

CENTER *for* RURAL POLICY and DEVELOPMENT

Seeking Solutions for Greater Minnesota's Future

VOLUME V • ISSUE 1

WINTER 2003

Center's plans for the coming year

The new year promises to be an active one for the Center for Rural Policy and Development. After the move to new offices in St. Peter, the Center will be launching into an extensive slate of projects for 2003.

The Atlas of Minnesota, Second Edition

This follow-up to the first Atlas of Minnesota, released in 2000, is a joint project between the Center, the Blandin Foundation and the University of Minnesota Extension Service. The first edition was well-received and went through two printings. The second edition draws upon the experience and data resources of rural leaders and several state agencies, covering issues more comprehensively. The collection of maps shows current conditions and patterns in areas such as population, housing, health care, public safety, agriculture and the economy. Representatives from a dozen or so state agencies, plus several rural groups, including initiatives funds, rural development commissions, and USDA Rural Development contributed to the planning and production of the atlas, including writing text for each map to help users better understand and interpret the data presented to them.

Watch for the Atlas of Minnesota, Second Edition, to be introduced in late March and presented as a session at the Upper Midwest Demography Conference in St. Paul March 25.

Economic Impact of Cooperatives in the State of Minnesota

The latest report to come out of the Center's Small Grants program focuses on the economic contributions of cooperatives in our state. Using surveys and an input/output form of economic analysis, author Joe Folsom of USDA Rural Development examined the economic impact of more than 300 cooperatives and looked at whether cooperatives' unique organization and tax status are factors in how they contribute to the state's economy. The report is scheduled to be released in March. It is the first of several studies that will be produced from the 2002 round of Small Grants funding.

Small Grants Program

Also in March, the Center will announce the awards for the 2003 Small Grants Program. The Small Grants are an important means of eliciting original research. In fact, many of the Center's most pertinent studies have been produced by researchers from campuses, foundations and other organiza-

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Legislative review and preview

The beginning of each legislative session brings with it analysis, estimations and sheer speculation as to what will be the dominating issue and how that issue will be addressed. This year, of course, hanging over all is the specter of a shockingly large budget deficit projected for the 2004-05 budget cycle. And the legislature still must address a shortfall of \$356 million for just the next six months.

How will it be fixed? Even the top authorities are sounding a little overwhelmed. But the one sure thing is that a \$4.5 billion deficit will not be resolved with a single solution. Policy makers are lining up the possibilities of what can be tinkered with, reduced or cut.

So how will rural Minnesota be affected? Nothing is sure until the gavel drops at the end of the session, but several issues significant to rural residents can be expected to come under scrutiny. Aid to cities is one. (For an opinion piece on the top issues, see the President's Column on page 3.)

"This is a huge concern," said Nancy Larson, president of the Minnesota Association of Small Cities. Most small rural cities and urban core cities derive a significant portion of their revenues from local government aid, while many suburbs receive almost none. Larson, who lobbies for the interests of small rural cities at the legislature, said she hopes to help lawmakers understand that "there is no wiggle room for these cities. They're already operating very conservatively.

"These cities are the poorest, smallest, most fragile. They're willing to share the pain, the pain has to be equally distributed."

Another form of aid that should be of concern to all cities is the Homestead Market Value Credit, says Jim Miller, executive director of the League of Minnesota Cities. HMVC allows cities to receive the full property tax payment, while the homeowner receives credit on their property tax bill. This aid combined with local government aid is the number one topic cities are calling the League about, Miller said.

Agriculture interests are also watching the fate of ethanol subsidies. Protecting the ethanol production payment program is a priority for the Minnesota Farmers' Union, said government relations director Thom Petersen. The production of ethanol, which has been a major means of adding value to farm products in Minnesota, has been backed by a 20-cent a gallon subsidy from the state for the past ten years. The subsidy program currently makes up 40 percent of the state Department of Agriculture's budget, Petersen said, but was already

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CRPD has moved

Between Christmas and New Year's the center moved its offices ten miles up the road to the city of St. Peter. As of Jan. 1, 2003, our new contact information is:

The Center for Rural Policy and Development
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St. Peter, MN 56082

Phone: 507-934-7700 • Fax: 507-934-7704

Our Web address will remain the same at
www.ruralmn.org.

Please drop by and visit us when you're in the neighborhood.

Rural Perspectives

By Nancy Straw, President
West Central Initiative
Fergus Falls



Q West Central Initiative is one of a group of initiative funds around the state originally established with support from the McKnight Foundation. What is the mission of the funds, and how is WCI fulfilling that mission?

A Each of the six Initiative Funds that were started in 1986 have their own unique mission statement. A common thread among all six, however, is to make their part of the state a better place for the people who live there. West Central Initiative's mission is, "to bring people and resources together to maintain and enhance the viability of west central Minnesota." WCI fulfills that mission by regularly seeking input from individuals and communities in our region in a variety of ways to inform the development of our strategic plan by WCI's Board of Directors and staff. We implement our strategic plan through the use of various tools, including grant awards and business lending programs, and by providing services to the region.

Q In 1995 WCI became a federally designated Economic Development District, effectively taking on the role of a regional development commission. How has WCI adapted to being both an initiative fund and an RDC? How do the responsibilities of the two roles differ and where are they the same?

A WCI played a role in economic development planning and activities since its beginning in 1986. The lack of a Regional Development Commission in this area was a problem for our communities, and at their request, WCI sought designation as a federal Economic Development District (EDD).

The EDD role complemented the work WCI was already doing in economic development. It encouraged more economic development planning for the region, and that helped us develop stronger relationships with communities, elected officials, and economic development professionals. Our work with the Economic Development Administration after the floods in 1993 and 1997 gave us a tangible way to help our communities in need.

In west central Minnesota, other organizations also provide services like those traditionally offered by an RDC. For example, we have a stand-alone Area Agency on Aging (AAA), while many RDCs have AAAs as part of their organization.

The two roles differ in how they are administered. In our role as an EDD, there are federal rules and regulations that define some operational requirements. As an Initiative Fund, WCI is a small, local organization that has the flexibility to respond quickly to changing circumstances, since decisions are made by our local Board of Directors.

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Center's plans ...

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tions around the state. This year, the Center is focusing its research on three areas of particular interest: emerging opportunities for agriculture in the 21st century, the higher education systems' role in economic and community development, and making rural Minnesota competitive in business location decision making.

The 2003 Rural Minnesota Internet Study

This next installment of the Rural Internet Study will build upon the work of the last two years. The Center has become recognized as the only source for unbiased, scientific data on the attitudes of rural Minnesota's residents and businesses toward high-speed broadband and the Internet and how they are using this technology. Each year the survey is fine-tuned to cover issues that may have come up from the year before and to improve the base of data already collected. This year's survey will also mark the first project funded by the Center's new Rural Technology Research Fund, which has been established to promote research into emerging technologies in rural Minnesota (see related article).

Alternative energy awareness study

Minnesota has been a leader in the production of biofuels and other ag-based energy sources. As the interest in this area grows, it is important to find out the level of interest and knowledge of this area among the producers themselves, farmers. Funded by a grant from the Minnesota Department of Commerce, the Center will be conducting a survey of farmers from around the state, asking them what they know about ag-based energy and gauging their interest. This survey, done in cooperation with the Minnesota Department of Agriculture, should reveal where farmers' interests lie and will help focus education and development efforts in this emerging area.

Ethnic Diversity in Rural Minnesota: A Forum on Best Practices for Communities and Schools

The growth of ethnic diversity in rural Minnesota is one of the top issues of many cities and school districts, but many communities are operating in isolation when it comes to understanding their new residents and helping them become members of the community. The Center's next rural policy forum will again focus on ethnic diversity in rural Minnesota, but while the forum two years ago introduced the issues of ethnic diversity and immigration to rural communities, this year's forum will go farther.

Working with the League of Minnesota Cities, the Center has conducted a yearlong survey of cities and school districts throughout the state to find out how they are responding to their growing ethnic populations. From this survey has been gleaned a comprehensive list of the emerging issues, and what communities are doing – or not doing – to address them. Through the forum, we will share the findings of the surveys with people from around the state and help them make connections with others that they may not have otherwise been able to make. The forum will be just part of the Center's continuing study of this timely issue.

Watch our web site at www.ruralmn.org for news and updates on our continuing projects.

Legislative ...

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set to start tapering off in 2005 before it sunsets in 2010. A \$34 million program last year, the subsidy guarantees cash flow for plants that could not have received financial backing otherwise, Petersen said.

Some election statistics:

In many districts, it was the closest election in years. While the 2002 election will probably be remembered for its governor's race and tumultuous U.S. Senate race, at the local level, the election was marked by close races, recounts and redistricting.

Geographically, rural Minnesota lost two House seats and one Senate seat to the Twin Cities metro area in the 2002 redistricting. The count now stands at 108 legislators representing the Twin Cities metro area and 93 representing the rest of the state.

In the Senate, the DFL maintained its narrow margin, 35 DFL members to 31 Republicans. Sheila Kiskaden of Rochester is seated as the single Independence Party member, but she has said she will be caucusing with the Republican side of the House. There are 21 freshmen Senators, 8 DFLers and 13 Republicans. As of press time, however, two races were still in question, one in Minneapolis and one in Albert Lea.

In the House, the Republican majority now stands at 82 Republican members to 52 DFLers. There are 43 newly elected members, 30 Republicans and 13 DFLers.

Of new legislators, 21 new House members and seven new Senators come from rural districts. Among the new rural House members, 17 are Republicans, four are DFL. Among the new rural Senators, five are Republicans and two are DFL (pending the outcome of the District 27 race).

Ninety percent of incumbents in House were re-elected, and 37 seats were open, due either to retirement or redistricting.

Leadership

Despite the fact that rural legislators now make up less than half of Legislature, however, rural people still hold significant leadership positions at the Capitol. The position of Senate Majority Leader, previously occupied by longtime senator Roger Moe of Erskine, is now held by John Hottinger of St. Peter. House Speaker Steve Sviggum of Kenyon will continue to hold that job, and many of the newly appointed House committee chairs are from Greater Minnesota. Some of the key committees with rural chairs include Agriculture and Rural Development Finance, Elaine Harder of Jackson; Agriculture Policy, Howard Swenson of Nicollet; Commerce, Jobs and Economic Development, Greg Davids of Preston; Health and Human Services Finance, Fran Bradley of Rochester; Ethics, Sondra Erickson of Princeton; Health and Human Services Policy, Lynda Boudreau of Faribault; Higher Education Finance, Doug Stang of Cold Spring; Jobs and Economic Development Finance, Bob Gunther of Fairmont; Transportation Finance, Bill Kuisle of Rochester; and Ways and Means, Jim Knobloch of St. Cloud.

Health care update

An innovative approach to health insurance, in the works for three years, is now ready for customers in northwestern Minnesota. In October, the Northwest Minnesota Health Care Purchasing Alliance and HMO HealthPartners began offering RuralCare Partners to small businesses and farmers in seven northwest counties: Polk, Roseau, Lake of the Woods, Kittson, Marshall, Red Lake and Pennington.

The new health plan is significant because it marks the first time the purchasing alliance concept has been put into action since they were first approved by the state in 1997. Purchasing alliances were developed to counteract the growing problem small businesses face in trying to purchase health insurance for their employees. The traditional single-employer plan, where each employer purchases insurance individually for his or her employees, has become increasingly expensive as health insurance rates go up, especially for smaller employers, who are faced with higher rates because they have a smaller employee pool.

In rural Minnesota, where a large percentage of businesses have fewer than ten employees, the result has been a high rate of working uninsured. In the United States, health insurance is strongly tied to employment: a person's employer is generally the only access the working population has to health insurance. A 2001 report by the Center for Rural Policy and Development, confirmed just how tenuous that connection can be. The report, "The Rural Health Care Market Place," showed an alarming lack of health insurance among employees in northwest and southwest Minnesota. The study showed that one-third of rural employers in those two areas did not provide insurance for their full-time employees. That number rose to 50 percent among businesses with 10 or fewer employees. In the

Northwest Purchasing Alliance's seven counties, nearly 14 percent of the population is currently uninsured, according to the Purchasing Alliance.

The purchasing alliances work by creating a larger pool of clients for insurers, which spreads the risk around, allowing insurers to offer lower rates. That in turn puts the price of health insurance back into the realm of possibility for employers.

This grass-roots effort is increasing health insurance choices for small employers by 100 percent, said Liz Quam Berne, executive vice president for Advocates for Marketplace Options for Mainstreet. AMOM has played a key role in the development of purchasing alliances by working to connect providers and employers, helping them arrive at solutions for health care needs.

"As one executive said to me, this is monumental," said Berne. A few other states, like Maine and New Hampshire, are working on similar projects, but mainly with small employers in areas of higher population density. The Northwest Purchasing Alliance is truly rural, and it has been drawing attention from Wisconsin.

Besides affordable insurance prices, the partnership with HealthPartners will include health education and prevention programs, another means of keeping insurance prices down, said Berne.

Not far behind northwestern Minnesota are other areas of the state like the southwestern counties, the Brainerd area and the Duluth area. During December and January, the West Central Regional Sustainable Development Partnership is holding public information meetings in Montevideo, Morris, Alexandria and Willmar, and is also developing a survey of employers and health care providers to identify issues and interest in developing a purchasing alliance in that area.

We all know that by the time the Legislature reconvened on January 7, 2003, much had changed. Two primary changes are first that 36 of the state's 67 legislative districts now fall within the seven-county Twin Cities metro area. This translates into seating 108 metro area legislators, more than twice the 51 metro area legislators that were seated in the 1961 session. Second is the turnover in leadership from Greater Minnesota. Those who have left office include Roger Moe, Doug Johnson, Don Samuelson and Sam Solon in the Senate, as well as Kevin Goodno, Tim Finseth, Bob Ness and Dave Bishop in the House. In all, 40 percent of the House and 21 percent of the Senate committee chairs will not be returning for the 2003 legislative session.

Many have concluded that this loss in rural legislators and leadership will simply equate to less concern for rural issues. However, that may not necessarily be so. For example, while much has been made of the unprecedented GOP gains in the House, less frequently mentioned is that those gains were in large part a result of GOP gains in non-metro, non-suburban districts. The consequence is that a look at the incoming House Republican caucus reveals that 52 percent (43 of 82) live in districts outside of the Twin Cities metro area. Does this suggest that this newly enlarged GOP majority will ignore rural issues?

And while we can endlessly debate that question, the answer will ultimately lie in the outcome of key rural issues. Below are three that I will be following:

Transportation: Transportation has become a contentious issue statewide; from congestion relief and multi-modal transit solutions in the metro, to building and maintaining quality interregional corridors and 10-ton farm-to-market roads throughout Greater Minnesota. Unfortunately, we have collectively neglected our transportation infrastructure for so long, we may never actually catch up (at least not in my lifetime). Along with the debate on an increase in the gas tax was the equally contentious issue of changing the Highway Users Tax Distribution formula. Recall that the president of the Minnesota Taxpayers League made headlines urging legislators last session to wait until the 2003 session to raise the gas tax because after redistricting, a more metro-oriented legislature would be more likely to change the distribution formula that sends a disproportionate percentage of the gas tax funds to Greater Minnesota. I believe she called it "perverse."

Any rural county engineer, however, will tell you that while the current County State Aid Highway funding formula distributes approximately 82 percent of its funds to Greater Minnesota, slightly more than 91 percent of all the CSAH miles in Minnesota are located in Greater Minnesota. Consequently, they firmly believe that the current distribution formula, which sends 82 percent of the dollars to service 91 percent of the roads, is far from perverse and is in fact fair. So if some legislators tie an increase in the gas tax to a change in the formula, look for a battle.

Rural Minnesota in the 2003 Legislature

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

Local government aid: With the state running a projected budget deficit of unprecedented size, there is little doubt that a close look will be taken at reducing the state aid provided to local municipalities. In fact, many are surprised that there wasn't a more serious attempt to reduce this state aid during the last session. And with the cities of Minneapolis and St. Paul receiving in 2002 a combined \$185 million in LGA, some may not view this as a rural issue. But it certainly is.

The current LGA formula is a needs-based formula that uses indicators such as population decline, quality of housing infrastructure, taxing capacity of the city's property, as well as the percentage of property designated commercial/industrial to determine the level of state aid. The consequence is that when one examines the contribution that LGA makes to a city's revenue base (which consists of the combination of both the local property tax levy and LGA) it becomes obvious that our outstate communities are far more dependent on LGA than most of our suburban communities. For example, while more affluent suburbs such as Plymouth, Eagan, Eden Prairie, Minnetonka and Woodbury have LGA comprising less than 1 percent of their revenue base, LGA comprises 70 percent or more of the revenue base in communities such as Luverne, Breckenridge, Benson, Caledonia and Wells. The difference lies in a city's ability to generate property taxes.

Accordingly, a significant reduction in LGA will disproportionately impact hundreds of rural communities, many of which may not have the taxing capacity to make up the loss in revenue if LGA is significantly scaled back. With this issue affecting hundreds of communities statewide, look for a lively and heated discussion.

Rural education: Of all the programs and activities of state government, few are more fundamental than education. Just read the state constitution as a touchstone on this issue. Rural schools face myriad challenges, ranging from recruitment and retention of quality teachers to declining enrollments and funding shortfalls. However, last year the Telecommunications Access Revenue Program (TARP), which helps equalize the costs of high-speed Internet access to K-12 schools statewide, was allowed to sunset after multiple attempts to extend it. While few doubt the value of Internet access as a resource to our public schools, many do not realize that the costs of access vary widely across the state. The consequence is that in some districts (mostly rural) where access is less affordable, school officials must weigh the cost of high-speed Internet against the cost of an entry-level teacher. Other districts located in areas where access costs are more affordable fortunately do not have such critical decisions. The TARP program was designed to aid districts to equalize those costs across the state. Now that the program has ended, look for an effort by rural legislators to reinstate it.

While it is common knowledge that this legislative session will be "budget-driven," how these rural issues are treated might be a proxy for how rural Minnesota fares in this upcoming session. Let's wait and see.



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Q What do you see as the most immediate issues for your area and rural Minnesota created by the state's projected deficit?

A Education, from our youngest children through post-secondary schools, faces a major challenge. This is an area where budget cuts will have long-term impacts, and the most serious consequences may not show up for years. Many of our school districts have already passed budget referendums, and will not be able to make up for reduced state funding by increasing taxes at the local level.

Another concern is reductions in funding for non-profit organizations that provide critical services in our communities. We do not have an extensive network of non-profit organizations providing services in our area, and major cuts that threaten the viability of those organizations could be devastating to the people who rely on them. Foundations do not have enough funds to make up for the loss of governmental revenue for these organizations.

Q WCI recently completed an extensive survey of all cities in your nine-county area to examine the state of their wastewater infrastructure. What's the condition of the area's infrastructure, and do you think the study's findings can be extrapolated to all of rural Minnesota?

A Although the data collection is complete, the analysis is still in progress. As most people would expect, much of the infrastructure in our area is in need of replacement and/or repair. A great deal of it was installed in the 1930's with a design life of 50 years, so we have already had several "bonus" years in many communities.

The report on our Infrastructure Study (the study collected data on drinking water, wastewater and sanitary sewer systems) will be available early this year. The data is rich and the preliminary results are quite remarkable. The engineering consultants are working on the final report, and gathering information to extrapolate an estimate of statewide need.

Q Rural Minnesota has not escaped the economic downturn, especially where manufacturing jobs are concerned. How was WCI's area affected, and what's the outlook now for businesses and business development there?

A In October 2002, WCI's region had a 2.4-percent unemployment rate (not seasonally adjusted), down from 2.6 percent in October of 2001. In the past year and a half, WCI's regional unemployment rate has often been below both the Minnesota and U.S. unemployment rates. That is not to say we are insulated from the economic downturn; our businesses have faced challenges that reflect those in other parts of the state.

WCI's area has had a worker shortage in recent years, but during this down cycle many companies have made extra efforts to keep their employees. Some have cut hours from 40 to 32 per week to keep more people on the payroll. There has also been an increase in the amount of employee-sponsored worker training in the past couple of years. In talking with manufacturers, it appears some are using this slower time to train workers so that when the economy recovers, they will be more efficient than before and ready to respond.

The business outlook in our area continues to be cautious optimism. People believe that things are going to get better soon, but have not seen significant signs that recovery is imminent. With the number of employees in our area that have upgraded their skills with training over the past ten years, the outlook for business development in our area is strong as the economy rebounds.

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and DEVELOPMENT

Seeking Solutions for Greater Minnesota's Future

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Center Introduces Rural Technology Research Fund

How do we get a handle on all the changing technology? Whether it applies to telecommunications and the Internet, agriculture, health care or manufacturing, having an accurate, up-to-date understanding of new technology is probably the most important step in taking advantage of emerging skills and knowledge.

To pursue this challenge, the Center for Rural Policy and Development recently launched the Rural Technology Research Fund. The sole purpose of this fund, seeded with a generous donation from Blue Earth Valley Communications, will be to support the Center's continuing study of emerging technologies and their uses in rural Minnesota.

In the past three years, the Center has established itself as an authority on broadband telecommunications in rural Minnesota through surveys of residents, manufacturers and telecommunications providers. Center staff will continue to build upon what they have learned through continuing annual surveys. At the same time, they also plan to branch

off into other areas of emerging technology. Some examples of research include the future of Internet-based education in rural Minnesota; real opportunities with telemedicine and tele-home health care; emerging technology applications in agriculture and energy development; understanding the real opportunities and barriers in telework development; and real-life applications of technology in rural economic development and revitalization.

Every dollar of the rural Technology Research Fund is dedicated exclusively to conducting research and disseminating the results to state and local policy makers, community and business leaders and the public. No contributions to the fund will be expended on administrative costs or any other non-research-related expenses. All donations are tax-deductible.

For further information on contributing to the Rural Technology Research Fund, contact the Center at 507-934-7700.

The Center for Rural Policy and Development is an Affirmative Action/Equal Opportunity Educator and Employer.

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