic Analysis figures, shows that in 2007 rural and non-metro individuals received almost 20 percent of their income from federal, state and local government sources, while Twin Cities-area residents received about 12 percent from those sources. (Non-metro counties in this calculation were truly rural, and do not include counties surrounding our three smaller metropolitan areas, Duluth, St. Cloud and Rochester). Reliance on public transfers for personal income rose slightly in Minnesota over the last 10 years for both metro and non-metro, but the rate of increase was higher for non-metro (Figure 1).

On intergovernmental transfers to city governments, Minnesota's rural municipalities received about 42 percent of their income from state and federal transfers, while for metropolitan cities the share averaged about 22 percent (Figure 2). Reductions in aids to counties and school districts, a function of unprecedented and chronic state budget shortfalls over the last decade, likely also had a disproportionate effect on non-metro Minnesota. And any study of relative impact of investments in natural resources, parks and recreation, highway spending and perhaps most other functions of government would show similar disparities.

Economies of scale are a crucial explanatory factor for higher public costs in rural areas, and a reason for rural residents not to feel sheepish about greater reliance, as well as a reason for metro residents not to resent that fact. It simply costs more per capita to build and maintain a highway and farm-to-market road system through a sparsely populated rural farm region than it does to provide transportation in a densely populated urban core. Same goes for building and maintaining public schools, libraries, human service systems, nursing homes and other essentials for a safe and civilized life.

Similarly, for many types of private-sector products and services, corporations and businesses often cannot realize as high a profit in rural areas as they can with demographic density. The cost-per-unit problem explains why rural electrification, an essential element for rural health and economic growth, ended up being subsidized and provided at the outset by the federal government, city-owned providers and rural co-ops. The current need for broadband connectivity has certain parallels. Unlike the private sector, which can simply choose not to do business with rural people, our governments have an obligation to serve all of the humans in their jurisdictions.

These facts of life should not make rural citizens feel like they are "welfare recipients" any more than regions that depend on taxpayer-supported defense industries or military spending should feel dependent. It's a fact of life that some parts of our nation's complex and wealthy economy rely more on public resources, and others, especially wealthier communities, benefit from public expenditures less, or less directly and immediately.

Ironically, despite a cultural tradition in rural areas and states of rugged individualism, conservatism and even libertarianism regarding governments' size and role, those regions and states actually tend to rank very high in per-capita government expenditures. Alaska and Wyoming, the least populated states and rather famous for political leadership that is staunchly critical of government, typically rank first and second in total public expenditures per capita, according to U.S. Census Bureau statistics on government finance.

This paradox — individualistic pride and disdain for government and the public sector in the very regions that rely and benefit disproportionately from that investment — isn't entirely a function of cognitive dissonance. It also can be attributed to the political reality that many voters in rural areas tend to identify with a conservative agenda as it relates to social and cultural issues, ranging from gun control to abortion to attitudes toward government ownership and regulation of wilderness and public lands, an agenda that generally also supports small government and lower taxes.

Both the new governor and Greater Minnesotans need to review these basic facts that show not only greater reliance, but also the reality that by almost every measure, Minnesota over the last decade has cut taxes, reduced revenues and expenditures, and deeply cut state and local governments and budgets, particularly in rural areas.

On the official Minnesota Management and Budget measure called Price of Government, the state's total revenues as a percentage of income have dropped from a high of nearly 18 percent in the 1990s to about 16 percent in the latter years of the "Oughts." This means that state and local governments are struggling to provide services with roughly $3 billion to $5 billion per year less than they would have had if the price of government had been maintained at those higher 1990s tax levels.

Statistics maintained by the Center for Budget and Policy Priorities, the Minnesota Budget Project, and the think tank Minnesota 20/20 show that Minnesota holds the dubious distinction of leading the nation in government cutting, both in the scale of tax cuts on income and property at the turn of the last decade, and then in reducing public-sector spending to balance the ensuing budget shortfalls.

From typical rankings of well above average or in the top ten in state-local expenditures per capita, Minnesota was most recently ranked thirty-second among the states in total state-local expenditures as a percent of income. Minnesota Revenue Department Research Director Paul Wilson has publicly stated in presentations that Minnesota has undergone a "sea change" and on taxes and spending the state is now "just about average."

Among the more extreme tax-and-budget alternatives on the policy landscape in the last year have been radical proposals under the banner of the "Tenthers," based on a highly questionable resurrection of early 19th-Century interpretations of the Tenth Amendment to the United States Constitution. Although most of these proposals are surfacing in southern states, such as Texas, where Gov. Rick Perry has actually used the word "secession" to describe hostility to the federal government, the notion of rejecting federal laws, and presumably the programs that provide vital investments for all states, have surfaced in Minnesota, too.[1] Bills under the label "Minnesota Sovereignty Legislation" have been introduced and a Minnesota chapter of the National "Tenth Amendment Center" has been established, proposing outright refusal by Minnesota state government to abide by federal laws or accept federal funding, under a pre-Civil War doctrine known as "nullification."

It's difficult to see how endorsing these notions will help Greater Minnesota. A radical acceleration, or even a status quo continuation, of the last decade's tax cuts and downsizing and de-funding of the public sector is not likely to serve the short-term or long-term interests of Greater Minnesota.

Fact Set #2: Our rural economy remains weaker economically than the Twin Cities. Although conditions vary greatly from region to region, Greater Minnesota still suffers from a stubborn prosperity and opportunity gap.

Despite an encouraging general consensus in recent years that Greater Minnesota's relative long-term decline has at least been slowed, the very latest measures of economic health are again worrisome. For a few years in the last decade, growth of the ethanol industry, higher commodity prices and record global demand for agriculture products actually produced one of those rare moments where the trend lines on farm income and other measures of rural economic health looked brighter than suburban and metro fortunes.

Greater Minnesota largely escaped the real estate collapse and the foreclosure crisis. Recent demographic data on housing starts document that the explosive exurban growth of the last three decades, much of it in the ring of counties around the seven-county metropolitan area, has at least temporarily come to a halt.[2] Much of that exurban growth has turned out to be unsustainable, and foreclosures, layoffs and unemployment fell harder on outer-ring exurban and suburban communities than on urban and rural areas. Current data suggest that the northern suburbs and the St. Cloud area have been particularly hard hit.

Despite these recent reversals of fortune for the suburbs, however, the bottom-line fact remains that as of 2010, unemployment and job scarcity are significantly higher in

Area	Ratio of job seekers to jobs available
EDR 1 - Northwest	12-1
EDR 2 - Headwaters	14-1
EDR 3 - Arrowhead	10-1
EDR 4 - West Central	9-1
EDR 5 - North Central	19-1
EDR 6E- Southwest Central	10-1
EDR 6W- Upper Minnesota Valley	5-1
EDR 7E- East Central	30-1
EDR 7W- Central	10-1
EDR 8 - Southwest	7-1
EDR 9 - South Central	9-1
EDR 10 - Southeast	7-1
EDR 11 - 7 County Twin Cities	7-1

Table 1: *The ratio of workers seeking jobs to jobs available, by state economic development region.*
Source: Jobs NOW Coalition.

Greater Minnesota than in metro Minnesota. A recent report by the Jobs NOW Coalition shows that in all but two of the regional divisions defined by the Minnesota Department of Employment and Economic Development, the ratio of jobs sought to jobs available is higher than in metro Minnesota Table 1).[3] For instance, in the North, Northwest and Central Minnesota regions, the ratio was 12 to 1, job seekers to job openings. In the Twin Cities, the ratio was 7 to 1.

Even before the recession hit, Minnesota's non-metro poverty rate in 2007 was two percentage points higher than the metro's (10.5% vs. 8.7%), unemployment was a full percentage point higher (5.3% vs. 4.3%) and the college attainment rate was only half the metro rate (16.9% vs. 31.6), according to a 2009 article by Elgin Mannion and Konstantinos Zougris in the Online Journal of Rural Research and Policy.[4]

And while one of Greater Minnesota's cornerstones, agriculture, appeared to remain immune in the first years of the recession, it took a serious hit in 2009. Veteran Minnesota agribusiness journalist Sharon Schmickle, writing in a recent edition of the online newspaper MinnPost.com, summed up the latest bust-boom-bust history with documentation of the precipitous drop in annual farm income last year, at least as measured among the 3,000 farmers who participate in business management programs run by the Minnesota State Colleges and Universities (MnSCU) system.

Farm income statistics from the MnSCU report showed a gradual rise in farm income through the last decade, a big spike upward in 2007 and 2008, then a free fall in 2009, from about $90,000 in 2008 to about $30,000 in 2009 on average.

As Schmickle explained:

> Agriculture showed its economic muscle when the recession bit hard on Minnesota. Unusually high farm profits in 2007 and 2008 kept rural towns going while other parts of the state suffered. But those same gravy years, 2007 and 2008, distort the real picture of what happened last year. It was bad — just not as bad as the 63-percent drop in net farm income suggests. "Normal" is not a common word on farms where profits can flip-flop because of everything from a summer storm to appetites in China. Look back to the years before 2007, though, and you see that a typical farmer's net income (expressed in 2009 dollars) ranged somewhere between about $45,000 and $65,000 in most of the past 10 years. Last year's $33,417 still looks terrible by comparison. But it's not as shocking as comparing it with incomes of more than $91,000 in 2008 and $109,000 in 2007.[5]

Fact Set #3: Public investments in education and workforce training, public infrastructure and amenities, broadband access and public health make the best sense for long-term vitality.

Broadly developing human potential and improving and protecting the physical world are the best policies for revitalizing the greater state. Plenty of sound ideas toward that end are already under consideration in Minnesota and in need of a further boost.

Economic development

A new report published this spring by the Chicago Council on Global Affairs pinpoints public investment, regional cooperation and coordination, and fostering innovation and local entrepreneurs as the building blocks for a rural Midwestern renaissance.

The report, *Past Silos and Smokestacks: Transforming the Rural Economy in the Midwest*,[6] strongly weighs in against what it describes as an obsolete, decades-long economic development strategy built on wooing specific corporations and large employers with special tax breaks and offers of state and local money for new free public infrastructure to specifically accommodate those new plants and offices.

The report, authored by veteran rural economics expert Mark Drabenstott, himself a Midwesterner, sets forth this four-pronged strategic philosophy:

- Help rural communities and counties think regionally to compete globally.
- Focus public investments on transforming economic opportunities rooted in distinct economic strengths, not on smokestack chasing.
- Spur innovation and entrepreneurship, turning ideas and innovations into economic progress.
- Create a world-class entrepreneurial climate and innovation culture to grow a landscape of new companies, in the process recycling the region's considerable wealth.

Elaborating on the second point, the report recommends that community and business leaders should: "Prioritize investments in public goods and services to unlock a region's economic potential. The key to growth is seizing each region's unique competitive advantage in global markets. *Critical public goods are often required to achieve this* [italics added]. In the wake of the financial crisis, well-targeted investments in public goods will pay especially strong fiscal dividends to states and federal governments wrestling with huge fiscal deficits."[7]

Further, the report finds:

> …too many places in the rural Midwest still cling to the old development playbook. A preponderant majority of leaders at the community, county, and state levels remain deeply wedded to industrial recruitment as their development strategy. Very little empirical research documents the full extent of this development inertia (in part because it is simply accepted as the way things are), but state development budgets lend important insight. A review of 2010 budgets for the twelve Midwestern states reveals that approximately 80 percent of total state spending on economic development is in categories often tied to recruitment incentives. A similar pattern is almost certainly at work at the local level.[8]

The report comes down emphatically on the side of investments in education, transportation and public services, particularly in innovations in such cutting-edge frontiers as telemedicine and distance learning. The following excerpts illuminate why these strategies should work.

The report, for instance, calls for "strengthening rural labor markets and boosting worker skills. New rural policies increasingly recognize that many rural regions must train their workers for a whole new generation of jobs and that aligning workers with new jobs will strain the thin labor markets that are often found in rural areas."

Further, the report calls for "investing in transportation and telecommunication infrastructure. Transportation infrastructure has always been important to rural areas. However, the new emphasis is less on spurring industrial parks and more on linking rural areas to urban centers and on providing the best way to put rural regions and their

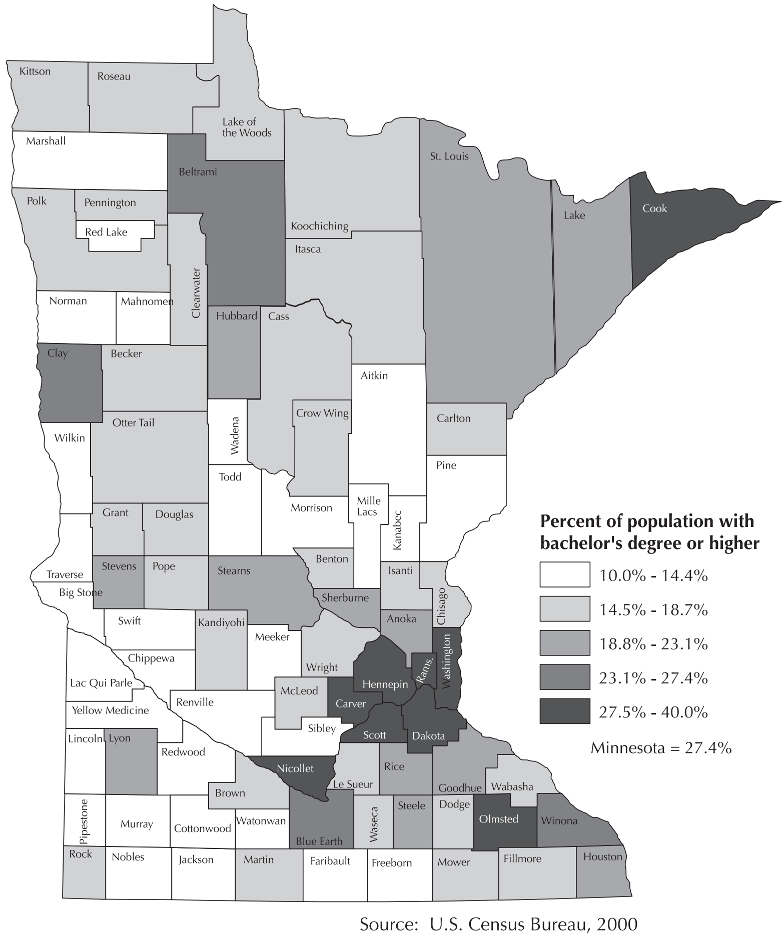


***Figure 3:** Percentage of county population holding a bachelor's degree or higher, 2000 Census. The state figure is 27.4%.*

associated business clusters in touch with vibrant innovation networks in ways that spur rural innovation."

Educational attainment

Nothing should rank higher as a priority for a new governor than improving higher educational attainment in Minnesota, and a host of influential players and organizations are giving voice to this statewide need. The Archibald Bush Foundation has set a bold goal for a dramatic increase in attainment for Minnesota and the Dakotas. President Barack

Obama has made restoring the United States' status as the most educated nation a "moon-shot" goal for 2020. And Greater Minnesota, which continues to be handicapped by relatively lower percentages of its population with higher education credentials, could benefit mightily from policies that drive attainment higher.

Any research on the subject of rural higher ed attainment quickly arrives at the conundrum: non-metro students and their school systems seem to produce high school graduation rates, test scores and college readiness levels that are equal to or slightly better than metro Minnesota. But attainment levels continue to lag, for a variety of fairly complex reasons (Figure 3). It's been suggested that parents and the rural culture as a whole do not make college as much of a priority as urban and suburban cultures, as it is likely to result in their children moving away for good. Attainment levels no doubt are low in large part *because* those who have finished their degrees, whether they go away to college or attend nearer to home, are more employable and have moved away. How to "keep them down on the farm" remains an eternal challenge, but many community development experts believe that improving attainment levels still should rank as a top priority, even if some brain drain occurs.

Growth & Justice has developed a comprehensive birth-through-college investment blueprint for achieving a 50-percent increase in statewide attainment (*Smart Investments in Minnesota's Students*). Any significant success toward such a goal is bound to benefit Greater Minnesota disproportionately because its attainment rates are already low. Knowledgeable policy research and expertise on how to improve attainment is hardly in short supply. The Minnesota Rural Education Association, the regional Initiative Foundations funded by the McKnight Foundation (which offer a strong focus on improving early childhood education), the Minnesota State Colleges and Universities system, the Grow Minnesota project by the Minnesota Chamber of Commerce, and a host of other players have been coming forward with ambitious plans or are already delivering on-the-ground efforts to further the goal of greatly improving rural Minnesota's human capital.

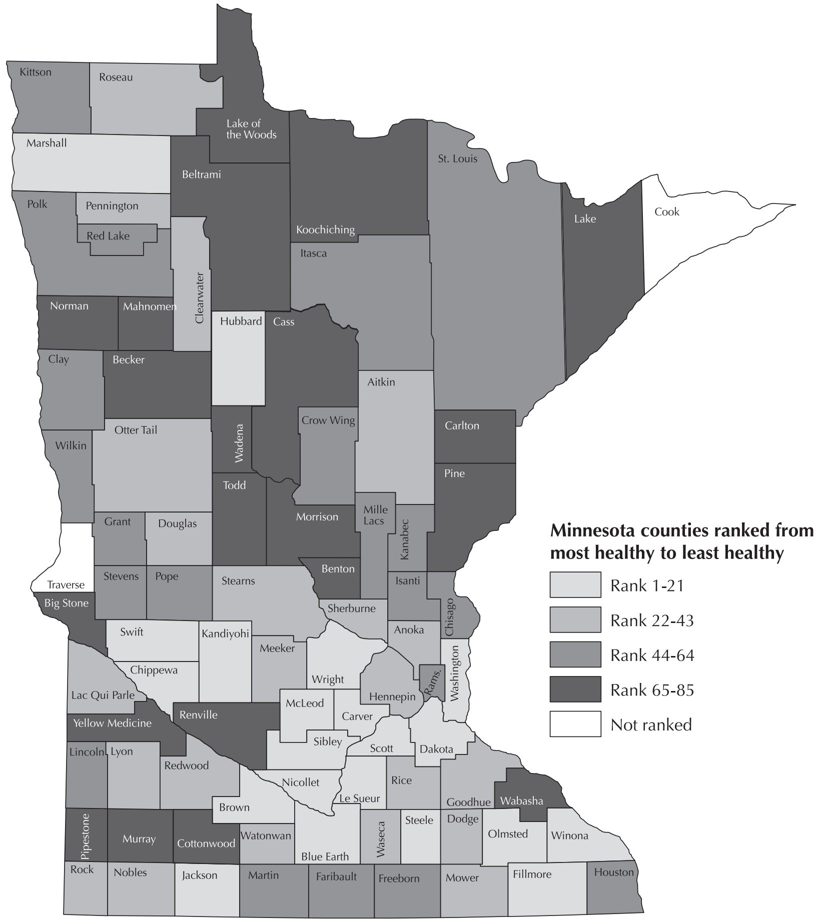
Consensus is emerging on the following specific pieces for special attention and investment in education, workforce training and human development:

- Public investment providing universal access to **high-quality early childhood learning** is already in progress with the help of McKnight's regional Initiative Foundations.
- More intensive efforts are being made by the Minnesota Minority Education Partnership and a host of other non-profit and public agencies to close the wide gap in **racial minority achievement, especially for the growing Latino population.**
- Better connections between, and more effective use of, **existing MnSCU and higher-ed campuses and resources** ranks high on many groups' wish lists.
- Statewide and federal efforts to **improve teacher quality** and give credentials to highly motivated and knowledgeable non-teachers are likely to be good for rural Minnesota.
- Aggressive experimentation with technology that allows for **"schools without walls" or "distance learning,"** as well as further consolidation of districts and education resources, is also under way and should be further encouraged.

Transportation and physical infrastructure

Considerable research and recommendations have also been forthcoming on how to better invest in transportation and physical infrastructure. Growth & Justice is currently producing a special project on *Smart Investments for Transportation in Minnesota* that has flagged these elements for attention and investment.

Among them: The **interregional highway corridors**, the 2,960 miles that link the state's main regional centers and form the backbone for travel by heavy freight haulers within and through the state, needs reinvestment and reconfiguring to reflect changing patterns in freight and passenger travel patterns. **Freight movement** matters a lot, and while most if it moves by truck, we rely more heavily than most states on rail and water because we are a major producer of iron ore, grain and other bulk commodities. Investments in our rail system must continue and the state needs improved and expanded facilities for transferring freight from one mode to another, particularly in Duluth, and for moving containerized cargo among trucks, trains and ships. **Fix-it-first approaches** to highways in current state plans properly put the emphasis on maintaining and improving the infrastructure we already have ahead of expanding that infrastructure further. **Innovative transit options**, perhaps surprisingly, are needed for Minnesotans who don't or can't drive. Key transit services in much of Greater Minnesota include dial-a-ride service, rides from volunteer drivers, and bus trips from town to town. But transit to and from work in rural areas requires additional state and federal subsidies, as well as effective coordination among private companies, public agencies and non-profit organizations. **Safety always needs more attention** and recent tragedies taking the lives of almost a dozen rural youths underscore that rural residents are more likely than their metro-area counterparts to die or sustain injuries on the road. Improvements are being achieved, thanks in part to the Toward Zero Deaths initiative led by Minnesota's departments of Public Safety, Transportation and Health, in cooperation with the State Patrol, the University of Minnesota and others. **"Complete streets," livability amenities for mid-size cities and towns,** may be the most overlooked investment. These improvements can reduce energy costs, encourage fitness, and improve the layout of our communities, while addressing concerns for a "greener" economy and communities. People drive less and are actually attracted to places where a mix of important destinations are grouped in a central location. This pattern fits the model of small town Minnesota in years past: compact, walkable, mixed-use development. The state government should increase efforts to work with rural towns on zoning and planning for such vibrant communities with a goal of ensuring that the streets in rural Minnesota communities are "complete streets," designed to serve cars, trucks, bikes and pedestrians safely.



Source: www.countyhealthrankings.org

***Figure 4:** The 2010 county health rankings, ranking from most healthy to least healthy.*

In terms of broadband infrastructure, the information superhighway is now as fully important as the traditional country roads for rural Minnesota, and the good news on this front is that reasonable progress is being made toward the goal of high-speed connectivity for all of Minnesota. A new organization, Connect Minnesota, supported largely by federal economic recovery program funds, says it simply and clearly on its website: "Without sufficient broadband access and a high level of technology adoption, Minnesota communities and residents will remain technologically and economically crippled in today's digital world." Although federal dollars and broadband providers appear to be making progress, our new governor will need to intervene and accelerate the progress toward a fully wired Greater Minnesota.

Health care

Finally, but hardly last in importance, the actual physical health of Greater Minnesota needs investment, too. A county-by-county ranking, from most healthy to least healthy, conducted by the Robert Woods Johnson Foundation and the University of Wisconsin Population Health Institute, shows that many of the most rural counties, particularly those toward the north, are in need of public health improvements (Figure 4).

Health-care investment priorities recommended by the Minnesota Rural Health Association call for recognition of the "essential" nature of long-term care facilities and "aging-in-place" initiatives. Other groups advocate for universal entitlement to health-care coverage, public health subsidies or programs addressing the neglect of dental care, and efforts attracting more doctors and health-care professionals to rural towns and hospitals.

The County Health Rankings report offers a menu of more than 80 programs and policies that have been shown to be helpful or effective at improving health, ranging from provision of universal health coverage to expanding the scope of nurse practitioners to increased use of telemedicine.

Conclusion: A call to action

In January of 1987, about a quarter-century ago, Gov. Rudy Perpich was preparing to take the oath of office for a third time. He had been re-elected despite governing in the midst of a farm crisis, ongoing layoffs and decline in the northern mining industry. It was a decade of economic convulsion that produced one of our largest losses of individual farmers and general rural depopulation.

Perpich, an Iron Ranger, was the last Minnesota governor to be born and reared in Greater Minnesota. Nevertheless, he had traveled extensively abroad as an international businessman between his first and second terms and had developed a keen understanding of international economics. He was prepared to deal with the first real mega-shock caused by globalization of the economy.

With thousands of rural citizens and farmers massing on the Capitol mall, and foreclosures and reports of suicides rising, the governor and the Legislature came out roaring in the 1987 session with an ambitious plan to reinvest in Greater Minnesota, a term which itself became more popular as a result, and began to supplant the more pejorative "outstate."

Senate File 1, sponsored by then Senate Majority Leader Roger Moe, also from northern Minnesota, created the Greater Minnesota Corporation, which later morphed into Minnesota Technology, Inc., and now Enterprise Minnesota. Out of those efforts also came a Rural Development Board, a Public Facilities Authority, the Agricultural Utilization Research Institute and initiatives that spurred the vitally important ethanol industry. Perhaps one of the most salubrious and far-reaching outcomes was the creation, in concert with and eventually led by the McKnight Foundation, of six regional Initiative Foundations that serve as model catalysts and regional networking centers for economic and social advancement.

"If you add up the sum total of all that came of 1987," Moe says today, "it *did* have an impact, and there's a real need now for something like that effort again."[9]

The good news is that a new governor does not have to start from scratch and can build on a strong institutional public-private-nonprofit network that is already working on a rural renaissance.

It's noteworthy that in the Chicago Council on Global Affairs report on rural transformation, Minnesota is the state cited most often for cutting-edge, community-centered leadership and innovation toward restoring the economy. Initiatives both north and south are cited.

The report calls out the True North Initiative for "turning seven county-level community colleges into one regional college, sparking a major new development strategy throughout Minnesota's Arrowhead region."[10]

Praise is lavished particularly on southern Minnesota's efforts led by a number of southern, southeastern and southwestern Minnesota organizations, state and local government agencies and rural businesses to form the Southern Minnesota Regional Competitiveness Project (now called the Partnership for Regional Competitiveness: Southern Minnesota project), creating a joint effort across "thirty-eight counties, among other things uniting three of the region's major assets — the Mayo Clinic, The Hormel Institute, and the area's farmers — into a joint bioscience initiative."

This project is described as:

> … a powerful window into the future of rural development in both the Midwest and the nation. It also gives us a useful glimpse of the economic realities that provide the essential framework for new development strategies. Southern Minnesota has a comparatively strong economy, with incomes and employment levels that would be the envy of many other parts of the Midwest or nation. The region's farmers are among the most productive in the nation, if not the world. Fully one-fifth of the region's workers still start their day in a factory. And southern Minnesota boasts one of the best-known medical centers in the world — the Mayo Clinic. Together, these three industries represent a sort of "three-legged stool" for the region's economy, with more than 120,000 "surplus jobs," or more jobs in these three key industries than one would expect if the region's economy was representative of the nation as a whole.[11]

Clearly, momentum is already gathering. Rural leaders are ready to forge ahead under a new governor who is enthusiastic about renewing the promise and potential of Greater Minnesota and is willing to lead that charge. The office provides a bully pulpit that is of incalculable value, and a new governor could christen a new initiative that coordinates and captures the ongoing work, and engage with other Midwestern governors on a joint regional effort.

Perseverance and optimism are crucial. And a new governor should not be afraid to ask for sacrifice and common effort by all Minnesotans on behalf of Greater Minnesota, including new revenues and reasonable tax increases for the investments that need to be made. Few Minnesotans probably could guess that when Gov. Floyd B. Olson in the 1930s instituted the income tax and directed the revenues to public schools that it would help create one of the most successful states in the Midwest and the nation. Governors throughout the 1940s through the 1990s oversaw investments and research at the University of Minnesota that created the taconite industry and rescued the mining industry. Governors in all parties encouraged and spent millions to develop a vocational-technical and community college system that underpins one of the nation's stronger manufacturing sectors and private-sector strengths.

That past success is prologue for public action to preserve and enhance Greater Minnesota, for the common good of the entire state and a greater Minnesota.

Endnotes

[1] http://minnesota.tenthamendmentcenter.com

[2] http://www.worldchanging.com/archives/010206.html

[3] http://www.jobsnowcoalition.org

[4] Mannion, Elgin and Konstantinos Zougris. 2009. "Metro-Nonmetro Economic Growth and Convergence in the Plains States – Rethinking the Rural-Urban Relationship in a Global Economy." *Online Journal of Rural Research and Policy.* http://ojrrp.org

[5] http://www.minnpost.com/stories/2010/04/23/17577/minnesota_farm_incomes_plummet_but_a_recovery_is_slowly_emerging

[6] Drabenstott, Mark. 2010. *Past Silos and Smokestacks: Transforming the Rural Economy in the Midwest.* Chicago: The Chicago Council on Global Affairs. http://www.thechicagocouncil.org/taskforce_details.php?taskforce_id=15

[7] Ibid. p. 43.

[8] Ibid. p. 8.

[9] Interview by the author with Roger Moe, May 5, 2010.
[10] Drabenstott, p. 4.
[11] Ibid. p. 34.

There are Laws and There are Laws

Brad Finstad & Marnie Werner

Dear Future Governor:

As you well know, Minnesota is a state of many different faces and regions. In the first issue of the *Rural Minnesota Journal,* state demographer Tom Gillaspy and state economist Tom Stinson introduced a geographic definition of Minnesota that divided the state into "plexes," "ruralplexes" and a "metroplex." Each of these areas carries a unique stamp formed by circumstances of the past and the present, and of the enduring landscape, making them all different. And of course, you, as governor, get to serve them all.

But there is — and has been for quite some time — a lingering fear among Minnesota's residents living outside the Twin Cities that those in government, especially in St. Paul, aren't quite aware that what they do can have a different impact on rural areas; as these policies are set, their effects on residents beyond the Twin Cities aren't fully considered. Ever since redistricting in 2002, when for the first time Twin Cities legislators outnumbered legislators representing the rest of the state and rural Minnesota lost a Congressional seat to the Twin Cities suburbs, the concern about representation has been growing. So as long-time observers of and participants in state politics, we just wanted to point out a few things.

First do no harm

The law of unintended consequences

Pretty much everyone has heard of Newton's Third Law of Motion: For every action there is an equal and opposite reaction. It's a law of physics that's applied to many other things, from cooking to child rearing, including politics. Every piece of policy that comes out of a decision-making body has some kind of effect on everyone in its jurisdiction. Generally it's the reaction expected, but sometimes it's a reaction not expected. It's that unexpected reaction that has led to the development of a lesser-known "law" that's more appropriate for Minnesota. It hasn't been as rigorously tested as Newton's, we would suspect, but it's no less true: the Law of Unintended Consequences.

Made popular by sociologist Robert K. Merton in the 1930s, the law goes something like this: Every action taken on a complex system will produce unforeseen and unintended consequences, both good or bad. In other words, mess around with something complicated, like people's lives or their businesses, the road system, or education funding, and you are bound to get some results you weren't expecting.

The Law of Unintended Consequences has been at work in politics since politics began, and it's no less true in Minnesota. Ever since redistricting in 2002, rural residents have been nervous, hoping that metro legislators will follow the byword of the medical profession when they create policy: First do no harm. This doesn't just apply to rural parts of the state. Our state population is becoming more diverse, not just in terms of ethnicity but also income, education and background. Every individual, neighborhood and community exists in different circumstances, creating different needs and interests. And although it may be easy to forget, rural Minnesota has some very different circumstances, leading to very different needs.

Let's take a quick spin through a list of socio-economic and demographic indicators to see why. *Overall*, rural Minnesota — everything outside the seven-county Twin Cities area — is older, poorer and less educated than the Twin Cities. What we find when we look at this county by county, however, is that these factors vary considerably by location. The population is youngest in a swath running from Stearns County down through the west metro to Blue Earth County, oldest around the periphery of the state. An older population means one that tends to be more dependent on Social Security, fixed incomes, and public services. The highest median household income is clustered in and around the Twin Cities and Rochester and interestingly, Roseau County. From there, median incomes go down, until incomes in the far western and northern parts of the state sit at less than half that of the counties in the western Twin Cities suburbs. Since the cost of living in these regions is not half of what it is in the metro area, again, these regions are more dependent on public services. Free and reduced-price lunch for K-12 students is lowest in the Twin Cities suburbs (highest in Minneapolis and St. Paul proper) and increases as we move west and north. Draw a line from Big Stone County north of St. Cloud to Chisago City and you'll find north of that line the percentage of people on Minnesota Care is almost twice the rate found south of that line.

Why is all this? Well, that question has been poked and prodded fairly thoroughly, and the answers are multiple: young people leaving their rural homes for college in the city, leaving an older and rapidly aging population on fixed incomes; various crises and changes in modern agriculture, including today's consolidation of farms; the decline in manufacturing and its well-paying jobs, which, along with agriculture has been the backbone of the rural economy. There are many other reasons for these long-term trends, but these are the highlights.

So, when you as the new governor come aboard in January 2011, you will be facing not just a deficit, but the results of the 2010 Census. Those results will probably not be too surprising: a set of demographic trends continuing on in the same direction they have for the past few decades. After the results of this next Census come out, it's a fairly safe bet that rural Minnesota will lose a couple more legislators.

So what are we asking of metro legislators and yourself? Simply to be fair. And be aware, especially as they move into the ugly job this next session of tackling the mammoth budget deficit. The budget cuts have been tough, and many rural leaders believe they fell disproportionately on rural Minnesota already, especially in the areas of Local Government Aid and road and bridge maintenance funding. Let's try not to make rural regions an easy target.

Going on the offense

A role for rural lawmakers

At the same time, rural lawmakers are on the front line of this issue, of course, and they know better than just about anyone how policy set in St. Paul will affect their district. But as they lose overall critical mass in the legislature, their ability to do anything about it could be weakened. How can this be counteracted? A rural caucus has been tried before with limited success, but that doesn't mean it can't be tried again. The Iron Range legislators have led a highly successful caucus for years. Granted, they are all of the same party and face the same unique issues for their districts, which makes being effective infinitely easier. But most rural legislators deal with the same issues and needs for their districts regardless of party. The challenge is for lawmakers to throw off party strictures where they are not necessary, stop making politics personal, and work together to strengthen the rural voice. Perhaps there is a role here for the new governor to encourage a bi-partisan effort like this to strengthen the state.

Another thought is the "rural lens." The idea has been tossed about for a while of setting up something like they have in Canada: a rural agency in the Canadian federal government applies a "rural lens" to most policies under consideration to ensure that that policy's impact on rural regions of the country are understood and negative outcomes can be addressed before they create havoc. Can we do something like that in Minnesota? Setting up a new agency isn't a good idea right now, but our rural legislators can be acting in that capacity already. If they're not, they should be, which is another argument for a non-partisan rural caucus.

Remaining relevant in a swiftly tilting world

Rural residents handling and embracing change: poaching is out, collaboration is in

But lest we sound like we're putting all the responsibility on legislators to "please, just understand us," there is a lot we rural residents can do, too, (and already have) at the local level to immunize ourselves somewhat against unintended consequences.

That means keeping ourselves relevant and that's going to involve embracing change. A colleague of ours has traveled to communities of all shapes and sizes across Minnesota for years talking about effective economic development, and he tells this story: In many towns, he asks the local leaders to close their eyes and describe how they want their community to look in five or ten or twenty years. And what the audience almost unfailingly describes is how their community looked in the 1950s.

Now who doesn't want the town of their childhood back? The town where they began their lives, fell in love, raised their family? The fact is, though, that town isn't coming back. But it doesn't have to be a sad fact or a hard fact. Times have changed, yes, and we can mourn for what has been lost, but at some point that mourning period has to end and we have to get to work. Change is scary and hard, but it will happen with or without our participation. The results will be better when we participate.

Another colleague tells me about a certain Minnesota county where four communities and the county itself all have their own economic development authorities, and they all compete relentlessly against one another in a county with a population of around 14,000. The idea of these organizations merging and working together for the good of the larger region is unthinkable to these individuals, and so they continue duplicating services for very small areas in the quest to maintain a community identity.

This is the familiar economic development system that has been in practice for decades in rural and urban communities alike: competing against each other, trying to attract the big employer through tax breaks and promises. The result has been success for some places, but for the most part, poaching, disappointment and ill will. The fight is, of course, over limited resources: who gets the jobs and the benefits and the tax dollars.

What's the alternative? Start looking to the community next door. Extend our famous neighborliness beyond the city limits or county line. Many communities and counties are already figuring out ways they can work together to save money and provide necessary services. We can also develop our communities economically from within. Encourage development of small businesses by people already living in the community, who already have a stake there, and encourage existing businesses to work together across community lines and even county lines to strengthen their positions and ensure they can remain in the community. The state can help with new policies that support collaboration among governments, businesses, schools and colleges, and other organizations, and examine existing policies to ensure that those on the books already aren't hampering this effort.

Who's going to do all this work at the community level? That's where leadership development comes in. The fact that people are still in your community, that they want to start businesses and create wealth is an excellent sign — it means they want to be there. Don't discourage it. Encourage it. Inspire those who want to be leaders, and also those who maybe don't want to be leaders but you think would make good leaders. You want your kids to stay in town? Give them a role to play so they have purpose there. Sure it's hard, but instead of picturing your town in the future looking like your town of the past, picture what you would want it to look like for your grandkids. Can you see that picture? Okay, go get it.

It's a two-way street

The need to stop scaring each other to death: sound bites are not our friends

So, dear Governor, there you have it. Both the metro and rural areas need to do their part. The legislators and constituents of the Twin Cities need to recognize that as long as they are the majority in the state, they control the fate and fortune of *all* residents of the state, especially those in rural areas. And rural residents, for their part, need to keep doing what they can to encourage the building of community and wealth in their own towns and counties.

So in the meantime, how do we learn to work with each other instead of against? First of all, we need to stop trying to scare each other to death. As always, it's a fight over finite resources, and in a fight, we like to pull out the big guns of civic doom and economic despair: the world will end if this particular motion is passed, etc. The sound bite is particularly suited to this war of ideologies and is used effectively by all sides, interests and parties to get everyone whipped up and angry at each other. No one wants to look soft on anything, and everyone wants to be the hero.

Unfortunately, it also poisons the atmosphere, making it a great deal more difficult to create meaningful policy that produces solutions. Eventually sound bites just insult our intelligence and extreme partisanship hits a point of diminishing returns, where political sniping and an Eeyore attitude of budgetary fatalism doesn't work anymore. Here's a quote, attributed to Benjamin Franklin, although he may not have been the first to say it: "We must, indeed, all hang together, or we will assuredly all hang separately." That is as true today as it was 230 years ago, no matter what level of society it's applied to, from fractious partisanship at the federal level to communities within the same county not getting along. And now is the time, if there ever was one, to roll up our sleeves and get to work — together.

After all, all politics are local, but policy is set for everyone. Everyone has different needs and wants and there is only so much to go around. The governor's role this next session will be as referee to ensure that the finite resources are distributed as fairly and as equitably as possible. So to all of you willing to take on this job, we wish you well. You're in for an exciting four years.

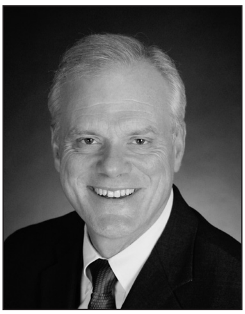
About the Authors

Lee Warne is Executive Director of the Minnesota Rural Education Association. Lee has spent the past 38 years in education as a teacher, coach, principal, superintendent and now executive director. He has taught in Tehran, Iran, but spent most of his career in rural Minnesota. Lee was also the national executive director for the Association of Educational Service Agencies based in Washington, D.C. Lee has a bachelor's degree from Concordia College in Moorhead and a master's and specialist degree in education from Tri-College University, Moorhead.

Since 2002 **Doug Peterson** of Madison, Minn., has been president of the Minnesota Farmers Union, a nonprofit membership-based organization that works to protect and enhance the economic opportunities and quality of life for family farmers and rural communities. Prior to his election as MFU President, Peterson served for twelve years in the Minnesota House, representing a legislative district that included Lac qui Parle, Swift, Chippewa and Big Stone Counties in western Minnesota.

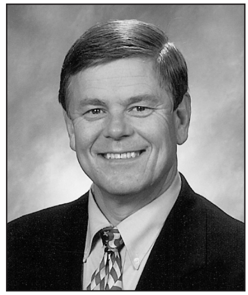
While serving in the Minnesota Legislature in 1996, Peterson founded and served as Chair of the Right to Be Rural Coalition. He is widely recognized for his leadership on several rural issues, including renewable fuels. Peterson was the chief author of legislation that made Minnesota the first state in the nation to require a 10% ethanol blend in gasoline.

Peterson grew up on a family farm south of Madison, Minn., and began his formal education in a one-room schoolhouse. A graduate of Augustana College in Sioux Falls, Peterson was an outstanding collegiate football player. After graduation, he was an art teacher, gymnastics coach and football coach in Glencoe, Minn., before returning to Lac qui Parle County to run the family farm. Doug and his wife, Elly, have two grown sons. In addition to farming, Peterson is a licensed auctioneer and an artist known for his vivid portrayals of wildlife.



As Minnesota Farm Bureau's public policy team director, **Chris Radatz** is responsible for directing the legislative activity of Minnesota's largest general farm organization. This involves working on state and federal legislation, working with governmental regulatory agencies and assisting county Farm Bureaus in developing and implementing Farm Bureau policy. Chris joined Farm Bureau in 1976 as a field representative in southeast Minnesota. Throughout his career with Farm Bureau, he has been involved in many aspects of the organization including commodity activities, field services and working with Farm Bureau members. Chris was born and raised on a dairy farm in Winona County, graduated from Lewiston High School and earned a Bachelor of Science degree in agriculture at the University of Wisconsin-River Falls. Chris and his wife, Mary, have three children and seven grandchildren.

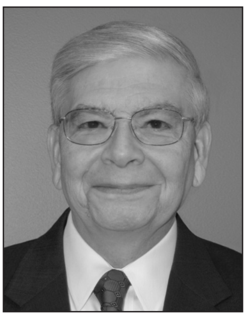
Steve Perkins chairs and since 1986 has served on the Sanford Hospital Luverne Community Advisory Board and its predecessor governing board of the Luverne Community Hospital. He is a director of the Minnesota Hospital Association (MHA) and is a member of the American Hospital



Association's Committee on Governance (past chair) and Regional Policy Board. He was one of the first to complete MHA's Certified Hospital Trustee program and was named Trustee of the Year in 2007.

Perkins served as mayor of the City of Pipestone (1977-86) and as City Administrator for Luverne (1986-1992) and Red Wing (1992-97). Early on he was an EMT volunteer ambulance attendant and served many years as chair of the Southwest EMS Corporation. The Minnesota League of Cities awarded him its Leadership Award in 1997. He is an alumnus of the Blandin Foundation Advanced Leadership program.

Perkins resides in Luverne and is a semi-retired consultant in business management and economic development.



Since 1993, **Jim Miller** has served as Executive Director of the League of Minnesota Cities. The League is a membership organization representing over 830 cities across the state. For more than 90 years, the League has provided research, training, advocacy, communication, and insurance services to its members.

Prior to his current position, Jim served as City Manager of Minnetonka, Minnesota for 13 years. He has also been Assistant City Manager in Des Moines Iowa and Janesville Wisconsin. In total, he has worked for seven cities in five states ranging from 10,000 to 1,000,000 population.

He has been an assistant professor at Hamline University, teaching in its public administration program and has served as co-coordinator of its doctoral program in public administration. He holds a BA degree in political science, two masters degrees in public administration and a doctorate in that same field.

He has participated in several international exchanges or training initiatives with local governments in Moldova, Russia, the Baltic Republics, the Czech Republic, Hungary, Slovakia and Japan.

Professor **King Banaian** is professor and chairman of the Department of Economics at St. Cloud State University. He holds the Ph.D. in economics from the Claremont Graduate School. He has consulted at the central banks of Ukraine, Egypt and Macedonia and the ministries of finance of Indonesia, Macedonia and Armenia. He is author of The Ukrainian Economy since Independence (Edward Elgar, 1998), co-editor of The Design and Use of Political Economy Indicators (Palgrave, 2008) and more than forty articles and book chapters discussing monetary policy and political economy. He directs the Center for Economic Education at SCSU. He is a fellow of the Armenian International Policy Research Group in Washington, DC and Yerevan, Armenia. He is also host of the King Banaian Show of the Northern Alliance Radio Network, broadcast in Minneapolis, and co-author of the St. Cloud Quarterly Business Report. He lives in St. Cloud, Minnesota, with his wife and daughter.

Rich MacDonald is Assistant Professor in the Department of Economics at St. Cloud State University. He currently splits time between his faculty responsibilities at SCSU and service as the Senior Advisor for Program Development with the Council for Economic Education (CEE). At SCSU, he teaches courses in Money & Banking and Macroeconomics, co-authors the *St. Cloud Area Quarterly Business Report*, and serves as assistant director of the Center for Economic Education. He also serves on the Council of Economic Advisers of the Minnesota Department of Finance. In his work with the NY-based CEE, he is instrumental in the development and delivery of educational programs and products for K-12 teachers of economics, personal finance, and entrepreneurship around the U.S. and several other countries. He has played a major role in the development and assessment of K-12 educational standards in economics by serving on key committees that have developed the *K-12 Voluntary National Content Standards in Economics*, as well as new social studies/history standards for the National Board of Professional Teaching Standards, and the testing of 12th grade students as part of the National Assessment of Educational Progress Economics 2006 (and 2012) assessment. He has co-authored a book in Mathematics and Economics for use in high school classrooms and has made numerous curricular contributions in economics and personal finance for use in K-12 classrooms. He works with several university professionals in conducting assessment research in economic and financial education.

Rich has also served as the interim executive director of the Minnesota Council on Economic Education and as Vice President for Programs of the Council for Economic Education. He is past president of the National Association of Economic Educators, a former member of the Board of Directors of the CEE, and has served as senior fellow of the CEE. He has a B.S. in Economics from Alfred University and a PhD in Economics from the State University of New York at Binghamton.

Dane Smith is the president of Growth & Justice, a policy research organization that focuses on ways to build both business growth and economic justice, through smarter public investments and a fairer tax system, and improving government accountability. Smith also has 35 years experience as a journalist, researching and writing about state government and politics for the Star Tribune, the St. Paul Pioneer Press and other newspapers. He says he has a unique perspective on Greater Minnesota, informed by almost four decades as an observer and chronicler who traveled to every nook and cranny of the state with candidates for statewide elected office, including extensive travels with four different governors since the early 1980s. He also has benefited from a front-row seat at the state capitol, reporting on regional policy and political debate. He prefers to take his vacations in Minnesota, loves the state parks and small towns, enjoys reading about the history and cultures of the entire state, and takes every opportunity to get outside the Twin Cities' MUSA (Metropolitan Urban Service Area) boundary.

Brad Finstad is executive director of the Center for Rural Policy and Development in St. Peter, Minn., served three terms in the Minnesota House of Representatives before coming to the Center in 2008. During his time in the Legislature, Finstad served on the House's agriculture, finance and health and human services committees and served for two years as assistant minority leader. He gained statewide attention in 2006 when he authored and successfully shepherded passage of legislation authorizing public financing of the new Twins ballpark.

He previously served as the Agriculture and Rural Policy Adviser/Liaison for former Congressman Mark Kennedy. In the private sector, Finstad has held numerous management positions dealing with business development and human resources. Finstad also has been involved in numerous agricultural organizations, including the Minnesota Corn Growers Association, the Minnesota Farm Bureau Federation, the Minnesota Pork Producers, the Minnesota Soybean Growers Association and the Minnesota Association of Cooperatives. He also is a member of the Minnesota Chamber of Commerce.

Finstad and his wife, Jaclyn, are both Minnesota natives and live in rural Comfrey with their four children. He received his bachelor's degree in Agricultural Education from the University of Minnesota.

Marnie Werner is research manager at the Center for Rural Policy and Development. Before coming to the Center in 2000,

Werner was employed for eight years at ECM Publishers in Anoka, Minn., first as an education, city and arts reporter for the Anoka County newspapers, then as Capitol reporter for the group of newspapers, ranging from Milaca down to Blaine and Spring Lake Park. Werner received a bachelor's degree in journalism from the University of Minnesota School of Journalism and a master's degree in policy analysis from the University of Minnesota Humphrey Institute of Public Affairs.

About the Center for Rural Policy & Development

In 1997, a group of rural Minnesota advocates came together around a bold idea: to create a rural policy think tank that would provide policy makers, rural advocates and concerned citizens with an objective, unbiased and politically "unspun" examination of contemporary rural issues.

Funded through a public-private partnership, the Center for Rural Policy and Development today is an independent non-profit research organization dedicated to the objective study of the economic, social and cultural forces that are impacting rural Minnesotans and the communities they reside in. Over the years, our audience has grown to include state legislators, city and county officials, community leaders, business executives, college presidents, school superintendents and everyday citizens concerned about rural Minnesota and its future.

Hopefully, you will agree that RMJ is one of those resources worth having. To that end, we invite you to visit our web site at www.ruralmn.org to learn more about the Center for Rural Policy and Development, our resources and programs, and ways you can support RMJ.

Center for Rural Policy & Development
600 S. Fifth St., Suite 211
Saint Peter, MN 56082

(507) 934-7700
(877) RURALMN

www.ruralmn.org