



Perspectives

Growing rural economic success

Over the last decade, Minnesota's economy has experienced a significant transition, becoming more global, more technology-based and more service-oriented. This shift has contributed to unprecedented economic growth, but not all industries and regions of the state have shared the prosperity. Given these economic changes, as well as an ongoing shift in the state's demographics, new community development strategies may be necessary to maintain and enhance the vitality of rural Minnesota in the twenty-first century.

This *Perspectives* report examines the changes in Minnesota's economy and demographics as well as how regional differences in rural Minnesota affect plans for the future. It offers potential economic and community development strategies in six areas:

C O N T E N T S

- **Minnesota's economy continues to evolve** 2
- **Demographic changes affect Minnesota's economy** 3
- **Minnesota's diversity calls for unique strategies** 3
- **Building rural development strategies** 4

- leveraging financial capital
- energizing the business spirit
- enhancing the work force
- providing a solid infrastructure
- protecting Minnesota's natural resources
- creating a community vision

The goal of this report is to provide local units of government, the Minnesota Legislature and interested citizens a glimpse at some of the issues facing rural Minnesota as well as to offer possible strategies that address those issues. It is hoped that this report can be a resource to help build the state's rural economic development strategies.

This report is one in a series of *Perspectives* reports examining the effects of economic and demographic changes in rural Minnesota. It follows *Implications of Rural Minnesota's Changing Demographics* and builds on a number of meetings about rural Minnesota, including Minnesota Planning's Listening Posts, held in 10 locations around the state in 1999 and 2000, the July 2000 Rural Summit in Rochester and the September 2000 Economic Summit in St. Paul.

Throughout this report, the term "rural" is used to refer to the 80 counties outside of the seven-county Twin Cities metropolitan area and the term "elderly" refers to people age 65 and older.

Minnesota's economy continues to evolve

The majority of Minnesota's towns and cities were built in the nineteenth century when agriculture was the dominant industry. Because agriculture was labor intensive and horses and trains were the dominant forms of transportation, the state was settled with a relatively dense rural population which in turn supported a pattern of closely spaced small towns. Most of these communities exist today, but the economy and transportation system that supports them is drastically different.

As farming technology advanced in the last half of the twentieth century, the population in agricultural areas began to decline. Many businesses that once thrived in these regions lost their consumer base. In the last several decades, rural residents have increasingly become more willing to travel longer distances to work and shop in regional trade centers. As a result of these changes, only a fraction of the early trade centers continue in that capacity today.

With growing populations and economies, cities such as Winona, Mankato and Willmar are thriving regional trade centers, often at the expense of surrounding communities. This trend has made it difficult for some small communities to maintain their populations and businesses.

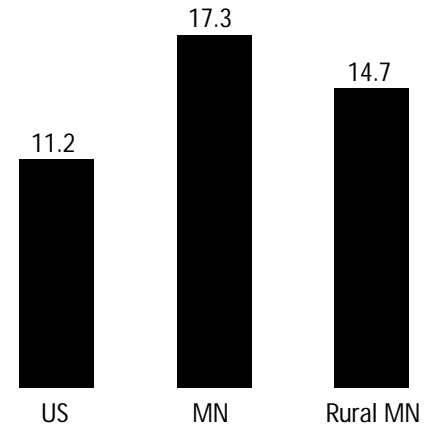
Shifts in employment

During the last 30 years, the economic composition of rural Minnesota has changed in important ways. Based on employment data from the Bureau of Economic Analysis, the most significant changes between 1970 and 1998 have been reductions in farm employment, accompanied by modest gains in retail trade and significant gains in the service sector.

An examination of employment growth shows that between 1990 and 1998 rural Minnesota's manufacturing employment grew by 24 percent compared to 3 percent growth in the seven-county metropolitan area. Between 1990 and 1998, employ-

Per capita income growth was higher in rural Minnesota than the nation between 1990 and 1998

Percentage growth (adjusted for inflation)



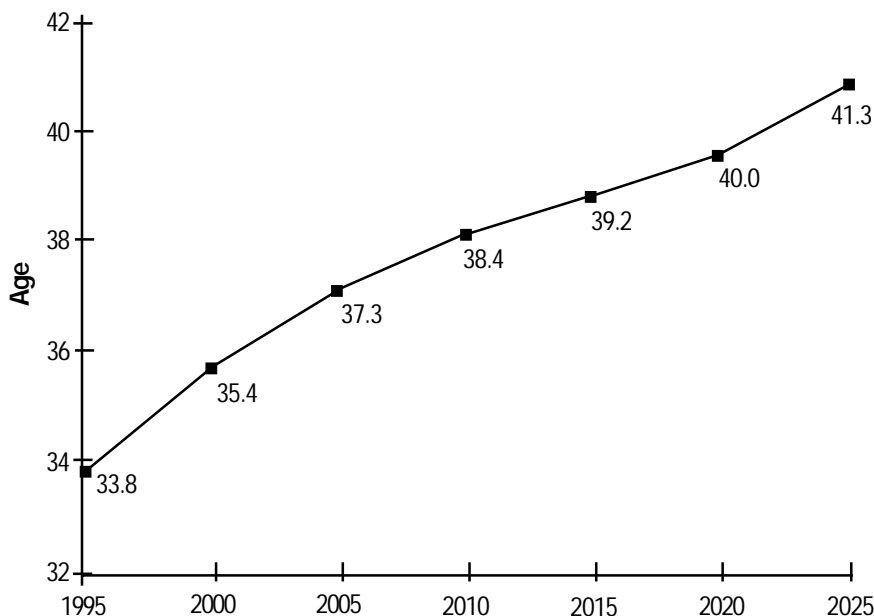
Source: Bureau of Economic Analysis

ment in the finance, insurance and real estate (FIRE) sector and in the service sector for rural Minnesota grew over 25 percent and 30 percent respectively. Slightly lower employment growth figures were seen for these sectors in the seven county Twin Cities metropolitan region. Despite these strong metro and rural figures, employment in the FIRE sector for the West-Central economic development region of the state fell 2.9 percent between 1990 and 1998.

Changes in income

During this same time period, per capita personal income in rural Minnesota rose nearly 15 percent after adjusting for inflation, according to Bureau of Economic Analysis data. The state's per capita personal income rose 17.3 percent between 1990 and 1998 to a level of \$29,263 in 1998. In comparison, the Northwest economic development region had per capita personal income growth of 9.5 percent between 1990 and 1998 to a 1998 level of \$20,458. It is evident that variation exists throughout rural Minnesota with regard to current levels and recent changes in employment and income. A county-level analysis would provide more specific data.

Minnesota's median age is projected to rise



Source: State Demographic Center at Minnesota Planning

Other economic challenges

Minnesota and the rest of the nation continues to transition to a global, information-based economy. This has led to increased foreign competition in all sectors of the economy, especially agriculture and manufacturing, which have been economic mainstays for many rural communities.

Another challenge facing rural communities is the heightened demand for twenty-first century business amenities. While location factors vary from industry to industry, some of the amenities desired by many of the fastest growing industries are a skilled labor force, venture capital, proximity to a research institution and high-speed Internet access. The historical economic benefits offered by rural communities such as low labor and land costs and access to raw materials are still considerations as are a good transportation system, access to markets and a favorable tax climate.

The need for modern amenities as well as a loss of potential workers due to the exodus of young adults and the increasing number of retirees has put many rural communities at a competitive disadvantage.

Despite the historical and more recent changes in the economy and the inherent challenges that many rural communities face, the economy of most of rural Minnesota flourished in the last decade. However, the current economic well-being does not necessarily predict future success. Rural Minnesota needs to plan now to meet the challenges of a new century.

Demographic changes affect Minnesota's economy

The economic well-being of a community, region or state is connected to the demographic changes occurring within that area. Rural Minnesota is undergoing a number of demographic changes. The most significant are the aging of the population, exodus of young adult population, concentrated population growth, increase of retirees moving to the state's recreationally rich

MINNESOTA'S SMALLEST CITIES LOST POPULATION DURING THE 1990s

Size of city	Number of cities	2000 population	1990-2000 population change	Number losing population	Percent losing population
100,000 or more	2	669,769	29,151	0	0
50,000-99,999	12	792,236	115,505	1	8
25,000-49,999	19	662,479	104,017	3	16
10,000-24,999	50	817,345	113,721	11	22
5,000-9,999	43	311,483	44,621	7	16
2,500-4,999	81	284,897	42,841	16	20
1,000-2,499	124	202,002	16,313	29	23
500-999	146	104,522	6,137	52	36
250-499	145	52,226	1,170	62	43
Less than 250	231	30,381	-1,106	133	58
Total	853	3,927,340	472,370	314	37

Source: State Demographic Center at Minnesota Planning

areas and an overall rise in the number of immigrants moving to the state.

The aging of the population is a concern, particularly for rural communities. In 1995 Minnesota's median age was 33.8 years, in 2000 it was 35.4 years and by 2025 it is expected to be 41.3. While the aging of the population will affect all of Minnesota, its effects will be most pronounced in southern and western counties.

Between 1990 and 2000, Minnesota's population grew an estimated 12.4 percent, but most of the counties in the south-central region and along the western edge of the state lost population. Population projections for these regions suggest a continued decline. In addition, between 1990 and 2000, 314 cities, 37 percent of Minnesota's 853 cities, lost population. The smaller the city, the more likely it was to lose population.

Some ramifications of these demographic trends are:

- Decreasing enrollment in rural school districts accompanied by district financial pressure are consequences of young adults leaving rural areas.
- An increasing elderly population in rural Minnesota creates increased demand for health care in locations that may already be medically underserved.

■ A community with a shrinking and aging population can lead to higher government service costs per person and diminished ability to raise revenue.

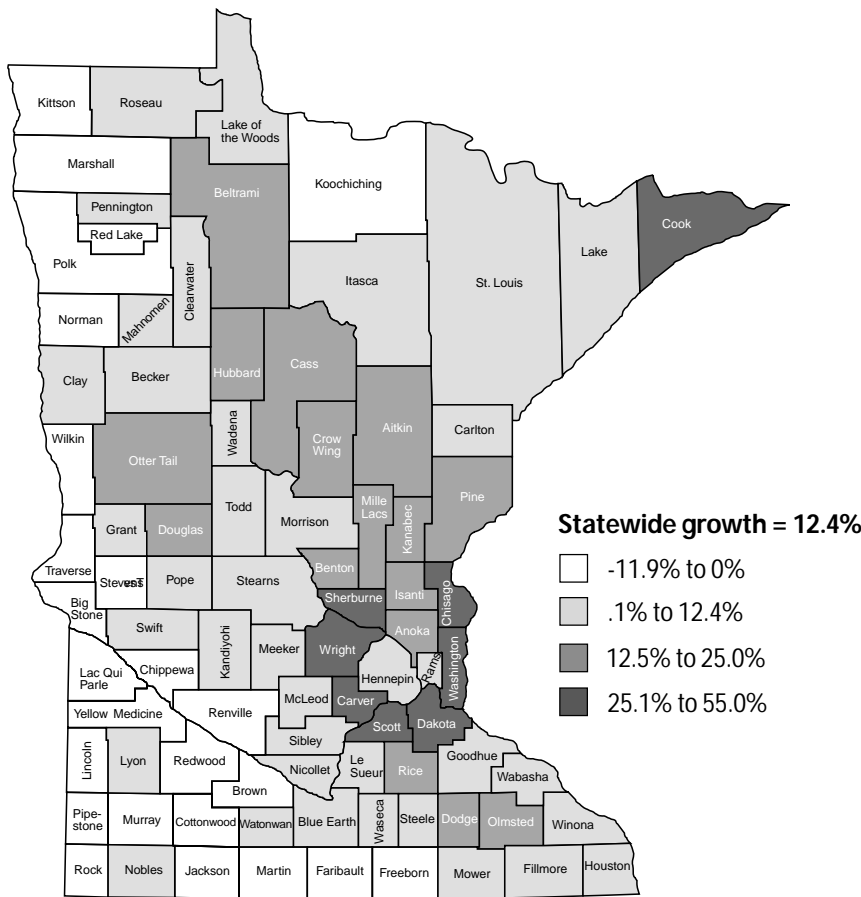
■ As young adults leave rural areas and as the proportion of elderly rise, the size of the workforce declines and it becomes more difficult to attract and retain businesses.

Minnesota's diversity calls for unique strategies

In examining potential development strategies for rural Minnesota, it is important to recognize that one set of strategies will not fit all rural areas. Traditionally, two types of methodologies have been used to assign development strategies. The first approach is based on geographic region; the second approach is based on demographic and economic characteristics.

Different geographic regions such as southeast and northeast Minnesota require different strategies because each region differs markedly in demographic and economic characteristics. But even within a single region, significant variation exists. For example, in southeast Minnesota, Olmsted County, which contains the

Population change 1990 to 2000



Source: U.S. Census Bureau

regional center Rochester, has a diverse economy and is expecting significant population gains in the next 25 years. In comparison, Freeborn County has a less diverse economy, based primarily on manufacturing and agriculture, and is projected to lose over 10 percent of its population by 2025. One strategy may not be appropriate for both of these counties.

“There is no one answer for rural Minnesota, because all of rural Minnesota is not the same.”
 – Minnesota Planning Director Dean Barkley at the Listening Post in Nicollet

If strategies are based solely on counties with similar population and economic structure, problems arise as well. For example, two similar rural Minnesota counties may require different strategies to maximize their economic potential because of other factors such as proximity to regional center, age structure of the population, skill set of the work force or projected population growth. Because each community and county has distinct economic and demographic characteristics, development strategies must be tailored accordingly. Communities should also continue to work collaboratively to resolve issues shared with their neighbors. This has proven successful when communities were looking to acquire telecommunications access, share

government services and address a region’s affordable housing shortage.

When deciding on the best economic development strategies, communities should not only examine their economic composition and demographic characteristics, but also a number of other factors such as proximity to regional centers, what effect the global economy will have on the future success of local businesses, commuting patterns of the labor force, age of population, school enrollment projections, proximity to a community or technical college, the availability of high-speed Internet access, access to health care, quality of roads and other amenities.

Building rural development strategies

Historically, rural policy has centered around agriculture. Because the role of agriculture has diminished, many argue that new rural policies are needed to address challenges not related to agriculture. This report suggests community development options in six areas: leveraging financial capital, energizing the business spirit, enhancing the work force, providing a solid infrastructure, protecting Minnesota’s natural resources and creating a community vision.

The six areas and the individual strategies for each take a broad approach to enhancing a community’s economy and overall vitality. The strategies offered in this report are not meant to be prescriptive. Rather they are possible options to consider when addressing some of rural Minnesota’s most important issues.

“Rural Minnesota can no longer exist on farming, so creating a technology infrastructure and attracting business are crucial, with the state and local communities working together.”
 – Sen. Jim Vickerman at the Listening Post in Marshall

Between the mid-1980s and the mid-1990s, the Department of Trade and Economic Development Star City Program was used by hundreds of communities throughout Minnesota to achieve similar goals. The Star City Program encouraged communities to go through an extensive self-review and planning process to make decisions. Communities undertook a three-step process: identifying and organizing community leaders, creating an economic development strategy and implementing that strategy through the marketing of the community's assets to businesses. The Department of Trade and Economic Development considers the Star City program a success.

Federal, state and local governments as well as community organizations, local businesses and individual citizens all have roles in implementing the following strategies. A unique combination of cooperation among these players is required to maximize the benefit these strategies may hold for a community. The U.S. Department of Agriculture, Minnesota Extension Service, and Minnesota departments of Economic Security and Trade and Economic Development and other agencies have programs in place to help local communities implement many of these strategies to achieve their development goals.

Leveraging financial capital

The creation and expansion of businesses depends on many factors – one of the most important is access to capital. As firms move through various stages of their business life cycle, infusions of capital are necessary to move from one stage to the next. Without capital, firms may be prevented from maximizing their potential.

Sources of financial capital vary from personal savings to initial public offerings in the stock market. While debt capital, such as a bank loan, is available for many businesses, equity capital, such as a private investment from a venture capitalist is not. Rural businesses can be at a disadvantage when raising equity capital because financial resources tend to be more abundant in highly populated areas and the fastest-growing industries, which

are more attractive to investors, are typically located in metropolitan areas.

Rural businesses, communities and regions have, however, benefited from the resources provided by the six Minnesota Initiative Funds and the nine Regional Development Commissions. These regional organizations stimulate development by providing communities and businesses grants and loans as well as comprehensive planning and technical assistance.

These strategies could help leverage additional financial resources for rural areas:

■ *Facilitate capital flow.* As a means of matching up investors with entrepreneurs and their ideas, the Small Business Administration has begun using a national program called ACE-Net. Investors and businesses can post information on the Internet to help identify potential matches. This program is being used by some Minnesotans, though investors and businesses say participation could be increased by changing some restrictive guidelines. For example, the program is only open to "accredited" investors, those with over \$1 million in assets or an annual income of \$200,000 individually or \$300,000 for a couple. In addition, ACE-Net is available only to corporations or limited liability companies. This type of program, but with fewer restrictions, could be replicated in Minnesota through a coordinated effort by local, regional and state economic development offices. Another potential means of facilitating capital is to encourage banks to play a more prominent role in matching up prospective equity investors with businesses seeking capital.

■ *Expand uses for revolving loan funds.* A 1998 study, *The Minnesota RLF Profile* by the Corporation for Enterprise Development, found that \$102 million of the \$205 million available in revolving loans is currently unused in Minnesota. Revolving loan funds are administered by community based financial institutions that provide individuals and communities access to capital they may not otherwise receive from private sources. The contributors to Minnesota's revolving loan funds are primarily federal, state and local governments.

Some resources in Minnesota and beyond are helping rural businesses meet their financial needs:

Angel investors. Angel investors can be broadly defined as individuals who are willing to invest less than \$50,000, prefer to invest in local projects, invest in people rather than a specific technology and, perhaps most important, offer entrepreneurs experience, knowledge and networks.

Nontraditional venture capital firms. Most venture capitalists have one goal: to obtain the highest return on investment. Since rural businesses may have lower growth potential than their metropolitan counterparts, most venture capitalists are likely to invest their money in urban firms. In Minnesota, two venture capital firms, Northeast Ventures Corporation and MIN-Corp are interested in both return on investment and helping promote prosperity in rural Minnesota. Northeast Ventures' four fundamental goals are financial self-sufficiency and permanence, creating local wealth that is locally controlled, attracting venture capital from beyond the region, and fostering entrepreneurship in northeastern Minnesota. MIN-Corp focuses on new and existing companies with growth potential that may not be likely beneficiaries of other venture capital firms due to their size and location.

Community development corporations. Community development corporations can be found throughout the nation. One of the most successful is the Kentucky Highlands Corporation, a publicly and privately funded firm that has financed businesses in eastern Kentucky for over 30 years. Ray Moncrief from the corporation says that rural America's equity capital needs remain substantially underserved and that rural equity funds must recognize a double bottom line, a financial return on investment and an overall economic boost to the local community. Because of this dual goal and the demand for more business investment dollars in rural areas, Moncrief sees the need for additional public-private partnerships.

Highlights from the 2001 Minnesota tax reform package that will benefit rural businesses, including farmers:

- provides approximately \$843 million of net property tax relief to all properties in 2002
- average percentage property tax reduction to farmland – 25% (\$53 million net tax relief)
- commercial industrial property – 10% reduction, eliminates the K12 general education levy which benefits business property more than other types of property
- replaces up to \$415 per pupil of operating referendum local property taxes with state funding
- farm and forestland will be exempt from both the new statewide property tax levy and local operating referendums
- taconite production tax cut 21.7 cents per ton (10% reduction)

Customers of revolving loan funds stress a greater need for venture or equity type financing than for debt (loan) financing. In addition there is also a demand for additional work force training assistance. In recent years, the Department of Trade and Economic Development has been providing technical assistance to communities to identify broader uses for these untapped funds. For example, with the help of the Department of Trade and Economic Development, a consortium of communities in southeastern Minnesota is in the process of pooling their money to provide assistance in areas such as affordable housing and job training, as well as industrial development.

■ *Streamline the grant process.* Beyond leveraging financial capital for businesses, communities also compete for state and federal community development grants. For rural communities with limited personnel and resources, grant applications can be a daunting task. This observation was heard frequently at the 10 listening posts Minnesota Planning conducted throughout the state between December 1999 and April 2000. Communities noted that the process can be even more difficult when matching money is required for grants. The perception of some communities is that this gives a clear

advantage to larger, more affluent communities that are better able to generate matching funds.

A recent analysis of communities funded by the Small Cities Development Program in 1999 and 2000 showed that 64 grants were awarded to communities with populations of less than 25,000, and of these, 55 went to communities with less than 10,000. However, due to budget limitations, only about one-third of the communities that applied were awarded grants. Agencies that distribute community grants such as the Department of Trade and Economic Development are continually trying to find ways to make the grant application process easier for communities. As an example, the Minnesota Housing Finance Agency, Department of Trade and Economic Development and the Greater Minnesota Housing Fund request only one financial application form from applicants for housing money.

Energizing the business spirit

Businesses want to locate in an environment that helps them reach their maximum potential. Based on the growth in employment and income during the 1990s, it appears that many rural Minnesota businesses are succeeding.

The following strategies are ideas for communities, economic development offices and businesses to consider to sustain and enhance the business climate in rural Minnesota. Some communities and businesses are already working on many of these strategies.

■ *Encourage a culture of entrepreneurship.* Since most rural communities have small populations, the idea of enticing businesses with hundreds of job openings is not a useful strategy. Most rural communities must grow from within, and one way to do this is to encourage an entrepreneurial spirit. Mark Drabentstott from the Center for the Study of Rural America at the Federal Reserve Bank at Kansas City refers to entrepreneurs as the “yeast in the rural economy.” Many believe that venture capital will find its way to entrepreneurs with good ideas, regardless of location. With the aid of financing, a quality work force and an innovative idea, entrepreneurs will help the rural economy reach its potential.

Existing businesses, schools, financial institutions and communities in general should consider developing a culture that encourages business start-ups. Local communities and state government should continue to provide technical assistance and training opportunities for entrepreneurs to develop their business ideas.

“What the state needs is an entrepreneurial economy in which people can create their own jobs.” – *Listening Post participant in Brainerd*

■ *Expand local businesses.* In addition to creating an entrepreneurial environment, communities should consider focusing on nurturing existing businesses. While some rural communities may be able to attract small businesses, most employment growth will come from existing businesses. About 75 percent of new jobs statewide are generated by business expansions. Communities can work together with businesses that are likely to grow to anticipate necessary infrastructure development, such as additional housing units for a larger work force.

A sampling of recommendations on energizing the business spirit from Minnesota Rural Partners, *Statement of Consensus and Recommendations from the Minnesota Rural Entrepreneurship Academy*:

- Define a ladder of stages for entrepreneurs and small businesses, so that State policy and public-private partnerships can focus assistance more effectively.
- Consider targeting programs and initiatives to those areas in Greater Minnesota that are able and willing to perform self-assessments and create strategic plans for their entrepreneurial development.
- Reinforce the availability and usefulness of community assessment services, particularly the Business Retention and Expansion program offered by the University of Minnesota's Extension Service.
- Establish a technical assistance network, along the lines of that existing in the Kansas City community, which encompasses those organizations and services in a mutually beneficial system, that simplifies the process for the entrepreneur.
- Create incentives, including a state Universal Service Fund, and remove barriers for telecommunications companies that want to build infrastructure and provide services in rural communities.
- Investigate models for pooling economic resources and planning among regions to create larger economies of scale.
- Identify new opportunities that the aging of America presents to the culture of Greater Minnesota, and adjust technical assistance programs appropriately.
- Target immigrants and other ethnic communities with educational and technical assistance opportunities, and record their experiences by integrating the experiences and lessons learned with America's and Minnesota's changing entrepreneurial culture.

■ *Develop business networks.* Given the challenges surrounding business development in rural areas, businesses of all sizes can benefit from working cooperatively. Businesses that are not in competition with one another, but work in the same industry, may benefit by developing industry clusters. A geographic concentration of interconnected businesses can help create competitive advantages by minimizing production costs and sharing information. Another benefit of networking for businesses, especially small- to medium-size businesses, is to share information, training and technology resources. Both of these strategies help to overcome some of the disadvantages that rural businesses face.

An example of an innovative business network in its early stages is the Duluth

Technology Village. In this setting, emerging information technology businesses, students and professors from local universities share labor, government resources and information to help turn their ideas into reality.

■ *Recognize community strengths.* Geographical location, amenities, economic structure and demographic composition are significant indicators of the types of businesses that may be successful in a community. Community leaders must recognize their location's inherent strengths and characteristics and use them to their advantage. For example, remote communities without major highways could focus on attracting businesses that use telecommunications technology rather than those that rely on transportation for delivery of inputs or

products. An example is the Northwest Airlines reservation facility in Chisholm.

Some researchers have suggested that small communities may no longer be able to be self-sufficient and that they must find niches to complement a cluster of nearby communities. For example, a bedroom community is characterized as having an adequate supply of housing, but the residents of the community typically work in nearby communities. In certain situations, such as meeting housing demands, communities should collaborate to develop solutions that address regional issues, while complementing their individual community plans.

■ *Diversify where possible.* In an effort to protect a community from the natural ups and downs of overall and industry specific fluctuations, communities, and in some cases businesses, should diversify. When the majority of a community's work force is employed by one company, its prosperity is dependent on the success of that company. This strategy can be more easily accomplished in communities with a large and multi-talented workforce.

■ *Add value in Minnesota.* Historically, some of the lowest wage manufacturing jobs have been in value-added agriculture. Value-added is the process of taking an input and adding labor and perhaps other inputs to produce a final good. An example of a value added process is turning wheat into pasta. When there is an opportunity to bring value added jobs with livable wages, Minnesota should try to retain and add value to the state's raw materials rather than export them. In the near future, as agricultural crops become more specialized, there could be additional opportunities to capitalize on value-added processing.

■ *Specialize and differentiate Minnesota products and services.* To create competitive advantages and increase the number of jobs paying over \$10 per hour, firms should use the skills and talents of Minnesota workers to specialize in industries that have fewer competitors. For example, Minnesota is well known for specializing in the medical technology industry.

■ *Capitalize on the new agriculture.* The consolidation of the agricultural industry has coincided with an increase in genetically modified crops. More specialized crop production may benefit Minnesota farmers. Greater diversification of agriculture products in the market may provide opportunities for supply, processing and production hubs for these new products. In addition, Minnesota farmers that grow some of these new specialized crops may face less competitive pressure.

■ *Recruit Twin Cities businesses to rural Minnesota.* Communities throughout the state should continue to work with the Minnesota Department of Trade and Economic Development and Twin Cities companies to find ways to expand business in rural areas. An examination of state government to determine how further decentralization of the state government workforce to rural Minnesota could occur is currently underway.

Enhancing the work force

At a time of historically low unemployment levels, Minnesota has an opportunity to focus its work force resources not only on providing jobs for Minnesotans without work, but also to enhance the skills of those working. Despite unprecedented economic growth, the departments of Economic Security and Trade and Economic Development estimate that 30 to 40 percent of Minnesota's work force earns \$10 or less an hour. Many of these individuals are underemployed, which can result from working fewer hours than preferred or having jobs that do not maximize skill potential. Some of these workers are high school and college students, but a significant share are adults supporting families.

"It is the quality of job that matters, not just the quantity." – Listening Post participant in Carlton

Many jobs that pay \$10 or less an hour in Minnesota are service and retail positions that can only be provided locally, but a significant number are in industries that

face competition in the Upper Midwest and beyond. Because of competitive forces, wages for these low skill jobs are not likely to increase. However, enhancing skills might allow some individuals to move into higher wage positions in industries that are in need of skilled workers.

While the state, communities and employers work to enhance the skills of some Minnesota workers, steps also need to be taken to address the projected work force shortage. Some ideas include:

■ *Capitalize on the role of two-year college institutions.* Community and technical colleges serve an integral role in economic development by educating high school graduates and retraining incumbent workers for new careers. By offering degrees and certificates in fields most in demand, Minnesota's two-year institutions are meeting the needs of businesses and workers who have a desire to enhance their skills. Communities with a skilled labor force are more likely to attract new businesses.

Minnesota's community and technical colleges have built important partnerships with industries that are important to Minnesota's economy. This must continue. Key strategies include focusing on knowledge-based skills such as computer science and information technology, creating regional alliances with businesses of all sizes, and developing flexible scheduling over the Internet and in the classroom to offer full-time workers opportunities to enhance their skills.

Enhancing the role and value of Minnesota's rural two-year and four-year institutions could also lead to more students remaining in their rural communities rather than leaving for more urban college settings.

■ *Recognize all higher education institutions, private and public, as economic development generators.* The University of Minnesota, Twin Cities has attracted attention for generating economic development, both by educating tomorrow's workforce and developing new technologies that yield new business

ventures. While the University of Minnesota, Twin Cities receives much recognition for serving this role, little has been said about the contributions from other public and private institutions throughout the state. Collectively, these institutions enroll more than two-thirds of the state's undergraduate and graduate students. All four- and two-year college institutions should be considered economic generators.

■ *Identify potential workers.* Minnesota's labor force participation rate is approximately 75 percent. This rate has risen steadily in the last several decades as more women have entered the work force. With such a high labor force participation rate and a relatively low in-migration rate of workers, there are few options to find additional labor to fill the current and projected work force shortages.

Several pockets of potential workers could be tapped. One important group, especially as baby boomers begin to retire, is the older population. Given flexible work opportunities, this expanding group of Minnesotans will likely play an integral role in filling shortages in the work force.

International immigrants to Minnesota have increasingly come from southeastern Asia, Africa, Mexico and other parts of Latin America. It is very important to welcome these immigrants into our communities and recognize their positive impacts in both community and economic development. A study by the Center for Rural Policy and Economic Development estimated that the value added to the economy of nine southern Minnesota counties (an economy predominantly based on agriculture and food manufacturing) from the Latino work force is \$484 million per year, almost 10 percent of the total economy for that region.

Given double digit unemployment rates on many Native American reservations, there is an opportunity for nearby businesses to tap this source of potential employees.

Many Minnesotans with disabilities already contribute to the state's economy in a variety of ways. However, additional

ways could be found to expand the job possibilities for these workers with a combination of government, business and community efforts.

■ *Promote school-to-work programs.*

Businesses often complain that recent high school and college graduates have little hands-on experience. In Minnesota, most school-to-work programs focus on three areas of learning: school-based, service-based and work-based. The goal is to provide options for students to prepare for careers and receive a quality education. Minnesota schools have many programs in place. However, schools at both the secondary and post-secondary levels could improve their school-to-work opportunities. Similarly, businesses should offer more applied learning opportunities for students.

"There needs to be more of the real world in the school system."

– Listening Post participant in Bemidji

Student-to-work programs also provide young adults a chance to see what work opportunities exist in their home communities. The Top Team Owatonna Prosper School-to-Work program is an example of a multifaceted school-to-work program. Through activities such as mentoring, mock interviews, job shadowing and apprenticeships, the program offers all secondary students the opportunity to explore career options.

Oklahoma State University at Okmulgee, a two-year technical college, offers a summer manufacturing academy to educate youth and parents about today's manufacturing environment and to attract young people to technical employment. This innovative program provides a hands-on approach to learning and a deeper understanding of the latest advances in manufacturing. Since this program occurs in the summer, it has the added benefit of not interfering with the traditional school schedule.

Providing a solid infrastructure

Built capital such as roads, schools, sewers and houses is an integral component in community economic development. The upkeep and enhancement of infrastructure is vital to assessing a community's attractiveness for businesses and people. In today's economy, an adequate housing supply, good roads and access to high-speed telecommunications play significant roles in keeping both the community and businesses within that community competitive. While communities should always strive to improve all aspects of built capital, the strategies below focus on the greatest needs.

■ *Plan for telecommunications access.*

The transfer of information over the Internet has become an essential component of virtually all industries, including agriculture. Businesses without telecommunications access, preferably high-speed access, are at a competitive disadvantage. The availability of telecommunications technology helps to reduce the remote location disadvantage of many rural communities. Not only have telecommunication advances made businesses more productive, but this technology has led to significant advances in the health care and education fields.

As access to traditional health care in some rural areas has become increasingly scarce, telemedicine has become an alternative. Using audio and video technology, telemedicine allows a physician in one location to examine a patient in another.

In education, primarily higher education, the use of distance learning is growing. Distance learning uses telecommunications technology, such as videoconferences and the Internet, to facilitate learning when students and teachers are not in the same location. Distance learning has helped many working adults, especially those in smaller communities without higher education institutions, take classes to improve their skill base.

"Remember, it's not being online that matters – it's speed of connections and cost for access that are important."

– Listening Post participant in Appleton

The state is currently updating its regulatory laws; this is expected to increase competition among telecommunication providers. It is hoped that increasing competition will bring the cost of service down for the consumer. While this is taking place, Minnesota communities need to continue working with providers to lay the infrastructure in local areas so that their residents and businesses have access. Individual cities like Winona and groups of cities such as those southwest Minnesota communities that formed the PrairieNet Consortium have taken matters into their own hands and moved ahead in obtaining access. *NetPlan*, a community planning guide produced by Minnesota Planning and the departments of Transportation and Administration is designed to help communities assess their current and future needs and then turn that information into steps that will lead to advanced telecommunications access. Continuing education on effective use of the Internet is also necessary.

■ *Maintain the roads.* While an increasing share of Minnesota's business is conducted over the Internet, Minnesota's economy is still dependent on good transportation to and from traditional markets. Minnesota's many manufacturing facilities and natural resource-based industries demand a high-quality and efficient transportation system. In addition, given the long distances that some rural workers commute to work, it is important that Minnesota maintain the road and highway system.

■ *Stay on top of energy deregulation.*

As the state of Minnesota continues to examine the possibility and implications of energy deregulation, communities should examine what deregulation would mean for them, including how it would affect the affordability and reliability of energy service to their residents.

■ *Address health care challenges.*

In addition to projected growth in the percentage of elderly in rural Minnesota, 24 counties and portions of 27 others throughout rural Minnesota were considered medically underserved as defined by the federal government in the late 1990s. Communities need to continue working with state and federal officials to identify means of providing medical access to the areas of Minnesota that are currently medically underserved.

"We're enthusiastic about communities working together and I've been pleased to hear these ideas expressed in other regions. It is important for regions to stop competing among themselves."

— Listening Post participant in Mora

■ *Respond to the need for affordable housing.* An adequate affordable housing supply is a key component to a community's economic success. Some rural communities have a difficult time attracting developers to build new moderately priced housing because of the "affordability gap" and the "value gap." The affordability gap is the difference between what housing costs to build or buy and what a family can afford. The value gap, according to the Greater Minnesota Housing Fund, is the difference between what it costs to build a home and its value once it is built.

The Greater Minnesota Housing Fund reported in 1996 that up to 4,000 new affordable housing units are needed annually in greater Minnesota. In 1999, it was estimated that 1,200 new affordable units are financed annually through public and charitable resources. Local, regional and state governments need to continue working with nonprofit organizations and businesses to build new and affordable housing. Communities and businesses rather than housing developers may have to take the initiative, both financially and logistically, to get new houses built. In some cases, neighboring communities could also work cooperatively to address housing needs.

Protecting Minnesota's natural resources

Minnesota's natural resources are important to the state's economy and recreation. Farmers, miners and timber harvesters and their supporting industries depend heavily on Minnesota's natural resources to make a living. The scenic beauty throughout the state, especially in the lakes region, has been the driver of a successful tourism industry that continues to grow. Due to the economic and recreational dependence on the state's natural resources, it is incumbent upon all Minnesotans to protect and sustain those resources for future generations.

■ *Recognize the importance of the environment.* Protecting and conserving the state's natural resources are important whether you are a farmer whose livelihood depends on the productivity of the land, or a vacationer who enjoys the beauty of Minnesota's parks. In an effort to preserve future economic and recreational opportunities, Minnesota residents and visitors must not place excessive demands on the state's air, water and land.

■ *Balance values when developing.* The development of land is inevitable as the state's population grows. As local communities make development decisions, a balanced approach recognizing social, economic and environmental values should be considered.

Creating a community vision

The strategies in this report focus on building and strengthening community capital. Building community capital is about local leadership, giving a community vision and creating a character or sense of place for a community. Collectively, these factors and a community's cultural amenities are what make the quality of life in rural Minnesota so appealing.

■ *Engage citizens of all groups and ages.* To encourage community decisions with the greatest amount of resident buy-in and as a strategy to retain youth, communities could consider engaging citizens of all ages in their community decision-making

process. This is especially true for those communities that are struggling to retain population.

Representatives from local businesses and social organizations that have traditionally been involved in community development discussions should always be invited by communities to serve that role. This strategy works to expand the leadership base and relieve some of the work load, which is important in rural areas with fewer people to fill community leadership positions.

■ *Develop a shared vision.* One of the key strategies in community development is creating a vision for the future. When creating a vision, a community identifies its strengths and weaknesses and examines how its demographics and economy are likely to change in the future. Community leaders are likely to recognize the ever-increasing internal and external political and economic influences that exist in every community regardless of size.

Change is inevitable. To prosper, communities need to be proactive. As reported in *Small Town and Rural Economic Development*, the community of Table Grove, Illinois used a visioning process to identify the needs of its current and projected elderly population and moved to provide services necessary for them to stay, namely a local grocer, financial and health care services. With the help of a hospital in a nearby town, Table Grove leaders set up a clinic with a physician's assistant who now sees approximately 200 patients per month.

■ *Celebrate community character.* Rural communities are often heralded for their quality of life and character. Creating and maintaining a "sense of place" for a community can be beneficial for residents as well as attracting visitors and potential residents. As an example, celebrating historic events such as Jesse James Days in Northfield or cultural heritage such as the German roots of New Ulm builds stronger ties, maintains a sense of pride and recognizes the overall character of a community.

“There is quality of life in the area, which is blessed with lakes, rivers and woods. There is also a high value system. People want to be able to stay in the area.”

– Listening Post participant in Brainerd

Based on the current and predicted economic and demographic changes taking place in rural Minnesota, it is evident that communities need to evaluate their current development strategies and determine if change is needed. The ideas presented in this report are options to consider for communities examining their current development path. Every Minnesota community is unique and requires a tailored set of development strategies. Ideally, each Minnesota community can find strategies to maximize its economic and community well-being. ■

Sources

- Ed. Audirac, Ivonne. *Rural Sustainable Development in America*. John Wiley and Sons, Inc. New York, NY. 1997.
- Ed. Beaulieu, Lionel J. and Mulkey, David. *Investing in People: The Human Capital Needs of Rural America*. Westview Press. Boulder, CO. 1995.
- Clark, Cal. *135 Great Ideas on Economic Development*. UtiliCorp United. Omaha, NE. 1999.
- Drabenstott, Mark. *New Directions for U.S. Rural Policy*. Center for the Study of Rural America at Federal Reserve Bank of Kansas City. June 2000.
- Gillen, Terry. *The Minnesota RLF Profile*. Corporation for Enterprise Development. Washington, D.C. 1999.
- Glasmeyer, Amy K. and Howland, Marie. *From Combines to Computers: Rural Services and Development in the Age of Information Technology*. State University of New York Press. Albany. 1995.
- Kielkopf, James. *Estimating the Economic Impact of the Latino Workforce in South Central Minnesota*, Center for Rural Policy and Development. Mankato, MN. September 2000.
- Miller, Bruce A. and Hahn, Karen J. *Finding Their Own Place*. Clearinghouse on Rural Education and Small Schools. Charleston, WV. 1997.
- Minnesota Department of Trade and Economic Development, *Business Tracking Report*. 1995-2000.
- Minnesota Department of Trade and Economic Development, *Regional Factsheets*, 2000.
- Minnesota Rural Entrepreneurship Academy. *Statement of Consensus and Recommendations*. Minnesota Rural Partners. October 2000.
- Salant, Priscilla and Marx, Julie. *Small Towns, Big Picture: Rural Development in a Changing Economy*. The Aspen Institute Rural Economic Policy Program. 1995.
- Ed. Schaeffer, Peter V. and Loveridge, Scott. *Small Town and Rural Economic Development: A Case Studies Approach*. Praeger. Westport, CT. 2000.
- Sears, David W.; Redman, John M.; Gardner, Richard L.; Adams, Stephen J. *Gearing Up for Success Organizing a State for Rural Development*. The Aspen Institute State Policy Program. Washington, D.C. 1992.
- State of Minnesota. *World Competitor: Governor's Workforce Development Plan*. February 2000.
- U.S. Department of Commerce, (www.bea.doc.gov) Bureau of Economic Analysis, State and local income and employment data.

Minnesota Planning is a state agency that develops long-range plans for the state, stimulates public participation in Minnesota's future and coordinates activities among state agencies, the Minnesota Legislature and other units of government.

The **Critical Issues Team** at Minnesota Planning examines emerging issues that could have a significant effect on Minnesota's governments, its people, economy and natural resources.

Growing rural economic success was prepared by Jay Stroebel and is available on the Minnesota Planning Internet site at www.mnplan.state.mn.us.

Upon request, this document will be made available in an alternate format, such as Braille, large print or audio tape. For TTY, contact Minnesota Relay Service at 800-627-3529 and ask for Minnesota Planning. For additional printed copies, contact:



PLANNING

CRITICAL ISSUES

Room 300

658 Cedar Street

St. Paul, MN 55155

651-296-3985

www.mnplan.state.mn.us

July 2001

MINNESOTA PLANNING CRITICAL ISSUES



Room 300

658 Cedar Street

St. Paul, MN 55155

First Class
U.S. Postage
PAID
Permit No. 171
St. Paul, MN