

The Minnesota Model for Rural Development

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Introduction

The State of Minnesota is unusual, and unusually blessed, in a number of ways that are important to rural citizens and their communities. Compared to national averages, Minnesotans are blessed with higher incomes, less poverty and higher levels of formal education. It is blessed with an impressive array of organizations devoted to rural policy and programming. In addition to the usual array of governmental, educational and non-profit entities, these include a number of large regional philanthropic foundations with deep commitments to the viability of rural communities and citizens. Rural Minnesota is also home to an enviable array of medium-size and large private companies that display unusual loyalty to their hometowns and to Greater Minnesota.

However, the most unusual feature of the Minnesota landscape is the leadership exercised by a number of large, philanthropic foundations, the regional and asset-based paradigm widely accepted, and the recent experiment at collaboration around a new model of rural governance.

Broad Organizational Leadership¹

The organizations and programs that merit attention for best practices likely extend beyond the scope of our current research and this paper. We shall briefly mention three before turning to those institutions that truly set Minnesota apart.

Minnesota's rural development council, **Minnesota Rural Partners**, is widely viewed by its peers as one the nation's best.² Innovative and marketable ideas permit the council to sustain one of the nation's highest levels of RDC's programming, including a highly successful rural summit and a software product to connect small businesses and customers via the Internet, BizPathways.

¹ Information for this report was taken from publications and websites of the organizations reviewed as well as interviews with officials and knowledgeable observers of those organizations.

² Pursuant to a 1990 Presidential initiative, state rural development councils (SRDC's) were created to provide links among the wide array of federal and state agencies and programs affecting rural America. The National Rural Development Partnership is supported through an office of USDA in Washington, D. C. and links the SRDC's to one another and to the national office.

While the summit and BizPathways may be most visible to outsiders, most insiders agree that Minnesota Rural Partners' most important role is as a facilitator and "honest broker" among people and organizations. Rural Partners has developed a unique set of personal relationships with people and organizations from the local level to the governor's office, and it uses those relationships to bring people together in ways that strengthen the social fabric of rural Minnesota and those working for its betterment.

As President Jane Leonard says, "We have *some authority* to connect the dots among state programs and agencies ... which is difficult in a state with so many rural organizations. It's mainly sheer persistence."

With an endowment of around \$400 million and distributions approaching \$20 million per year, the **Blandin Foundation** promotes economic viability throughout rural Minnesota. Located in Grand Rapids³ Blandin's grant programs focus on projects with identified assets, leadership and economic impact. However, the foundation's signature contribution is its community leadership program, initiated in 1986.

The basic program is designed to build a leadership team for the community, equipping participants with information, skills and training in group dynamics to enable them to initiate and manage change. Each team or "cadre" of approximately 24 leaders is provided training over 4-5 days. The "basic" program is offered approximately 10 times per year and has been provided to over 200 rural communities throughout Greater Minnesota since its inception.

The Foundation has specialized training opportunities for Native Americans on reservations and for leaders in education and healthcare. "Partners in Leadership" pairs leaders from Minnesota's recent immigrant and communities of color with leadership alumni as a means of enlarging the leadership community.

Altogether the Blandin devotes \$3-4 million per year to training leaders for Greater Minnesota.⁴

The **Center for Rural Policy and Development** was created by legislation in 1997 and directed to "research and identify present and emerging social and economic issues for rural Minnesota" Its mission, according to President Jack Geller, is to "provide Minnesota policy makers with an unbiased evaluation of issues from a rural perspective."

The Center is supported by state appropriations of roughly \$150,000 per year, supplemented by grants and contributions of approximately \$250,000. It supports a spare

³ Blandin's service area has been the subject of legal battles for years. They stem from the fact that the foundation has an endowment of \$400 million in Grand Rapids, a town of 7,800 people. Currently the foundation devotes an average of 55% of its funds to the Grand Rapids area.

⁴ Throughout this report numbers are given to indicate the relative size of programs and organizations. We do not strive for precision, as many such numbers fluctuate significantly from year to year. Our numbers are calculated to be representative of the most recent years.

staff of three, including the president, plus graduate assistants, and a research agenda that consists of 3-5 major projects and a lesser number of “small grant” projects each year.

While the Center was created at the behest of a local university president, its research on rural education, technology, economic development and immigrant issues has plainly filled a niche in the state’s rural policy network. It was clear from our interviews that policy makers are aware of the Center’s work and respect it, significantly, it should be said, because many of them sit on its Board!

In addition to researching emerging issues, the value of the Center to rural policy leaders is evident in two current projects: evaluation of the Governor’s marquee rural development effort, a tax incentive program called Job Zones, or “JOBZ,” and the monitoring and evaluation of six demonstration projects of the RED Group (see below).

McKnight and the Initiative Funds

The McKnight Foundation was created in 1953 by an early leader of the 3M Company. Its importance to rural areas was originally quite limited. However, in the early 1980’s the distress in rural Minnesota was palpable, and Foundation leaders convened a group of approximately 60 rural leaders to listen to their needs. The result was the creation of the most unique feature of the rural landscape and a major commitment of new resources to rural Minnesota.⁵

In 1986 the McKnight Foundation created six *regional foundations* variously referred to as the “initiative funds,” “regional funds,” or “MIF’s” (for Minnesota Initiative Funds). McKnight provided each with \$3 million in seed money. The State of Minnesota provided an additional \$2 million to each foundation.

In the time since their creation, McKnight leaders Russ Ewald and Rip Rapson have sought to build the foundations into self-sufficient organizations, capable of analysis, planning and action to improve the welfare of citizens in their regions.⁶ According to Senior Program Officer Louis Hohlfeld, McKnight has insisted that foundations make their own decisions, based on the needs and circumstances peculiar to their region.

In 3-5-year cycles since 1986, McKnight has committed funds to the foundations, now totaling over \$200 million. The Funds have developed other funding sources and built their own endowments that now average roughly \$25 million each. The state has not made additional grants.

As the principal funder, McKnight has exercised significant scrutiny of the funds, performing periodic and sometimes extensive reviews, evaluations and audits. And

⁵ Since 1986 the Foundation’s commitments to rural Minnesota have increased from 5.5 percent to roughly 25 percent of annual grant totals. McKnight makes annual grants of \$75-100 million from its endowment that fluctuates in the range of \$1.5-2 billion.

⁶ Dr. Hohlfeld believes the Funds could sustain approximately 70 percent of current operations without further support from McKnight.

according to Hohlfeld, the foundation has insisted on high-quality programming and performance as much as it has insisted that content decisions be made regionally.

The service areas of the six initiative funds vary in size from seven to twenty counties and in population from 160,000 to over 600,000. Each Fund has a local board of 10-15 members and staffs ranging in size from 13 to 24.

Every other month, the Fund directors come together with McKnight staff to share and assess, and once a year McKnight hosts a retreat that helps foundation managers maintain a statewide perspective, even as they work regionally.

Minnesota observers see the development of the Funds as having progressed through a number of phases. In the early days much attention was paid to “relief” activities, that is, grants to help businesses and families stay afloat in the bad economy. This was coupled with programs for “business development” during which revolving loan funds were created and grants made to attract or retain businesses and jobs.⁷

Human services and economic development work continue. However, the partnerships with banks, business groups, local governments, religious congregations, and non-profit organizations eventually led the Funds into broader community development activities. These include strategic planning, leadership training and other programming with a focus on communities rather than individual families or businesses.

Because of the local nature of planning and goal-setting, the funds have taken on distinctly regional characters and have developed program emphases that are peculiar to their regions. Some continue to emphasize business development, while others may emphasize citizen-based community planning, services for youth and elder populations, workforce training, or value-added agricultural efforts.

The non-Minnesotan cannot but be impressed with the extent to which the regions defined by McKnight’s initiative funds are integral to discussions of rural issues in the state. Practitioners and thinkers across the board view Greater Minnesota, not as an undifferentiated whole, but as six regions, each with its peculiar economic and social needs and opportunities, such as iron mining, forestry, bio-medical enterprises, farming, renewable energy, or all-terrain vehicle manufacturing.

While the Funds and the regions have become an integral parts of the landscape and the vocabulary, in Jack Geller’s view they are just now “hitting their stride.” Geller and others see the progression from relief to business development to community development now moving to the stage of true *regional* analysis, planning and action.

Hohlfeld concurs. “In the past,” he says, “everything was geared toward an individual business or an individual community. Now they are looking at their region and asking, ‘what can we do that helps all the businesses and all the communities in our region?’”

⁷ McKnight obtained a special waiver from Internal Revenue Service restrictions to permit the foundations to make business loans.

The RED Group

The most recent development for rural Minnesota is the formation of the Regional Economic Development Group, referred to as the RED Group. Begun as a Blandin policy initiative with a significant boost from McKnight, the RED Group is one of the nation's most ambitious experiments in new governance.⁸ The group tests the idea that over 30 state and regional organizations can align their efforts and resources in support of region-based economic development projects, adhering to a common set of principles.

RED Group participants include all of the organizations discussed above, with notable others, including: the Minnesota Chamber of Commerce, Minnesota State Colleges and Universities (MnSCU), the State Department of Employment and Economic Development (DEED), Minnesota Power, various offices of the University of Minnesota, U. S. Senator Norm Coleman's and Congressman Colin Peterson's offices, additional private foundations, USDA, and so on.

The RED Group, officially announced in June, 2004, remains quite informal. In internal documents, the Group describes itself as a "collaborative of diverse organizations involved in economic development work" accepting and acting on a set of seven principles. The principles emphasize (1) regional alignment of private, public and non-profit economic development efforts; (2) the primacy of the private sector in economic development; (3) the public sector's role in creating infrastructure that is affordable and responsive to business needs; (4) local leadership; (5) integrated education and training capabilities responsive to regional employment opportunities; (6) building on existing assets, and (7) measurement and evaluation to enhance learning and adaptation.

The group accepts the six initiative funds as the regions around which their efforts should be aligned.

The RED Group has endorsed a strategy of demonstration projects, to "show that what we're talking about works." A major demonstration project in each region has been initiated, capitalizing on the resources and needs of the region as determined by leaders in each region. The animating idea behind the Group is that all participating entities align appropriate resources in support of these pilot projects, which are based on the seven principles. Or as Blandin President Jim Hoolihan says, "RED links powerful public and private resources to the same engine and puts them on the same track, heading in the same direction."

The projects selected include the following.

- In the West Central region the RED Project is to build capacity of the health care industry by helping health care workers develop new skills and move to higher-skilled positions while maintaining attachment to current employers.

⁸ Members of the Group do not describe it in such grandiose terms. One member echoed the sentiment of others we interviewed, saying, "We're making it up as we go."

- The southern region is home to the Mayo Clinic and a major IBM facility. Its RED Project is to build a bio-industry marketplace comprised of small pharmaceutical companies, industrial bio-technology firms and agricultural and food bio-sciences businesses.
- Southwest Minnesota is the state's most productive agricultural region. The RED project there is to develop a renewable energy cluster.
- In Northwest Minnesota the project is to build a knowledge cluster around manufacturing and applied engineering centered on wood products, value added technology and recreational vehicles.
- The Northeast Region adopted a program already in place championed by five rural colleges called TechNorth Prep Centers. As the flagship project for True North (see below), it seems to embody most of the RED principles with a focus on computer programming.
- The other two regions' projects center on various aspects of technology clusters.

The real-world results of the RED Group effort are yet to be determined, and they may not be determined for some time. All agree the Group is a work in progress, and some are skeptical. But as Wade Fauth, Blandin representative to the Group counters, "It's asset-based, it's regional, it's cooperative. I say let's go with it."

True North - The Minnesota Paradigm in Action

A great illustration of the collaborative-regional-asset-based paradigm is the True North initiative. The seminal change that launched the initiative was the alignment of five (and later six) community colleges in the northeast region of the state under a single president in the Fall of 1999. Equally important was the philosophy of the new Northeast Minnesota Higher Education District (NMHED), namely that it should, "promote effective relationships with the community, including advocacy and service to business and industry, and connections to regional and statewide economic development initiatives."

NMHED President Joe Sertich has stated the principle more simply: "The community colleges are place-based institutions with the capacity to serve as catalysts charged with pulling up the rural regions of the world."

Those lofty statements were followed a year later when NMHED, along with 90 stakeholder partners, launched the True North initiative to further focus its efforts. The consortium identified three existing industries as critical to the future of the region: taconite mining and processing to make steel; timber; and tourism. International competition had put serious pressure on the timber industry and all but closed down the taconite mines.

A major challenge for the region, then, is to preserve employment and population in the face of declining core industries - a challenge familiar to many rural regions.

True North recognized that hope for these industries lay in newer methods and machines that improve efficiency. It also recognized that technology education generally, and the higher-order skills for the new generation of timber and mining jobs were areas where NMHED could play a critical role. The path was clear and True North took it.

Over 900 dislocated mineworkers are now re-training in NMHED colleges, and 230 are re-employed. Importantly, 80 percent of those with new jobs still live in their homes in the region. The great majority are earning over \$12 per hour with many earning over \$16 per hour, and most needed some education at the local community colleges.

True North has spawned numerous other initiatives, the most ambitious being the creation a series of centers - dubbed Tech North Prep Centers - for high-skill technology education and business development. Working with numerous education, business, and philanthropic partners, the group hopes to make northeast Minnesota a domestic alternative to overseas outsourcing of high-tech business operations.

As the RED Group demonstration project for the region, True North has the attention and support of many of the state's and region's most powerful players aligned with its goals.

Observations and Conclusions

Minnesota is a state where intelligent and caring work is done by many organizations with sufficient resources to make a difference in the lives of real people. It constitutes an important state model for rural development.

The model is important because of the number and quality of rural organizations (we have examined only a few here), state government is more a follower than leader, and no one organization sets the agenda or direction for all. But in spite of their decentralized development, there is a surprising consistency in the paradigm that underlies most efforts. Most recently this has been codified in the RED Group, a truly remarkable effort to build new forms of governance at a statewide level.

We must note that Minnesota differs from many other states in important ways.

- Compared to the nation as a whole, Minnesota is blessed with low poverty, high incomes and high educational attainment. The state percentage of people aged 25 and over with at least a bachelor's degree is a full 3 percentage points higher than the U.S. average (27.4 vs. 24.4 percent), and the per capita income is almost \$2,500 higher than the national average. Minnesota has no "persistent poverty" counties, though there are certainly pockets of poverty in areas smaller than a county.
- While ethnic and racial diversity are increasing, compared to national averages, Minnesota is ethnically homogeneous. Almost 90 percent (and more in rural areas) of Minnesotans are Anglo vs. 75 percent nationally.
- There are many mid-sized and large corporations headquartered in rural Minnesota that display significant loyalty to their home towns. There are also a

- large number of community and family philanthropic foundations located in or loyal to rural cities and towns.
- According to our experts, there has been relatively little historic friction between rural and urban Minnesota. Minnesotans typically refer to rural Minnesota as “Greater Minnesota,” meaning everything outside the seven-county area surrounding Minneapolis and St. Paul. In past years urbanites used the term “out-state” for rural areas, but it offended rural sensitivities and is rarely heard today.
 - Finally, there seems to be a culture of “caring for your neighbor.” While it is difficult to substantiate or measure, the notion of “Greater Minnesota” is one clue, and the sensitivity to the increasing diversity issues is another. Some experts talk about the Scandinavian tradition of communities caring for their own; others point to the fact that the cooperative business form was created in Minnesota as evidence of a “communitarian” spirit.

We offer the following as observations important to those interested in rural policy.

1. An unusually large number of organizations arose and established themselves more or less independently in Minnesota. If we examine their origins, *economic distress* is important. While the Blandin and McKnight Foundations were already in existence in the early 1980’s, both acknowledge the importance of the economic dislocations of the 1980’s as precipitating factors in the development of their rural programs. Blandin developed a new focus (its leadership training programs) at that time, and McKnight, largely a metro-area actor until then, began its important rural programming then.⁹

In other organizations, *chance* appears to have played an important role. Minnesota Rural Partners came about, in significant part, because of the cooperation needed in the aftermath of the floods in the mid-1990’s. And the impetus for the Center for Rural Policy and Development came from a local university president and his state senator, who happened to be well placed to steer the legislation to passage.

The initiative funds at McKnight grew out of a large infusion of new money resulting from the death of a family member that led to new leadership (Russell Ewald) as well as the need for more systematic approaches to giving. At Blandin, the sale of the company created a significant infusion of new funds.

Thus we see that adversity and historical accident played large roles in the creation of fine rural programs. Perhaps the more important question, and one beyond the scope of this research, is why those programs grew and endured rather than falling into obscurity or disarray.

2. While state government is not at the forefront of rural policy today, governmental leaders supplied important impetus at a critical time. Governor Rudy Perpich (served 1983-1991) hailed from the Iron Range and initiated rural programs like the Greater Minnesota Corporation and Minnesota Technology, Inc. And some give State Senator

⁹ This is consistent with a national trend, which saw important institutions and initiatives in Illinois, Pennsylvania, North Carolina and elsewhere developed around the same time.

Roger Moe (Majority Leader 1981-2003) at least partial credit for the work leading to the initiative foundations at McKnight. He was certainly responsible for the state's contribution to their original funding.

The Center for Rural Policy and Development is a creation of government, which continues to provide core financial support.

3. A regional paradigm for thought and action is possible. Its success in Minnesota is due to lots of money, patiently provided with remarkable consistency of purpose over a long time. The McKnight Foundation and its leaders deserve high marks for shepherding the effort. It points up the importance of private support. We question whether any governmental entity could act with such consistency over a comparable period of time, given the inherent changes in leadership, political direction and funding typical in government agencies.

4. The RED Group, while embryonic and not fully embraced in all corners, is a remarkable effort to put important concepts (regionalism, asset-based development, collaboration and structural alignment) into action. More importantly, it is a natural and logical extension of ideas and processes that have been developing over a long period of time, and it bears watching by everyone interested in rural development at the highest level.