

# CENTER *for* RURAL POLICY and DEVELOPMENT

*Seeking Solutions for Greater Minnesota's Future*

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## *Coming soon: Rural Minnesota Journal and Rural Minnesota Forum will address K-12 education*

As we move into the fall, we're getting increasingly excited about the next issue of the *Rural Minnesota Journal*. As we've announced in previous newsletters, the future issues of *RMJ* are going to be collections of articles discussing various aspects of a single topic. This next issue, being released Sept. 5, is entitled, "Educating Rural Minnesota's Children," and will have articles discussing issues such as education funding, the changing demographics of school districts, early childhood development, the role of agricultural education today, and an essay on growing up in a small-town school.

Then, after reading the *Journal*, do you feel the need to discuss these articles? Then save Nov. 15 for the *Rural Minnesota Forum* at the Crown Plaza (formerly Radisson Riverfront) in St. Paul. The *Rural Minnesota Forum* will be a one-day conference on "Educating Rural Minnesota's Children." Many of the authors featured in the *Journal* will be there, as well as other education experts, to discuss and debate these issues.

The combination of the *Rural Minnesota Journal* and the *Rural Minnesota Forum* are a major part of the Center's new civic engagement initiative, and they will occur twice a year, with the release of the *Journal*, followed by the forum. According to Center president Jack Geller, having a statewide forum that follows the release of the *Journal* by eight to ten weeks is an ideal way to generate conversation about the topic that was covered in the *Journal*.

So save these two dates: Sept. 5 for the *Journal* and Nov. 15 for the forum. As always, *RMJ* will be free for download from our web site at [www.ruralmn.org](http://www.ruralmn.org), or you can order copies for \$3 each to cover shipping and handling. You'll find an order form on page 2. (You may also pick up free copies at our office in Saint Peter beginning Sept. 5.) And watch our web site beginning in mid-August for the registration form for the *Rural Minnesota Forum*. We hope to see you there.

## *Motor vehicle sales tax amendment intended to send more money to transportation. How would it benefit rural Minnesota?*

Drive along congested Twin Cities highways or down a potholed county road in greater Minnesota and they leave little doubt that Minnesota's transportation system needs help. In the last few years, several ideas have been tossed around to boost funding, including borrowing hundreds of millions of dollars, but in 2005, Gov. Pawlenty and the Legislature went after a more permanent solution by passing a bill for an amendment to the state constitution that would dedicate the dollars collected on the state's motor vehicle sales tax to transportation funding, an estimated \$300 million a year by 2011.

Dedicating motor vehicle sales tax revenue to roads and transit may sound logical, but for the last 25 years, this revenue source has been shuffled around between transportation funding and the general fund. Now supporters simply want all the dollars to go to transportation. The amendment doesn't create a new tax or increase the current one. It

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## *Rural Perspectives*

**Curt Heidt,**

Federal Home Loan Bank of Des Moines

**Q** *For our readers who are not familiar with the Federal Home Loan Bank system, please tell us what the Federal Home Loan Banks do, why they were created in the first place, and any special focus that the Federal Home Loan Bank of Des Moines may have.*

**A** The Federal Home Loan Banks are a government-sponsored enterprise (GSE) created by Congress in 1932. The mission of the FHLBanks is to improve access to housing for all Americans by providing our FHLBank members with low-cost mortgage funding and by supporting community development. Each of the twelve member-owned FHLBanks is a privately capitalized, independently managed cooperative that must meet strict regulatory and capitalization standards. The Bank System's 8,000 members include commercial banks, thrifts, insurance companies and credit unions. The FHLBanks provide loans, called advances, to these financial institution members for as short as one day or up to 20 years. The Des Moines Bank serves Iowa, Minnesota, Missouri, North Dakota and South Dakota and has more than 1,200 members.

**Q** *Housing and mortgage lending are at the heart of what the Federal Home Loan Banks do. How do you help with affordable housing and home ownership, particularly in rural regions?*

**A** We provide advances (loans) to members to either hold mortgages in their portfolio or to provide liquidity while they hold loans for sale to other institutions. The Bank also grants 10 percent of its net earnings to affordable housing projects. The Bank has donated, through its members, over \$122 million in housing grants since 1990.

Minnesota has received \$39 million in competitive funds and \$3.3 million in homeownership set aside funds for downpayment assistance in rural areas and Native American Reservations. Competitive funding is for both rental and homeownership, with projects ranging from homeowner repairs with Southwest Minnesota Housing Partnership to the acquisition and repair of the Greystone Hotel in Detroit Lakes.

**Q** *Community development is another important focus of the Home Loan Banks. As wholesale lenders, you do not make direct loans for community development, but instead work through community banks. What are some of the programs FHLB of Des Moines is involved in to help rural communities, and how do they work?*

**A** The FHLB offers Community Investment Advances through a program called the Rural Capital Advance (RCA). These advances are below our standard rates, can be for as little as \$25,000 and allow each member to receive as much as \$6 million for rural economic/commercial/agricultural lending including small business loans. This program totals \$100 million per year plus any repaid funds from prior years and will eventually reach a level of \$500 million in revolving advances.

The Affordable Housing Programs include scoring priorities for rural areas and also has three special funds: 1) \$1.5 million for down payment/closing cost assistance for rural home purchases in the Rural Homeownership Fund; 2) a Native American Homeownership Initiative for down payment/closing cost assistance for home purchases on Native American reservations funded at approximately \$250,000 per year; and 3) a Disaster Recovery Fund of \$500,000.

Also, The Bank has committed to invest up to \$25 million in venture capital with the first investment to be in a Small Business Investment Corporation with the intention that as much as 40% of the fund be invested in rural areas.

**Q** *Your annual conferences on community development create another key opportunity for learning by bringing to the region national experts on community and economic development. Who is invited to these conferences and what is their goal?*

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## Center awarded matching grant

The McKnight Foundation, one of Minnesota's largest foundations, has provided a generous incentive to encourage new and increased financial gifts to the Center for Rural Policy and Development. Beginning July 1, the "McKnight Challenge" offers a dollar-for-dollar match for all new or increased financial contributions received by the Center this year through its membership program.

By becoming a contributing member, individuals and organizations are able to support the Center in its policy research work throughout Minnesota. Currently, the Center receives annual financial support from more than 100 individuals, businesses, governmental units and foundations through their membership contributions. The "McKnight Challenge" offers an opportunity for new and current donors to leverage their gifts to the Center by doubling the amount of new donations and increases over past gifts.

"We are very pleased with the McKnight Foundation's decision to support the Center and its work in this way," said Larry Anderson, Outreach Coordinator for the Center. "This will now give new and renewing contributors an opportunity to make their donation to the Center even more effective."

Questions about the Center's membership program, including the McKnight match, may be directed to Larry Anderson at landerson@ruralmn.org or (507) 934-7700.

## RMJ Editorial Board Members Named

In an effort to give the new *Rural Minnesota Journal* more editorial autonomy and a broader statewide presence, the Center for Rural Policy and Development announces the creation of an editorial board for the *Journal*. "The role of the *RMJ* editorial board will be to set the policies for the *Journal*, as well as to determine the topics and themes for future issues of the *Journal*," explained Center president Jack Geller, who will remain as the managing editor of the journal.

The charter members of the *RMJ* Editorial Board are:

- Dr. Richard Davenport, President of Minnesota State University, Mankato
- Dr. Thomas Stinson, State Economist and University of Minnesota Associate Professor of Applied Economics
- Sandy Layman, Commissioner of Iron Range Resources
- Dr. Louis Hohlfeld, Senior Program Officer with the McKnight Foundation
- Jean Burkhardt, Program Officer with the Northwest Area Foundation
- Wy Spano, Director, Center for Advocacy & Political Leadership, University of Minnesota, Duluth.

## RMJ Rural Minnesota Journal

### Educating Rural Minnesota's Children

September 2006

Yes, I would like to order the Center for Rural Policy and Development's *Rural Minnesota Journal: Educating Rural Minnesota's Children*.

Please send me \_\_\_\_\_ copies of RMJ. I have enclosed \$3 per copy for shipping and handling.

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

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All CRPD publications, including RMJ,  
can be downloaded for free at [www.ruralmn.org](http://www.ruralmn.org).

## Thank You and Welcome New and Renewing Members!

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

## The Atlas of Minnesota Online: Expanding and Evolving

In the last issue of the CRPD newsletter, we announced the premiere of the Atlas of Minnesota Online, our new information tool for anyone interested in the data behind the economic, demographic and social issues of Minnesota. So far it's been a great success, but now we're working on improving it even further. Coming this fall, we will be adding maps containing data based on municipalities. Rolling over a county with your mouse will reveal a list of that county's incorporated cities and the related data for that map.

"This is going to be a great innovation—we've had a lot of people asking for data based on municipalities once they saw the county-based data," said Marnie Werner, program manager at the Center and supervisor for the Atlas Online. "There is so much data collected out there by various agencies and organizations that would be useful to city and county planners and officials, but it hasn't been put into a useable form yet. That's our goal with the Atlas Online—to turn this data into useable information."

The Atlas of Minnesota has been one of the Center's most popular and successful publications. The first edition was released in 2000 and went to a second printing. The Atlas of Minnesota 2nd Edition, released in 2003, was a more extensive collection of data and maps assembled cooperatively by the Center, the U of M Extension Service, the Blandin Foundation, and several state departments. The Atlas was then moved online earlier this year to facilitate updating and to allow users to see the actual numbers that underlie the state maps. The Atlas of Minnesota Online will continue to expand and evolve as we add and upgrade maps and data. To get a look at the Atlas Online right now, visit our web site at [www.ruralmn.org](http://www.ruralmn.org) and click on the Atlas Online button. And watch for the upgraded version this fall.

The normally quiet airport just outside of Mankato was a pretty busy place right after the end of the legislative session. One after the other leaders of the Minnesota House and Senate along with the Governor engaged in their “fly-around” of the state, touting the successes of the 2006 session. And why not? After three years of divisiveness and conflict, people were more than ready to hear about a legislature that functioned as it was designed to and ended on time.

I have to admit that I was generally impressed with the effort toward civility, as well as the final product, especially when one thinks about the added challenges that legislative leaders put upon themselves. By that I mean that we should remember that at the end of the contentious 2005 session, House and Senate leaders agreed to an especially short 2006 session, choosing to come back on March 1 instead of February 1. I suppose that the plan was simply to get another bonding bill passed and get back home to attend to the business of getting re-elected ASAP. But plans are never that simple, as a modest surplus opened the door for a supplemental budget bill; property tax relief; a smorgasbord of stadium proposals; and hopes for up to three potential constitutional amendments before the voters in November.

The consequence was a rather aggressive legislative agenda in a much-attenuated time frame. Some could have argued that given legislators’ past track record, their plan was a formula for disaster. But the system worked the way it was designed to work. It was, in fact, a very productive session. Those items where legislators were able to find common ground were passed, and those items that became too divisive were dropped. There were no collective lines drawn in the sand; no intransigency; and we’re all better for it. As with all legislative sessions, there were winners and losers, and if your bill or issue of interest didn’t pass, I’m sure you likely view the session differently. But legislators clearly demonstrated to me that the system is not irreparably broken.

So with that as context let me turn to how rural Minnesota fared in the session. Overall, I think it’s fair to say that rural Minnesota fared O.K.—not great—but O.K. Certainly rural Minnesota’s higher education infrastructure received a welcomed boost in the bonding bill, with several major additions and renovations. Campuses in Mankato, St. Cloud, Winona, Fond du Lac, and Moorhead all saw major bonding projects included. In fact, of the \$141 million in general obligation bonding for MnSCU institutions, \$92 million was targeted for campus projects in greater Minnesota.

## A look back at the 2006 Session

Jack M. Geller, Ph.D.,  
President

However, when average citizens think about projects for greater Minnesota in the bonding bill, they generally don’t think about rural colleges. Rather, they think about community-based projects such as financial assistance for a local civic center, local park and recreation development or local infrastructure improvement. Over the past few years such projects have been harder to find in the bonding bill, as legislators seek projects with “regional or state significance.” But often such criterion inherently disadvantages smaller communities in Greater Minnesota, as smaller communities naturally have a more modest regional or statewide impact. Consequently, I was quite pleased to see a significant number of greater Minnesota projects in the 2006 bonding bill, including the building of two new regional events centers in Marshall and Bemidji, and funding for local zoo enhancements in both Duluth and Little Falls. But more important than these local projects were the funds that were approved to increase the economic competitiveness of rural Minnesota, including close to \$6 million for Greater Minnesota Business Development grants and \$2 million set aside for bioscience industry development in Greater Minnesota. Not bad for a short session!

On the policy side there were again successes and failures. Successes include eminent domain legislation that rolled through both houses like a freight train.

And while many view these new legislative shackles on municipalities as an urban or suburban issue, I can assure you that landowners and farmers throughout greater Minnesota were very supportive of these new reforms. The Clean Water Legacy Act finally passed and the legislature made its first down payment on the costs of cleaning up our lakes and waterways as we move toward compliance with federal law.

In the minus column, the legislature’s failure to bring to the voters compromise language regarding a proposal to constitutionally dedicate a portion of the sales tax revenues for environmental programs was disappointing. While both houses were supportive of the concept, the inability to agree on the details of such a set-aside doomed the proposal. But you can count on it being resurrected next year. And finally, the biggest disappointment of the legislative session was again Minnesota’s chronically under-funded transportation infrastructure. The inability of the legislature to even get a compromise transportation bill out of committee does little to give me confidence that we will seriously address our state’s overwhelming transportation needs anytime soon. Then again, there’s always next year.



### Rural Perspectives

CONTINUED FROM 1

**A** The FHLBank has held two National Symposiums on rural issues and this year is offering four conferences dealing with rural economic development. The Minnesota conference will be in Bloomington, Minn., on Nov. 1st and 2nd. Community bankers and community leaders and organizations are invited to attend without a registration fee. Topics will include housing, entrepreneurial development, tourism, arts and culture as economic development, AgUrbs, Home Town Competitiveness, economists, and other national speakers.

**Q** *What is the future of the Federal Home Loan Banks and for the Federal Home Loan Bank of Des Moines? Do you see them continuing in the same path and programs, or do you anticipate any future changes in direction?*

**A** The FHLBanks are the largest source of mortgage credit in the United States. For community banks, which constitute the majority of FHLBank members, Bank advances are often the only reliable on-demand, low-cost funding they have. The FHLBanks bring Wall Street to Main Street and we don’t foresee any change in that public service mission. Our members are strong when their communities are economically viable, so we will continue to support and foster community investment and economic development in our District.

### Motor vehicle sales tax

CONTINUED FROM 1

simply takes the existing sales tax everyone pays on new and used vehicles and dedicates it 100 percent to roads and transit.

A chart on the Minnesota Department of Transportation web site shows the evolution of the motor vehicle sales tax as a source of revenue for transportation funding (<http://www.dot.state.mn.us/information/funding2005/mvsalestax.html>). In 1981, the state legislature established a system to phase in the sales tax as a funding source for transportation over ten years; the intention was that ultimately, by 1991, all of the revenue would go to transportation - 75 percent to highways and 25 percent to transit.

Almost immediately, however, the phase-in was delayed, then gradually eroded, until in 1991, the motor vehicle sales tax revenue was completely diverted away from transportation funding, according to Mn/DOT. In 2001 and 2003, one-time deposits were made to highways and transit for the purpose of property tax relief. Then in 2003, a four-year plan was established to dedicate approximately 54 percent of the sales tax to highways and transportation.

In 2005, that all changed. That year the state legislature developed and passed a bill for a constitutional amendment that would be put to the voters. The amendment states that by 2011, 100 percent of the motor vehicle sales tax would be dedicated to highways and public transit, with at least 40 percent going to public transit and not more than 60 percent going to highways. This November, Minnesota residents will be able to vote on this amendment. Approving it would mean the motor vehicle sales tax revenue would be enshrined in the state constitution, ending the years of juggling between transportation and the general fund, and possibly more important, making the sales tax a virtually permanent source of transportation funding.

Passing this amendment is very important, says Mn/DOT’s Bob McFarlin, assistant to the Commissioner. It guarantees that money already dedicated to transportation by statute will continue to be dedicated, but through the state constitution, a much more secure position. And it will provide a significant increase in funding for the state trunk highway system, he said.

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## CENTER for RURAL POLICY and DEVELOPMENT

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*Motor vehicle sales tax*

CONTINUED FROM 3

Of interest to greater Minnesota, however, is the manner in which these revenues would be divvied up. “Dedicating the motor vehicle sales tax to transportation is an important added boost to our chronically underfunded transportation system, but at the same time, having a hard 60-40 split between roads and transit would have brought some much needed clarity to legislators and voters in understanding how these funds would be spent,” said Jack Geller, president of the Center for Rural Policy. The way the amendment is worded now, it leaves a certain amount of vagueness concerning what the voter is voting for and what the legislative intent is, said Geller.

When Gov. Pawlenty originally proposed the amendment, it did indeed contain a 60-40 split, said McFarlin, but subsequent work on the amendment by the Legislature in 2005 resulted in the current language of “not more than” and “at least.” Legislators and the governor attempted to clarify the language in the 2006 session, but those changes fell through when the larger transportation bill failed to pass.

There is a concern that the way the amendment is worded, more dollars swing to transit, a largely metro-area concern, while dollars for roads—a

greater Minnesota concern—are essentially capped at 60 percent. “There’s a fear by some that transit interests will find a way to capture all of the money,” said McFarlin, but he believes that legislators are very aware of the situation and that when it comes time for them to actually set those percentages, highway interests will be well represented.

Of course, a big question is, how will the state make up the portion that is currently going to the general fund, estimated at \$150 million? “That’s a legislative process that happens in a budget year,” said Geller. “At the beginning of the session the governor comes out with his budget plan and the two legislative houses come out with their plans, and they find a compromise. But there’s a general belief at this point that with a budget of more than \$30 billion and an expected surplus of \$500 million, at least for this year, a hole of \$150 million is something they can address productively.” But with deteriorating roads and bridges in greater Minnesota and an overburdened highway system and strained public transit system in the metro areas, the real story, said Geller, is that someone is finally making a genuine effort to create a reliable and effective stream of funding for transportation.

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SUMMER 2006

# Letter NEWS

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- Next issue of *Rural Minnesota Journal* coming in September
- Atlas of Minnesota Online, expanded and evolving
- Rural Perspective: The role of the Federal Home Loan Bank
- How did the Legislature do this year?

*Seeking Solutions for Greater Minnesota's Future*

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