



Implications of rural Minnesota's changing demographics

Rural Minnesota is undergoing major shifts in demographics that have serious implications for its future. Three major trends are:

- **Aging of the population:** While 30 percent of the state's total population lives in rural Minnesota, 41 percent of those age 65 and older live there.
- **Exodus of young adults:** Five times as many college graduates moved to the Twin Cities region from elsewhere in Minnesota in 1990 as moved in the opposite direction — a trend that continues today.
- **Concentrated population growth:** Seventy-five percent of Minnesota's population growth from 1990 to 1998 occurred in 26 counties, most of which are in a corridor running from Olmsted in the southeast to Lake of the Woods in the north.

These trends were clearly seen as significant for rural Minnesota in discussions with citizens at Listening Post meetings across the state. This *Perspectives* report examines the likelihood of these trends continuing and identifies forces that may be driving them. Potential implications in the areas of education, health care, fiscal health, business and housing are identified, along with examples of practices and programs that hold promise for addressing these issues.

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For the purposes of 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 or older.

This *Perspectives* report is the first in a series resulting from Listening Post meetings. These meetings were held as part of Governor Jesse Ventura's *Big Plan* initiatives relating to rural Minnesota and to bring government back to the people by engaging citizens in dialogue. The Listening Posts were conducted throughout rural Minnesota between December 1999 and April 2000 by Minnesota Planning in conjunction with other state, federal and local government organizations. Other studies in this series will consider how barriers in such areas as telecommunications, education and financial investment are preventing rural Minnesota from reaching its potential.

Rural Minnesota faces a serious challenge

The economy and population of rural Minnesota have gone through a series of ups and downs in the last several decades. As Minnesota shifts from a manufacturing-based economy to one that is more technological, global, service-oriented and knowledge-based, rural Minnesota faces serious challenges. In some areas of rural Minnesota, this shift is complicated by adverse demographic changes and the inherent characteristics of most local rural economies. Most small city economies tend to depend on a handful of industries and are therefore less

flexible than larger, more diverse economies. By identifying and seeking solutions to the problems that prevent it from taking full advantage of its economic potential, rural Minnesota can create a more promising future.

Population changes vary across rural Minnesota

Between 1990 and 1998, Minnesota's overall population grew an estimated 9.3 percent. This growth, however, was not uniform across the state or across cities of similar size. While 59 rural counties in the state gained population between 1990 and 1998, 21 counties, predominately in the west and south, lost population. During that same time, faster-than-average population growth occurred mainly in a corridor of counties from Olmsted County (which contains the city of Rochester) in the southeast, northward through the Twin Cities suburban counties up to Lake of the Woods County.

Between 1990 and 1998, 37 percent of Minnesota's 853 cities lost population, with most of the losing cities being the smallest ones. This trend has led to an increased concentration of population in such regional centers as Rochester, St. Cloud, and the Fargo-Moorhead area, as well as the suburbs of Minneapolis and St. Paul.

Future population trends for Minnesota are mixed. These trends are based on population projections provided by the State Demographic Center at Minnesota Planning; the projections are based on assumptions about rates of birth, death, migration and the economy.

Between 1995 and 2025, 45 counties can expect an increase in population, while 42 can anticipate a decline. Most of the growth is projected to occur in the same corridor where the majority of growth occurred in the 1990s. However, many counties in the southwest as well as a few in the north are expected to lose more than 10 percent of their population.

Counties in Minnesota's north-central lakes region — including Aitkin, Crow Wing, Cass and Douglas — are expected over the next 30 years to gain the greatest share of retirees in proportion to their current population. This continues a trend in which retirees have been moving out of the most populated areas, such as Ramsey and Hennepin counties, to amenity-rich areas such as the lakes region and other states.

Several factors fuel rural growth

Virtually all of rural Minnesota suffered population losses in the 1980s, but recent trends and future projections indicate that many rural counties likely will see population gains in the future.

Based on 22 county case studies in 1997 and 1998, the State Demographic Center found that the reasons for this growth varied according to a county's geographic location and attributes. For example, increased population in the corridor of counties encompassing Rochester, the Twin Cities and St. Cloud is partially a result of strong economies in these communities. For north-central Minnesota counties, recreational amenities have spurred an increase in population, especially of retired people. Other factors fueling the growth are expanded manufacturing employment, American Indian casinos, strong state and national economies, better economic conditions in some farm areas, economic development efforts, hometown entrepreneurs, immigrants and the in-migration of people seeking a more relaxed lifestyle.

Aging of population is felt strongly in rural Minnesota

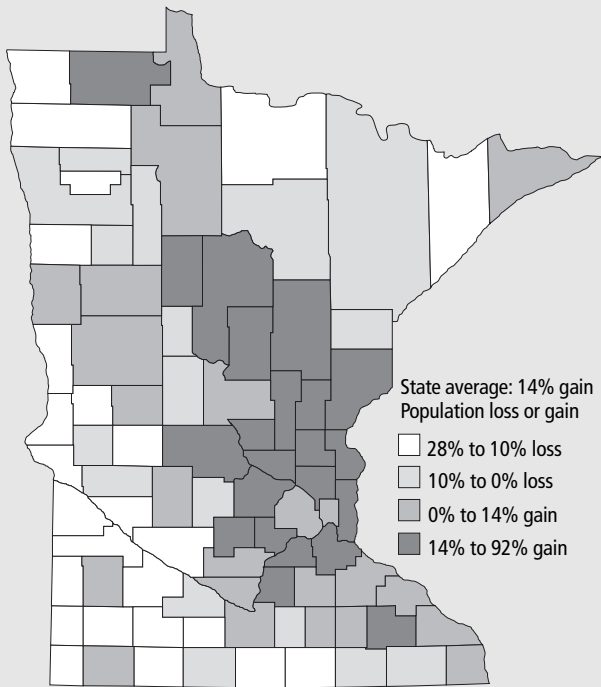
Minnesota's population is aging, and its rural areas experience this acutely. All of the counties in which more than one-fifth of the population was 65 years or older in 1995 are in rural Minnesota. Minnesota's median age is expected to rise from 33.8 years in 1995 to 41.3 years in 2025 — an increase largely attributable to projected growth in the number of people age 65 and older. The percentage of Minnesotans in

POPULATION CHANGES VARIED BY CITY SIZE BETWEEN 1990 AND 1998

City size	Number of cities	Total 1998 population	1990-1998 population change	Number of cities losing population	Percent of cities losing population
100,000 or more	2	629,258	-11,360	2	100%
50,000-99,999	11	723,468	85,473	1	9
25,000-49,999	20	696,731	90,127	2	10
10,000-24,999	48	770,108	90,569	6	13
5,000-9,999	46	328,629	37,843	5	11
2,500-4,999	70	244,955	23,367	12	17
1,000-2,499	131	216,704	17,783	26	20
500-999	152	107,441	4,702	51	36
250-499	136	48,904	1,163	66	49
Less than 250	237	32,158	-260	147	62
TOTAL	853	3,798,356	339,407	318	37%

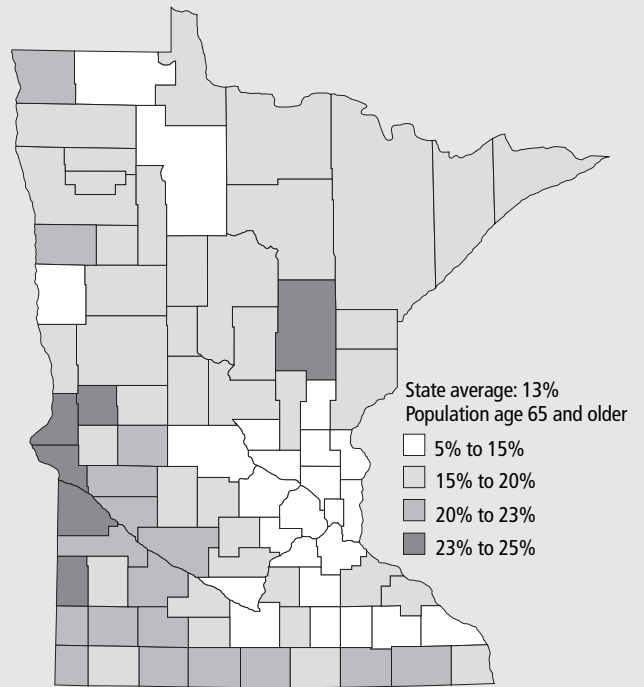
Source: State Demographic Center at Minnesota Planning

MUCH OF RURAL MINNESOTA IS LIKELY TO LOSE POPULATION FROM 1995 TO 2025



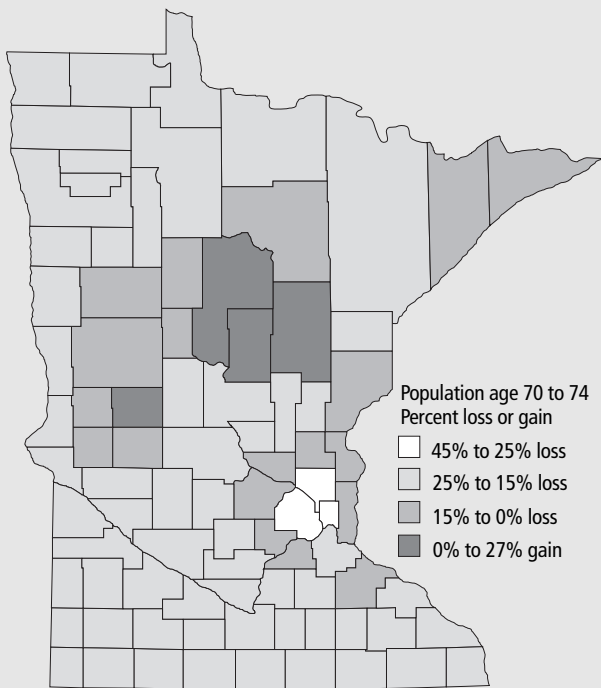
Source: State Demographic Center at Minnesota Planning

HIGHER PROPORTIONS OF ELDERLY TENDED TO BE IN THE WEST AND SOUTH IN 1995



Source: State Demographic Center at Minnesota Planning

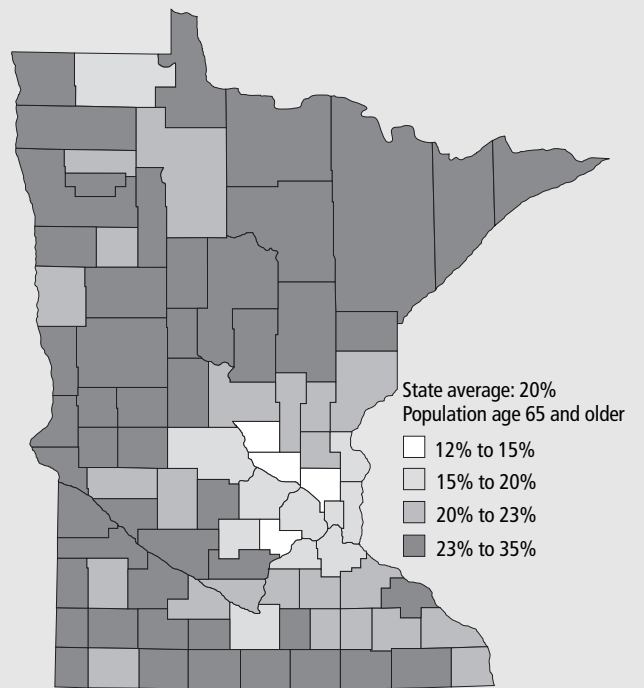
FUTURE RETIREES LIKELY TO MOVE TO RECREATIONALLY RICH AREAS BY 2025



Note: Projections are based on the 1995 population of 40- to 44-year-olds, who will be 70 to 74 in 2025.

Source: State Demographic Center at Minnesota Planning

ELDERLY WILL BE MORE THAN ONE-FIFTH OF MOST COUNTIES' POPULATIONS BY 2025



Source: State Demographic Center at Minnesota Planning

this age group is expected to rise from 12.5 percent in 1995 to 20 percent in 2025. In 1995, 64 of Minnesota's 87 counties had populations with less than 20 percent age 65 or older. By 2025, only 15 counties, most of which are near the Twin Cities metropolitan area, will be in this group.

Another measure of significance for rural Minnesota is the elderly dependency ratio. This ratio is the number of people age 65 and older for every 100 people ages 15 to 64 — the working age population. The State Demographic Center reports that since 1960, Minnesota's elderly dependency ratio has been relatively stable at 18 or 19 and is expected to stay in that range until 2010, when it likely will rise to roughly 31 by 2025. The highest ratios in 2025 are expected to be in the western, southern and northern regions of the state. These same areas already had relatively high ratios in 1995, when 32 rural counties there had elderly dependency ratios of more than 31. Communities with high elderly dependency ratios typically have a reduced demand for an assortment of services and products and therefore support fewer businesses. The ability of these communities to generate additional tax revenue is also limited.

Exodus of young adults driving rural growth of older population

The disproportionate and rising percentage of elderly people in many rural communities is due to a number of causes, the most significant being the out-migration of young adults, which is expected to continue. Adding to this situation in some areas is the increase in the number of retirees moving in. Two additional factors affecting all of Minnesota are the aging of the baby boom generation and the increasing life spans of Minnesotans.

Young people drawn to urban areas

Based on the number of people age 15 to 19 in 1995 and their projected number in 2010, when this group will be in their 30s, 74 counties are expected to experience a decrease in this population. Most of the growth in the population of young adults is expected to occur in and around the Twin Cities metropolitan area, while the biggest percentage losses (50 percent or more) of this population will be predominately in western Minnesota.

Rural counties have historically had trouble retaining their young adults. Because of this and the lack of evidence that other influential factors such as economic development or birth rates may change significantly, the State Demographic Center projects that this trend will continue in the future. It is important to recognize, however, that other forces such as telecommunications and the recent surge of immigrants to Minnesota may reverse or slow down the trend.

Opportunity is key reason young adults leave

Lack of employment opportunities in terms of number and breadth, low wages, lack of affordable housing and limited social amenities are among the reasons young adults leave rural Minnesota for more urbanized areas.

We must not export our most valuable resource, our young people.

— Listening Post participant in Mora

Minnesota's current unemployment rates are at historic lows, but a few counties have troubling unemployment levels. In March 2000, the Department of Economic Security reported that the not-seasonally adjusted unemployment rate was 3.1 percent for the state and 2.2 percent for the Minneapolis-St. Paul metropolitan statistical area. Sixteen counties, however, had unemployment rates of more than 7 percent, and three counties — Clearwater, Red Lake and Marshall — had rates exceeding 14 percent.

Even where there are jobs, the wages in rural Minnesota tend to be lower than in urban areas. The Department of Economic Security reported that the median annual wage in 1995 was about \$29,000 for Twin Cities metropolitan area year-round workers but between \$20,000 and \$23,000 for their rural counterparts. Some — but not all — of this disparity can be explained by the difference in cost of living between the areas.

The lack of higher education opportunities in rural areas also contributes to the exodus of young people from rural areas. A common theme heard at the Listening Posts was that high school graduates leave their home communities to continue their education elsewhere and then rarely return. A 1995 study by the State Demographic Center concluded that Minnesota's college-educated population has become more concentrated in the growing metropolitan counties. In fact, five times as many college graduates moved to the Twin Cities region from elsewhere in Minnesota as moved in the opposite direction. Reversing this trend is critical to the future economic vitality and growth of rural areas because businesses that typically pay the highest wages are likely to locate and expand in areas that have the most educated workforce.

Implications and promising practices examined

All three of the demographic trends examined in this report have economic and social ramifications in the areas of education, health care, fiscal health, business and housing that are preventing many rural Minnesota regions from maximizing their economic potential. After each implication is discussed, a sampling is offered of programs and promising practices involving businesses, nonprofit organizations, all levels of government and citizen groups that are addressing these issues.

Based on future population projections, the likelihood is great that these implications will be ongoing issues. While little can be done to change the trend of an aging Minnesota, some opportunity exists

to address the root causes of rural out-migration. In a future study, Minnesota Planning will examine strategies that may help rural communities revitalize their economies and thereby reverse or slow down out-migration.

Education hurt by loss of young adults

The long-term trend of young adults leaving Minnesota's rural areas has directly affected the enrollments of school districts. As young adults and young families leave, they take with them not only current and future school enrollees but also the economic future of their communities. Between the 1984-1985 and 1998-1999 school years, school enrollments dropped in 30 counties, predominately in the southern, western and northern areas of the state. This trend reflects a statewide decline in births during most of this period, as well as out-migration.

During this same time, school enrollment in Minnesota as a whole rose 22 percent. According to an Office of the Legislative Auditor analysis of Department of Children, Families and Learning data, 38 percent of school districts experienced declining enrollment between the 1988-1989 and 1998-1999 school years. This trend was most pronounced in the smallest school districts and more severe in the second half of the 1990s, when 51 percent of all districts lost students.

The overall trend of rural school districts losing enrollment is likely to continue based on projections that young adults will continue leaving rural communities.

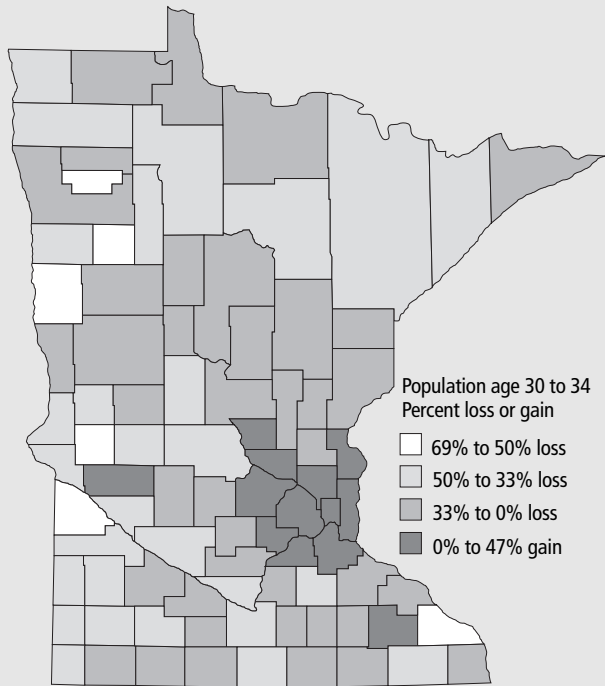
Some of the most severe consequences of declining enrollments are financial. According to the *School District Finances* report of the Office of the Legislative Auditor, "Declining enrollment puts financial and budgetary pressure on districts because school districts must cut the least senior and lowest paid teachers first. As a result, districts may have

to make larger percentage reductions in staff than the decline in enrollment and revenues. It can also be difficult for districts with declining enrollment to make cuts in building and transportation expenditures proportionate to enrollment decreases." In the smallest districts, a reduction in staff would further limit the range of courses offered.

School boards are seeking mergers just to survive, and the children are paying the price. — Listening Post participant in Bemidji

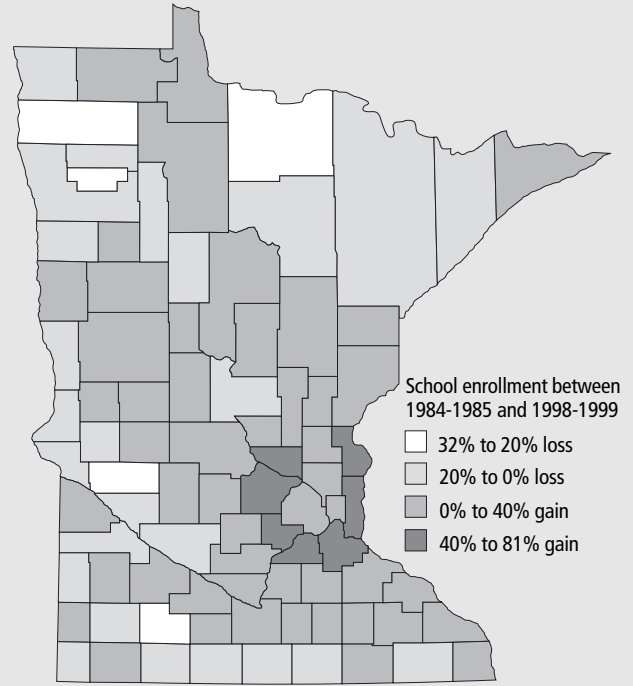
Compounding the pressure of declining enrollments is the weakened support for education found in retirement communities. Researchers Richard J. Reeder and Nina Glasgow found that retirement communities tend to support education to a lesser degree than do other nonmetropolitan communities. This can be especially troublesome when a school district needs voters to approve an education bonding referendum.

URBAN AREAS LIKELY TO GAIN YOUNG ADULTS AT EXPENSE OF MOST RURAL COUNTIES BY 2010



Note: Projections are based on the 1995 population of 15- to 19-year-olds, who will be 30 to 34 in 2010.
Source: State Demographic Center at Minnesota Planning

SCHOOL ENROLLMENT FELL SHARPLY IN MANY RURAL COUNTIES



Source: Department of Children, Families and Learning

Such a situation may be faced by a growing number of rural Minnesota counties that are expected to see a greater share of their population comprised of retirees.

Consolidation is one solution

Declining enrollment results in poor financial health for school districts, a situation that requires a different set of responses than the root problems of the exodus of young adults and weakening economies.

...the elderly population in the region can't handle the property taxes that it takes to support high-quality education.
— Listening Post participant in Appleton

Reacting to enrollment losses and the resulting financial pressures, the Minnesota Legislature passed several financial incentives in the early 1990s to encourage districts to consolidate. Between 1989 and 1999, numerous consolidations occurred, cutting the number of districts from 435 to 350. Of the districts that consolidated between 1994 and 1999, 72 percent had declining enrollments. Most of these districts were in the southern, western and northern regions of the state. According to the legislative auditor's *School District Finances* report, "Districts that consolidated during the 1990s experienced above average increases in general fund revenue, spending, and fund balances per student." It appears that the additional funding

consolidated school districts received from the Legislature, as well as the extra "sparsity" aid given to some consolidated districts for small and isolated schools based on low numbers of pupils per square mile and per grade, helped most consolidated school districts achieve greater financial stability.

Other solutions for school districts include joint purchasing and reducing expenditures on staff and supplies. A strategy with great potential is distance learning. Distance learning uses telecommunications technology, either video conferences or the Internet, so students and teachers do not have to be in the same classroom. A French instructor, for example, may teach in front of a video camera in St. Cloud while the students may be in a Rock County classroom, watching the lesson on television. The same teacher may receive homework assignments or send tests over the Internet for these students. This technique may work best at the secondary and postsecondary education levels, where less teacher contact is needed than in primary grades. The University of Minnesota at Crookston is a leader in offering classes via the Internet.

Access to health care will be a critical issue

With the projected aging of Minnesota's total population, the demand for health care services is expected to increase across

Minnesota. Rural counties that have the highest percentages of elderly will face the greatest challenges in meeting this demand. Access to quality health care services is essential for rural communities seeking to attract and retain businesses and population.

Demand for health care services in rural communities will be exacerbated not only by the higher percentages of elderly but also by additional barriers that rural elderly face. According to researchers C. Neil Bull, David M. Howard and Share DeCroix Bane, rural elderly nationally tend to be poorer and less healthy, live in poorer housing stock and have fewer personal transportation options, minimal access to transit services and significantly less access to health professionals and community-based services than do urban elderly. This characterization generally holds true in Minnesota.

Currently, 24 entire counties and portions of 27 other counties in rural regions of Minnesota are considered to be medically underserved. The federal government designates medically underserved areas based on four variables: ratio of primary medical care physicians per 1,000 people, infant mortality rate, percentage of population with incomes below the poverty level and the percentage of population age 65 and older.

A related issue for rural Minnesota has been the loss of health care providers, such as home health care agencies, physicians, long-term care facilities and hospitals. Because of the disproportionate number of elderly in rural Minnesota, the financial stability of Medicare-eligible services and facilities such as home care, clinics, hospitals and ambulance services in rural areas is tied to the Medicare reimbursement structure. According to the Minnesota Department of Health, 31 small rural hospitals have closed in the state since 1983, when the federal Medicare reimbursement program changed. Another 19 rural hospitals are financially troubled. The Department of Health believes that the loss of so many rural health care providers may impede the capacity and

ENROLLMENT TRENDS DIFFER BY DISTRICT SIZE AND LOCATION

	Number of districts	Percent with decline 1994-1999	Percent with growth 1994-1999
Minneapolis and St. Paul	2	0%	100%
Twin Cities area	46	7	93
Rural Minnesota, 2,000 or more students	48	46	54
Rural Minnesota, 1,000 to 1,999 students	89	46	54
Rural Minnesota, 500 to 999 students	79	58	42
Rural Minnesota, fewer than 500 students	84	77	23
All districts	348	51	49
Consolidated districts	64	72	28
Other districts	284	46%	54%

Note: "Consolidated" refers to districts that merged with one or more other districts between 1994 and 1999. "Other" refers to those districts that did not consolidate.

Source: Office of the Legislative Auditor

effectiveness of many community-based services, which are defined as the health and social services that enable individuals to continue living independently in home settings.

In 1999, Minnesota had 36 federally designated health professional shortage areas. This designation is determined by the ratio of full-time primary care physicians to the area's population, as well as the area's need for primary care services and the capacity of current providers.

The Minnesota Department of Health has identified numerous barriers to developing community-based services, the most severe of which are lack of adequate funding, staffing difficulties, limited availability of transportation, loss of providers and other health care professionals, and coordination challenges.

Filling staffing shortages in community-based and health services has been one of the

greatest issues facing rural areas of the state. The labor force is shrinking in many rural areas as young adults continue to leave and current workers age. In addition, low wages and odd working hours make these jobs less appealing than other occupations.

Despite rising numbers of elderly Minnesotans, the demand for nursing home beds is falling. The Department of Human Services has identified two trends that are contributing to this situation: the median length of stay in a nursing home is now one-fifth of what it was six years ago, and bed utilization rates are dropping as the elderly seek other home and community-based care options. Because of these trends, the number of licensed beds in the state has been decreasing for the last 10 years. While current supply is meeting current demand, the Department of Human Services is concerned about what will happen in 2010 and beyond when the first baby boomers reach age 65. In the years following 2010, the demand for nursing home

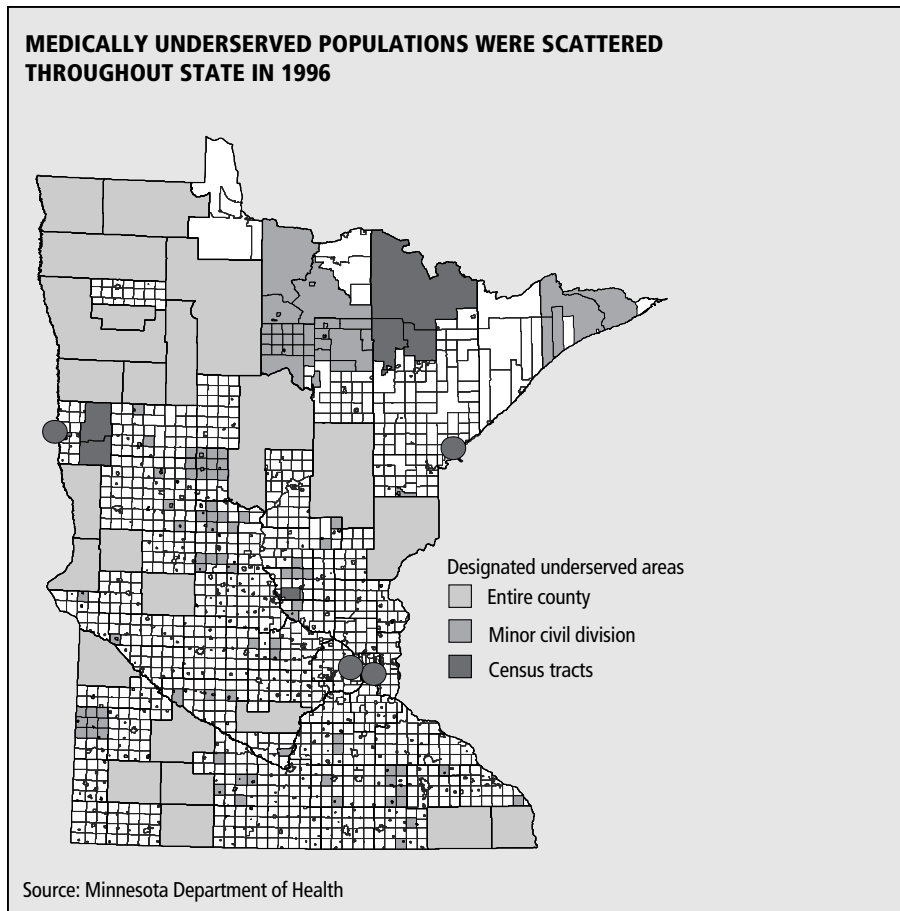
beds as well as for home and community-based care is likely to surge.

Financial incentives are one approach to meeting health care needs

Addressing rural Minnesota's health care and community-based service needs is a formidable task. Today's problems are likely to be even more challenging tomorrow as the population ages. The Department of Health Office of Rural Health and Primary Care has a number of programs that seek to meet these needs.

To encourage health care professionals such as doctors, nurse practitioners and registered nurses to practice in rural settings, the Department of Health and the federal government offer loan repayment assistance. In exchange for a student agreeing to practice medicine in certain rural or urban areas, the federal and state governments pay a portion of an individual's school loans. Physicians can get up to \$10,000 annually for four years; midlevel practitioners such as nurse practitioners, physician assistants and certified nurse midwives can get up to \$3,500 annually for two to four years; and nurses can get up to \$3,000 annually for one to two years. This assistance is available annually for 12 rural physicians, eight midlevel practitioners and 10 nurses. The physician program began in 1990 and the nurse and midlevel practitioner programs in 1993. The loan forgiveness programs have had a total of 177 participants, with annual state expenditures growing from \$320,000 in the beginning to nearly \$857,000 in 1999.

A survey of 173 program participants found that 86 percent of the responding physicians, 91 percent of the midlevel practitioners and 95 percent of nurses reported that the loan forgiveness program was either important or very important in influencing their decision to practice in rural Minnesota. Of those participants who completed their service obligation, 100 percent of physicians, 100 percent of midlevel practitioners and 84 percent of nurses remained at the placement site after their obligation had ended.



Other financial incentive programs sponsored by the state and federal governments provide grants and loans to health centers in many of Minnesota's underserved areas. A new federal program, Minnesota Medicare Rural Hospital Flexibility Program (Critical Access Hospital), seeks to increase the financial stability of small rural hospitals. Under this program, hospitals that meet a number of criteria, such as maintaining 15 or fewer beds and average stays of not more than four days, are eligible for Medicare reimbursement based on the actual costs of services rather than Medicare's predetermined rates for services, which are typically lower. If it costs a hospital \$30 to draw blood, for example, under this program it would be reimbursed the full \$30 instead of Medicare's predetermined rate of \$20. The success of the program is unknown because it is so new.

The Office of Rural Health and Primary Care noted several best-practice examples in its August 1999 study, *Community-Based Services for Rural Seniors*. One example is the Living at Home/Block Nurse Program, which uses professional health care workers and volunteers to provide the elderly with a broad range of services that help them stay in their homes. Ten of the 26 sites for this program are in rural areas of Minnesota.

Another example is the Nebraska Health Care Trust Fund, which gives long-term care facilities such as nursing homes up to \$1 million per year to provide all or part of their available beds to assisted living residents, who do not require care as extensive as that needed by hospital or nursing home patients.

A new technology that may meet some of rural Minnesota's health care needs is telemedicine. Using audio and video technology, telemedicine allows a physician in one location to examine a patient in another. Telemedicine is being practiced throughout Minnesota to a limited extent but has the potential to be more widely used as rural areas link into high-speed telecommunications networks. The technology also has been used for medical training.

Fiscal health of local government tied to population

A community's fiscal health depends on its ability to generate revenues, primarily through property taxes, to pay for services, and this ability is directly tied to the migration patterns and composition of its population. A shrinking and aging population will stress the fiscal health of a community.

A number of Minnesota's counties are expected to lose population in the next 25 years. This is a trend that goes beyond Minnesota's borders. According to Mark Drabestott in *Meeting a New Century of Challenges in Rural America*, the dwindling of population that is occurring throughout much of the nation's heartland is putting enormous pressure on the rural tax base — raising new questions about how to finance rural education and whether to continue providing a host of public services.

Seniors with a fixed monthly income of \$800 can be paying \$300 for medication. — Listening Post participant in Hutchinson

The age of a community's population also affects its fiscal health. Older people, for example, tend to spend less on durable goods such as clothing; thus, communities with a disproportionate percentage of elderly cannot support as many retail establishments as can communities with younger populations. If established businesses close and new ones do not take their place, the commercial tax base in a community will decline. This will shift the tax burden onto residential property. Another factor affecting the number of retail businesses rural Minnesota communities can support is the tendency of older Minnesotans to leave for the winter and thus spend part of their incomes in other states.

The sources of residents' incomes also influence a community's fiscal health. Transfer payments — primarily of Social Security, Medicare and Medicaid benefits — were highest as a percentage of total

income in the northern and western counties of the state in 1997. Many of these counties also have the lowest personal incomes in the state. Thus, residents of these counties are especially sensitive to changes in the cost of living and in state and local taxes. A Minnesotan who has an annual income of \$15,000 from wages or transfer payments is not likely to be able to pay higher property taxes or to vote to increase property taxes. At a time when the demand for government services seems to be increasing, many communities are apt to be significantly constrained in their ability to raise local taxes.

Programs aim at alleviating fiscal stress on local governments

The prospect of an eroding tax base coupled with future increases in demand for services is not a welcome scenario. But it is probably unavoidable for many rural Minnesota communities in which the number of elderly is expected to rise without overall population growth.

The state has two intergovernmental aid programs that alleviate some of the fiscal stress such situations place on local governments: local government aid, and homestead and agricultural credit aid. In 1997, cities with populations of more than 2,500 received 10.5 percent of their revenues from local government aid and 6 percent from homestead and agricultural credit aid, according to the state auditor. During that same year, cities with populations of fewer than 2,500 received 18.5 percent and 7.8 percent, respectively. On a per capita basis, communities with populations of fewer than 2,500 received \$133.90 in local government aid and \$56.80 in homestead and agricultural credit aid, while communities with populations of more than 2,500 had per capitans of \$89.76 and \$51.37, respectively. As this data indicates, local government aid and homestead and agricultural credit aid are important sources of revenue for local governments, especially for communities with populations of fewer than 2,500.

The homestead and agricultural credit aid allows local governments to levy less than

they otherwise might if they did not have financial assistance from the state. This aid is based primarily on how much aid a jurisdiction received in the previous year and the tax base lost due to any legislative change in property tax rates. The amount of local government aid a community receives is based on a number of fiscal and demographic factors. A local government's "need" is determined by relative measures of population, population decline, percentage of commercial and industrial property, percentage of homes built before 1940 and the ability to raise revenue. In addition, higher payments are directed to local governments that have historically received the most aid; some suggest that this policy weakens the targeting of the aid based on need.

Based on 1998 data from the Department of Revenue, the Minnesota House Research Department determined that counties in west-central and northeastern Minnesota received the highest levels of local government aid and homestead and

agricultural credit aid. These counties either lost population or had small gains during the mid-1990s. Included in this calculation was all local government aid and homestead and agriculture credit aid paid to the county, its cities, townships, school districts and other taxing districts. The counties in the corridor from Rochester to the Twin Cities and St. Cloud and up through the north-central area of the state — these counties had gains in population and the greatest economic growth in the 1990s — received the smallest amount of aid.

You can't raise taxes on farmers (who already are) finding it hard to make it.
 — Listening Post participant in Fergus Falls

Another crucial source of revenue for counties, especially those with a disproportionate number of elderly, is human services aid. This revenue, which is primarily a combination of state and federal

funds, includes cash assistance to poor individuals, medical payments to nursing homes and other health care providers for low-income people and social service grants to counties for mental health, developmental disabilities, child care, chemical dependency, child welfare and other services. In 1995, the largest per capita amounts of aid in rural areas went to the northern counties that have large concentrations of elderly and low-income families and to the sparsely populated western counties that have high percentages of elderly.

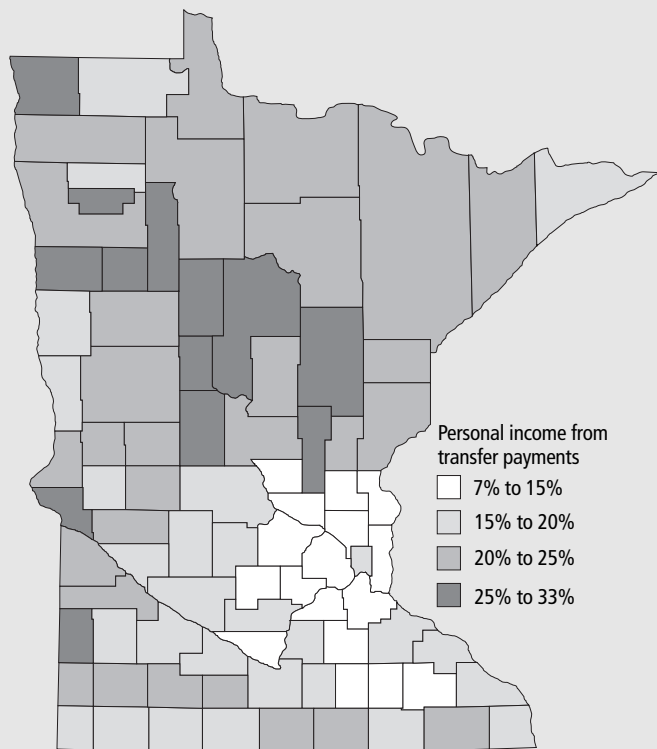
Many communities are responding to population-based challenges to their fiscal health by joining together to buy equipment and provide services. The city of Marshall and Lyon County, for example, have formed a joint city-county library board. The city of Pipestone shares a street paver and a street snow blower with the county and the state.

As the telecommunications infrastructure becomes more widespread, the electronic provision of government services could mean significant cost savings. Buying a fishing license or renewing automobile tabs electronically, for example, could eliminate a trip to the courthouse and reduce the number of government employees needed to handle such transactions.

Rural areas find attracting and keeping businesses difficult

A key to the economic success of any community is its ability to attract and retain businesses. Two of the three demographic trends discussed in this study are likely to make it more difficult to foster and keep businesses in rural Minnesota. First, the expected rise in the percentage of people age 65 and older in nearly all areas of the state may signal a reduction in the labor force in many rural areas where populations are projected to remain relatively the same or decline. Second, as young adults continue to leave rural areas, the labor pool in those areas will be reduced. In addition, the talent levels in the

TRANSFER PAYMENTS ARE SIGNIFICANT SHARE OF PERSONAL INCOME IN MANY RURAL COUNTIES



Source: U.S. Department of Commerce, Bureau of Economic Analysis, 1997

labor pools of many rural areas will be diminished because college graduates most likely will move away. Finally, as many rural business leaders near retirement, many question where future leaders will come from.

Ironically, many of the young adults who leave their rural hometowns for more job opportunities and higher wages in urban areas end up working for businesses that choose not to locate in rural areas because of the lack of a qualified labor pool, among other reasons.

The more we keep our children here, the more businesses will stay here. — Listening Post participant in Fergus Falls

One indicator of economic vitality for a region is the rate of new job creation. The Minnesota Department of Trade and Economic Development categorizes this data based on the status of a business: start-up, recently closed (dissolution), expanded or contracted.

Job growth has been strongest in the regions that make up the growth corridor between Rochester and St. Cloud. These regions also had the greatest population gains in the 1990s. Conversely, the low job growth rates in the other regions of the state are linked to the relatively stagnant or decreased population of those regions.

Rural Minnesota's economy historically has been dominated by agriculture and manufacturing. A good transportation system and productive workers, among other factors, made rural Minnesota a productive environment for these industries. As Minnesota's economy becomes

more service-oriented, however, and agriculture and manufacturing begin adapting to a more global economy with new demands and more competition, moving successfully into this "new economy" will be a challenge for some areas of rural Minnesota.

Businesses, communities and elementary, secondary and postsecondary education will need to develop strategies to maintain and increase the communities' economic standing. Businesses and schools will need to work together not only to retrain adults of all ages for the jobs of the "new economy" but also to develop incentives to stem the exodus of young adults. Businesses also will need to find ways to keep people of retirement age working.

A high-speed telecommunications infrastructure has become essential for more and more businesses. Rural communities that do not have this infrastructure will not be able to attract many new jobs. The degree to which having such an infrastructure would lead to greater employment opportunities and higher wages in rural communities is unknown, however.

Telecommunications is key to spurring business growth

While local governments can take many steps to encourage business growth, one of the most important is gaining access to high-speed telecommunications. This issue was raised at all 10 Listening Posts held across the state and is clearly seen as a key to economic development for all Minnesota regions. Nearly every industry today relies on Internet access and the ability to transfer information at high speeds. Farmers also are beginning to take advantage of this new technology. Through the Internet,

farmers can buy the best quality inputs at the lowest price while selling to consumers throughout the world. They also can practice precision farming using computers and geographic information system technology to determine which parts of their fields need what amount of fertilizer and water.

Remember, it's not just being online that matters. It's speed of connections and cost for access that are important. — Listening Post participant in Appleton

While private companies are willing to invest in the infrastructure necessary to bring high-speed Internet access to heavily populated areas, most rural communities are being forced to find other strategies to develop their telecommunications infrastructure. The infrastructure needed to transmit electronic data at high speeds requires such media as fiber optic and cable lines. Only a limited amount of data can be transferred over existing phone lines. Wireless technology is promising for connecting rural areas to the Internet, but it remains prohibitively expensive in most cases.

Marshall began to address this need in 1996 by changing its city charter to allow the municipal utility to provide telecommunications service. Not wanting to lose business, three Internet service providers responded by offering service to the area. According to a December 12, 1999, editorial in the *Star Tribune*, the Marshall community group that worked on this project, now known as PrairieNet Consortium, has begun planning for Marshall to become the center of an information technology corridor stretching from Worthington to Willmar. Another consortium, KandiLink, is working with PrairieNet to accomplish this vision through a

JOB GROWTH WAS WEAKEST IN RURAL MINNESOTA FROM 1997 TO 1998

Type of business	REGION								
	Statewide	Northwest	West central	Central	Northeast	Southeast	Southwest	East Twin Cities	West Twin Cities
Start-up	2.0%	1.6%	1.9%	2.4%	1.5%	1.7%	1.7%	2.0%	1.9%
Dissolution	-1.2	-1.5	-2.0	-1.6	-1.0	-0.9	-2.0	-1.2	-1.0
Expansion	7.8	6.8	8.4	8.2	6.5	7.0	6.9	7.4	8.0
Contraction	-5.4	-5.8	-5.0	-5.9	-5.2	-4.4	-5.9	-5.1	-5.7
Net rate	3.2	1.1	3.3	3.1	1.8	3.4	0.7	3.1	3.2

Source: Minnesota Department of Trade and Economic Development

\$350,000 fund targeted to bring better telecommunications service and more training to at least 12 cities in the region. Winona, Bemidji and Lakefield are among several cities that have provided or are in the process of providing telecommunications services to their citizens.

Minnesota Planning and the departments of Transportation and Administration have compiled a report outlining strategies communities can use to provide high-speed Internet service to their citizens and businesses. The report, *Netplan*, is designed to help communities assess their current and future needs and then turn that information into action steps that will lead to high-speed access. Pine City is the first city using the *Netplan* approach in a pilot project.

Communities look at this 21st-century telecommunications system in the same way they viewed highways and rail lines in the 20th century. Many know that if they do not have high-speed telecommunications connections, they are reducing not only their economic development opportunities but also potential benefits in the areas of education, health care and government services. The state, local governments and telecommunication providers need to develop strategies to ensure that no community is excluded from this technology.

Rural areas need good, affordable housing

Affordable housing is a pressing concern across the state, especially in areas of strong population growth. In areas of declining or stagnant population, the devaluation and deterioration of housing stock are also serious problems. These conditions are likely to continue, based on population projections and the expected rise in demand for more housing options suited to the elderly, especially those who have physical limitations.

Housing is typically defined as affordable if an individual or family pays no more than 30 percent of their income for it. The Greater Minnesota Housing Fund has reported that based on 1996 data, 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.

In rural Minnesota, the "affordability gap" and the "value gap" are barriers to meeting housing demands. The affordability gap is the difference between what housing costs to build or buy and what a family can afford. This gap is a concern mainly in those areas that are experiencing an influx of population. As noted earlier, rural Minnesotans' incomes on average are about 20 to 30 percent lower than those of their urban counterparts. The cost to build a home in a rural area may be a little less than in an urban area — but probably not 20 to 30 percent less.

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. For example, a house that costs \$100,000 to build may be sold for only \$70,000. This gap mainly occurs where population is stagnant or falling and can be as much as 20 to 30 percent. A related problem is that people may lose the home equity that they were hoping to use for retirement. Both of these gaps present major challenges for communities in building and selling housing, which in turn affect their ability to attract or retain new or expanding businesses and a growing labor force.

A 1998 report by the State Demographic Center examining data from the Department of Revenue on existing residential unit sales from 1984-1985 to 1995-1996 found that many rural counties in the southern and western areas of the state lost up to 40 percent of their housing value after the values were adjusted for inflation. The report stressed the link between housing values, equity and tax revenues: as values go up or down, so go equity and government revenues.

The age and deterioration of Minnesota's housing stock are growing concerns. Based on 1990 census data, the Minnesota Housing Finance Agency estimates that the housing stock is older in all regions of Minnesota outside of the seven-county Twin Cities area than within the metropolitan area.

The Greater Minnesota Housing Fund notes that seniors and people whose children no longer live at home occupy much of the state's older housing stock, reducing opportunities for young people to buy existing affordable homes suitable for growing families. Another result of seniors occupying much of the state's older housing is that maintenance and repairs are less likely to be done because of financial and other reasons.

Variety of strategies seek to meet housing needs

Communities are devising a variety of strategies to respond to the demand for affordable housing in rural Minnesota. In some cases, communities are building housing for senior citizens, thereby freeing up housing for other families. In others, governments, nonprofit organizations, citizens and businesses are working cooperatively to build new housing. For example, the First Homes project in Rochester and its outlying communities is a cooperative effort led by the Mayo Clinic, the Greater Minnesota Housing Fund, the Rochester Area Foundation and a number of local communities. Together, they are building about 500 starter homes and 375 rental units with the aim of helping to strengthen the Rochester area economy for years to come.

With the aid of the Greater Minnesota Housing Fund, employers have helped to develop housing projects in a number of cities, including Winnebago, Edgerton, Northfield, Aitkin, Grand Portage and Willmar. These projects typically involve the employer providing financial assis-

RURAL AREAS HAD MOST HOUSING OLDER THAN 40 YEARS IN 1990

State average	33%
Central region	29%
Northwest region	33%
Southwest region	41%
Northeast region	42%
Southeast region	40%
West-central region	39%
Metropolitan region	27%

Source: Minnesota Housing Finance Agency, 1995; 1990 census

tance in the form of low-interest loans or subsidization. Since 1996, the Greater Minnesota Housing Fund has helped leverage more than \$150 million in building about 4,100 units.

Final thoughts

The economic vitality of rural Minnesota is undeniably intertwined with the state's demographic shifts. Whether it be an influx of retirees moving to Minnesota's north-central lake region or the aging of the entire state population, each population change affects local, regional and state economies. As these trends intensify in the future, it is imperative that the state, local communities, businesses and organizations continue to work together to address the resulting complications. This study has noted some specific implications and efforts to address them in the areas of education, health care, fiscal health, business and housing, but even more effort will be required to preserve and enhance the well-being of rural Minnesota.

An additional demographic trend that was not included in this study but is affecting and will continue to affect rural Minnesota socially and economically is the current and projected influx of immigrants to the state. Immigrants are both an asset and a challenge to rural Minnesota communities. Providing education and services to new

immigrants, especially when a language barrier exists, is a complex task. At the same time, however, these new immigrants help local economies prosper by increasing the size of local labor forces. The lack of demographic data prevented an analysis of immigrant population trends and their implications in this study. The 2000 census, however, is expected to produce data that can be used to examine their impact.

Regions that look on minority populations as an economic opportunity, not a problem, will thrive. — Minnesota Planning Director Dean Barkley at the Listening Post in Marshall

Each region and community in Minnesota has population characteristics that present both resources and obstacles. Recognizing, anticipating and addressing the current and likely future implications resulting from these population characteristics and trends are vital to ensuring the future prosperity of rural Minnesota.

Future reports in the *Perspectives* series will examine trends in personal income and the composition of rural economies, and explore how rural communities can retain and attract business and residents.

Minnesota Planning 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.

Implications of Rural Minnesota's Changing Demographics 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:



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