

# CENTER *for* RURAL POLICY and DEVELOPMENT

MINNESOTA STATE UNIVERSITY • MANKATO

*Seeking Solutions for Greater Minnesota's Future*

VOLUME IV • ISSUE 1

WINTER 2002

## *Changes in state aid to local governments presents complex issue for cities*

January 1 marks not only the beginning of the new fiscal year for Minnesota's 851 incorporated cities, it also marks the beginning of a new tax environment that has mixed consequences for city budgets all over the state.

The changes made to the state's tax code were the biggest changes in the property tax system in years. The Local Government Aid formula was changed, altering dramatically the amount of funds cities receive from the state for their day-to-day operations. The Homestead and Agricultural Credit Aid, another form of local government aid to municipalities, was eliminated altogether, as was funding to townships.

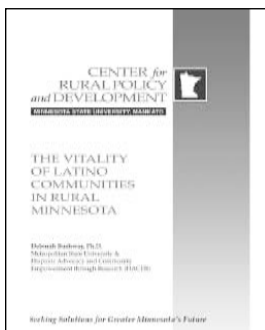
Local Government Aid and Homestead and Agricultural Credit Aid were originally intended to shelter cities from property tax extremes caused by the uneven distribution of property value around the state. The amount of money a community can raise from property taxes — its per-capita tax capacity — can vary considerably depending on its mix of home values, commercial properties, and agricultural land. LGA comes from state income and sales tax funds and is used as a means of containing property taxes for individuals in communities with lower property values. Intertwined with the changes in LGA this past session was one of the biggest changes to the tax code, the state's takeover of K-12 education funding, taking most of that burden off of the local tax base.

Overall, Minnesota cities will be losing \$47.6 million in local state aid compared to last year, according to the League of Minnesota Cities. The new LGA rules have placed cities into three categories, said Eric Willette, policy research manager for the League: those cities that will get no HACA and less LGA than they received in 2001; those cities that get no HACA, gain some LGA but still come out with less aid than in 2001; and those cities that get no HACA but receive more LGA this year than their total aid last year.

Many of the cities losing the highest percentage of aid are concentrated in the suburbs of the Twin Cities, just outside the Twin Cities suburbs (new growth areas), and in the resort areas in Central

CONTINUED ON 2

## *New report finds social disconnect between Anglo and Latino communities in Greater Minnesota*



While Latino communities are becoming more stable and established in rural Minnesota, a new report released by the Center for Rural Policy and Development indicates that there is still a great deal of misunderstanding between the state's Latino population and the native residents they live among.

"The Vitality of Latino Communities in Rural Minnesota" is a collaborative effort between the Center, the Chicano Latino Affairs Council, and

HACER (Hispanic Advocacy and Community Empowerment through Research). The report was compiled by Dr. Deborah Bushway of Metropolitan State University and research director for HACER. The research examined the development and interaction between Latino and Anglo populations, and their perceptions of one another in seven cities in rural Minnesota: Albert Lea, Long Prairie, Owatonna, Pelican Rapids, St. James, Willmar and Worthington.

The Latino population in rural Minnesota went through a significant growth spurt during the 1990s, and in some rural communities nearly

CONTINUED ON 3

## *Rural Perspectives*

Vernae Hasbargen  
Executive Director  
MINNESOTA RURAL  
EDUCATION ASSOCIATION



**Q** How did changes made in the 2001 legislative session to the education funding process affect rural districts? Were there any changes aimed specifically at rural districts?

**A** The 2001 session marked the beginning of Sen. LeRoy Stumpf's (DFL-Thief River Falls) chairmanship of the E-12 Funding Division. He led an important policy change, which brings the lowest funded districts in rural Minnesota up to a level closer to those in the metro area.

**Q** The overall changes made by lawmakers to education funding are intended to shift the burden of education funding off of local property taxes. How will the state be paying for these changes?

**A** The Governor wanted the state to entirely pay for basic education with sales and income taxes. However, he wanted the sales tax expanded to business services to help pay for it. The legislature stopped short of doing so, but they may need to reconsider the Governor's proposal because of the downturn in the economy. Clearly, education needs a stable, sustainable, source of revenue like that historically provided by the property tax.

**Q** More than half the school districts in the state put excess levy referendums on their ballots this year, a record number. What was it about the change in the funding process that induced so many districts to hold referendums?

**A** I can point to three reasons why over 180 districts held excess levy elections. While only one in three passed in the metro area, three of four passed in rural Minnesota.

- First, tax reform made excess levies more fair through equalization legislation, so that taxpayers in Edina and Greenbush pay the same rate for each dollar that's raised.
- Second, districts were forced to pass an excess levy or lose \$55 per student in equity revenue.
- Third, districts turned to their property taxpayers because for ten years state funding has been flat—increasing just 1.4 percent over inflation annually. At the same time enrollments fell—the average district lost 2 percent of their students last year. Rep. Paul Marquart of Dilworth describes the result—"a gradual erosion in the quality of our schools."

**Q** How will rural districts with successful referendums be putting this money to use? How much do these uses vary from district to district, and will the uses be different from those in urban and suburban districts?

**A** Budget cuts have forced some districts to cut programs like art, music, and all day, everyday kindergarten. Many have dramatically increased class size and student fees. Approval of a levy will allow them to rebuild and keep programs.

The additional revenue will also help districts compete for workers. Rural districts are at a disadvantage in attracting teachers because their salaries are 68 percent of those in the metro area, one of the biggest differences in the nation.

CONTINUED ON 4

## Rural employment rates held up under Sept. 11 attacks

Despite the dramatic effect the Sept. 11 attacks had on the U.S. economy, it appears that much of the unemployment had more of an effect in the Twin Cities metro area than in Greater Minnesota.

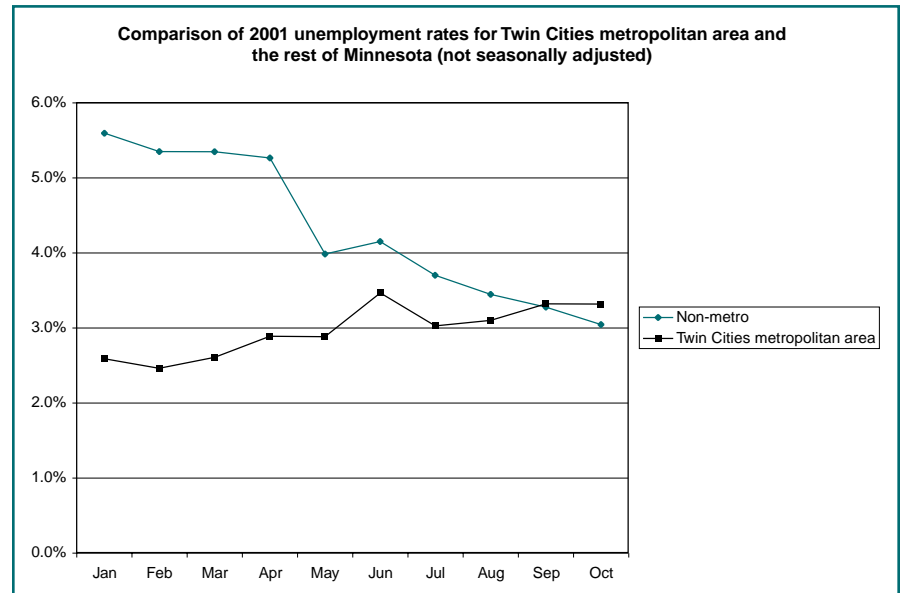
An analysis by the Center in November showed that while non-seasonally adjusted unemployment rates rose steadily throughout 2001 in the seven-county Twin Cities area, unemployment in Greater Minnesota actually dropped throughout 2001, and by November had fallen below the unemployment rate in the Twin Cities for the first time since 1991.

The October unemployment rate (which reflects job losses in September) for the 80 counties outside the Twin Cities metro area fell by 0.3 percent, whereas the rate held steady in the Twin Cities, indicating that layoffs resulting in September were more severe in the Twin Cities.

During 2001, in fact, the unemployment rate for Greater Minnesota has behaved quite differently from the Twin Cities. During the 1990s, the unemployment rate for the combined 80 Minnesota counties outside the Twin Cities metro area has tended to follow — but stay a percentage point or more higher — than the unemployment rate of the seven-county Twin Cities metro area. During 2001, however, rates in Greater Minnesota started typically high, at 5.6 percent, then dropped steadily through the

year to an October low of 3.0 percent. In the Twin Cities area, rates started low, around 2.6 percent, then rose through the year to an October level of 3.3 percent.

Unemployment rates by county were not consistent around the state, however, ranging from a low of 1.2 percent in Stevens County to a high of 5.7 percent in Kanabec County.



## Measuring rural Minnesota

How *does* one measure an area that consists mainly of, well — everything else? What if you want a picture of Minnesota that takes in the entire state but doesn't include the Twin Cities? That's not an unreasonable request. The seven counties around the Twin Cities are home to more than half the state's population and are a powerhouse that dominates most numbers generated concerning the state. On the other hand, it is not true that "as the Twin Cities goes, so goes the rest of the state." A picture of Minnesota looks quite different when the Twin Cities metro area is compared to the rest of the state.

The Center for Rural Policy and Development will be addressing this issue in the second edition of its *Atlas of Minnesota*. Like the first edition,

the Atlas will present data on a variety of demographic, economic and social topics in the form of maps, but it will use the new 2000 Census data currently being released. Plus, this edition will be produced with the help of a planning committee made up of representatives of several of Minnesota's state agencies.

A new feature of the 2002-03 edition will be "rural Minnesota report card" measuring the economic, social and demographic well-being of rural communities. The Atlas planning committee will develop a report card consisting of 10 to 12 indicators that will measure in a formalized manner what is happening in communities around the state.

The Center plans to make the report card and the atlas an effective tool to measure and depict both progress and decline in the rest of Minnesota.

## Change in state aid...

CONTINUED FROM 1

Minnesota. Property-wealthy cities like Chanhassen, Nisswa and Becker (see table below) lose more than 95 percent of their total aid but would have to raise their levy less than 20 percent above the previous year's certified levy to make up the difference.

Almost half of Minnesota's cities have a change of less than 10 percent up or down in their local government aid compared to last year. And there are 48 cities, like Ada, Albert Lea, Mankato, Bemidji, Faribault, Fergus Falls, Sauk Rapids and Willmar, that actually gain more than 25 percent in aid, according to the League of Minnesota Cities. Extra funding also went to cities considered "regional centers" with populations over 10,000.

The city of Pelican Rapids, with a population of 2,374, will receive a 41 percent increase in its Local Government Aid in 2002. Two of the factors for this increase were the city's fast growth (26 percent between 1990 and 2000) and its high amount of pre-1940s housing, said City Administrator Richard Jenson.

Residents will definitely see a drop in their property tax bills this year, at least as far as the city's portion goes, he said.

Caught in the middle, however, are small, rural cities that lost HACA, did not see a matching rise in their LGA, and because they do not have high property values, did not have very large property tax levies to begin with. As a result, these cities will have to raise their levies more percentage-wise to make up the difference. The League of Minnesota Cities estimates that cities like Minnesota Lake in Faribault County, Waldorf in Waseca County and St. Rosa in Stearns County will have to raise their levies at least 50 percent to recover those funds, or they will have to cut services.

Waldorf, for example, received \$55,010 in LGA funds and \$19,363 in

HACA funds in 2001. In 2002 the city will receive \$60,983 in LGA funds alone, \$13,390 less in 2002 than it did in 2001, an 18-percent decline. Their certified levy last year was \$20,135. To collect the same amount of funds as in 2001, the city will have to raise their levy 67 percent.

The story is similar in Minnesota Lake. City clerk Sharon Grunzke said the city will receive \$55,000 less in aid next year than this year, a decrease of 23 percent. The city council raised next year's levy by 55 percent, the amount needed to make up that gap and is working on cutting back on the budget.

"This is going to hurt big time," said Grunzke, "and it goes straight to taxpayers."

The city (population 691) doesn't have much of a tax base anymore, which means property taxes will fall harder on homeowners, who live mostly in older, lower-value homes, Grunzke said.

	2001 LGA	2001 HACA	2002 LGA	Percent Aid Change	Change	2001 Certified levy	Levy change due to aid change
Nisswa	\$0	\$68,843	\$0	-\$68,843	-100.00%	\$878,777	8%
Becker	2,574	233,793	2,572	-233,795	-98.91%	5,112,675	5%
Chanhassen	20,485	1,069,392	20,472	-1,069,405	-98.12%	5,679,054	19%
Coon Rapids	3,305,344	2,442,077	2,782,129	-2,965,292	-51.59%	9,549,130	31%
Saint Rosa	2,977	2,070	2,975	-2,072	-41.05%	3,430	60%
Minnesota Lake	164,327	77,264	185,936	-55,655	-23.04%	100,544	55%
Waldorf	55,010	19,363	60,983	-13,390	-18.00%	20,135	67%
Grand Rapids	1,530,280	498,184	1,840,623	-187,841	-9.26%	2,867,158	7%
Rochester	7,075,935	4,371,889	10,700,664	-747,160	-6.53%	18,970,957	4%
Alexandria	1,351,666	381,904	1,655,482	-78,088	-4.50%	1,590,860	5%
Watertown	215,535	67,958	282,620	-873	-0.31%	585,792	0%
Slayton	629,738	157,193	789,350	2,419	0.31%	243,041	-1%
North Mankato	1,696,278	605,865	2,325,057	22,914	1.00%	2,438,892	-1%
Minneapolis	78,378,883	30,534,152	111,567,143	2,654,108	2.44%	133,206,606	-2%
Sleepy Eye	913,161	159,787	1,177,895	104,947	9.78%	503,852	-21%
Duluth	21,121,432	5,369,695	29,635,152	3,144,025	11.87%	9,658,700	-33%
Granite Falls	644,804	75,026	822,084	102,254	14.21%	556,934	-18%
Saint Cloud	7,407,512	3,001,040	12,597,803	2,189,251	21.03%	13,071,200	-17%
Mankato	5,804,166	1,853,249	9,371,261	1,713,846	22.38%	7,419,763	-23%
Lake Crystal	358,811	130,718	603,120	113,591	23.20%	480,984	-24%
Pelican Rapids	313,091	57,375	522,618	152,152	41.07%	467,252	-33%

In 2002, HACA goes to zero. "Levy change due to aid change" is the percentage a city would have to change its levy to recover what was lost (or gained) due to changes in LGA and HACA.

Many in economic development circles have touted the virtues of the entrepreneur—and for good reason. A recent report from the Minnesota Department of Trade and Economic Development documents that small business startups are an important key to our state's economic growth. In fact, the results of DTED's recent survey of businesses started between 1994 and 1998 found that 76 percent of these startup companies were small businesses, having 25 or fewer employees. As one DTED official was recently quoted in the St. Paul Legal Ledger, "You have to think of small companies as being the seed bed of the economic future."

It is precisely because of the emphasis on small businesses as a key to our economic growth that I was dismayed by the results of another study on the health insurance marketplace in rural Minnesota commissioned by the Center for Rural Policy and Development. The study, conducted by Dr. Robert Conner of the Carlson School of Management at the U of M, surveyed 160 local businesses in rural communities in western Minnesota. The study's findings documented the following:

- Only 52% of small rural businesses offered their full-time employees health insurance coverage.
- Only 4% of these same businesses offered insurance to their part-time employees.
- Over 40% of small rural businesses reported health insurance premium increases of 20% or more in the past 12 months.
- In addition to the premium increase, 26% of the small rural businesses reported increases in deductibles and co-payments.
- And most importantly, rural businesses reported that changes in their insurance coverage are having a negative impact on their ability to recruit and retain quality employees.

It seems to me that if Minnesota's small businesses are truly the seedbed of our economic growth, the implications of this study for rural development should be of great concern. Clearly, half of these

## On the Health Insurance Dilemma

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

*"You have to think of small companies as being the seed bed of the economic future."*

small rural businesses are already priced out of the health insurance market, and with double-digit premium increases becoming an annual occurrence, the number of additional small businesses that will be priced out of the market could increase.

Larger employers, while having more options, are not immune from these trends either. Recall that the recently resolved state workers strike centered around the State wanting its employees to share a greater percentage of their health insurance costs. The Ventura administration, citing large and continuing premium increases by participating health plans, looked for ways to lower the burden on the State budget. But from my perspective it just shows that if the largest employer group in the state can't negotiate to contain its health care costs, what chance does a small rural business have?

As economic experts point out, large businesses generally expand and create new jobs when economic times are good. But the entrepreneurs creating new smaller businesses create jobs through business start-ups all the time. And let's not forget that the majority of businesses throughout rural Minnesota are small, by anyone's yardstick. Consequently, as we ponder whether our economy is just experiencing a downturn or a full-fledged recession, it is clear that we need that entrepreneurial energy now more than

ever. But if access to health insurance creates a barrier to recruiting quality employees, the ability to grow that seedbed of economic growth could be severely restrained.

If there is any good news in all this, it is that for the past two years the State Legislature has invested in the exploration of new rural-based health insurance purchasing alliances. These new alliances will operate much like cooperatives, allowing individuals and small businesses to combine their purchasing power and negotiate with local providers and health plans alike. It is likely that not

all of these new ideas will succeed as they look for new ways to make health insurance affordable. But it's a risk clearly worth taking. If we can't figure out how to make health insurance affordable for small rural employers, the economic consequences will be grim.



## New report on Latino communities...

CONTINUED FROM 1

one quarter of the residents are now Latino. The report identifies several challenges that have traditionally been considered "Latino issues" but which the researchers maintain should be looked at as issues affecting the welfare of the community as a whole:

- **Education** and the high dropout rate among Latino youth was identified as one of the most serious findings in the study. Allowing the trend to continue will have a significant negative impact on the Latino community's future workforce.
- The lack of qualified interpreter services and bilingual materials made **language** one of the most fundamental barriers encountered in the study communities, affecting Latinos' ability to interact with services such as health care, law enforcement and government agencies. The report recommends looking for innovative solutions, including telecommunications alternatives.
- The causes of tensions and distrust between the Latino community and local **law enforcement** officials range from simple misunderstandings to outright harassment. Hiring bilingual officers and more cultural training of officers was recommended.
- Access to **driver's licenses** among Latinos regardless of legal status was also cited as an issue that should be studied by the state since it

can affect a person's employability, insurance and interactions with law enforcement.

- Integrating Latino members into roles of **local community leadership** was cited as a way to decrease the "insider/outsider" feeling, build cultural bridges and provide positive role models for Latino youth. The report recommended finding ways to recruit Latino community members into positions on local boards and councils.

The Center, along with representatives of HACER, the Chicano Latino Affairs Council and the report's chief author, Dr. Deborah Bushway of Metropolitan State University, released the report to the public at dual press conferences Dec. 20 in St. Paul and Mankato. The report is available for download in PDF format from the Center's web site at [www.ruralmn.org](http://www.ruralmn.org), or by calling the Center at 507-389-2599.

*Mark your calendar*

The Center for Rural Policy and Development's  
2002 Legislative Policy Forum

## Minnesota Water Resources

June 11, 2002

Arrowwood Resort, Alexandria

## CENTER for RURAL POLICY and DEVELOPMENT

MINNESOTA STATE UNIVERSITY • MANKATO

*Seeking Solutions for Greater Minnesota's Future*

120 Alumni Foundation Center • Mankato, MN 56001  
507-389-2599 (V) 800-627-3529 (MRS/TTY) • FAX 507-389-2813

e-mail: [crpd@mnsu.edu](mailto:crpd@mnsu.edu)  
web: [www.ruralmn.org](http://www.ruralmn.org)

*The Center for Rural Policy and Development is an Affirmative Action/Equal Opportunity Educator and Employer.  
This document is available in alternative format to individuals with disabilities by calling the Center for Rural Policy and Development  
at 507-389-2599 (V) or 800-627-3529 (MRS/TTY).*

---

## Rural Perspectives

CONTINUED FROM 1

**Q** What does failure to pass an excess levy referendum mean in the average rural districts?

**A** Several districts who lost levy elections report their citizens are urging them to try again because they didn't fully understand the issues or seriously consider the impact of a "No" vote.

The failure of some districts keeps the question before us. Is this the best way to fund schools? Minnesota is now committed to provide each child with a basic education. Our competitiveness in the nation and the world depend on how well we do.

**Q** In your opinion, what rural education issues need to be addressed in the 2002 legislative session?

**A** First we must guarantee the state budget is not balanced at the expense of students. Second, we must not lose telecommunications access revenue. This funding gives rural students access to high speed internet. Without it, Plummer must pay \$423 per student in long distance charges while Rochester pays \$7. Telecommunications access revenue reimburses Plummer for some of the difference. No issue is more critical to rural students.



---

**CENTER for  
RURAL POLICY  
and DEVELOPMENT** 

MINNESOTA STATE UNIVERSITY • MANKATO

120 ALUMNI FOUNDATION CENTER • MANKATO, MN 56001



WINTER 2002

*Letter*  
NEWS

- Changes to LGA have conflicting results for cities
- New report on Latino communities in Minnesota
- Rural unemployment and Sept. 11
- Q&A: Rural Education
- President's Column: Health Insurance

---

MINNESOTA STATE UNIVERSITY • MANKATO

**CENTER for RURAL POLICY  
and DEVELOPMENT**

---