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Reinventing Rural Minnesota

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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.

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Reinventing Rural Minnesota

Tim Penny

“To retain their competitive advantage, rural firms, farmers and communities will need a renewed commitment to entrepreneurship and technological innovation.”

*The Federal Reserve Bank of Kansas City’s
Center for the Study of Rural America*

The above statement says it all. If we face facts, build on our assets and work cooperatively, I firmly believe rural Minnesota is poised for a comeback.

As a lifelong resident of rural Minnesota, a former state legislator and U.S. Congressman, I have been involved with rural and agricultural policy issues for more than three decades. I have watched as rural Minnesota has changed. Some changes have been alarming such as the severe reduction in the state’s dairy industry. Some change has been gradual, such as the depopulation of countless small towns.

Still, there are signs that rural Minnesota is catching a new wave of interest and development. The good news is that there are economic opportunities within every region of the state. In addition, technology advancements offer rural communities — regardless of location — an opportunity for a bright economic future.

My rural policy experiences, first as a legislator and now as a community leader, have led me to a number of conclusions about what works — and what doesn’t. Primary among my observations is that we need to be honest about where things stand today if we expect to adopt policies that will make our rural regions stronger in the future. In short, facts are facts.

Demography is part of our destiny — but we still choose.

A review of demographic data reveals much about where rural Minnesota stands today and where we are headed.

Minnesota's state demographer, Tom Gillaspay, tells us that there is good news and bad news. Poring through his compiled data, we can conclude the following:

First, Minnesota ranks as a leader on most economic and social indicators. We have the second lowest poverty rate. We are in the top percentile in health coverage and first in the United Health Foundation ranking of state healthiness. We are sixth in median family income. We are ninth in personal income per capita in 2004. By way of comparison, we were ranked 25th in 1960. Nonetheless, many rural regions in our state lag behind these statewide rankings.

Second, Minnesota is a growing state. However, the Twin Cities region is accounting for roughly 80 percent of the state's population growth. Minnesota is rapidly becoming more suburban and exurban. Managing population growth is a huge issue for these communities. In contrast, many rural communities are notably smaller than they were in 1950 — some of them significantly smaller.

Third, over half the population growth in Minnesota this past decade is among ethnic minorities. Though Minnesota today is still one of the least diverse states in the nation (13 percent minority versus 32 percent nationwide), Minnesota will clearly look much different in the decades to come. This increasing diversity is evident in both urban and rural regions.

Fourth, Minnesota is aging. By 2020, the number of Minnesotans 65 and older will increase by more than 50 percent. By 2030, it will double. Rural communities will on average be older than the rest of the state. This aging trend has many implications. Retirees often downsize, affecting the housing market. Government spending priorities will shift to elderly health care, resulting in expenditures that will crowd out other spending and investment. In addition, older voters are more fiscally conservative, meaning the state and local tax base will be eroded as the Baby Boom generation reaches retirement age.

Finally, Minnesota's economic growth rate has exceeded the national average. Few dispute that higher education has been a key contributor to the state's economic success.

Our state is ninth in the nation in the percent of residents with college diplomas. Both rural and Metro areas have notably high post-secondary graduation rates — though rural Minnesotans' degrees

are weighted more heavily to two-year programs.

Despite Minnesota's overall economic strength, rural regions are often lagging. A Kansas City Federal Reserve report cites that only a sixth of the farm-dependent counties in the nation have above average growth in employment. That trend holds true for Minnesota as well. These job growth rural counties generally have two characteristics: They are near metro areas or they are emerging retail trade centers.

In summary, rural Minnesota is changing. We are aging. We are becoming more ethnically diverse. We are not — on the whole — as prosperous a region as we once were. These are the demographic facts that must inform our policy decisions.

Farm Policy Failure

According to a recent study commissioned by the National Corn Growers, "Despite \$104 billion spent on farm payments in the 1990s, three out of every four farm counties had sub-par economic growth during the decade."

For too long it has been assumed that federal farm policy is synonymous with rural policy. As a member of the House Agriculture Committee, I learned first-hand about the limits of the national government in addressing the economic needs of rural Minnesota. During my twelve years in Congress, the debate on the Farm Bill was mostly about apportioning cash payments to various crops so that every region and commodity group felt they were getting their fair share of farm subsidies. It was assumed that these subsidies would translate into profitable farms and by extension vibrant rural communities. The evidence demonstrates, however, that federal farm policy has not made rural Minnesota more prosperous.

Sadly, the Congressional approach to federal farm policy has not changed significantly since my tenure there. Recent farm legislation has focused more and more subsidies on fewer and fewer farmers.

A study conducted by the Kansas City Federal Reserve observes that "Today only one in every seventy-five Americans lives on a farm — and just one in 750 lives on a full-time commercial farm." The study also notes that "direct payments to farmers remain the dominant feature of U.S. farm policy. For instance, the 2002 farm bill commits nearly 70 percent of total spending to commodity payments to farmers and another 13 percent to conservation payments to farmers. Meanwhile, less than 1 percent goes to rural development initiatives."

The study concludes: "Farm payments are not providing a

strong boost to the rural economy in those counties that most depend on them. Job gains are weak and population growth is actually negative in most of the counties where farm payments are the biggest share of income.”

On balance, USDA programs have not kept pace with the times and are less relevant than ever in terms of either saving the mythical family farm or strengthening the rural economy. However, as a new Farm Bill is debated and developed in Washington, advocates for economic growth in rural Minnesota should urge policymakers to focus on two critically important and promising areas: conservation and cooperatives.

Conservation: The one success of recent farm policy can be found in conservation of land and water. The Conservation Reserve Program (CRP) and the Conservation Security Program (CSP) have revitalized habitat and improved river and lake quality. Through programs like Reinvest in Minnesota (RIM), the state of Minnesota has wisely partnered with the USDA in financing such land set asides. Conservation represents a partnership between urban and rural Minnesota. By restoring our wetlands and creating hunting and fishing havens, sportsmen and environmentalists are becoming allies with farmers — and their use of our natural habitat is bringing outside income into rural regions. A new farm bill should allocate a larger share of farm payments for conservation purposes and target those payments specifically to farmland along lakes, streams and marshes.

Cooperatives. Just as cooperatives originally brought electricity and telephone service and credit to agricultural regions, we need new cooperative concepts to take rural America into the 21st century.

Farmers are already redefining the role of cooperatives in a way that brings new opportunities for financial success. Cooperative ethanol plants and other cooperative processing facilities are returning higher per-bushel profits to farmers while also providing a return on investment for those farmers who have joined coops to build these processing plants.

In addition, many states, including Minnesota, are facilitating these new enterprises with legislation. Minnesota’s 308b cooperative law allows for outside investors to join cooperatives, bringing new capital to rural development initiatives. Farmers need to continue re-inventing coops in a fashion that creates a stronger linkage between producers and consumers. This may be especially true as identity preservation becomes a bigger consumer issue.

The cooperative movement still has much to offer rural regions, and innovations like Minnesota's 308b law are part of the answer. Accordingly, Washington lawmakers should think creatively about ways to modernize cooperative law as part of the next farm bill.

Knowledge clusters based on existing assets

"Start by identifying the region's existing knowledge clusters and then bring together the key stakeholders to consider how the clusters might be strengthened."

Kansas City Federal Reserve report on Knowledge Clusters

For the most part, we cannot and should not wait on Washington to save rural communities. Instead, we must look regionally for solutions. What can we do for ourselves?

My thesis is that every region in Minnesota is capable of building on existing assets to strengthen economic activity. Naturally, there are opportunities in agriculture, but health care facilities, tourism and recreational destinations, and regionally located colleges are also among the assets that can contribute to future growth.

Value-added. Farm exports are important, but not sufficient to sustain farm income. Grain exports do not necessarily translate into higher per-bushel income. Farm commodities processed closer to home hold greater promise in terms of adding value to farm produce. In the future, ethanol, biodiesel, bio-medicines, natural medicines, and other niche markets are all going to be more important to the success of farming and rural communities than traditional "grow for the world market" crop production.

As a recent National Corn Growers report cites: "Pharmaceutical farming is a prime example of how high-value agriculture "clusters" could develop in rural areas.... An estimated 400 protein-based drugs are in the pipeline with the potential for at least another 1,000." Clearly, as these "pharming" opportunities increase, it will make sense to co-locate laboratory and processing facilities near the production source to save on transportation costs.

The Corn Growers also stress that "Current corn-based products such as polylactic acid and advanced polyester already being commercialized will utilize nearly as much grain as today's corn sweetener market." Over time "these new polymers will be replacing the 60 billion-pound U.S. petroleum-based plastic market."

Investments in appropriate research at the University of Minnesota can help the farm sector identify ever more new uses for farm

crops and place Minnesota at the cutting edge of these emerging industries.

Livestock production. Animal agriculture is an often overlooked strength in rural communities. Livestock production is important to our rural economy because dairy, beef, hog and poultry operations “consume fifty-three percent of the U.S. corn crop and eighty-two percent of domestically produced soybean meal.” Minnesotans intuitively understand that livestock agriculture plays a critical role in maintaining the vitality of our rural communities. Without livestock agriculture our rural communities will continue to lose local processing jobs, veterinarian services, grain elevators, implement dealerships and more. In short, preserving (or better yet growing) our livestock sector will go a long way toward saving and strengthening these main street businesses.

Though federal dairy policy has hurt the Upper Midwest dairy industry, we still have the infrastructure to support dairy production — if we can demonstrate a commitment to keep Minnesota a dairy state. Other livestock sectors face challenges similar to dairy, and we need to plan in pro-active fashion if these farm enterprises are to thrive. Our state has a large and growing turkey industry. We still have a significant pork industry along with state-of-the-art meat processing facilities, such as Hormel in Austin.

Maintaining a livestock industry will require establishing predictable and timely policies regarding the siting and operational parameters of livestock production in our state. We do not necessarily need less restrictive regulations, but rather a process that is clearly laid out when farmers start down the path of establishing or expanding a livestock operation. Surprises along the way can be costly, both in terms of money and time. Policy makers need to find the proper balance if livestock facilities are to remain an economic engine in rural Minnesota.

Health care facilities. The demographic realities of an aging population remind us that health care will be a growth industry in rural Minnesota. Rural health care facilities are a community asset and already provide thousands of quality jobs. Naturally, as our rural population ages, these facilities will become ever more important to our communities. Irrespective of future Medicare and Medicaid payment formulas, the need for accessible, quality health care will demand that rural communities show creativity in partnering with health care providers to find solutions to local health needs.

Regional population centers will increasingly become a magnet for the baby boom retirement population in search of an array of

health care services. Smaller towns that do not have an adequate health care infrastructure to support retirees may continue to shrink. To avoid that, new health care delivery systems will need to be developed. Accordingly, telemedicine will become a larger part of our rural health care delivery system in years to come.

Tourism/recreation. A key asset base in rural Minnesota is our diverse tourism and recreation industry. Recreational opportunities often define a way to re-design the local economy.

Years ago, as a state senator, I authored legislation allowing local governing authorities to convert abandoned rail lines to trails. When this law took effect in the early 1980s, I did not imagine how numerous these trails would be today. Happily, in every region of the state trails are now a huge attraction drawing tourist dollars into the local economy. As an example, look at the Root River Trail system in southeastern Minnesota. Small cities, such as Lanesboro and Whalen, have become destination communities for hikers and bikers, campers and canoeists.

The communities of Thief River Falls and Roseau are classic examples of recreation-based business success. These rural cities are home to two of the largest domestic manufacturers of recreational equipment, Arctic Cat and Polaris. Both companies were founded nearly fifty years ago by a producer of farm equipment who was looking for ways to help farmers get around their farms during the winter months. Now they are adapting and thriving in the field of recreational vehicles.

Unique recreational opportunities exist in virtually every region of the state — and can become the nucleus for economic growth.

Regional two- and four-year colleges. Educational institutions are enormous regional assets. They are central to economic growth, job training and retraining in rural Minnesota.

The Kansas City Federal Reserve report on Knowledge Clusters has this to say: “Tapping institutions of higher education will be crucial if rural communities are going to strengthen their knowledge economies.... Local educational institutions provide the education for a high-skilled labor force.... Colleges and universities also generate research and development that can lead to new commercial products, new firms and new jobs.... Some are serving as catalysts for regional partnerships and business networks.”

In the 1960s and 1970s, the educational needs of the baby boom generation prompted Minnesota policymakers to assure that no Minnesotan was farther than 30 or 40 miles from a two-year tech-

nical college or community college. More recently, attempting to better coordinate educational offerings, policymakers merged these institutions into the state university system. In turn, the state university system has established a policy of turning these campuses into regional economic engines. All state college and university system campuses have been urged to create stronger and closer partnerships with area business and community leaders.

Current arrangements that respond to regional economic needs include the designation of the universities in Mankato, Winona and Bemidji as Centers of Excellence in Healthcare, Manufacturing and Engineering. In addition, Northeastern Minnesota's higher education institutions saw an opportunity to pool resources and reduce costs by joining five community colleges under one umbrella. The resulting Northeast Higher Education District is building partnerships with area businesses and governments and is bringing focus to the economic needs of the region.

Some campuses now house federal and state job assistance and small business administration facilities. The University of Minnesota Extension Service is also moving more aggressively into the economic development arena. When it comes to growing our rural economy, one size does not fit all. We need varied approaches built around local assets. In sum, our two- and four-year post-secondary institutions can be catalysts for designing regional solutions to our economic needs.

Now a word about local government. Economic growth in rural Minnesota will require local units of government that work together instead of competing against one another. Local governments too often have not appreciated the regional basis for growth strategies. Especially in the area of economic development, we need to get beyond city limits and county lines.

Experiments like JOBZ, which is targeted to certain communities, are rifle shot remedies and only marginally helpful. By perpetuating competition between communities and creating winners and losers, this approach is not a serious or long-term solution for rural Minnesota.

These are tight times financially for many rural counties and cities. Funding restraints, compounded by recent Local Government Aid cuts from the state, are driving partnerships between communities. An example of this effort is the Association of Minnesota Counties Futures Project. Collaborations between local governmental units (cities, counties, townships, school districts) are on the rise and affect areas such as administrative services, law enforcement and health

care delivery. This same attitude of cooperation must be extended to the economic development arena.

Partnerships must also reach beyond governments to include other regional players and stakeholders. This is critically important due to the fact that successful economic development strategies are those in which governments are just one of many actors — and often not the most significant one. According to Chuck Fluharty of the Rural Policy Research Institute: “New governance will redefine how rural regions make economic decisions and how key institutions work together in building a new economy. Government, higher education, and the private sector, including the business and non-profit communities, are especially important in defining governance in most rural regions.” Thankfully, rural Minnesota can look to the McKnight Foundation’s Initiative Foundations, the Blandin Foundation, and other regional players who stand ready to partner.

A final thought about transportation and telecommunications.

These two assets are essential to rural growth. Yet our road system is deteriorating and our telecommunications system is still in development.

The National Association of Counties (NACo) reports that “Less than 10 percent of federal spending for public transportation goes to rural communities. NACo’s warning? “Inadequate public infrastructure is viewed as the most significant road block to economic development in small towns and rural America.”

Regional highway corridors, like Highways 14, 60, 212, 23, 10 and 169, support the economy of rural Minnesota. A comprehensive transportation plan — honestly funded — is needed now more than ever. Minnesota has a twenty-year back-log of transportation needs (some new construction but much of it simple maintenance of existing roadways). The current revenue sources are well below that necessary to address this backlog.

Transportation alternatives, like Northstar Rail, will also bring growth and development. All along the Twin Cities to Saint Cloud corridor, communities will benefit from this project. Much of this growth will initially be residential, posing challenges to local communities to manage that growth. But over time, retail and service industries will follow the population growth. A regional economic upturn will be the result.

Providing telecommunications broadband access to rural communities is also key to fostering new growth. There is encouraging news on this front. In 1999, only about 18,000 zip code areas had broadband access with only 3,023 areas served by more than

three carriers. By 2003, access had reached more than 27,000 zip code areas with more than 13,000 areas served by more than three carriers. Rural-based telecommunications companies are attempting to stay ahead of the curve in new technology services. For example, Midwest Wireless, located in Mankato, has already brought broadband capacity into much of southern Minnesota.

In both transportation and telecommunications, we have work to do — and no time to waste.

The role of the Center for Rural Policy and Development

I agree with the observation of Karl Stauber, President of the Northwest Area Foundation: “Institutions devoted to research in rural public policy issues are still too few.” But, thankfully, Minnesota has one.

Created by the Legislature in the mid 1990s, the Center for Rural Policy is bringing much needed focus to the rural agenda. The authorizing statute specifically mentions several areas of policy research for the Center: job training, housing, crime, transportation and health care. Beyond that, the Center’s work is not limited in statute, leaving the board of directors much latitude in determining the priorities and activities of the Center. The statute states an expectation that the Center would collaborate with “higher education and other institutions throughout the state.” These relationships are evidenced in the Center’s work with research partners (including investigator-initiated projects), project teams and panel members.

The Center’s mission is to understand the unique challenges and opportunities facing Greater Minnesota. Since its inception, the Center has undertaken analysis on a wide array of issues, including the following: the impact of the school aid formula on rural schools; opportunities for alternative energy; rural health care challenges; the role of rural higher education institutions; rural telecommunications; ethnic and cultural diversity in rural communities; and the impact of the JOBZ economic development initiative.

Like our state demographer, Tom Gillaspay, the Center is helping us to understand where we are, where we are going, and what we can do about it.

This publication, *RMJ: Rural Minnesota Journal*, is meant to offer thoughtful analysis of the issues faced by rural Minnesota. In part, it will serve as a primer on the current status of Greater Minnesota. Beyond that, it will be a road map to rural Minnesota’s future.



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Since 1995, Penny has worked as a senior counselor for the Minnesota-based public relations firm Himle Horner. From 1998 to 1999 Penny served as a member of Governor Jesse Ventura's transition team, and in 2002 he was the Independence Party candidate for governor. During 2001, Penny was actively involved as a member of President Bush's bipartisan commission on Social Security.

Penny serves on several boards: as policy chair for the budget watchdog group the Concord Coalition, chair of the Southern Minnesota Leadership Circle, vice chair of ACDI/VOCA (an international development agency), and as a trustee of the Wells Fargo Advantage Funds and the Good Samaritan Society. He is co-author of three books, *Common Cents* (1995), *Payment Due* (1996) and *The 15 Biggest Lies in Politics* (1998), and is a regular public speaker, radio commentator and editorial writer on the topics of state and federal budgeting, agricultural policy, trade issues, rural development, and leadership.

Penny received his bachelor's degree from Winona State University and served 12 years in the Navy Reserves, rising to the rank of lieutenant commander. He and his wife, Barb, reside in Waseca, Minn., and are the parents of four grown children.