

# CENTER *for* RURAL POLICY and DEVELOPMENT

*Seeking Solutions for Greater Minnesota's Future*

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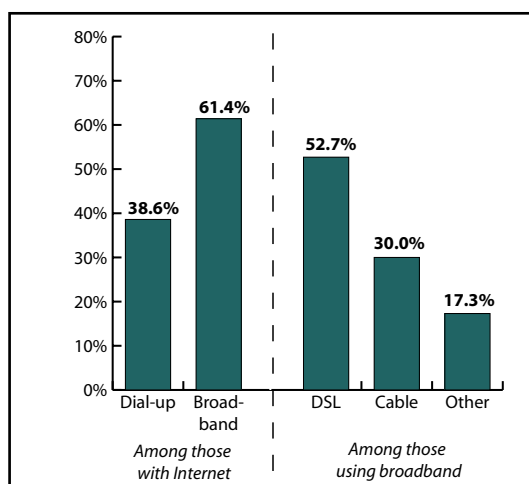
Winter 2005

## *New survey of businesses shows widespread use of Internet*

The latest Internet survey from the Center for Rural Policy and Development reports that over three-quarters of businesses in Greater Minnesota are using computers in their day-to-day business and 40 percent subscribe to some type of broadband service. The survey also found, though, that as with rural residents, certain factors affect whether a business adopts computers and Internet technology.

This new policy brief, released this month, is part of the Center's ongoing study of the use of Internet technology in rural Minnesota. The survey, conducted in December 2003 and January 2004, found that of the 275 respondents, 77 percent used computers in their business, and of those, 85 percent subscribed to the Internet. Of those with Internet, 61 percent accessed it through some form of broadband technology, compared to 39 percent who used dial-up. When asked why they didn't purchase broadband, the most common answer among non-broadband customers was that they didn't use the Internet enough to justify the cost.

The size of the company, however, appears to have a bearing on whether that company uses computers, the Internet or broadband. Among the businesses surveyed, all the businesses with more than 50 employees used computers on a day-to-day basis, compared to 75 percent of companies with fewer than 10 employees. Similarly, 72 percent of companies with sales of less than \$1 million used computers,



*Rural businesses connected to the Internet chose a broadband technology almost two to one over dial-up. Among those with broadband, just over half chose DSL.*

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## *No Child Left Behind: Federal report identifies challenges for rural districts*

One of the most significant re-workings of federal education policy in years, the No Child Left Behind Act of 2002 seeks to improve the education of the nation's children through programs of assessment and progress for both America's students and teachers. Although it has not been around long enough to give a fair assessment of its success, No Child Left Behind (NCLB) has generated a great deal of discussion about the challenges of determining how and how well children are learning.

But while a percentage of school districts overall reported challenges in implementing NCLB, it appears an even greater percentage of rural school districts are facing these same challenges, according to a recent report released by the General Accounting Office, the federal government's independent assessor of programs. The report, released in September 2004, finds that rural districts, because of their unique issues of geographic isolation, low student populations and small staffs, are having difficulty carrying out some of the mandates required by No Child Left Behind.

The intent of the NCLB Act is to improve the education system by assessing students' level of achievement, measuring their progress and ensuring that teachers are qualified to teach their subjects. The goal is to help students achieve a desired level of proficiency in reading and math by the 2013-14 school year.

In general, the report states that, in carrying out the requirements of NCLB, rural school districts, and especially small rural districts, face a higher level of difficulty caused by isolation, small enrollment, declining enrollment and small staff. Many of these challenges were felt by non-rural districts, too, but rural districts seemed to experience them to a greater degree.

Rural districts, as the GAO defined them for this report, account for 25 percent of all districts in the country. For their study, the GAO defined a rural school district as one that is more than 55 miles outside of a Metropolitan Statistical Area (MSAs) are comprised of counties with a population of over 100,000 or containing a city with a population of over 50,000. The GAO further defined small rural districts as those at least 55 miles from an MSA and having fewer than 300 students in the entire district. The GAO found when they surveyed a cross-section of rural and non-rural districts across the country that while a percentage of district officials reported encountering difficulties in implementing some of the required aspects of NCLB, rural districts reported these difficulties with greater frequency. For example: Rural districts had a larger population of low-income children, who tend to need more resources from the school since they have fewer at home and in the community. Also, when it came to competing in salary with other districts for highly qualified teachers, 36 percent of non-rural districts reported this to be a problem, while 52 percent of rural districts reported likewise.

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## *Rural Perspectives*

**James Mulder, Executive Director  
Association of Minnesota Counties**

**Q**

*Tell us about yourself and the Association of Minnesota Counties.*

**A**

The Association of Minnesota Counties is a voluntary association of all of Minnesota's eighty-seven counties and serves as the voice for county government in our state. Although lobbying is a key function for the organization (nearly 80 percent of all bills introduced in the state legislature affect county government), AMC also provides a comprehensive training and education program and is an information resource for county officials. For many county officials, the AMC web site ([mncounties.org](http://mncounties.org)) is the place to go to stay abreast of both legislative and state administrative news.

I grew up on a farm in Renville, Minnesota. I graduated from the University of Minnesota, Morris with a bachelor's degree and received a Master's Degree in Public Administration from the Hubert H. Humphrey School of Public Affairs at the University. I have worked for the association since 1989. Prior to working for AMC, I was the County Coordinator in McLeod County and prior to that worked for the Minnesota House of Representatives.

**Q**

*How did the deadlock at the Legislature last session affect counties and county governments, especially in Greater Minnesota?*

**A**

The 2004 legislative stalemate was a good news/bad news story for county government. On the one hand nothing passed and on the other, nothing passed. Depending on the issue, county officials were pleased or not. Counties felt it was important that a bonding bill be passed and that steps be taken to balance the state's budget for both the short term and the long term. We had hoped for state investment and a plan to deal with the state's meth crisis. Yet, counties were pleased that there were no additional aid cuts, new mandates or cost shifts to counties.

**Q**

*At the release of the state's November economic forecast, health and human services spending were singled out as primary contributors to the state's deficit. Counties bear a significant portion of the cost and administration of these services. How does inflation in these services affect county budgets, and what would AMC prefer to see happen in dealing with this issue?*

**A**

It is not surprising that the state budget forecast projects significant increases in health and human service spending as primary contributors to the projected deficit. One needs only to look at our own individual health insurance bill to recognize that the costs of health care, whether public or private, is escalating at a frightening pace. Minnesota has an aging population, which is a key driver in the cost inflation in health care and affects budgets at both the state and county level. A key challenge for county government is that counties are the payers of last resort. In the event that children and families are not covered by insurance, counties are responsible for the final safety net to ensure the health and safety of those families. AMC is working closely with the administration to identify work plans and strategic investments that could be used to keep skyrocketing health costs under control.

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## Welcome, New Members

### Benefactor

Alliant Energy, Albert Lea  
Bremer Financial, Saint Paul  
Minnesota Power, Duluth  
Minnesota State University, Mankato, Mankato  
Northland Foundation, Duluth  
Qwest Communications, Minneapolis  
Southern Minnesota Initiative Foundation,  
Owatonna  
Southwest Minnesota Foundation, Hutchinson

### Individual

Robert Bunker, Milaca  
Kathie Davis, North Mankato  
Garfield Eckberg, Nicollet  
Neil Eckles, Blue Earth  
Rep. Bob Gunther, Fairmont  
Robert Hammond Jr., Blue Earth  
Colleen Landkamer, Mankato  
Tim Lidstrom, Lidstrom Commercial Realtors,  
Mankato  
John MacFarlane, Fergus Falls  
Lois Mack, Waterville  
Kenneth Petzold, Owatonna  
Daniel C. Reardon, Eagan  
Anthony Schaffhauser, Bemidji

We are happy to welcome the many individuals, businesses and organizations who have chosen to join our CRPD family of supporters. Our effort to build a statewide constituency has been very well received, and we thank all of you who have joined.

Members receiving this newsletter will notice a gold foil label that identifies CRPD members. This label will be included on all printed material and mailings received by members as well as on registration badges used at Center forums and other gatherings. The label is one way of recognizing and saying "thank you" to our members. It's a demonstration of our appreciation for your outstanding support.

In this issue we have included a list of members who have recently joined the Center. For more information on the Center's membership/development program please contact me at (507) 934-7700 or visit our website at [www.ruralmn.org](http://www.ruralmn.org).

Larry Anderson

Coordinator of Outreach and Member Services

### Organizational

BevComm, Blue Earth  
BENCO Electric Cooperative, Mankato  
Blue Cross Blue Shield Foundation, Minneapolis  
Blue Earth Area Schools, Blue Earth  
Brown County REA, Sleepy Eye  
City of St. Peter, St. Peter  
Greater Mankato Economic Development Corp.,  
Mankato  
Hibbing Area Chamber of Commerce, Hibbing

HickoryTech, Mankato  
MnSCU, Office of the Chancellor, St. Paul  
PrairieLand EDC, Slayton  
Quinlivan & Associates, Blue Earth  
Region 9 Development Commission, Mankato  
Southern Minnesota Advocates, Mankato  
St. Luke's Lutheran Care Center, Blue Earth  
The Hormel Institute, U of M, Austin  
United Hospital District, Blue Earth

## No Child Left Behind

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The main challenges appeared to be helping students improve their reading and math proficiency and helping teachers meet the "highly qualified teacher" status, an important component of NCLB. Many rural districts reported that small staffs with a tendency for multiple duties limited their ability to find or design, then implement strategies to improve student achievement. And long distances made it difficult for students to find outside tutoring and other catch-up services.

Likewise with teachers. NCLB requires that all teachers be "highly qualified" in all the subjects they teach, which originally meant having a degree in each one. But long traveling distances, small staffs and a lack of substitutes make it difficult for teachers to attend courses to upgrade their credentials. And declining enrollment has aggravated the situation by leading to reduction in teachers and other staff, according to the report.

Minnesota's rural districts have encountered these same problems with NCLB, but the state Department of Education moved quickly to make the state's version of the law more accommodating, said Vernae Hasbargen, director of legislative action at the Minnesota Rural Education Association.

For example, the state identified and sanctioned various third-party groups, including independent teachers, the Catholic school system and non-government educational services, which can assist students who need extra help, Hasbargen said.

In the difficult situation of teacher qualification, the state Education Department developed and the Legislature approved a policy called HOUSSE - High Objective and Uniform State System of Education - that builds some flexibility into how teachers are assessed. Instead of having to complete a degree in each subject, a Minnesota teacher must bring his or her "portfolio" up to 100 points through course work, staff development, testing and perhaps most importantly, teaching experience.

The department found when they did their first assessment of teachers that 96 percent of them already met the highly qualified standard, said Rollie Morud, assistant commissioner of the Minnesota Department of Education. "The HOUSSE process really applies to that last 4 percent."

Being "highly qualified" in every core subject a teacher teaches can be especially problematic in rural districts with small schools, where one teacher teaches several subjects. A science teacher may have a degree in chemistry but also has to teach physics and biology. Going back for a degree in each of those subjects can be almost impossible in terms of time and distance, especially since NCLB sets a deadline for teachers to meet this requirement by 2006-07. The deadline had been 2005-06, but when U.S. Education Secretary Rod Paige visited the Virginia school district last year and Virginia superintendent Patricia Phillips explained the situation of rural school districts, he returned to Washington and had the deadline extended, said Hasbargen.

The state must comply with the federal law, but it does get to tailor the program to its own unique needs. To that end, MREA is working with the state Board of Teaching to see if a "general science license" can be developed that would meet federal requirements, Hasbargen said. The state is also working on an accommodation of the rule that requires districts to have 95-percent participation in testing, said Morud. "In small districts where there may be only 30 kids in a grade level, having two or three gone the day of the test puts the school below 95 percent," said Morud. Minnesota wants to be allowed to look at participation rates over a three-year period, he said.

In the end, the GAO recommended that the U.S. Department of Education simply provide more assistance to states in helping rural districts, and especially the small rural districts, implement student proficiency plans and teacher qualification requirements. What the GAO recommended specifically was for the Department of Education, through its new National Research and Development Center on Rural Education, work on using scientifically based methods to identify ways of improving student performance, and that it identify and study services that can help

small rural districts meet student proficiency goals. The Department of Education, after reviewing the GAO report, commented that it has already started moving in this direction.

The GAO, cautioned, however, that the department's study did not focus specifically on "challenges and strategies applicable to small, isolated rural districts." The U.S. Department of Education, the GAO recommended, must focus on rural districts' unique challenges if it is going to help them implement the No Child Left Behind requirements.

What MREA is more concerned about in Minnesota, however, is a "profound teacher shortage looming on the horizon," especially in math and science, Hasbargen said. Minnesota has the fourth largest salary gap in the country between urban and rural districts, and the requirements of NCLB could easily aggravate that. The state's quick actions in making NCLB more flexible has helped the situation, though, said Hasbargen, and she's grateful for that.

### Yes, I would like to become a member of CRPD.

Name: \_\_\_\_\_

Organization: \_\_\_\_\_

Address: \_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip: \_\_\_\_\_

Phone: \_\_\_\_\_

E-mail: \_\_\_\_\_

Please choose a level:

Individual  \$50  \$100

I have enclosed a check.

Organization  \$100  \$250  \$500

Please bill me.

Benefactor  \$1,000 or more

May we e-mail your invoice?

Occasionally the Center will publish lists of in publications and on our web site. Please check here if you do not wish to be included in these lists.

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After last year's disappointing end to the 2004 session, most legislators, both rural and urban, returned home to their districts to much criticism about their lack of passing a capital bonding bill. And while the task of producing both a bonding bill and a budget bill significantly increases the 2005 legislative workload, many are hopeful that things will be different this session and that cooperation and compromise might rule the day. This is especially true now given the rather slim majorities for the Republicans in the House and the Democrats in the Senate.

To be honest, however, I'm not sure how optimistic I actually am. For example, after the release of the November forecast of a slightly worse than predicted \$700 million deficit projection, there was ample opportunity for our legislative leaders to set a new constructive, bipartisan tone for the upcoming session. Remarks such as, "... this deficit will be challenging, but together we will work to do what's best for Minnesota" would have been nice. Unfortunately, party leaders on both sides of the aisle instead quickly began staking out their positions, with Republicans framing the projected deficit as a "spending problem," and Democrats derailing such an orientation as "unbalanced and short-sighted."

So it is within this contextual backdrop that I want to highlight a few issues that might rise to the top of rural Minnesota's legislative agenda.

First, rural Minnesota communities are still smarting from what they believe was the unfair targeting of Local Government Aid (LGA) as a way to help fix a \$4.5 billion budget deficit in the FY 2004-05 biennial budget. Simply put, rural mayors and civic leaders still believe that they took a disproportionate share of the budget burden, while more affluent suburban communities that receive little or no LGA felt much less pain. Some suggested that if intergovernmental aid was going to be cut, then all intergovernmental aid, including transit aid (which goes disproportionately to metro area communities) should have been in the mix.

The consequences of the cuts in LGA for many rural communities required them to either significantly reduce their city budgets and services, restore some of the lost LGA funding through increases in local property taxes, or some combination of the two. Well, guess what? Just a few weeks ago rural residents, like their urban counterparts, went to their mailboxes to find their estimated 2005 property tax statements. And as one rural resident of a small southern Minnesota community told me, you could have heated the local coffee shop with all the steam generated from the discussion at the tables about those statements. In some rural communities property taxes have jumped 20 percent or more. And while the Governor correctly reminds Minnesotans that increases in local property taxes are local decisions, many rural residents do not appear to completely agree. Many seem to clearly place the blame on state government and not their local mayors, county commissioners or township boards.

So I'd be quite surprised if a concerted effort to address this LGA issue is not a significant component of rural Minnesota's legislative agenda. Whether it is to ensure that there are no further cuts or possibly some restoration of aid is hard to say. And of course, with a \$700 million budget deficit to fix, such an effort to restore some levels of LGA might seem like swimming upstream. But who knows? The salmon do it!

## Approaching the 2005 Session with Caution

Jack M. Geller, Ph.D.,  
President

Second, transportation funding seems to be on everyone's agenda and as contentious as ever. Recently, a large coalition of interests, including the influential Itasca Project, the Minnesota Chamber of Commerce, the Minnesota Business Partnership and the Association of Minnesota Counties, jumped out early in their effort to find consensus to infuse more money into the state's transportation budget. Often seen as one of the top issues affecting all of us, we are constantly reminded that the state has not raised the gas tax since 1988.

Many rural Minnesotans are quite supportive of an increase in transportation funding, but as the population has shifted from rural to metro, there's a real concern as to how the distribution of any new transportation revenue will shift as well. It's really a dilemma, as rural Minnesota is home to thousands of miles of roads that require upkeep and maintenance in sparsely populated areas, while the metro area finds its roads clogged and congested and in need of greater capacity. Further, rural Minnesota needs quality farm-to-market roads, which means 10-ton roads capable of handling the added weight that these large trucks bring. However, many of these farm roads still have limited weight restrictions and are not likely to be upgraded for many years to come.

To make matters worse, this is Minnesota - not Miami. Given our harsh winters, our roads need to be built to higher (and more costly) standards. And most importantly, while Mn/DOT can build and maintain roads seven or eight months of the year, these same roads continually deteriorate 12 months of the year. There are times when I think that we may have fallen so far behind that I wonder if we could ever catch up, regardless of the funding level. So while many organizations line up to support proposals to increase the gas tax, know that rural advocacy groups will work hard to ensure that the distribution of any new sources of revenue will be fair and equitable to rural interests.

Last is the issue of the Governor's new rural economic development strategy, the Job Opportunity Building Zone Program, known as JOBZ. Initiated on January 1, 2004, this new program of tax incentives at both the state and local level claims more than 100 business start-ups, expansions or relocations throughout rural Minnesota in its first year of operation. Needless to say, it's a program that is quite popular throughout rural Minnesota and one that will receive a fair amount of attention this session. Its quick start has both impressed and concerned legislators, who are wondering how much will this cost. Unfortunately, firm estimates are not likely to be available during this session, as many businesses will not have filed their 2004 taxes by the time this discussion occurs.

As a small number of the JOBZ deals to date have already been scrutinized by some legislators, look for an effort to narrow the types of businesses that are eligible to participate in the program. Also, don't be surprised if the Legislature attempts to incrementally increase some level of state control in determining whether businesses qualify in their applications for this new program.

Overall, the 2005 session appears to be shaping up to be another difficult one for those who were hoping for an increase in funding after a painful round of past budget cuts. Add the increased workload of producing both a budget and bonding bill, and it is clear that our political leaders have their work cut out for them. So I'm hoping that over the holidays Santa left a little bi-partisanship in their collective stockings. They'll need it.



### Rural Perspectives

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**Q** What is AMC's position on transportation funding (especially CSAH funding) and a gas tax increase? Do rural and metro interests differ on how any new revenue should be divided?

**A** The state's gas tax has not been raised since 1988. Since then, the only significant increase in transportation funding has focused on the state's trunk highway system. The governor and the Legislature should be commended for using reserve dollars and advanced federal monies to kick-start the investment in Minnesota's transportation infrastructure. Unfortunately, local units of government have not been part of any increases in funding to deal with the deterioration of local transportation infrastructure. The economic impact of this lack of investment is coming home to roost as business groups from across the state are agreeing with county officials that a new vision regarding an investment in transportation is vitally needed.

The AMC transportation proposal is a comprehensive plan to meet the increased demand for transportation and transit services across the entire state, whether these needs are at the state or local level.

A primary component of the AMC plan is to provide a dedicated funding stream for local transit services which would grant local transit districts the authority to use local sales taxes to support transit and transportation projects.

The AMC transportation funding proposal focuses on a bold vision for investment in the state's transportation infrastructure, and includes:

1. A 5-cent gas tax increase in year one.
2. A 5-cent gas tax in year two.
3. Indexing in year three.
4. A half-cent regional transit district sales tax (this would be allowed in any county, with the revenue dedicated to transportation and transit).
5. A combination of a local county option wheelage fee and registration fee increase.
6. Renewed commitment to the state bridge-bonding program.
7. Authority for local governments to use road impact fees.
8. New state General Obligation and Revenue bonding.

9. Greater efficiency in current operations through system realignments.
10. New federal monies.

The AMC proposal also developed a compromise among rural and metro county officials on the distribution of new gas tax dollars. Under the proposed new formula, approximately 32 percent of the new gas tax money will go to the seven metro counties and 68 percent will be shared by the remainder of the state. By comparison, the seven metro counties compose approximately 54 percent of the state's population and that same approximate share of the gas taxes are raised in the metro area.

**Q** How have cuts to intergovernmental aid the last two years affected counties? What can counties look forward to with the current projected deficit, and what would AMC like to see happen?

**A** As part of budget solutions in the last two years, the cuts to county aid have been significant. Equally if not more challenging have been cost shifts (where the state has mandated counties to pay for services traditionally paid for by the state) and new mandates (where the state requires counties to provide new services). The total effect on county budgets has been significantly higher property taxes and reductions in non-state mandated services. Transportation funding and funding for services such as libraries, Extension, historical societies and many other services have received significant funding reductions. Counties are concerned that this next round of state budget cuts will inflict more pain on county discretionary programs. "No new taxes" is a failure if it just shifts tax increases from state taxes to local property taxes.

**Q** What are other significant issues that AMC will be watching this session?

**A** The key issues for the Association in 2005, besides the state budget issues and transportation, will include methamphetamine, sex offender legislation, impaired waters and ISTS legislation and unfunded mandates.

*New Survey*

**CONTINUED FROM 1**

compared to 92 percent of companies with sales over \$5 million. Such factors are similar to those seen in the Center's survey of residential customers, where the likelihood of a person using a computer, the Internet or broadband increased with income and decreased with age.

The type of industry the business was in also appeared to make a difference: 100 percent of businesses in industries such as finance, health care and real estate used computers, while only 72 percent of retail businesses and 45 percent of food industry businesses did so.

However, the study examined a wide variety of rural businesses, from the downtown café to large manufacturing plants, and the patterns are fairly clear, noted Jack Geller, president of the Center for Rural Policy and Development. "While there are still a number of very small enterprises that have yet to even incorporate computers into their business, it's clear that the majority of rural businesses are embracing this technology and the adoption rates are climbing."

Among those businesses with Internet access, 61 percent connected using high-speed broadband. (Among rural households with Internet access, the broadband rate was 27 percent in 2003.) When asked how they use the Internet, respondents gave a variety of answers. The most popular activities were maintaining contact

with suppliers and customers; tracking industry trends; maintaining contact with colleagues; and interacting with the government. The survey also found that 82 percent of businesses with Internet access had an e-mail address customers could use to contact them and 52 percent had a company web site.

"We were somewhat surprised at both the breadth and depth in which many rural businesses are embracing the Internet. With approximately half of all businesses having a company web site and one-third selling products and services over the Internet, it is clear that rural businesses are utilizing this digital technology to expand their market reach," Geller added.

One of the most telling questions in the survey was the one asking about the impact of broadband on various aspects of doing business. While 30 percent said their ability to acquire the bandwidth they needed would have no impact on potential business opportunities, 28 percent said it would have a moderate or high impact. Twelve percent said it would have a high impact on a decision to relocate, 19 percent said it would have a high impact on their ability to do business, and nearly 25 percent said it would have a high impact on productivity.

The complete report on the rural business survey can be found on the Center's web site at [www.ruralmn.org](http://www.ruralmn.org).

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WINTER 2005

# NEWS Letter

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- Rural districts and No Child Left Behind
- Latest business telecommunications survey released

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