

CENTER *for* RURAL POLICY and DEVELOPMENT

MANKATO • MINNESOTA

Seeking Solutions for Greater Minnesota's Future

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Telecommunications reports illustrate the current state of broadband in rural Minnesota

What is the current state of broadband in rural Minnesota? Three new reports produced this summer by the Center took steps closer to answering that question by examining the dynamics of high-speed Internet access in rural Minnesota through surveys of rural residents, telecommunications providers and manufacturing companies. The Center conducted two of the surveys, those looking at residential consumers and telephone companies. The third survey, of rural manufacturing companies, was conducted by Minnesota Technology Inc.; the Center provided the analysis for this survey.

In sifting through the abundance of data generated by these surveys, an interesting picture emerged of the use and availability of high-speed telecommunications in rural Minnesota. The surveys addressed the perennial questions of access and cost, who's buying and who's providing high-speed Internet connections in rural Minnesota. Among the findings:

- The number of consumers reporting they use computers and the Internet has stayed level from 2001 to 2002, but the number of people using broadband has increased, from 13 percent to 21 percent.
- One-third of telephone companies currently offering DSL service have only started doing so in the last 12 months.
- DSL providers also report that their broadband subscribers have increased 205 percent, while their dial-up subscribers have increased only 27 percent.
- 93 percent of rural manufacturing firms have Internet connections, 74 percent use their connection to transfer data and graphics files, and over 50 percent transfer computer-aided design/computer-aided manufacturing (CAD/CAM) files, but only 42 percent have a high-speed Internet connection.

These three reports also revealed some overarching factors affecting who purchases high-speed Internet, both among individual residents and businesses. Two significant factors among residents are age and income, while among businesses, a major factor is size. Price of the service and its availability were factors for both residents and businesses.

Age and income: Among residents, the data showed unquestionably that the older a person was, the less likely he or she was to have a computer, to be connected to the Internet or to subscribe to broadband. Likewise, the lower a person's income, the less likely he or she was to have any of these services. These findings are especially important in rural areas, where incomes tend to be lower than in urban areas and where the population tends to be made up of a larger proportion of senior citizens.

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New study suggests small schools need more per-pupil funding

Minnesota's rural school districts have been held up for years as centers of excellent education in this state, and often size is given as one of the factors. Smaller schools mean more personal attention for students and a more manageable school. Smaller class sizes have been a goal in education for years. A new report released by the Center for Rural Policy and Development reveals, however, that precisely because they are small, rural school districts may be getting the short end of the state's per-pupil funding formula.

The study, *Small Schools Under Siege: Evidence of Resource Inequality in Minnesota Public Schools*, was conducted by Dr. Greg Thorson and Nicholas Maxwell of the University of Minnesota, Morris. Based on a survey of 308 of Minnesota's 350 school superintendents, the study asked superintendents to rate the condition of their school districts' infrastructure, resources and materials, such as labs, libraries and textbooks, and their ability to attract and retain teachers. The study showed that as the size of the school district decreased, so did superintendents' satisfaction with their infrastructure and resources.

The reason, says Thorson in his study, is that the state's per-pupil funding formula does not take into account the higher costs per pupil of educating students in small districts. In an earlier report, *Making Difficult Times Worse*, published by the Center in 2000, Thorson demonstrated that the economic principle of economies of scale, usually applied to manufacturing products, can be applied to educating students as well. Because all schools start with a certain amount of fixed costs involving infrastructure, materials and staff, the per-pupil cost of educating children is higher for small districts than large districts. Therefore, Minnesota's practice of funding districts on a per-pupil basis may not adequately cover the actual costs of educating small numbers of children.

In the survey, superintendents of small districts consistently reported lower satisfaction with infrastructure, such as plumbing and ventilation, and reported a higher need for replacing facilities. The table below shows that 25 percent of superintendents in the smallest school districts said it was much more difficult to attract new teachers to their districts, compared to 0 percent in the largest districts. The districts were divided into five equal groups, with the smallest districts in the first quintile and the largest in the fifth quintile.

CONTINUED ON 2

Rural Perspectives

By Nancy Larson,
President Minnesota Association of Small Cities



Q

Please tell us about the Minnesota Association of Small Cities.

A

The Minnesota Association of Small Cities (MAOSC) has been in existence for over 20 years and is an affiliate of the League of Minnesota Cities. Our main function is to lobby at the State Capitol, serving as an advocate for cities in the state with populations less than 5,000 people. MAOSC works closely with the League and other municipal groups, but it takes the lead on issues that have a greater impact on or affect small cities differently than larger communities. We have approximately 350 cities in our association. By working together to bring a united message to the legislature, the administration and state agencies, we can enhance the quality of life in all small cities in the state.

Q

Why do small cities need a separate organization to represent them? In other words, what are the unique issues that face small cities compared to larger cities or urban cities?

A

The League of Minnesota Cities does a wonderful job providing information on issues that affect all cities equally, but when impacts vary, it relies on constituency groups such as MAOSC to articulate the

particular needs and concerns of its members. The need for a separate lobbying group is especially acute for small, rural cities. Due to the constraints of time, distance and money, most small-town officials have little opportunity to visit with their legislators or to attend hearings. Thus, they "rattle the cages" less and depend more on their own advocate to make sure their needs aren't overshadowed by the larger cities in the state. When it comes to getting the attention of the legislature, our only recourse is to work together as a team.

One of the areas that MAOSC has taken the lead on is in securing funding for the Wastewater Infrastructure Fund, a grant program for which only smaller cities are eligible. Our efforts have also kept small cities exempt from levy limits and other bureaucratic mandates. On rural issues, our association works with the Coalition of Greater Minnesota Cities, the other rural municipal group, to develop local aid formulas, economic development programs and transportation programs that benefit our communities. Annexation and land use issues are also unique to rural Minnesota, so we have taken a leading role on those issues.

Q

How have the changes made to the Local Government Aid formula and the property tax system in the last couple of years affected small cities?

A

In general, small cities did not fare well under the property tax reform bill passed in 2001. That year, a six-month deadlock was resolved when the legislature accepted the Governor's last-minute proposal, which was designed to reduce the property tax burden on businesses, cabins, apartments and high-value homes. That action shifted the tax burden onto low- and moderate-value homes - which are much more the norm in small, rural cities. In 2002, the Senate tried to rectify the inequities by replacing lost aid for cities under 1,000, but this was opposed by the House and the Governor.

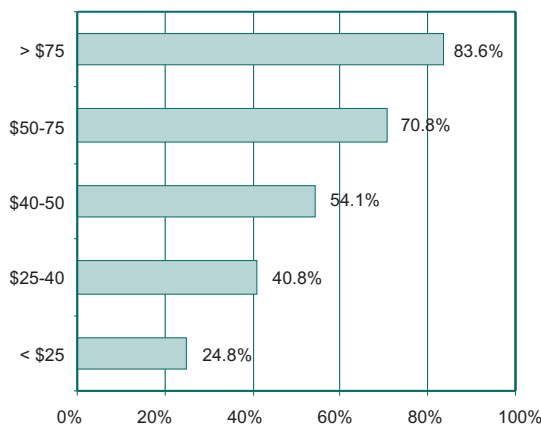
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Telecommunications reports ...

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Business size: A similar pattern showed up in the business survey. The smaller a business was in sales or employees, the less likely it was to use broadband. For example, 78 percent of firms with sales of \$5 million or more had broadband connections, while only 23 percent of firms with sales under \$1 million did. As for employees, among firms with 50 or more employees, 81 percent used broadband, while only 29 percent of firms with fewer than 10 employees did.

Adoption of Internet service by income categories. Dollar amount in 1,000's.



Such figures are significant for rural Minnesota's manufacturers because among the 300 firms surveyed, the majority of them were smaller. Over 75 percent of the firms surveyed had sales under \$5 million. Two-thirds of the companies surveyed reported having fewer than 50 employees.

Connecting the data above on broadband usage to the fact that rural Minnesota has a preponderance of small companies indicates a real potential for firms coming up short on high-speed Internet connections. But at the same time, over half of the firms surveyed also reported that they use their Internet connection to transfer CAD/CAM files, and at least 38 percent of them are transferring these large design files using a dial-up connection, an expensive prospect in a competitive business environment.

Price: The average price of residential, 256 kbps DSL service in rural Minnesota right now is \$49.92, according to the survey of providers. But when residents who subscribe to dial-up Internet service were asked at what price they would be willing to sign up for broadband, the largest group, 33 percent, said \$30 a month. Only 11 percent said they would pay anything higher, and the rest said they weren't interested or didn't know. As far as businesses were concerned, 51 percent of dial-up users said DSL was not available to them at a "reasonable cost," while only 26 percent of broadband users said it was not, indicating that cost could be a factor in why 47 percent of firms stick with dial-up service.

The fact that age, income and price are major factors in who buys broadband is a particular challenge to supporters of broadband access in rural

Minnesota, where the population tends to be older, incomes lower and businesses smaller. So what does this mean?

"It means that people who want to get broadband to everyone and every business in Minnesota are going to have to be creative," said Jack Geller, CRPD president. "It's fairly obvious that market forces are at work here. Both supply and demand are increasing all over the state, and they have increased without a significant amount of non-market intervention. But because the unique characteristics of rural Minnesota don't lend themselves to a fast-growing demand for the product, people may have to either continue to push for some kind of intervention, or just not expect so much so soon."

Can rural Minnesota afford to wait? The survey of manufacturers shows that 58 percent are choosing to. On the other hand, 55 percent reported that they do business on a national scale, implying that they are also competing at a national scale. And 41 percent reported that not having access to higher bandwidth (faster Internet connections) has kept them from capitalizing on potential business opportunities. For rural Minnesota, the number of manufacturing jobs has been growing and they tend to pay higher wages. As companies become more dependent on doing business on-line, and as their suppliers and customers increasingly demand it as well, broadband becomes less of a luxury and more of an infrastructure need. That gives broadband real potential to become a business development and retention issue as companies make the availability of broadband a factor in their location decisions.

Rural residents play a crucial role in the availability of Internet and broadband connections for rural businesses. Outside of large population centers, there are fewer businesses and residents to spread the cost of telecommunications services among within a given geographic area. In densely populated areas, this issue is practically invisible, since there are enough business customers purchasing services to create an affordable market. In rural areas, the lack of population density is more pronounced, and consequently the cost of providing services is higher per customer. For this reason, residential customers are often looked on as means of enlarging the purchasing pool, making providing services more cost-effective for providers and more affordable for customers.

These surveys will be repeated in the future to further track the progress of high-speed Internet access in rural Minnesota. By setting a baseline, then tracking broadband use and deployment over time, "we should see trends that will be important when decisions are made about planning," said Geller. "Planning the spread of broadband in the past has proved tricky at best, so the more information we have, the more equipped we'll be in seeing that access doesn't stall for rural Minnesotans."

To view these and other reports by the Center, visit our web site at www.ruralmn.org.

Small schools...

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Percent of superintendents indicating that attracting new teachers is ... than the state average (all districts).

	1st Quintile	2nd Quintile	3rd Quintile	4th Quintile	5th Quintile
Much Less Difficult	2.0	9.5	0.0	11.5	24.6
Slightly Less Difficult	11.8	11.1	19.4	26.2	47.4
About Average	25.5	23.8	37.1	44.3	24.6
Slightly More Difficult	35.3	30.2	35.5	16.4	3.5
Much More Difficult	25.5	25.4	8.1	1.6	0.0

In examining school referendums, Thorson also found that smaller districts on average passed larger referendums, indicating a disparity between state funding and local needs. Thorson also compared small districts that passed high referendums to small districts passing low or no referendum and found that superintendents in districts with the low or no

referendums rated their districts' infrastructure, technology and resources even lower than small districts with high referendums.

In the past, districts have turned to consolidation in an effort to increase school sizes and control costs, but by now consolidation has gone about as far as is practical or reasonable. Therefore, rather than trying to make schools bigger to capture those economies of scale, Thorson proposed in the study to keep schools small and instead adopt a formula of stepped funding that would help small districts. Currently, districts receive \$4,601 per pupil in state funding. Thorson proposes increasing that per-pupil amount by 8 percent to \$4,969 for the first 500 students in each district, then by 4 percent (\$4,785) for the next 500 students (students 501 through 1,000). Students above 1,000 would be funded at the base rate of \$4,601. Such a plan would cost the state approximately \$77 million for FY 2003.

"The report is not saying that school districts need to get larger to be cost effective. It's not saying that at all," said Jack Geller, president of the Center. "It's saying that these small districts, which are doing such a good job, should not be penalized. They should be funded sufficiently so they can remain small and still provide an excellent education."

To view and download a copy of the report, visit the Center's web site at www.ruralmn.org and click on Publications.

Notes

Governor's debate Sept. 26

The Center for Rural Policy and Development was one of several local sponsors at a gubernatorial debate that took place Sept. 26. All four candidates were present at the debate, which was held before a packed house of 400-500 at the South Central Technical College in North Mankato. This was the first public gubernatorial debate to take place in southern Minnesota in at least a decade. The discussion at the debate centered around such issues as how to help agriculture, funding for rural highways, the increasing costs of higher education and health insurance, and the population drain.


Center's President serving as panelist at annual Policy Analysis Conference

CRPD's president Jack Geller was one of the panelists at the keynote address discussing population shifts in Minnesota at the 18th Annual Conference on Policy Analysis. The conference took place Oct. 22 at the Earle Brown Center on the St. Paul campus of the

University of Minnesota. Sponsored by the Economic Resource Group, this annual conference brings together analysts and policy makers in a variety of sessions and presentations to explore timely policy issues. For more information on the conference, call the U of M at 612-624-3492.


New web site

The Center for Rural Policy and Development's web site is sporting a new look. Visit the site at www.ruralmn.org to view and download our latest reports and newsletters, access links to other rural organizations and to view headlines on rural issues from around the state.



We invite you to take a minute to sound-off on issues related to:

"Building Demand for Broadband"



Visit the Telecon Rural Policy Forum and give us your two-cents worth! www.ruralpolicyforum.org/telecon

With the release of this fall's issue of our newsletter, the Center for Rural Policy and Development will mark its 5th year in existence. On November 20, 1997, the Center's founding board of directors held their first meeting in Mankato to chart the future course of this new organization. But such landmarks in time, while certainly cause for celebration, are really more useful for looking back, measuring progress, analyzing past decisions and, most importantly, moving forward.

Looking back over my four years at the Center (I arrived in October 1998), I had the logistical chores that go along with any new venture, i.e., locating office space, hiring staff and developing a structure in which research can be conducted statewide. But the most exciting and challenging aspect of building the Center was simply knowing that every decision that was made, whether simple or complex, was setting a precedent. By that I mean that I was keenly aware that each time we did anything, it would set the tone for how we would handle similar situations in the future. After all, there was no manual for the board or the staff to refer to in creating a Center for Rural Policy and Development.

Like many others, as I look back critically, I tend to over-emphasize the mistakes and under-emphasize the successes. Maybe we do that to ensure that we don't make the same mistakes again. But at the same time, it's hard not to recognize the development of a statewide research network, an exponential increase in productivity, and the successful development of alliances and partnerships with university faculty and other rural organizations statewide. In fact, with the release of four major research reports on rural school funding and rural telecommunications completed in just the past three months alone, I have never felt better about the quality of our work, our overall productivity and the direction we are taking.

But what I feel best about is the organizational alliances and collaborations we have developed over the years. Since issuing our first report in

Birthdays are for looking back and moving forward

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

"The Center utilizes its rural policy research to inform..."

1999, we have collaborated on research projects with the Humphrey Institute, St. Cloud State, Minnesota State, Mankato, the Carlson School, the University of St. Thomas, Region Nine Development Commission, the University of Minnesota at Morris and the Twin Cities, the U of M Extension Service, Minnesota Technology Inc., Minnesota Rural Partners, HACER, Metropolitan State University, the Chicano Latino Affairs Council, Bemidji State, USDA Rural Development, Minnesota Association of Cooperatives and the League of Minnesota Cities. Pretty good company from my perspective.

Equally important is the increased acceptance and visibility of our research from important policy leaders. Just in the past month our collaborative work with the U of M at Morris on rural education funding received positive public comment from both Lt. Governor Mae Schunk and Senate K-12 Finance Chair Le Roy Stumpf. And our recent collaborative work over the summer with Minnesota Technology Inc. on rural telecommunications has been well received by state regulators, the state Department of Administration, rural telecom advocates and the telecom industry itself.

This in my opinion is exactly what the Center for Rural Policy and Development was supposed to be all about. Rather than serve as a rural advocacy organization, the Center utilizes its rural policy research to inform, question, spur debate, and serve as a catalyst for action. Rather than lobby for specific desired outcomes, the Center must build its credibility with policymakers based upon the quality and objectiveness of its research. Policymakers must be confident in

knowing that our research, while at times provocative, is non-partisan, unbiased and politically "unspun."

Looking back on our first five years, while there were missteps, I think we are off to a good start. So pass the birthday cake, but let's not linger too long. There's much work left to be done!



Rural Perspectives...

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Most frustrating: the 2001 Senate proposal (supported by MAOSC) made the property tax system more equitable by eliminating the "grandfather" in the Local Government Aid formula. Small cities would have been the greatest beneficiaries under this proposal, but the House and Governor rejected it.

Q Many small cities are working on issues of economic development. What kind of efforts are cities making to diversify their economies, and is there anything the state can do to help?

A Since legislative action has rendered Tax Increment Finance almost useless for small units of government, cities are scrambling to find ways to strengthen their communities. Some are setting up incubator businesses, and many are concentrating their efforts on business retention and expansion. Others are developing master plans and meeting with their citizens and those of neighboring communities to brainstorm and plan for the future. Those of us working with local units of government and their sub-units, such as police and fire are encouraging cooperation and regional planning. Communities are also working to improve their downtowns and their parks, realizing that appearances do make a difference when trying to attract business.

The most important thing the state can do to help the economy of small cities is to assist them in upgrading their infrastructure, including water and wastewater improvements, good roads, high-speed Internet access and affordable housing. Last year, some of these needs were addressed in the legislative bonding bill. It included \$30 million for wastewater grants, \$3 million for redevelopment and \$12 million for economic development, all specifically targeted to Greater Minnesota, and \$20 million in a Local Roads program available on a grant basis to all cities, including those under 5,000. Unfortunately, all these proposals were vetoed by Governor Ventura.

Q What other important issues are facing small cities that you would like to see the legislature address at the next session?

A First of all, the legislature needs to restore some of the vetoed items in the bonding bill, especially the wastewater and economic development programs. Second, it needs to develop and pass a comprehensive, long-term and adequately funded transportation program. To do this, legislators will need to heed the united cries of businesses, local governments, environmental activists and ordinary citizens asking for a gas tax increase to improve the quality of roads and transit in the state. Third, we will be asking legislators to hold harmless the Local Government Aid program base, and to try to protect the inflationary growth in the formula. Cuts in LGA will just shift the burden from the state to the local level, hurting poorer cities the most and, once again, undermining economic growth in Greater Minnesota.

Small Grants Program for 2003

The Center for Rural Policy and Development is currently seeking research proposals for its 2003 round of funding through its Small Grants Program. The Small Grants Program is the Center's means of soliciting original, innovative public policy research from academic and non-academic sources around the state.

As in past years, we are looking for research on public policy issues of importance to rural Minnesota. This year the Center has chosen to emphasize specific areas of research. These areas of research interest are:

- Emerging opportunities for agriculture in the 21st century Researching ways in which farmers and the agriculture industry can refocus to find alternative uses that add value to their agricultural products. Some examples include energy and pharmaceuticals.
- The higher education systems' role in community and economic development
- What potential does the presence of regional campuses hold for rural communities in facilitating community and economic development activities?
- Making rural Minnesota competitive in business location decision making

Examining the factors businesses have considered when deciding whether to locate (or not locate) in rural Minnesota.

While the Center is seeking to emphasize these three research areas, projects do not have to be limited to them. The Center will still give serious consideration to applications for research that addresses other rural issues. There are other general parameters that all research projects must adhere to as well. These parameters include:

- The research question must be clearly defined.
- The topic must be non-partisan.
- The issue should have broad, statewide implications.
- The issue should lead to policy formation or assist in development activities.
- The project topics must, of course, be focused on Minnesota.

Projects may be funded up to a maximum of \$10,000 each, but since Center staff would like to fund as many projects as possible, it is expected that most proposals will be funded at around \$5,000. For more information on the Small Grants Program or to request an application, please call the Center at 507-389-2599 or visit our web site at www.ruralmn.org.

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Center welcomes two new members to its board



The Center is pleased to welcome two new members to its board. Anne Christensen lives in Madelia and works for the State of Minnesota as the Watonwan County Court Administrator. She is married to Brent Christensen and has four children.

Anne was born and raised in Austin, Texas, where she was a deputy sheriff for Travis County for 15 years. She was also a police officer for the city of Austin for three years and has worked as a patrol officer, crime scene investigator, as a DARE officer, and in administration.

Passionate about rural issues, Anne sits on committees as a representative for Greater Minnesota regarding issues in the court system and has many opportunities to see what is going on around the state. She is also a member of the Juvenile Justice Advisory Board for the state and a member of the Coalition for Juvenile Justice in Washington, D.C., for which she was appointed planning chair for the Coalition's national conference in April. She has been a member of the Madelia school board and is a past co-president and current secretary for the Council for Catholic Faith at St.

Mary's Madelia. She is also a Little League coach. Although she has lived in southern Minnesota only since 1996, she says, "I've grown to love it like I've lived here all my life."



Dr. Richard Davenport is the newly appointed president of Minnesota State University, Mankato. As the president of Minnesota State, Dr. Davenport is also a member of the Center's board of directors.

Dr. Davenport comes to Mankato from Central Michigan University in Mt. Pleasant, Mich., where he served as provost and vice president for academic affairs. During his 12 years at Central Michigan, he served in several senior positions and as a tenured full professor. Before Central Michigan, Dr. Davenport served at Western State College of Colorado as dean of the graduate school. He has also served as the chairperson and professor at Winona Tri-College/University Cooperative Program in Communicative Disorders, a program involving Winona State, St. Mary's Universities and the College of St. Teresa, and as an assistant professor at St. Cloud State University.

Dr. Davenport received his B.A. in speech and hearing disorders at the University of Nebraska, Kearney, his M.S. in speech and hearing science at Colorado State and his Ph.D. in higher education administration at Iowa State University.

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NEWS
Letter

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