



Blueprints for Rural Progress

Critical Need for Federal Development Funding

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**The Center for Rural Affairs in Lyons, Nebraska
assisted in gathering data for this report:**

The Center for Rural Affairs was established in 1973 as a private, nonprofit organization with a mission to establish strong rural communities, social and economic justice, environmental stewardship, and genuine opportunity for all while engaging people in decisions that affect the quality of their lives and the future of their communities.

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Minnesota uses in the neighborhood of \$630 million to \$760 million in annual grants and loans from USDA Rural Development Programs.



EXECUTIVE SUMMARY

Sequester-induced, across-the-board federal budget cuts mean Minnesota communities may be forced to make do with less support – financial and expertise from the U.S. Department of Agriculture.

Congress is again debating rural spending plans for the next farm bill; the Minnesota impact is unknown. What is known is that programs and money that help build nursing homes, finance rural housing, upgrade water and wastewater infrastructure, and foster business development in rural communities are likely to be reduced.

This report highlights one large sector of the farm bill: USDA Rural Development. It examines how critical this funding is for Greater Minnesota communities, especially towns lacking the tax base and population to undertake large community sustainability and economic development projects with their own financial resources.

USDA's Rural Development department has about 40 programs supporting these community needs that sustain rural life. They comprise seven categories: business assistance, energy programs, housing, community facilities, water and sewer projects, utilities, and community / regional development.

Minnesota's annual federal development dollars fluctuate greatly, depending on state needs, funding availability, and a number of other factors.

Here's some perspective, however, on USDA Rural Development support going to Minnesota. The state uses in the neighborhood of \$630 million to \$760 million in annual grants and loans, according to Minnesota's USDA Rural Development office.

Cuts to the program overall will force Minnesota to compete over dwindling federal dollars. Smaller communities that need technical expertise to develop plans and make project applications are already being impacted by funding cuts to these programs.

A combination of annual appropriations cuts and sequestered, across the board cuts, have already resulted in a one-third reduction (32 percent) staff from 2003 to the current 2013 fiscal year.

For some projects, even a marginal funding cut could cause a cascading impact in lost economic opportunity.

For some projects, even a marginal funding cut could cause a cascading impact in lost economic opportunity for the state's rural communities. Many federal dollars generate state matching funds that would go to other projects or not be spent at all.





With so many infrastructure needs in Minnesota, there's not enough state bonding, loan funding, or other appropriation resources to backfill federal reductions.

Furthermore, on many projects, federal development dollars comprise the majority of funding for Greater Minnesota's wastewater infrastructure, main street business development, nursing home construction, affordable housing, and utility and energy projects. Cuts could keep some of these small town-sustaining development opportunities dust-collecting blueprints a little longer.

Sequester-induced reductions are also poorly timed. Minnesota is just beginning to recover from a decade of economic turmoil and state funding reductions to local governments.

State budget cuts forced Greater Minnesota communities to slash everything from library hours to public safety services. Minnesota schools lost 13 percent in inflation-adjusted, per pupil state aid since 2003, with many rural districts sustaining more than 20 percent reductions. These "belt-tightening" measures have eroded quality of life and wellbeing in the state's small towns.

Towns desperately trying to retain residents need help making their communities livable when it comes to basic services. Other rural Minnesota areas are gaining population, putting new demands on public services and infrastructure built more than half a century ago.

Federal cuts now could keep some of the places locked in a lost decade.

FINDINGS

- ✓ For many Greater Minnesota community development projects, such as utility infrastructure, affordable housing, medical facilities, and business assistance, USDA Rural Development dollars fill wide state and local funding gaps.
- ✓ Most rural towns lack broad local tax bases and populations to self finance multi-million dollar infrastructure and economic development projects.
- ✓ While funding fluctuates annually based on the state's needs and federal appropriations, Minnesota receives in the neighborhood of \$660 million to \$750 million in annual grants and loans from USDA for rural development.
- ✓ USDA Rural Development funding is one of the thousands of programs slated for cuts, as sequestration forces federal policymakers to reduce spending across-the-board, meaning that Minnesota's small town will compete for a shrunken pool of federal rural development dollars.
- ✓ With limited state and local funding, it will be difficult for small towns to replenish lost federal money.
- ✓ Some necessary and worthwhile projects that would broaden economic development potential and enhance rural quality of life could be delayed if significant cuts materialize.





RECOMMENDATIONS

- ✓ Policymakers should recognize the value USDA Rural Development programs produce for rural economies and consider that when evaluating farm bill funding.
- ✓ Rural communities should prepare for these cuts by connecting with their congressional delegations to limit the scope and impact of sequestration on small towns' development funding.
- ✓ State policymakers must prepare to counteract looming federal cuts by increasing capital bonding in the 2014 legislative session, with particular attention to Greater Minnesota projects.
- ✓ Minnesotans, regardless of geographic location, must understand the unique needs of rural communities and support Minnesota-made endeavors, local merchants, and development efforts.

INTRODUCTION

Small communities all across Minnesota are working to make improvements necessary to support business growth and sustain quality of life for their residents as they position themselves for the 21st century. To do so, they turn to a key federal government department that supports rural infrastructure, the U.S. Department of Agriculture.

USDA Rural Development houses about 40 programs that support the lives and wellbeing of rural people and their communities.

USDA Rural Development houses about 40 programs that support the lives and wellbeing of rural people and their communities. These programs can be combined into seven categories that include business assistance, energy programs, housing, community facilities, water and sewer projects, utilities, and community/regional development.

These programs are under review and some might be under threat. The U.S. Congress is again writing multi-year authorizing legislation for USDA in what has historically been called “the farm bill.”

Conflict arises over legislative goals. Congress is on an austerity kick, cutting back on programs and services that serve people and communities. At the same time, an avowed purpose of government remains to help communities grow businesses and prosper, thereby lessening future demand for government services. At face value, these are not compatible objectives.

The purpose of this paper is to look at how rural Minnesota – like most of rural America – depends on USDA Rural Development programs to support the infrastructure necessary for business growth and development and to maintain healthy, sustainable communities. Understanding this dependency is important for local civic leaders, public policymakers and the general public if rural Minnesota counties are to access infrastructure support and keep moving forward.

This is significant for all people in Minnesota. There is much more rural in Minnesota than most people think, despite concentration of people in the Twin Cities area and urban growth in Rochester and St. Cloud.

A breakdown of the 2010 Census (Macht), for instance, noted only 16 of Minnesota’s 854 legally incorporated cities had 50,000 or more populations. These larger cities accounted for 37.8 percent of city population.

Rural Minnesota depends on these programs to support the infrastructure necessary for business growth and development.

On the other end of the population scale, Minnesota had 360 cities with less than 500 populations, 139 cities with 500 to 999 populations, and 130 cities between 1,000 to 2,499 populations. These smaller cities had combined population slightly larger than Minneapolis.

Count the city of Morgan, in southwestern Minnesota's Redwood County, as a case in point. It has both a small population and a dependency on USDA for community support.

Morgan has a \$13,679,000 water and storm sewer replacement and upgrade project pending with the Minnesota Office of USDA Rural Development. It hoped to start issuing contracts for construction work in 2014 and have its new water system in place at some point in 2016.

Small communities all across southern and western counties in Minnesota have similar, although usually smaller, requests pending with USDA Rural Development. These communities seem to be especially dependant on USDA help with sewer and water projects.

A lot of factors come into play, said Duane Hansel, an engineer with Bolton & Menk, the Sleepy Eye engineering firm assisting Morgan and several other small cities in southern Minnesota.

This is where USDA Rural Development becomes essential for sustaining and building rural communities.

Many existing water and sewer systems are 50-60 years old, or older, and are rapidly deteriorating, just like similar age roads and bridges and other infrastructure, he said.

In other cases, systems were probably inadequately built from the beginning.

In still more cases, various environmental issues come into play, Hansel added. For one reason, southwest Minnesota has a lot of clay soil that allows ground water to seep into wells and water systems, a process of infiltration and inflow that affects water quality and raises health issues.

This is where USDA Rural Development becomes essential for sustaining and building rural communities that, in turn, allow for business growth and development. "We are only 896 people," said John Kleinschmidt, Morgan's city clerk. "We don't have the tax base to do this project by ourselves."

Even if it could, Morgan would still find itself needing to collaborate with numerous government agencies before bringing a new water and sewer system online, Kleinschmidt and Hansel said. The project will impact the Redwood County road systems and state trunk highways will require cooperation with the Minnesota Department of Transportation – other vital infrastructure for Morgan.

The Minnesota Department of Health will be a permitting agency for the new water system, and the Minnesota Pollution Control Agency will also have permitting authority. Partnering with USDA Rural Development and the city of Morgan will be Wastewater Infrastructure Funding program of Public Facilities Authority, a unit of the Minnesota Department of Employment and Economic Development (DEED).

Making the pieces come together and helping small cities with plans and coordination is an important part of USDA Rural Development work through staff expertise. "Rural Development has helped us all along the way to make sure [applications] are done right when we work with all these [units of government]," Kleinschmidt said.

Access to funding, however, remains a challenge. Holding up the project, at least for now, was bonding authority that didn't clear the Minnesota Legislature in the recently completed legislative session.

An even bigger question is what will happen to USDA Rural Development programs and funds going forward as Congress works on a five-year authorization act for USDA - generically called "the farm bill."

"Funding for US Department of Agriculture small business and rural community development programs has been cut by one-third since 2003. Adjusted for inflation, it has been cut in half," said Chuck Hassebrook, executive director of the Center for Rural Affairs at Lyons, Neb.

Congress extended the previous farm bill a year ago when it couldn't reach a stagnated election-year agreement on a multiple year program. "It recognizes the need to invest in the rest of rural America through the farm bill," he said.

Agricultural leaders of both houses of Congress will begin meeting in a conference committee in early summer to resolve differences in their bills. Congress is expected to vote on a compromise bill (conference report) in mid-summer.

Two Minnesotans in Congress will be key players in what emerges. Sen. Amy Klobuchar serves on the Senate Agriculture Committee and Rep. Colin Peterson is the ranking member on the House Agriculture Committee.

Regardless how the farm bill turns out in this legislative go-around, it is imperative that all Minnesotans, be aware how much we depend on programs and support the so-called "farm bill" provides. USDA programs are not, nor ever were, just for farmers.

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All Minnesotans need to realize that food and nutrition programs, including food assistance, come through the farm bill regardless where need and our fellow citizens reside. Similarly, Minnesotans must realize that all 87 counties in the state contain rural communities that depend on USDA Rural Development for business and infrastructure support.

Local civic leaders, prospective entrepreneurs and business developers, policy makers, nonprofit organizations, community development organizations and service providers at local and state levels must collaborate on programs and funding with USDA Rural Development.

These are the programs that make our rural communities livable, sustainable and poised for growth and development.

Part I

WHERE WE ARE TODAY

USDA Rural Development has invested around \$3 billion in rural Minnesota communities since 2009 through various programs that include aid to low-income housing, financing of startup businesses, renewable energy development, loan guarantees for business expansions and equipment purchases, and upgrades for community facilities and utilities.

In a May 7, 2013 e-newsletter, state director Colleen Landkamer announced that her USDA Rural Development office in Minnesota had awarded \$5 million in business and energy program funds in the first half of the current federal fiscal year.

On top of that, the office had awarded \$291 million in single-family direct and guaranteed home loans, \$42 million for community facility programs, and \$7 million for water and wastewater projects.

USDA has invested \$206 million in rural Minnesota water and wastewater treatment since 2009

From the latter, Landkamer noted that \$6 million in financing had been approved for the small cities of St. Martin, Graceville and Rothsay to improve water and sewer facilities. These projects will add to the \$206 million USDA has invested in rural Minnesota water and wastewater treatment since 2009, she added.

“Modern infrastructure builds safe, sustainable and thriving rural communities,” she wrote in announcing the awards. “The new treatment systems will provide these rural communities with an additional tool to win the future by preserving the surrounding environment and increasing quality of life in the region.”

While these programs received a temporary boost thanks to the American Recovery and Reinvestment Act, the stimulus in 2009 and 2010, they’ve mostly faced cutbacks since 2003.

A synopsis of USDA Rural Development programs

Over the years, Congress and successive executive branch administrations have massaged, kneaded and poked Rural Development programs in response to changing demographic, environmental and business market needs of rural communities. A synopsis of programs currently in place, assembled from Rural Development’s Minnesota website includes:

Business Programs

- ✓ Loans for business startups, expansions and equipment purchases. Guarantees of up to 80 percent of the loan. Rates negotiated between lenders and borrowers.
- ✓ Grants and guaranteed loans for farmers and small businesses to install renewable energy systems and for energy efficiency improvements. (These include wind turbines, geothermal, solar power, blender pumps and grain dryers.)

- ✓ Loans for local intermediaries to create revolving loan funds used to finance business and economic development activity. Intermediaries include nonprofit organizations, Indian tribes, public agencies and cooperatives.
- ✓ B&I Loan Guarantees.
- ✓ Rural Energy for America (REAP).
- ✓ Intermediary Relending.
- ✓ Rural Business Enterprise Grants, to finance small and emerging businesses through land acquisitions, construction, renovation, utilities, parking or pollution control.
- ✓ Rural Business Opportunity Grants that provide training and technical assistance for business development, entrepreneurs and economic development.
- ✓ Rural Economic Development Loan & Grant program to fund projects through local utilities, and zero interest loans and grants for economic development projects.

Community Programs

- ✓ Low interest loans, loan guarantees and grants to develop community facilities in cities of 20,000 or less population. These facilities include hospitals, emergency response teams, day cares, community centers, town halls, assisted living centers, police stations and libraries.
- ✓ Loan guarantees of up to 90 percent with a 1 percent guarantee fee paid by the lender, or passed on to borrower.
- ✓ Access to the secondary market for guaranteed loans.

- ✓ Low-interest loans, loan guarantees and grants to help communities build safe drinking water, sanitary sewer treatment systems and solid waste and storm draining facilities in communities of 10,000 or less population. This program serves public bodies, Indian tribes and nonprofit organizations. Nonprofits may also receive funds to provide technical assistance and training for water and wastewater infrastructure.

Housing Programs

- ✓ **Guaranteed loans** are made through traditional lenders and guaranteed by Rural Development. Interest rates are negotiated between borrower and lender. These guarantees apply to both single family and multi-family housing programs.
- ✓ **Direct Loans** are made to low and very low-income rural households to achieve home ownership. Mortgage payments are based on income and terms may be up to 38 years. Applicants must be unable to securing financing elsewhere and must meet credit requirements. Multi-family housing programs to build and renovate are included.
- ✓ **Home Repair Loans and Grants** to help homeowners make repairs to current homes. These loans are for up to \$20,000 with a 1 percent interest rate for 20 years. Grants of up to \$7,500 are available to people 62 years of age and older and must be used to repair health add safety hazards. That can also be used to connect utility service lines, pay hookup fees and install plumbing and related fixtures.

The Rural Development Policy Act of 1980 made USDA the lead government unit for administering rural development programs. That brings the programs under one roof, but it doesn't always help the public understand why, and for whom, these programs are in place and why they should be properly funded.

Deborah Parker, deputy state director for the Minnesota office of USDA Rural Development, said her agency has one public face in Minnesota – Rural Development – but its programs and staff are organized under the three previously mentioned categories of business, community facilities and water / wastewater programs. But nationally, Rural Development consists of three separate administrations, she said, reflecting past federal budget processes.

The three funding entities and administrations are the Rural Housing Service (RHS), Rural Business Service (RBS), and Rural Utilities Service (RUS). The RHS provides funds for single-family housing, multi-family housing and community facilities. RBS funds business and energy development. And RUS provides funds for water/wastewater facilities and utilities that include phone, electric and broadband.

“Community and Economic Development can mean different things, depending on context,” Parker said in answer to an inquiry. There is a specific program (Community Development Grants) administered by our community programs staff. More generically, it refers to RD's role in building thriving, sustainable communities, assisting town councils with planning for water treatment needs, weighing in on affordable housing issues, etc.

“This is part and parcel of our everyday work and outreach,” she explained.

What is rural?

All 87 Minnesota counties contain areas or communities classified as rural under the farm bill programs and the regulations adopted to administer these programs. This can be confusing in a state such as Minnesota where, in popular parlance, people speak of the Twin Cities metropolitan area, rural, or Greater Minnesota, and the big cities in rural areas, “Oh yes, there's also Rochester, Duluth and St. Cloud.”

The U.S. Census Bureau and the Office of Management and Budget (OMB) have different, official definitions that serve government statistical and program purposes. Yet another meaningful definition that comes with the periodic Census of Agriculture and provided by USDA Economic Research Service simply describes “rural” as “outside the primary daily commuting range of urbanized areas with 50,000 (plus) people” (USDA ERS).

The 2000 Census changed “rural” and “nonmetropolitan” definitions and made such references confusing for the general public.

The 2000 Census changed “rural” and “nonmetropolitan” definitions and made such references confusing for the general public and policy makers alike, said Chuck Fluharty, president and chief executive of the Rural Policy Research Institute (RUPRI), and a research professor at the Harry S Truman School of Public Affairs, University of Missouri.

These definitions became even more blurred with the 2010 Census, he said in an article written for Agri-Pulse Communications (Fluharty-Rural America, Urban America). For instance, under current definitions, most counties are both rural and urban, he said, and most metropolitan counties also have rural territory and rural people.

73.3% of Minnesota's 5.3 million residents are city dwellers; 26.7% are counted as rural residents.

That is the case in Minnesota. The Census Bureau's "Population by Urban and Rural: 2010" table on Minnesota (U.S. Census Bureau) counted 73.3 percent of Minnesota's 5.3 million residents as city dwellers; 26.7 percent (1.4 million) were counted as rural residents.

All 87 Minnesota counties have rural population counts; Hennepin County, with the city of Minneapolis, has 2.2 percent of its county population living in rural areas, and Ramsey County, comprised of St. Paul and suburbs, has 0.2 of its population – 932 people – living in what is described as rural areas.

In contrast, Minnesota has 18 counties in which all residents are counted as rural. The most populous of these are Cass County, with 28,567 people; Aikin, 16,202; and Renville, 15,730.

For the purposes of this research paper, nitpicking over definitions is less critical because Congress writes qualifiers into various Rural Development programs based on maximum populations of 10,000, 20,000 and 50,000.

While this report examines data for all 87 counties, it also takes a snapshot of USDA's Rural Development programs in the 75 Minnesota counties with populations of 66,000 or less, which the report unofficially, but pragmatically, defines as the most rural. The aim was to provide an understanding on the impact of USDA's RD programs in these areas and address the political sensitivities of rural Minnesotans who often express fears they are being left behind.

In that analysis, Jon Bailey, director of rural research and analysis at the Center for Rural Affairs, uses data from the Consolidated Federal Funds Report for years 2008, 2009 and 2010 – the last years for which data are available.

The key component: infrastructure

In a presentation to The Civic Caucus issues group in Minneapolis on Jan. 3, 2013, State Demographer Susan Brower spoke of a "mismatch" evolving between current policies, services and funding with current Minnesota demographic trends (Brower, Civic Caucus).

In an earlier analysis, Brower noted significant changes in rural population after 2010 Census data became available, especially the aging rural population (Brower, Population shifts). All this leads to the "mismatch" she referred to her comments to The Civic Caucus group, especially for housing, health care and assisted living facilities that take care of increasing human needs and can also be generators of local economic development.

Equally pressing is the need to get wide swaths of rural America and portions of rural Minnesota connected to the global economy with modern technology for newcomers. This is an especially important challenge for stimulating entrepreneurship and business development.

USDA Rural Development has the programs that can put the world and knowledge in reach of all Americans regardless where they want to live.

Diane Smith, founder of American Rural (www.americanrural.org), and former executive of three technology companies, said rural America still has trouble reaching the world with telecommunications.

Broadband connections hold back business development. The Fairfax, Va., native, now living in Whitefish, Montana, says her research shows inventors live everywhere.

She recently participated in a Duluth conference where an 18-year-old inventor of a students' app system was a participant. She also knows of an 18-year-old Wyoming inventor who recently split the atom in a fusion device he built in his father's shed.

Smith notes the New York Times has discovered that startup tech companies are "burgeoning" on the prairies, which she calls "Silicon Prairie" (NY Times).

In a chapter of her book, *The New Rural*, she notes that growing up near and working in Washington, D.C., she knew six patent lawyers "and not one inventor." Since moving to Montana, she now knows a dozen inventors "and only one patent lawyer."

75-COUNTY RURAL DEVELOPMENT FUNDING SNAPSHOT

Funding Function	2008	2009	2010
Business Assistance	\$ 33,436,984	\$ 15,024,725	\$ 22,600,195
Energy	\$ 103,644	\$ 31,811,497	\$ 14,684,847
Housing	\$ 243,831,681	\$ 372,593,382	\$ 96,546,023
Water/Sewer	\$ 57,165,500	\$ 69,827,500	\$ 53,487,000
Community Facilities	\$ 9,861,843	\$ 5,289,325	\$ 69,273,206
Utilities	\$ 71,659,690	\$ 91,771,536	\$ 416,404,757
Regional/Community Development	\$ 1,315	\$ 570	0
Total	\$416,388,074	\$586,318,535*	\$872,996,028*

**The significant funding increase came during the stimulus years. Other data sets examining federal allocations from 2011 and 2012 show funding for these programs are back down to near 2008 levels.*

There are large fluctuations each year in funding for some programs. This is due to a combination of the state's annual project and funding needs and federal appropriation approval.

Infrastructure is crucial, she said. USDA Rural Development has the programs that can put the world and knowledge in reach of all Americans regardless where they want to live.

“Entrepreneurs need three things – money, brains and broadband,” Smith said. “With broadband, they can at least get access to the other two.”

“Brain gain” development

Smith’s work examining who is doing what in rural America is compatible with especially important research by Ben Winchester, rural sociologist and research fellow with the University of Minnesota Extension Service’s Center for Community Vitality

Winchester updated his “brain gain” studies in May (“Continuing the Trend: The Brain Gain of the Newcomers”) that showed people in the 30-49 age cohort continuing to move into rural Minnesota even though total population in about half of Minnesota’s rural counties continues to decline.

It’s this “brain gain” group that holds such promise for economic development, startup entrepreneurship and community leadership development that excites rural advocates.

A negative, discouraging spin accompanies analysis that looks at rural communities in decline, Winchester tells Minnesota groups. Looking at the age cohort of people moving into rural Minnesota, however, makes for “a glass half full” picture that can inspire development.

American Rural’s Smith always has a half full glass. She admits becoming frustrated when rural America is politically overlooked because there are only 59 million people living there, by official count. That doesn’t account for 28.8 million people living in cities of more than 2,500 that are in rural areas but are counted under different Census categories.

In contrast, she said, there are 52 million Americans who are classified as Hispanics, African-Americans, and people over 65, representing groups and numbers usually considered significant in demographic analysis.



What gets lost is double counting, Smith said. Rural Americans are also members of ethnic groups and are disproportionately older citizens. Moreover, she doesn't dismiss the other groups' importance for public policy. But in aggregate numbers, she said, there is nothing inconsequential about the rural American population base.

In an April 10, 2013 statement from her organization, Smith raised the question, "Got Geek?" Citing research from a San Francisco area research institution, Smith noted that 98 percent of U.S. counties have at least one high tech business establishment.

What's more, STEM (science, technology, engineering and math) occupations outpaced job gains by all occupations by 27-to-1 between 2002 and 2011, and each job in the high-tech sector creates 4.3 additional jobs in the local goods and services economy, a multiplier of more than three times that for manufacturing.

Entrepreneurship for the new economy is occurring, and can occur anywhere in rural America, Smith said, providing it has infrastructure support. A case in point: Smith co-founded and served as chief executive officer of Auroras Entertainment, an IPTV and advanced media services company at Kalispell, near her home at Whitefish.

New York City-based urban planner Alex Marshall also made this point in April. In an article for *Governing* magazine, Marshall likened the urgent need for broadband development today with the need to spread rural electrification in FDR's time (Marshall).

But like roads, schools, safe water and housing, connectivity to the outside world is key infrastructure for Winchester's new rural residents who want to put down roots, start businesses and build communities.



Part II

USDA RURAL DEVELOPMENT: A PUBLIC SUPPORT SYSTEM FOR RURAL MINNESOTA

In some instances, prescribed by law, USDA Rural Development programs make it the “lender of last resort” and some business and housing programs require participants be turned down by other lenders to qualify.

In other cases, lending from conventional sources might be possible, but often not probable. That’s because projects engage multiple public and private entities and providers, and USDA uses its access to government bond markets to provide below market rate mortgage and operating loans.

Most rural community leaders and county commissioners would find USDA programs and funding mechanism irreplaceable.

Regardless of a community’s circumstances, most rural community leaders and county commissioners would find USDA programs and funding mechanism irreplaceable.

Healthcare planning, development, design and construction consultant Jane Price, executive vice president of Chester J. Yanik & Associates in Spring Lake Park, said some well-developed rural healthcare projects could go forward on their own, but working with USDA “is the most efficient way to go.”

The Renville County Hospital & Clinics, based at Olivia in west-central Minnesota, has a proposal that is a case in point. With a pending USDA application at more than \$24 million, the county probably could find outside financing but not at rates that USDA can access, she said.

A similar but smaller hospital project at Warren (\$14.5 million), in far northwestern Minnesota, probably wouldn’t be considered without USDA support. The Renville County and Warren hospital projects are part of nine such developments that Price and colleagues at Yanik are consulting on or assisting with expertise.

A report in the West Central Tribune at Willmar noted that a formal application to USDA RD is needed in July. It would replace an existing hospital built in 1951 at Olivia that is classified as a 25-bed critical access hospital. That hospital is the centerpiece for RC Hospital & Clinics that also operates clinics at Olivia, Hector and the city of Renville within the county.

Travelers along U.S. Highway 212 know Olivia boasts as being the “corn capital of the world” as seed and genetics companies were founded there. Surviving companies continue to use Olivia and the county as an important research site. To further state the claim, Olivia has a unique water tower in the shape of a giant ear of corn.

Playing on that theme, RC Hospital & Clinics has been mustering county support for its new hospital proposal with the slogan, “Help us grow from a maze to amazing!”

The economic development connections to this project are easy to see. First, there are significant businesses at work in the county, especially in the cities where RC Hospital & Clinics has facilities. Second, despite success with value-added agriculture development and other business ventures, Renville County has experienced modest population declines in the past two Census reports.

In an April 23, 2012 press release, RC Hospital & Clinics board chair John Stahl said informational meetings around the county brought out that county residents found the hospital proposal feasible, and that it was needed for “recruiting and retention” of medical personnel (RC Hospital).

This is a 21st Century example of public policy stimulus to local economies that date back to this nation’s founding.

The announcement noted the existing hospital and clinics have 140 employs and a \$7.4 million local payroll. Thus, expansion and modernization of healthcare in the county will maintain and improve needed local services while providing a multiplier effect boost for the county and its cities’ economy.

This is a 21st Century example of public policy stimulus to local economies that date back to this nation’s founding.

A brief history of rural development policies

Rural development as an objective of public policy dates back to early Colonial times. Colonial masters and settlers alike looked at the vastness of what became the United States of America and determined it was in their collective political, economic and social interests to encourage population movement, resource development and economic development.

Less socially engaged people today do ask, “What has the past got to do with me?” There is little agreement on past history to make for an easy answer.

Given this challenge, let’s offer this snapshot of rural economic development history:

Two people stand out as the driving force behind economic development policies for what we now know as rural America. They were King William III and Queen Mary II, co-regents of England and its colonies (1689-1702). They started what is today the U.S. Postal Service in Virginia to encourage commerce and communications among the plantations (U.S. Postal Service).

This system was replaced by the United States Post Office, headed by Benjamin Franklin, by decree of the Second Continental Congress in 1775. After independence, it became the United States Post Office Department of the neophyte U.S. government in 1792 to administer both postal service and post roads.

With help from the British throne, the colonies committed themselves to rural economic activity and development through postal service and farm-to-market roads, called postal roads. It should also be noted that government also intervened in markets back then to protect Virginia plantation owners by imposing minimum prices on tobacco for trade with Europe. The latter was the start of American farm support programs.

From independence up to the American Civil War, support for settlement and business development on the ever-moving westward American frontier was aided by public infrastructure projects that included canals, roads and railroads.

An essentially rural and agrarian American nation and culture got serious about rural economic development and improving rural quality of life and living conditions during the presidency of Abraham Lincoln and amidst the American Civil War. University of Arkansas rural sociologist Donald Voth, in an insightful history of U.S. rural development programs and policies, noted that both the U.S. Department of Agriculture and the Land Grant University system were launched in 1862 while America was heading into the Civil War.

Given the dominant role agriculture played in the formation of the United States, conventional wisdom holds that rural policy is an extension of farm policy. Voth and others argue that such policy assumptions miss the mark. The new Agriculture Department was to be a “people’s department,” contributing to American life through support for agriculture, quality of life maintenance, accessible education for all Americans, information exchange, and support for infrastructure to benefit all.

The next big jump in U.S. commitment to rural economic development came in 1908 with the Country Life Commission and its report that President Theodore Roosevelt sent to Congress. It led over the next decade to expanding rural postal service, the Smith-Lever Act establishing the Cooperative Extension Service through Land Grant Universities, and the start of the cooperative Farm Credit System.

USDA became a front-line provider of services to save, support and encourage farmers and rural economic development.

All this set the stage for the next great movement in rural economic and community development when disaster hit the American and global economies – the Great Depression. President Franklin Delano Roosevelt expanded beyond his older relative’s initiatives and made the Agriculture Department an intellectual research center for fighting the depression in the United States (John Kenneth Galbraith, among many others). With them, USDA became a front-line provider of services to save, support and encourage farmers and rural economic development.

The start of continuing farm bill legislation can be traced to 1933 with the Agricultural Adjustment Act, much of which was temporarily derailed by the U.S. Supreme Court. Congress later restored much of that act.

Programs continuing to this day were largely shaped in the 1930s and 1940s (USDA Rural Development). It started when FDR signed Executive Order 7027 in 1935, creating the Resettlement Administration (Roosevelt). That same year, FDR signed an executive order establishing the Rural Electrification Administration (REA) to bring electricity to rural America. It became part of USDA in 1939.

The Farmers Home Administration (FmHA) was created in 1946 and was authorized to provide financing for housing, community facilities and business ventures in rural areas. In 1994, Congress reorganized USDA and many of its programs, combining REA utility programs and FmHA programs under what is known today as USDA Rural Development.

Recent USDA RD Engagement in Rural Minnesota

Public investment in rural Minnesota infrastructure and business development the past two years has backed off from the stimulus year of 2010, when Congress and the Obama administration were attempting to lift the country out of the Great Recession into a period of recovery.

Data gleaned from Minnesota USDA records show is that the Rural Development office and programs reach across the spectrum of infrastructure support and financial assistance that is crucial for rural areas in all 87 Minnesota counties.

The data for government fiscal years 2009 through 2010 show a peak of more than \$1 billion invested in the stimulus year of 2010, falling back to 2011 – the low year of the past four.

The big growth has come with USDA RD-secured loans, not in outright grants. This works for communities that have well-developed plans and sufficient critical mass of people and tax base to move communities forward.

It also requires thoughtful expertise from USDA Rural Development staff, community and regional planning organizations, state service providers, extraordinary nonprofit groups such as the McKnight Foundation and the regional Initiative Foundation offices it started in Minnesota, and by savvy people in city halls and county seats to align myriad programs and funding sources.

That will be explored more thoroughly in the third section of this report. But potential cutbacks in USDA RD programs and funding have some Minnesota-based experts in economic development concerned.

Potential cutbacks in USDA RD programs and funding have some Minnesota-based experts in economic development concerned.

Heading into the current (2013) fiscal year, budget cutbacks resulted in a fraction more than a 5 percent reduction for Minnesota field staff, State Director Landkamer said. Then sequestration hit.

The actual cutback has been a little more than 7 percent. But this was just a one year response to austerity measures in Washington. Landkamer said the reduction has been handled through attrition so far but will impact assistance given to communities and groups in developing projects and applications going forward.

It's having an impact on what USDA Rural Development can do to help rural communities. In briefings for Minnesota congressional staff earlier this year, Landkamer noted that Rural Development had 124 people working on projects and with communities in 2003.

“Staff and resource reductions have already resulted in less outreach to remote areas of the state.”

The number had been cut back to 110 in 2009, and after further cuts and sequestration, the number is now down to 84.

“Staff and resource reductions have already resulted in less outreach to remote areas of the state, difficulty in servicing our existing portfolio, and challenges in building and maintaining the face-to-face relationships important in rural areas,” she said.

Include Cheryal Lee Hills, executive director of the Region Five Development Commission based at Staples, as among those fearful of losing USDA RD talents that assist her rural communities.

“Should our (lawmakers) abandon the stewardship and preservation of the quality of life that is valued in rural communities via lack of USDA RD farm bill support, we lose our cultural heritage,” she said. “I’d like to see legislators explain that loss to our grandparents and grandchildren.”

RECENT USDA RD GRANTS AND LOANS IN MINNESOTA

	Grants	Loans	Total
FY 2009	\$38,332,683	\$724,199,978	\$762,532,660
FY 2010	\$177,840,069	\$952,735,898	\$1,070,575,967
FY 2011	\$19,721,912	\$613,702,849	\$633,424,762
FY 2012	\$24,363,744	\$687,279,048	\$711,642,791

Source: USDA Rural Development

USDA RD INVESTMENTS IN RURAL MINNESOTA INFRASTRUCTURE

(Grants and Loans)

Categories	FY 2009	FY 2010	FY 2011	FY 2012
Housing	\$488,245,853	\$403,632,549	\$415,229,437	\$481,777,091
Business	\$21,312,589	\$41,047,531	\$13,892,000	\$13,672,118
Energy	\$7,043,426	\$9,476,039	\$10,649,987	\$3,605,924
Rural & Comm Dev	\$3,677,360.00	\$2,133,000	\$3,695,228	\$3,013,000
Comm Facilities	\$6,409,300	\$78,683,618	\$42,473,210	\$97,466,133
Water/Sewer	\$73,795,500	\$60,244,000	\$32,859,000	\$39,325,366
Utilities	\$155,163,360	\$489,879,210	\$139,645,270	\$93,558,041
Grand Total	\$755,647,388	\$1,085,095,947	\$658,444,132	\$732,417,673

Source: USDA Rural Development

Part III

PENDING MINNESOTA PROJECTS WOULD SUSTAIN, GROW RURAL ECONOMY AND QUALITY OF LIFE

As Congress works to finish writing a new five-year federal farm bill, rural communities within Minnesota's counties and on Native American reservations have applied for more than \$300 in loans and grants either directly from or in partnership with USDA Rural Development.

That doesn't cover it all. Statisticians with the Minnesota state USDA offices in St. Paul use just three categories of applications to tally what's pending: business programs, community facilities and water / wastewater facilities.

Different energy, microlending and small business lending programs that qualify under special programs can pop up any time, aren't always anticipated, and don't end up on pending project lists.

The relevance of all these programs to rural Minnesota's economy and quality of life, however, becomes obvious with a glance at pending projects awaiting final approval and funding from USDA.

For a feel of these programs' importance to rural Minnesota, let's take a glance at some pending applications and projects now nearing completion from various parts of the state:

Housing

Rosemary Fagrelus, housing development director for the Minnesota Housing Partnership (MHP), said her organization routinely teams with USDA Rural

Development on projects where finding housing is a problem. The only requirement is that communities served by USDA housing programs must have fewer than 20,000 populations. Finding such communities in Minnesota is no problem; finding available nearby housing can be.

"We've worked with communities where housing is hard to find for low-income families, the elderly and disabled," she said. "And we've worked with communities that have housing pressure from economic success."

The latter communities include Roseau and Thief River Falls that have inadequate housing capacity for families of workers at the cities' booming businesses. MHP programs also work with other housing groups, local community organizations, various Housing and Redevelopment Authorities (HRAs), and similar local agencies in western tier counties of Lincoln and Big Stone (Ortonville).

All areas of the state are affected by housing shortages.

These rural communities that experience housing shortages are not just in agricultural areas that have had farms consolidate into bigger units, followed by an out-migration of people, leaving formerly occupied homes vacant and in disrepair, she said.

All areas of the state are affected. MHP has partnered with local officials and groups in Two Harbors, on the North Shore; in the paper milling city of Grand Rapids, the university, forestry and tourism city of Bemidji; Cook and Lake counties in far northeast Minnesota; small but diversified cities such as Park Rapids, and in southeastern rural counties of Fillmore and Houston.

A community can have serious housing problems if a major employer leaves and jobs are lost, making available housing unaffordable for affected families, Fagrelus said. This has happened on occasion in Minnesota Iron Range communities, she said.

Housing influences a community's capacity for development.

The flip side is when jobs are being created where there isn't available local housing. This forces workers to commute long distances and that also holds back local economic development.

"Everything becomes connected. Housing is infrastructure necessary for economic development. It influences a community's capacity for development," Fagrelus said.

Community Facilities and Community / Regional Development

Nate Dorr, grants officer with the Northwest Minnesota Initiative Foundation at Bemidji, said Bemidji is about the only community in his 12-county region that has "critical mass" to take on sewer and water projects without outside help. (See <http://www.nwmf.org/about/servicearea-accomplishments.html> for a listing or programs by counties.)

Around adjacent initiative regions in the northern portions of the state, only Fergus Falls, Brainerd, Alexandria and Grand Rapids would probably be big enough, or could annex surrounding property, to strictly prepare and promote rural development and big infrastructure projects locally, he added.

Many smaller communities have aging populations, as already noted, and no local tax base that would support growth and development. "A lot of them are 'landlocked,' surrounded by agricultural land, and they wouldn't have a tax base to buy that land or annex it for growth."

Recent area projects that couldn't have been completed without USDA Rural Development help was a new community office center for the Red Lake Reservation, and a new building for the Red Lake Nation Community College. "The tribal college had 70 students. The new building opened the school last year for 130 students. And I just heard 30 students still had to be turned away," he said.

The new college building also "improved the technology so the school is better connected to other colleges and universities," Dorr said. "This really does improve education."

What doesn't get measured in statistics is collaboration of USDA Rural Development personnel with local community planners, local business people and state and private funding sources, such as the initiative foundations. Door serves on regional development panels with USDA staff members, he said. Together, they work with local civic leaders and others to help communities properly prepare grant and loan applications to private, state and federal funding groups.

Collaborating, partnering in general

Regional Development Commissions (RDCs) were formed in 1969 after the Minnesota Legislature approved the Minnesota Regional Development Act. There are nine such commissions, covering 63 of Minnesota's counties, to provide coordination among state, federal and local planning and development programs.

The Region Five Development Commission, based at Staples and working with counties and local communities in Cass, Crow Wing, Morrison, Todd and Wadena counties, tries to connect local governments and groups with all USDA RD programs, said Cheryal Lee Hills, the executive director.

“Affordable housing, infrastructure and community facilities projects throughout the region would not be possible without the RD housing programs.”

At the present time, she said, projects in the region include expanding broadband coverage. This is helping with tele-health, online learning and remote workplace connectivity, “all of which allow rural communities to compete in global competitive arenas.”

“Affordable housing, infrastructure and community facilities projects throughout the region would not be possible without the RD housing programs,” Hills added. At the same time, the USDA microlending program providing low interest loans and technical assistance has helped startup and expanding small businesses, and several area manufacturing projects have expanded through a business lending program.

Still other area businesses have utilized programs for energy conservation and renewable energy.

Other USDA RD programs are helping area nonprofits on capacity building for making sustainable communities, and building up from area resources. Local people and groups have used USDA programs for expanding a Local Foods Hub and in developing value-added agriculture for producing and marketing local foods.

From Hills' perspective, “these are essential elements of life. We have so much more to offer in rural communities than food, energy and water security.”

Hospitals, healthcare, assisted living

Reflective of an aging population throughout Minnesota and especially in some rural communities, USDA programs for community facilities and for housing help make rural communities viable locations for retirement and senior care.

In step with that, Rural Development lending programs and staff expertise also help communities plan needed and adequate healthcare facilities, said Joel Beiswenger, president and chief executive of Tri-County Health Care, at Wadena.

The three counties for the hospital and clinics group include Wadena, Eastern Ottertail and Northern Todd counties. The region has had modest population declines in the past two Census, although other parts of Ottertail and Todd counties are growing. To sustain Tri-County's communities, however, having medical personnel and efficient, equipped facilities “is basic infrastructure to support our people,” Beiswenger said.

Tri-County got its first assistance from what was then the USDA Farms Home Administration in 1986. It has since had eight projects with USDA Rural Development in the past 12 years. In addition to a Wadena hospital, Tri-County also operates clinics at Bertha, Sebeka, Henning and the city of Otter Tail.

“I would say we’re about 30 percent done with a current (remodeling and modernizing) project that I would think is basic infrastructure if we want people to live here and start businesses,” he said.

These projects depend on RD programs, he said. So do some of the business successes that are occurring in his three-county region. For instance, a friend of his in Wadena built a company that makes laser cutting tables. Now, that firm is starting a second company at Wadena to make sophisticated laser equipment for the parent company and its customers.

“I would say we now have 25 people in good paying jobs in Wadena that wouldn’t be here without USDA RD,” he said.

After 28 years in rural health care, Beiswenger said he sees everything that helps communities remain sustainable, grow and prosper as interconnected. That includes education, health care, access to capital and employees, sewer and water, roads, services and everything that connects towns such as Henning, New York Mills, Sebeka, Ottertail, Bertha and Wadena to greater markets anywhere.

“All that is infrastructure,” he said. Moreover, when people can access what they need at home, they can stay home and support local communities with their dollars. Local healthcare contributes by offering more efficient service and at the same time it keeps dollars at home, working in the communities, he said.

“That’s where infrastructure becomes economic development.”



CONCLUSION

When governments go through austerity modes, they often prove true the old English proverb of being penny wise and pound foolish. Or, as is sometimes cynically expressed in Greater Minnesota, we sometimes rob St. Peter to pay St. Paul.

Great concern is currently being expressed in economic development circles and in rural Minnesota city halls and county courthouses that Washington may be repeating these mistakes. As Congress completes work this summer on a new five-year farm bill, it is critical that it remember the one-third or more of U.S. population that live in small towns and small cities.

“Too often, Congress has forgotten,” said Chuck Hassebrook, executive director of the Center for Rural Affairs at Lyons, Neb. Over the past decade, he said, money appropriated for rural development programs has been cut by one-third; in half when adjusted for inflation.

Congress is again weighing where to find money for certain of its many farm bill programs while attempting to reduce overall spending. A 2007 study by the Center for Rural Affairs found a great imbalance between rural development spending and farm subsidies had already occurred. The 20 largest farms in 13 leading agricultural states collectively received twice in subsidies what the 20 counties within those states with the greatest population declines were receiving in rural development investments.

“Only in Minnesota did rural development investments in the 20 struggling counties exceed subsidies to the 20 biggest farms,” he said. “That probably reflects its strong state-based rural development institutions, with exceptional capacity for federal rural development grants,” he added.

Why Hassebrook and others are concerned about the steady whittling away of USDA Rural Development funds comes from the way Congress gives the agency what Hassebrook calls “two funding streams.”

“The primary source historically has been annual appropriations of so-called ‘discretionary’ funds. This is the contracting part of the federal budget, and offers little hope for additional investments,” he said.

Reducing funding for USDA Rural Development’s work would restrain economic growth and community sustainability.

The other stream involves ‘mandatory’ funds not subject to the annual appropriations process, Hassebrook explained. “It is called mandatory because the government must spend whatever it takes to fulfill policy. Funding for farm and crop insurance programs is mandatory.”

From Minnesota 2020’s perspective, this sets the stage for unfortunate budget shuffling that could have detrimental impacts on nutrition programs that help feed the hungry, and rural development programs that help create jobs and lift people out of poverty.

We cannot advocate capping food assistance programs under the Nutrition title of the farm bill on any moral, economic, social or political grounds. Nor have we encountered anyone working on rural economic development in rural Minnesota who would.

At the same time, reducing funding for USDA Rural Development's work would restrain economic growth and community sustainability, leading to more poverty and eligibility for food assistance. That doesn't make for a moral, economic, social or political trade-off, either.

This is the quandary facing would-be entrepreneurs, development planners and civic leaders all across rural America and here in Minnesota. Equally important, policy makers and public administrators serving in city halls, county courthouses and in state capitols must recognize that only in rare circumstances are local and state tax dollars available to substitute for any reductions in USDA Rural Development grants and loans.

We won't know for sure the impact of the cuts until they're made final, but we hope policymakers see the value these programs produce for rural economies and consider that when evaluating farm bill funding.



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