MINNESOTA DEED REPORT

THE MINNESOTA DEPARTMENT OF ENERGY
AND ECONOMIC DEVELOPMENT
ADDRESSES THE RURAL CRISIS

FEBRUARY 14, 1986

prepared by

The Policy Analysis Division of
the Minnesota Department of Energy and
Economic Development

Policy Analysis Division 612/296-8341

Minnesota Department of Energy and Economic Development 900 American Center 150 East Kellogg Boulevard St. Paul, Minnesota 55101

The current crisis in agriculture is serious and poses severe harship for at least 30,000 Minnesotan farmers and their families, rural businesses, and entire rural communities. The Department of Energy and Economic Development (DEED) provides assistance through various programs to farmers, rural communities, and to rural businesses. The assistance which stimulates rural businesses not only helps to keep the rural communities viable, but also provides off-farm income opportunities for farmers. This paper first briefly examines the origination and the extent of the current agricultural crisis and, then, analyzes the effects of DEED's programs on rural economies.

Statement of the Problem

Farm production and investment decisions were made and financed by farmers and creditors who believed that inflation, low real rates of interest, high levels of demand, and high commodity prices would continue into the 1980s. However, recession and an expansionary fiscal policy combined with restrictive monetary policy led to decreased foreign demand, (in part a results of increased foreign production), a slowing in the rate of inflation, higher nominal interest rates, a high value of the U.S. dollar, and falling commodity prices.

Extent of the Current Problem

- o Between 1978 and 1984 average Minnesota farm income fell dramatically and average net cash income dropped by nearly 70 percent.
- o Debt/asset ratios show that over half of Minnesota farms, with 80 acres or more, experienced some degree of financial stress ranging from serious financial stress to technical insolvency in 1985.
- o The proportion of farmers in technical insolvency in Minnesota increased about 140 percent. This represents an increase from about 3,300 in 1984 to over 8,000 farmers in 1985.

DEED's Contribution

The agricultural crisis is a result of national and international developments and calls for a national response. State government has the resources and scope of influence to play only a limited role in addressing this problem.

However, to the extent possible, Minnesota government should give priority to mitigating the current crisis faced by farmers and rural communities. The Department of Energy and Economic Development (DEED) has accepted this challenge, channeling its program funds to regions outside the Metropolitan area. (See Summary Map, Page iii, for regions and total program spending.)

DEED has a small group of programs aimed directly at farmers. These programs include "demonstration grants" which are monies and technical assistance for agricultural projects, scholarships, seminars, and agricultural promotion dollars to assist the farmers.

- Between FY 84 and FY 85 $501,700 in "demonstration grants" went to assist the rural regions of Minnesota.
- Rural, home-based business seminars held in 1985 attracted over 114 participants.
- 447 "Beginning Farmers" scholarships were awarded in 1985.

A second group of programs have a primary purpose of assisting rural businesses. These programs provide off-farm income opportunities and provide new job opportunities in rural communities. DEED programs included in this group are the Federal and State Economic Recovery Fund, Minnesota Fund Program, Opportunities Minnesota (OMNI), Small Business Development Loan Program, Energy Loan Insurance, Energy Development Loan, Tourism Loan, and the Agricultural Processing Loan Program.

- In FY 84, 72 percent of program spending or $9.7 million went to rural regions; by FY 86 this proportion had increased to 82 percent, or $18.0 million. If actual State and Federal expenditures are used in place of program spending, the rural regions' share represents more than 85% of statewide expenditures over the three preceding fiscal years.
- The Northeast, Southeast, and West, those regions facing the most severe economic problems, received 54 percent of statewide spending in FY 84 and 70 percent in FY 86.
- In FY 84, the rural regions received at least twice as many dollars per capita in business financing as did the Metro region; by FY 86 the Central region received three times as much, the Northeast and West received four times as much, and the West received five times as much!

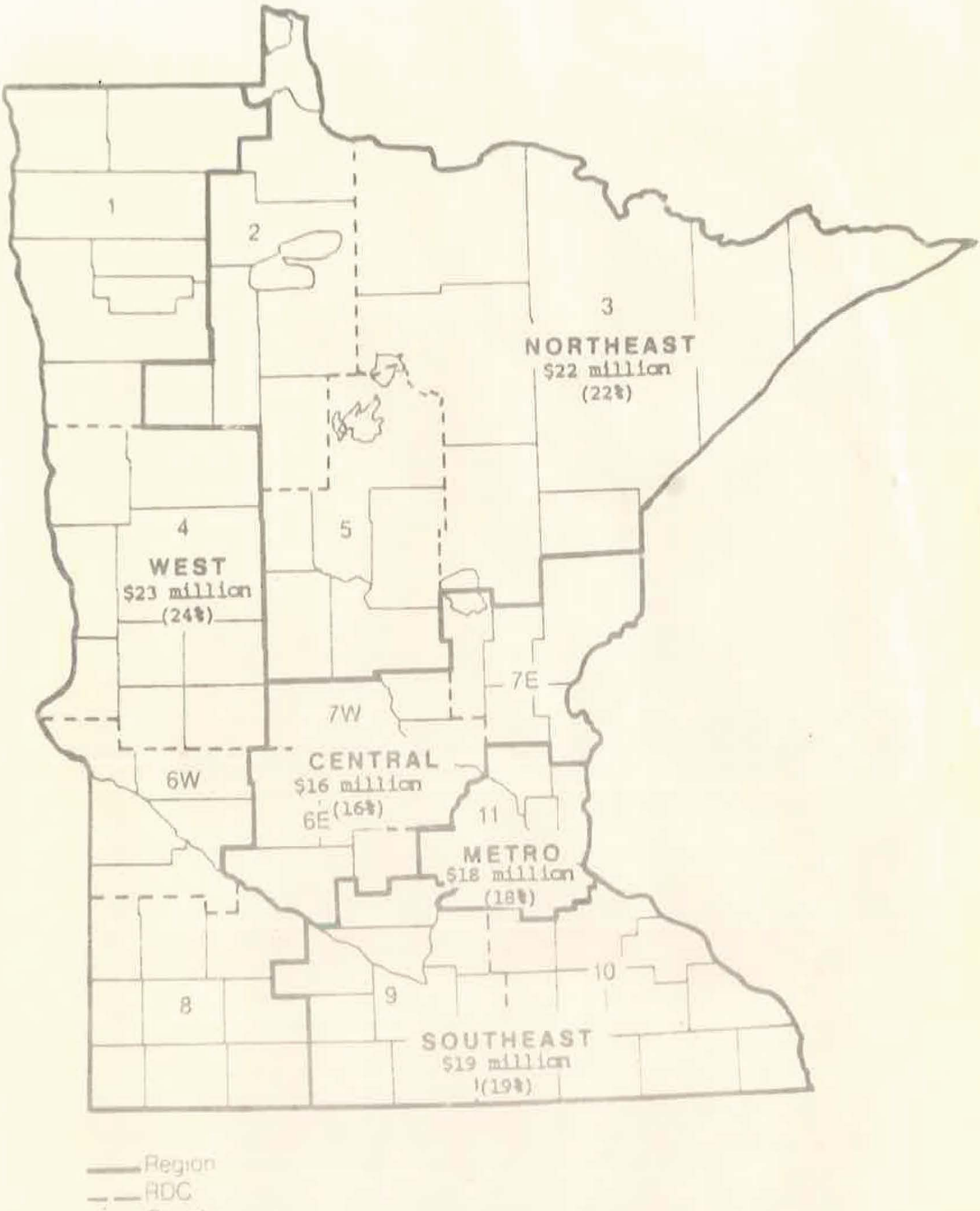
A final group of programs are directed toward supporting and encouraging the vitality of local communities. DEED's programs falling into this area are the following: Small Cities Development, Public Schools Energy Investment Loan, Insititutional Building Conservation, District Heating, Community Energy Councils, and Star Cities.

- In FY 1984, 89 percent of Community Development program monies or $26 million, went to non-Metropolitan regions; this decreased slightly to 83 percent or $28 million in FY 85.
- In FY 1985, all rural regions received at least four times the average per capita spending of the Metro region.
- About 79 percent of all community projects between 1984 and 1985 occurred in the non-Metropolitan regions.

Conclusion

In total, 81 percent or about $80 million of DEED's program spending went to rural regions in FY 84 and FY 85. While DEED has always put a priority on development in greater Minnesota, it has been able to increase its impact in the rural regions by channeling more of its dollars to these cities that have experienced the greatest agricultural related declines.

SUMMARY MAP


1
2
3
NORTHEAST
$22 million
(22%)
4
WEST
$23 million
(24%)
5
7E
7W
CENTRAL
$16 million
(16%)
6W
6E
11
METRO
$18 million
(18%)
10
9
8
SOUTHEAST
$19 million
(19%)
Region
RDC
County

SUMMARY TABLE
BUSINESS FINANCING PROGRAMS

PROGRAM SPENDING
(in millions)

	FY84	FY85	FY86 TO DATE	TOTAL
Central	$ 2.3	$ 4.2	$ 2.8	$ 9.3
Northeast	2.2	4.9	4.1	11.1
Southeast	2.8	2.9	6.8	12.5
West	2.4	3.4	4.3	10.1
TOTAL FOR GREATER MINNESOTA	$9 .7	$15.4	$18	$43
Metro	3.8	5.9	4.0	13.7
State Total	$13.5	$21.2	$22.0	$56.8

TOTAL JOBS RETAINED OR CREATED

	FY84	FY85	FY86 TO DATE	TOTAL
Central	396	372	39	1,203
Northeast	469	612	1,252	2,333
Southeast	2,455	952	1,066	4,473
West	465	780	708	2,024
TOTAL FOR GREATER MINNESOTA	3,785	2,716	3,065	9,566
Metro	331	1,647	609	2,587
State Total	4.116	4,363	3,674	12,153

BUSINESS FINANCING PER CAPITA

	FY84	FY85	FY86 TO DATE	TOTAL
Central	$5.1	$9.3	$ 6.2	$20.5
Northeast	4.1	2.9	7.7	20.6
Southeast	4.5	9.1	10.7	19.7
West	4.7	4.6	8.6	20.1
Metro	1.8	2.9	1.9	6.7
State Average	$3.3	$5.1	$ 5.3	$13.6

PROJECTS BY REGION

	FY84	FY85	FY86 TO DATE	TOTAL
Central	13	9	5	27
Northeast	9	22	46	77
Southeast	15	11	11	37
West	10	13	18	41
TOTAL FOR GREATER MINNESOTA	47	55	80	182
Metro	18	23	10	51
State Total	65	78	90	233

SUMMARY TABLE
COMMUNITY PROGRAM SPENDING

TOTAL PROGRAM SPENDING
(in millions)

	FY84		FY85		TOTAL	
Central	$ 3.2		$ 6.0		$ 9.2	
Northeast	7.8		6.7		14.5	
Southeast	6.3		6.8		13.1	
West	8.7		8.4		17.1	
TOTAL FOR GREATER MINNESOTA		$26.0		$27.9		$53.9
Metro	3.1		5.6		8.7	
State Total	$29.1		$33.5		$62.6	

PER CAPITA
PROGRAM SPENDING

	FY84	FY85	TOTAL
Central	$ 3.0	$13.3	$20.3
Northeast	14.7	12.7	27.2
Southeast	9.9	10.7	20.7
West	17.4	16.9	34.1
Metro	1.5	2.7	4.3
State Total	$ 7.0	$ 8.1	$15.0

PROJECTS BY
REGION

	FY84		FY85		TOTAL	
Central	19		24		43	
Northeast	34		26		60	
Southeast	33		34		67	
West	56		46		102	
TOTAL FOR GREATER MINNESOTA		142		130		272
Metro	35		36		71	
State Total	177		166		343	

INTRODUCTION

The current crisis in agriculture is serious and threatens the livelihood of at least 30,000 Minnesotan farmers and their families, rural businesses, and entire rural communities. The Department of Energy and Economic Development (DEED) provides assistance through various programs to farmers, rural communities, and to rural businesses. The assistance which stimulates rural businesses not only helps to keep the rural communities viable, but also provides off-farm income opportunities for farmers.

This paper first briefly examines the origination and the extent of the current agricultural crisis and then analyzes the effects of DEED's programs on rural economies. The programs are broken down into the following categories:

1) Those aimed directly at farmers;
2) Those aimed at stimulating rural businesses and providing off-farm income opportunities to farmers; and
3) Those aimed at maintaining viable rural communities.

For purposes of this report, the state has been divided into five sub-areas or regions. These regions consist of one or more adjacent Economic Development Regions. The <u>Northeast</u> region includes Region 2 (Headwaters), Region 3 (Arrowhead), and Region 5 (Region 5). The <u>Central</u> region, located north and west of the Metro region, is made up of Region 6E (Six East), 7W (Central Minnesota), and 7E (East Central). The <u>West</u> region is the most heavily agricultural part of Minnesota. The Development Regions that make up the West region include Region 1 (Northwest), 4 (West Central), 6W (Six West), and 8 (Southwest). The Metro region consists of the seven counties of Region 11. Finally, the Southwest region, consists of Regions 9 (Region Nine) and 10 (Southeastern). (See Figure 1.)

The dollars used in this report are program spending dollars. They include all federal and state dollars, for all loans, grants, loan guarantees and loan insurances.

I. STATEMENT OF THE PROBLEM

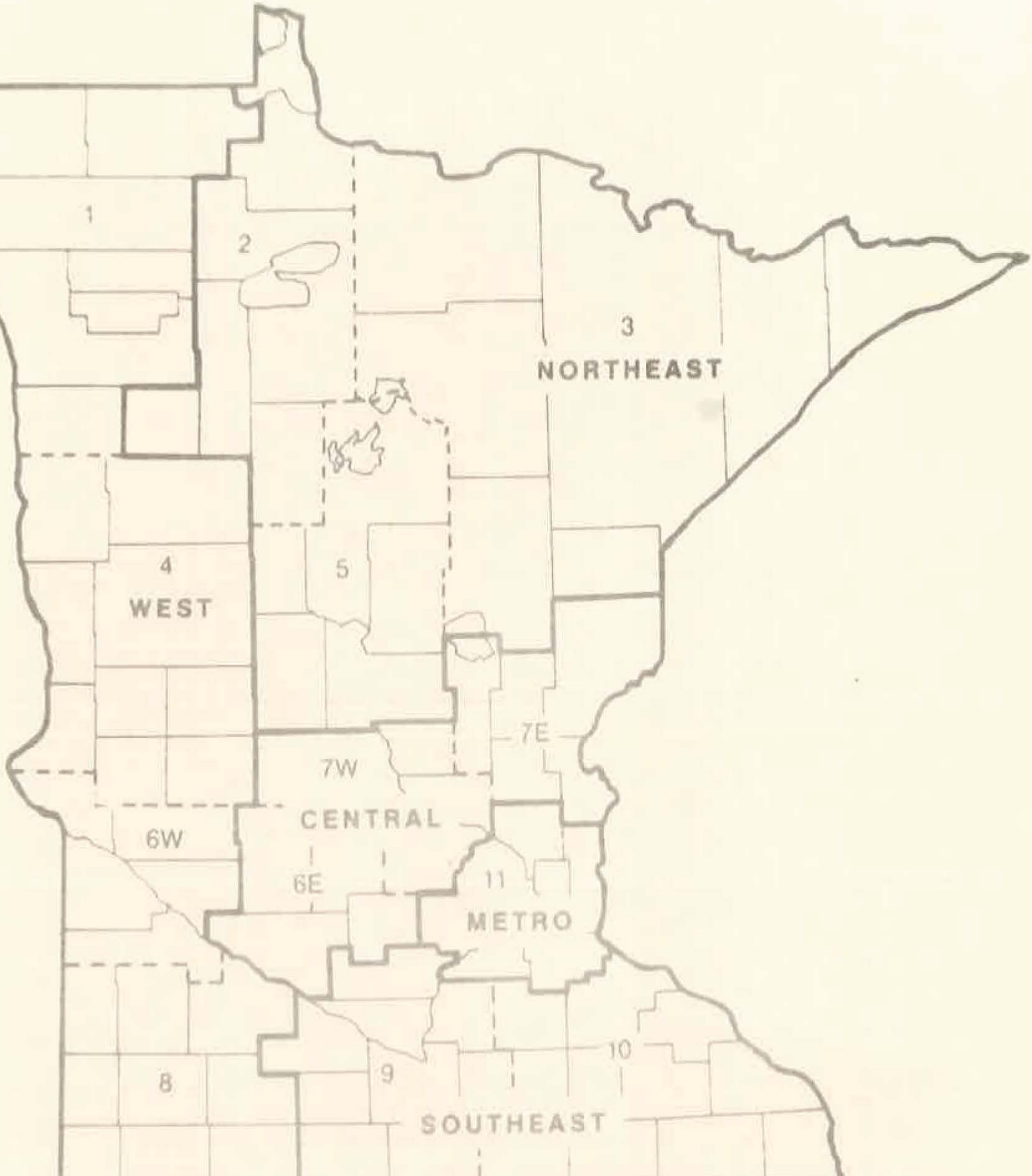
The agricultural crisis of recent years is to a large extent the result of unfulfilled expectations of the 1970s.

Production and investment decisions were made and financed by farmers and creditors who believed that the inflation, low and negative real interest rates, and high commodity prices of the 1970s would continue into the 1980s. It was also expected that the 10 percent average annual growth rate of foreign markets for U.S. grain and soybean crops experienced in the 1970s would continue.1/

The optimism of this decade, brought about by the conditions of the '70s, had several effects. First, acreage that had previously been held out of production (under government programs) came into production. New land also was cleared for crop production. Second, during this period of

FIGURE 1

MAP OF REGIONS



accelerating inflation, general optimism about farm conditions led to aggressive bidding on farmland and its price, in general, rose faster than the rate of inflation. This made land a good hedge against inflation. Because real estate accounted for about three-fourths of all farm sector assets, the surge in farm values gave farmers and other land owners large capital gains that far exceeded the net cash returns from farming. Third, real interest rates (the rate adjusted for inflation) remained low during the 1970s. In fact, in 1974 and 1975 real interest rates fell below zero!2/

Thus, low real interest rates and increasing demand and commodity prices provided the incentive to invest. In addition the rapid increases in farmland values, greater than the rate of inflation, provided the collateral to invest. Both lenders and farmers felt secure that the rising land values provided adequate collateral for loans with relatively small downpayments. During the 1970s, therefore, many farmers invested heavily in machinery and equipment, buildings, and in land improvements such as irrigation and land clearing. This new investment, in combination with the new land coming into production, translated into a 20 percent expansion in the nation's agricultural productive capacity.3/

A major reversal of these trends, however, occurred in the 1980s. Two broad factors can be singled out as underlying causes of the ensuing agricultural problems. First, worldwide recession combined with soaring loan problems of less developed countries led to decreased demand for agricultural exports of the U.S. Foreign countries also stepped up their own agricultural production as well as subsidies for agricultural production.

Secondly, the combination of restrictive domestic monetary policy, implemented to slow inflation, and stimulative fiscal policy, the result of the federal tax cut and deficit spending had three effects on the agricultural sector. First, inflation slowed and high real rates of interest resulted. Second, expansionary fiscal policies raised money demand and contributed to high real interest rates. Third, the resulting high real rates of interest led to foreign capital inflows into the U.S. These capital inflows kept the value of the U.S. dollar relatively high and made U.S. commodity exports relatively expensive to the rest of the world, shutting off even more foreign export markets.

Thus, high farm output levels, and decreased demand for output led to falling commodity prices and earnings for farmers. Likewise, farmers' equity and land values plummeted while high real interest rates and an altering of terms on farm loans (shorter maturities and more frequent rate renegotiations) meant soaring debt service that seriously eroded the financial positions of many farmers.

II. EXTENT OF THE PROBLEM - FARM SECTOR PERFORMANCE

As Table 1 shows, between 1978 and 1984 Minnesota net cash income fell dramatically. Off-farm income, grew as farmers increasingly turned to off-farm employment opportunities though not enough to offset the drop in farm income. In 1978 average off-farm income represented about 10 percent of total farm income. Net farm income fell and off-farm income increased almost 72 percent so that by 1984 off-farm income, on average, represented more than 50 percent of total income.

TABLE 1

FARM AND OFF-FARM INCOME TRENDS IN MINNESOTA

	AVERAGE FARM NET CASH INCOME	AVERAGE OFF-FARM INCOME	TOTAL
1978	$33,285	$3,639	$36,000
1984	$ 6,164	$6,257	$12,000

a/Income available for family living and debt service repayments after farm expenses are paid.

SOURCE: "Farm Operator Financial Statement Summary," Minnesota Vo-Ag Farm Business Management Report, 1985.

The general rise of U.S. farmers' debt service burden is shown in Table 2. Between 1970 and 1982 outlays for interest increased over 600 percent. Interest payments represented only 16 percent of net cash farm income in 1970 but 75 percent by 1982.

TABLE 2

INTEREST COMPONENT OF FARM EXPENDITURES

	TOTAL U.S. FARM INTEREST PAYMENTS (in $billions)	AS A % OF NET CASH INCOME
1970	$ 3.06	16%
1982	21.36	75%
1983	20.46	46%

SOURCE: U.S. Department of Agriculture (1984).

Table 3 illustrates that, in one year, net farm equity declined by 31 percent as asset values declined almost 20 percent while liabilities grew by four percent.

TABLE 3

CHANGES IN ASSETS, LIABILITIES, AND NET EQUITY, MINNESOTA FARMS, 1984-1985

	January , 1984	January 1, 1985	Percent Change
Assets ($1000)	1,570,973	1,306,476	-16.8%
Liabilities ($1000)	641,004	668,005	+4.2%
Net Equity ($1000)	929,969	638,471	-31.3%

SOURCE: Minnesota Department of Agriculture, "Minnesota Financial Survey," 1985.

The best single measure of the degree of seriousness of farmers' financial problems are debt/asset ratios. At current interest rates and net farming returns, any farm with debt of between 40 and 70 percent of total assets may be experiencing serious cash shortfalls. Those farms operating with debt/asset ratios between 70 and 100 percent are already experiencing extreme cash shortfalls; and those with debt/asset ratios greater than 100 percent are said to be technically insolvent.

It should be noted, however, that not all farms with high debt/asset ratios are experiencing financial stress. Some of the very large farms with over $500,000 per year in sales typically operate with high debt/asset ratios, due to the larger proportion of rented land and thus an asset base not reflecting the true strength of the business. Similarly, smaller farms with less than $50,000 per year in sales generally rely on off-farm income sources to obtain and repay their loans. Therefore these "hobby" farmers have not experienced the same financial stress that would be felt by farmers relying solely on farm incomes.

TABLE 4

MINNESOTA FARMS BY TOTAL SALES, 1982

	LESS THAN $10,000	$10,000 TO $99,999	$100,000 TO $249,999	$250,000 to $499,999	$500,000 OR MORE	TOTAL REPORTED
NUMBER OF FARMS	27,406	49,919	13,656	2,606	785	94,372

SOURCE: Census of Agriculture, Minnesota, 1982

The remaining farms, with sales of $50,000 to $500,000 represent the majority of commercial agriculture and are the focus of the financial crisis in the farm sector today. Table 4, a distribution of Minnesota farms by gross sales, shows that less than one percent, or 785 of Minnesota farms have gross sales over $500,000.

Table 5 (Figure 3) shows the distribution of total Minnesota farms in January 1984 and January 1985 by debt/asset ratios. Between 1984 and 1985 the percentage of technically insolvent farmers in Minnesota increased about 140 percent, from about five percent to almost 13 percent of all farms. Even more important is the 157 percent growth of debt for those farmers in that same year. Farmers experiencing no financial stress, on the other hand, decreased from 56 percent in 1984 to 48 percent by 1985. The debt these farmers held fell almost 35 percent.

In 1985, 52 percent of all Minnesota farm operators were experiencing varying degrees of financial stress. This includes those with serious financial problems as well as those who were technically insolvent. Based on the "Minnesota Farm Financial Survey," about 30,000 farms in Minnesota were in financial trouble in 1985. These 30,000 farmers held about 85 percent of total Minnesota farm debt. Thus an increasing proportion of Minnesota farmers are becoming burdened with higher debt/asset ratios as well as larger proportions of total Minnesota farm debt.

Farm lenders as well as farmers experience financial stress as farm loans increasingly go into delinquency. The decline in farm asset values has also hurt lenders' positions as less security comes to be held for new or existing loans.

TABLE 5

DISTRIBUTION OF MINNESOTA FARMS BY DEBT-TO-ASSET RATIOS, 1984 and 1985

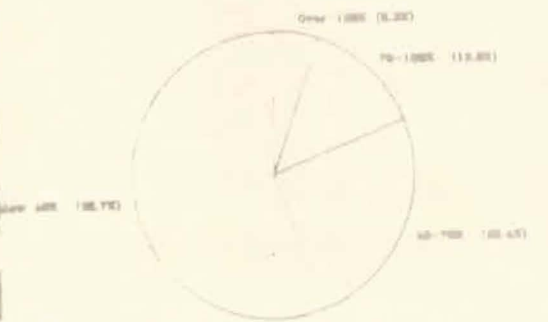
DEBT/ASSET RATIO	1984 PERCENT OF OPERATORS	1984 PERCENT OF ALL DEBT	1985 PERCENT OF OPERATORS	1985 PERCENT OF ALL DEBT	1984-1985 PERCENT CHANGE OPERATORS	1984-1985 PERCENT CHANGE IN DEBT
Over 100% (Technically Insolvent)	5.3	9.6	12.7	24.7	140	157
70-100% (Extreme financial problems)	13.6	26.6	16.8	31.2	24	17
40-70% (Serious financial problems)	25.4	41.2	22.7	29.3	-11	-29
SUMMARY 40%+ (Experiencing Varying Degrees of Financial Stress)	44.3	77.4	52.2	85.2	18	10

SOURCE: Minnesota Farm Financial Survey, 1985, Minnesota Department of Agriculture.

FIGURE 3

DISTRIBUTION OF MINNESOTA FARMS
By Debt-to-Assets Ratios

1984



1985

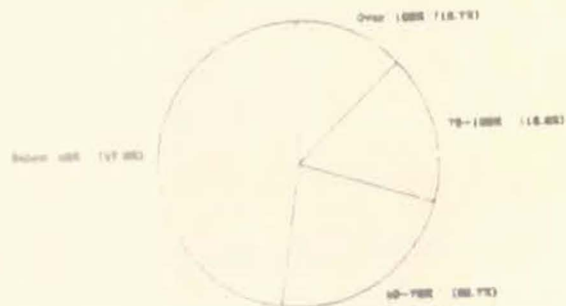


FIGURE 4

DISTRIBUTION OF MINNESOTA FARM DEBT
By Debt-to-Assets Ratios

1984 1985

Commercial banks and the Farm Credit System hold the greatest amount of farm debt. In 1985, commercial banks held 24 percent of farm debt and the Farm Credit System held 32 percent.

The critical indicator of financial stress likely to affect agricultural lenders is the debt/asset ratio. As was seen in Table 5 (Figure 4) there were about 30,000 farmers experiencing varying degrees of financial stress in 1985. More importantly, these 30,000 farmers held over 85 percent of total Minnesota farm debt.

As a result of the above, f--m loans have increasingly gone into delinquency, which ultimately means that rural businesses find it increasingly difficult to get financing.

III. DEED'S RESPONSE

The above analysis shows that the livelihoods of up to 30,000 Minnesotan farmers and their families are at stake. Furthermore lenders and lending institutions are not insulated from this crisis as evidenced by recent bank failures. Rural communities, themselves, are severely impacted as farmers' plunging incomes have led to falling revenues for existing rural businesses; and as rising bank loan delinquencies have made it even more difficult for rural businesses to obtain financing.

As discussed earlier, however, the current farm crisis is largely the result of national and international events. As a result, policy options center on federal programs such as debt restructuring assistance, loan guarantee programs, interest rate subsidies, or combinations of these approaches. While only the federal government can offer long-term solutions, State government can and should direct its available resources toward mitigating the farm sector's problems.

DEED's strategy, in response to the rural crisis, has been to direct economic development program dollars to those regions of the state in greatest economic distress. Moreover, in the most recent years, the proportion of spending directed to these same distressed regions has increased. Therefore, DEED has acted to maximize the [illegible] of its resources on the rural sector crisis.

Both the technical assistance and dollar programs of DEED can be grouped into the following categories:

1. Those aimed directly at helping farmers;
2. Those aimed at stimulating rural businesses which help farmers supplement their farm income and/or aid in their transition to an off-farm rather than farm income dependency; and
3. Technical assistance and monies aimed at maintaining viable rural communtiies.

A. <u>Programs aimed directly at helping farmers</u>

Throughout the farm states public officials are searching for innovative ways to help farmers capitalize on new opportunities. Much of the efforts are aimed at product and marketing variations. Specialty crops are becoming more popular and direct marketing through farmers' markets have undergone a huge resurgence. While most farm specific programs are provided by the Department of Agriculture and the Agricultural Extension Service, technical assistance for these types of projects are also available through DEED. In addition, funding for small grants is available from the Governor's Council on Rural Development.

One set of grants is made through the Farm and Agricultural Land Task Force, which works to increase awareness of farm problems by sponsoring projects in soil conservation, farm land preservation, farm management, and related concerns. Educational outreach is aimed at Minnesota's youth, legislators and the general public. One example of this type of grant project is the Farm Finance Restructuring Program. In this program the Northwest Minnesota Ag Action Committee received a grant to hire staff to work with 25-30 farmers in Region I. The staff person assessed farmers' needs, counseled them in coping with debt problems. The person also helped them in restructuring mortgages and debts to prevent foreclosure. Tools necessary to achieve a favorable cash flow and plans for long-range cash flow were discussed. The staff person also negotiated with farmers' creditors, if necessary, to reach agreements.

Another set of grants are provided through the Value-Added Task Force which promotes projects that process existing crops, livestock and forest products into more valuable products, and that introduce high value crops. This task force provides grant dollars for research into new products, and for the education of prospective growers and processors of these innovative products. An example of this type of project is the "Developing the Blueberry Potential in Northeastern Minnesota" project. Appropriate seedlings were cultivated in Northeastern Minnesota and potential growers were trained in soil techniques and other aspects of blueberry farming. As a resut of this demonstration, growers placed orders for 14,000 blueberry seedlings to be cultivated in 1985. This project also educated county extension agents in blueberry growing, processing, and marketing.

Table 6 shows "demonstration" grant spending by region for fiscal years 1984 through 1985. As can be seen, none of these dollars have gone to the metropolitan region. This assistance went to aid growers of agricultural and forest products in each of the other four regions, the West, Southeast, Northeast, and Central regions. The West received 32% of statewide spending, the largest proportion of all regions, while the Central region received 20%, the smallest share.

TABLE 6

DEMONSTRATION GRANTS

	FY 84-85	% OF STATEWIDE SPENDING
Metro	$ 0	0%
Central	98,221	20%
Northeast	104,387	21%
Southeast	137,808	27%
West	161,284	32%
	$501,700	100%

The Marketing Grant program makes grants available to non-profit organizations, such as Various Growers Associations, for promotion and advertising to further develop markets for Minnesota agricultural products.

The Governor's Rural Development Council holds various seminars throughout the year to provide much needed technical assistance to rural areas in the areas of soil and water conservation and farmland preservation. In 1985, 114 people participated in home-based business seminars which provided the essentials of marketing and financing rural home-based businesses. Finally, the Office has a scholarship program to help beginning farmers who demonstrate financial need with participation in farm business management programs. In 1985 477 "Beginning Farmers" scholarships were awarded.

B. Monies and technical assistance aimed at stimulating rural businesses and increasing off-farm income opportunities

Much of DEED's programs are directed at stimulating rural business investment and employment opportunities. These programs are the Federal and State Economic Recovery Fund, Minnesota Loan Program, Opportunities Minnesota (OMNI), Small Business Development Loan, Energy Loan Insurance, Energy Development Loan, Tourism Loan, and the Agricultural Processing Loan Program.

The job opportunities that result from this financing present rural farm families with opportunities to supplement their farm incomes and allow them to remain in farming where existing financial conditions would

TABLE 7
TOTAL BUSINESS FINANCING PROGRAM SPENDING
FY 84a/

	PROGRAM SPENDING	PERCENT OF STATEWIDE SPENDING	TOTAL JOBS CREATED OR RETAINED	PERCENT OF STATEWIDE JOBS
Central	$ 2,311,230	17%	396	10%
Northeast	2,201,400	16%	469	11%
Southeast	2,849,580	21%	2,455	60%
West	2,362,678	17%	465	11%
TOTAL FOR GREATER MINNESOTA	9,724,888	72%	3,785	92%
Metro	3,842,800	28%	331	8%
State Total	13,567,688	100%	4,116	100%

a/ Includes the following programs: Federal Economic Recovery Fund (FERF), State Economic Recovery Fund (SERF), Minnesota Plan, Opportunities Minnesota (OMNI), Minnesota Fund.

FY 85b/

	PROGRAM SPENDING	PERCENT OF STATEWIDE SPENDING	TOTAL JOBS CREATED OR RETAINED	PERCENT OF STATEWIDE JOBS
Central	$ 4,195,750	20%	372	9%
Northeast	4,859,000	23%	612	14%
Southeast	2,933,550	14%	952	22%
West	3,360,017	16%	780	17%
TOTAL FOR GREATER MINNESOTA	15,348,317	73%	2,716	62%
Metro	5,865,710	27%	1,647	38%
State Total	21,214,027	100%	4,363	100%

b/ Includes the following programs: Federal Economic Recovery Fund (FERF), State Economic Recovery Fund (SERF), Minnesota Plan, Opportunities Minnesota (OMNI), Business Development Loan Program (SBDLP), Energy Loan Insurance Program and To Loan Program.

FY 86 to date c/

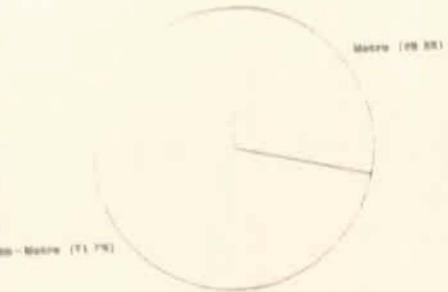
	PROGRAM $ SPENDING	PERCENT OF STATEWIDE SPENDING	TOTAL JOBS CREATED OR RETAINED	PERCENT OF STATEWIDE JOBS
Centrald/	$ 2,786,955	12.5%	39	1%
Northeast	4,082,404	18.5%	1,252	34%
Southeast	6,801,189	31 %	1,066	29%
West	4,334,403	16 %	708	19%
TOTAL FOR GREATER MINNESOTA	18,004,951	82 %	3,065	83%
Metroe/	4,032,000	18 %	609	17%
State Total	$22,036,951	100 %	3,674	100%

c/ Includes the following programs: Federal Economic Recovery Fund (FERF), State Economic Recovery Fund (SERF), Minnesota Loan Program, Opportunities Minnesota (OMNI), Energy Loan Insurance Program, Energy Development Loan Program and the Ag Processing Loan Program, Small Business Development Loan Program (SBDLP), and Tourism Loan Program.

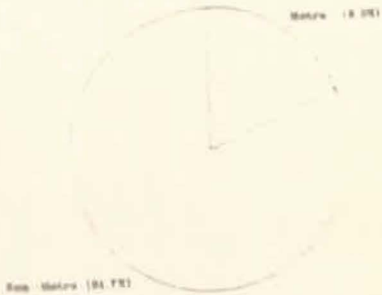
FIGURE 5

TOTAL BUSINESS FINANCING
Program Spending

FY 84



FY 86



otherwise require them to leave farming. As discussed earlier, off-farm earnings now represent 50 percent of farm families' total income. These increased rural jobs also aid those farmers who do leave farming in their transition. Table 7 presents summary data on total DEED business financing dollars by region for fiscal years 1984, 1985, and 1986 to date.

Table 7 (Figure 5) demonstrates that the rural areas have not only consistently received the largest proportion of statewide business financing, but that the share targeted to rural Minnesota has increased over the three years. In FY 1984, 72 percent of all program dollars went to the non-metropolitan regions of the state. By FY 1986 (to date), the percentage going to the rural regions reached 82 percent of DEED's funds for business programs. This trend suggests that virtually all new money appropriated to the Department since 1984 is being channeled to areas outside the Twin Cities.

If actual state and federal expenditures are used, (thereby excluding loan insurance and guarantee set-asides) the rural regions' share of statewide expenditures is even higher. Using only actual expenditures, over 85% went to the rural regions over the last three fiscal years.

This data also shows that those most economically distressed regions of the state, the Northeast, Southeast, and West, gained in shares of statewide business financing between FY 1984 and FY 1986. While these three regions received 54 percent of total program spending in FY 84, they received 70 percent in FY 86. The Metro and Central regions lost shares as the other regions gained. These two regions received 45 percent of statewide spending in FY 84 and only 31 percent in FY 86.

In order to correct for differing population densities among the regions, Table 8 and Figure 2 were developed to show per capita business finance spending by region for FY 84 and FY 85. The results of DEED's business financing programs are even more remarkable when viewed on a "per capita" basis.

First, Table 8 (Figure 6) shows that the rural regions received at least twice as many dollars per capita in business financing in FY 1984 as did the Metro region. By FY 1986, this had risen to over three times as much, for the Central region, about four times as much for the Northeast and West, and more than five times for the Southeast. Table 8 also shows that all rural areas gained "per capita" business spending dollars at rates much faster than the Metro. Those regions experiencing the fastest growth in per capita business financing dollars were the Southeast, Northeast, and the West, again, the most distressed areas of the state.

TABLE 8

PER CAPITA BUSINESS FINANCING PROGRAM SPENDING
BY REGION

	FY 84	FY 86 (TO DATE)	PERCENT CHANGE 84-86
Central	$5.10	$ 6.15	21%
Northeast	4.13	7.66	85
Southeast	4.49	10.73	139
West	4.72	8.64	83
Metro	1.88	1.98	5
State Average	$3.26	$ 5.30	63%

FIGURE 6

PER CAPITA BUSINESS SPENDING
By Region, Fiscal Years 1984 & 1986

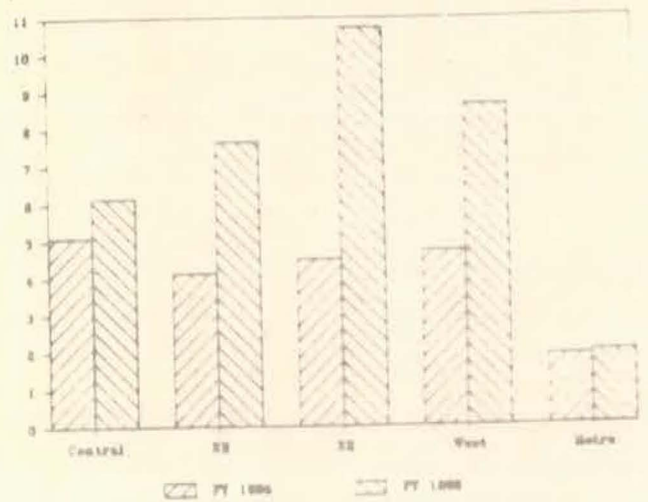


TABLE 9

DISTRIBUTION OF BUSINESS FINANCING PROJECTS BY REGION
FY 1984-TO-DATE

	NUMBER OF PROJECTS		PERCENT OF PROJECTS BY REGION	
Central	27		11.5	
Northeast	77		33	
Southeast	37		16	
West	41		17.5	
TOTAL FOR GREATER MINNESOTA		182		78%
Metro	51		22	
State Total		233		100%

This analysis shows that DEED program spending has consistently been directed at those areas in most need. Sluggish growth or losses in total employment occurred in the West, Southeast, and Northeast regions over the most recent years. Both the Metro and Central regions, however, experienced rapid employment growth, 7 and 6.7 percent respectively, over the same years.4/ In response to these regional disparities, DEED increased its shares of program spending to those regions with a growing need. Thus, DEED has attempted to maximize the potential for rural job creation and has helped to provide off-farm income opportunities for the state's farmers.

Brief descriptions of the business financing and technical programs are presented in Appendix A.

C. Programs aimed at maintaining viable rural communities

As farmers' incomes fall, rural business revenues fall and the rural community, itself, suffers. Several of DEED's programs are aimed at maintaining viable rural communities. This category includes the following programs: Small Cities Development, Public Schools Energy Investment Loan, Institutional Conservation, District Heating, Community Energy Councils, and the Star Cities program.

A summary of community program spending is presented in Table 10 (Figure 7). Reflecting the economic distress of these areas, an even greater proportion of community program monies went to rural regions of the state than the business financing programs. In 1984, 89 percent of the funds spent by DEED to support communities was directed to the four non-Metro regions. While the non-Metropolitan regions' share fell slightly in 1985, 83 percent of community funds were directed to greater Minnesota and the same three most distressed regions of the state still received the largest shares.

TABLE 10

COMMUNITY PROGRAM SPENDING, a/
FY 84 and FY 85

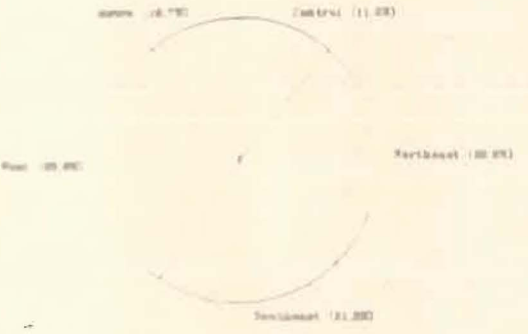
	Spending FY 1984	Percent	Spending FY 1985	Percent
Central	$ 3,194,669	11%	$ 6,024,218	18%
Northeast	7,841,936	27	6,796,578	20
Southeast	6,267,669	21	6,783,367	20
West	$ 8,709,541	30	$ 8,451,717	25
TOTAL FOR GREATER MINNESOTA	$26,013,815	89%	$27,955,880	83%
Metro	$ 3,103,882	11	$ 5,587,832	17
State Total	$29,117,697	100	$33,543,712	100

a/Includes the following program spending: Small City Development Block Grants, Public Schools Energy Investment Loan Program, Insitutional Building Grants Program, and Community Energy Council Grants (FY 85 only), and District Heating Grants/Loans.

FIGURE 7

COMMUNITY PROGRAM SPENDING
By Region

FY 84



FY 85

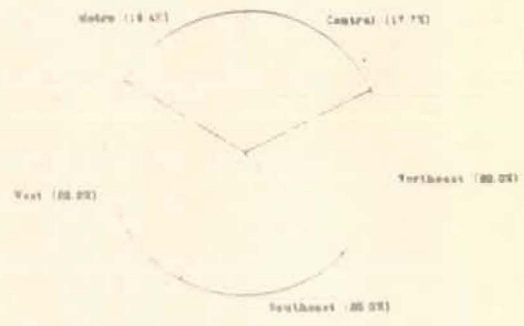


Table 11 shows per capita dollar spending by region for FY 1984 and 85. As can be seen, all of the non-Metropolitan regions of the state received greater than average per capita dollar spending in both years. Moreover, in FY 1984, each rural region received more than four times the per capita expenditure of the Metro region, with the West region receiving over 11 times the Metro average.

TABLE 11

PER CAPITA COMMUNITY PROGRAM SPENDING

	FY 1984	FY 1985
Central	$ 7.05	$13.29
Northeast	14.70	12.74
Southeast	9.88	10.70
West	17.36	16.85
Metro	1.52	2.74
State Average	$ 7.00	$ 8.08

TABLE 12

COMMUNITY PROJECTS BY REGIONa/
FY 84-85b/

	NUMBER OF PROJECTS	PERCENT OF TOTAL STATE PROJECTS
Central	43	12%
Northeast	60	17
Southeast	67	20
West	102	30
TOTAL FOR GREATER MINNESOTA	272	79%
Metro	71	21
State Total	343	100%

a/Includes Small Cities Development Grants, Public Schools Energy Investment Loan, Institutional Building Grants Program, and Community Energy Councils Grants.
b/FY 86 is not included because the majority of Small Cities Development Grants are awarded at the end of the fiscal year.

Finally, Table 12 shows the distribution of community projects over fiscal years 84 and 85. At least 79 percent of all projects occurred in the non-Metropolitan region. Similar to the business financing programs of DEED, community program projects have been concentrated in the rural regions of Minnesota. Moreover, the largest share of projects have consistently gone to those rural regions which are experiencing the greatest economic distress, the West, Southeast, and the Northeast.

A brief description of these programs to support viable rural communities is contained in Appendix B.

TABLE 11

PER CAPITA COMMUNITY PROGRAM SPENDING

	FY 1984	FY 1985
Central	$ 7.05	$13.29
Northeast	14.70	12.74
Southeast	9.88	10.70
West	17.36	16.85
Metro	1.52	2.74
State Average	$ 7.00	$ 8.08

TABLE 12

COMMUNITY PROJECTS BY REGIONa/
FY 84-85b/

	NUMBER OF PROJECTS	PERCENT OF TOTAL STATE PROJECTS
Central	43	12%
Northeast	60	17
Southeast	67	20
West	102	30
TOTAL FOR GREATER MINNESOTA	272	79%
Metro	71	21
State Total	343	100%

a/Includes Small Cities Development Grants, Public Schools Energy Investment Loan, Institutional Building Grants Program, and Community Energy Councils Grants.
b/FY 86 is not included because the majority of Small Cities Development Grants are awarded at the end of the fiscal year.

Finally, Table 12 shows the distribution of community projects over fiscal years 84 and 85. At least 79 percent of all projects occurred in the non-Metropolitan region. Similar to the business financing programs of DEED, community program projects have been concentrated in the rural regions of Minnesota. Moreover, the largest share of projects have consistently gone to those rural regions which are experiencing the greatest economic distress, the West, Southeast, and the Northeast.

A brief description of these programs to support viable rural communities is contained in Appendix B.

TABLE 13
TOTAL DEED PROGRAM SPENDING
FY 84 AND FY 85
(in millions)

Central	$15.8		16%	
Northeast	21.7		22	
Southeast	19.0		19.5	
West	23.0		24	
TOTAL FOR GREATER MINNESOTA		$79.5		81.5%
Metro	18.0		18%	
State Total	$97.5		100%	

Conclusion

The current agricultural crisis is serious and poses severe hardship on thousands of farmers, rural businesses, and rural communities alike. It has been shown that the majority of DEED's program spending has gone to help those rural regions experiencing the greatest economic distress in the past few years, the Southeast, the West and the Northeast through assistance to farmers, businesses, and rural communities. In total, 81 percent or about $80 million of DEED's program spending went to rural regions in FY 1984 and FY 1985 (Table 13). Moreover, between FY 1984 and FY 1986 the increases in business finance program spending, to a large extent, have gone to those regions that have been experiencing increasing degrees of economic distress. While these programs will not solve the rural crisis, they play an important part in encouraging the rebuilding and future development of Greater Minnesota.

REFERENCES

1/Federal Reserve Bank, Chicago, Economic Perspectives, "The Farm Credit Crunch," Nov./Dec. 1985.

2/U.S. Department of Agriculture, "The Current Financial Condition of Farmers and Farm Lenders," Bulletin N 490, March 1985.

3/U.S. Department of Agriculture, "The Current Financial Condition of Farmers and Farm Lenders."

4/Economic Report To The Governor, page 113.

APPENDIX A

TECHNICAL AND FINANCING PROGRAMS FOR RURAL BUSINESSES

A) Loan Programs: These programs are designed to complement conventional financing. As a result they provide direct loans at below market interest rates to small business where other private sources of funding are not available for the acquisition of land, building, machinery and equipment, and building construction and renovation costs. While a small business is defined by the Small Business Administration as a firm employing less than 500 employees, the Minnesota Energy and Economic Development Authority (M.E.E.D.A.) requires that firms with fewer than 20 employees receive at least 50 percent of all loans made available.

The following is a listing of these loan programs:

1) Opportunities Minnesota, Inc. (OMNI) - This is a federal (S.B.A.) program for which DEED provides staff.
2) Minnesota Fund - These funds are directed at those firms engaged in manufacturing and industrial enterprises.
3) Small Business Development Loan Program - Funds for these loans are raised through the sale of industrial development bonds and are backed by a state-funded reserve. Like the Minnesota fund monies they are directed at manufacturing and industrial businesses.
4) Tourism Loan Program - These loans are provided for expansion or renovating accomodation properties, including resorts, hotels, motels, and campgrounds with 20 or fewer employees and less than $1 millon in annual sales. The program limits purchase of a loan from local banks to $50,000 or 50 percent whichever is lower.
5) Energy Development Loan Program - Funds for these loans are raised through the sale of bonds and are backed by a state-funded reserve. This program is designed as a supplementary financial resource for businesses interested in "cost-effective" energy conservation projects or the development of alternative energy sources.

B) Grant Programs: Only one program that directly assists businesses in characterized as a grant program, the Federal and State Economic Recovery Fund. These fund grants are made available to local units of government and Indiana tribes which then use the funds for loans to private businesses for investment when other public and private financing sources are not available. These loans many be used for land, building, equipment, or for working capital.

C) Loan Guarantee Programs: These loan guarantee programs enable businesses to obtain private loan financing by quaranteering a portion of the loan. These funds may be used for the acquisition of land, building, machinery and equipment and for building construction and renovation costs.

1) Agricultural Resources Loan Program - Businesses which manufacture marketable products from agricultural resources

(including substances for use as a fuel or fuel substitute) can apply for the guarantee.

2) Energy Loan Insurance - This program provides supplementary financing for businesses interested in conservation or the development of alternative energy resources.

D) Tax Incentive Programs: Two main programs are in place to encourage economic development by providing tax reimbursements to firms that meet the specific criteria of these programs. They are listed below with a brief description of each:

1) Minnesota Enterprise Zone Tax Incentives - Enterprise zones are geographically defined areas which offer tax incentives to encourage economic development. Two types of zones qualify as Enterprise Zones - "Border Cities" and Competitive cities. "Border Cities" tax incentives are designed to promote business expansions by reducing the difference in business costs between Minnesota and neighboring states. "Competitive Cities" tax incentives are intended to encourage new economic growth in distressed areas. Tax credits are allowed to new or expanding businesses within the designated zone.
2) Qualified Economic Diversification Projects - This program offers tax payment reimbursements for manufacturing firms that invest $3 million in a project and create at least 25 jobs or invest $1 million and create 50 additional positions. These tax incentives are offered for firms located in both "distressed" and "non-distressed" counties while the specific requirements for the tax reimbursements vary depending on the type of county in which the firm is located.

E) Technical Assistance Programs: Technical assistance programs designed to help business firms are also available through many different avenues.

1) Business Finance Specialists - Field staff help businesses that have trouble receiving private sector credit find a suitable financing package involving federal, state, and private funds.
2) Small Business Assistance Office - This program provides information in the areas of regulation, licensing, financial assistance from public and private sources, and general information regarding, start-up, expansion, or operation of small businesses.
3) Small Business Demonstration Grants - Grants are provided to rural, non-profit organizations, government units or public institutions which are attempting new approaches to the problems of rural development. An example of this program, the "Otter Tail County Business Assistance Center" project, was funded in fact with this type of grant. The Fergus Falls Community College and the Chamber of Commerce sponsored this project which provides information, in-depth counseling, and technical assistance to prospective or operating business owners within the county.

APPENDIX B

TECHNICAL AND FINANCING PROGRAMS FOR RURAL COMMUNITIES

1) Small Cities Development Program: This program provides federal grants to local units of governmetn (counties, cities, and towns) for projects involving housing, public information and economic development. Application to the program is restricted to cities and towns with 50,000 or under in population. Each project must be designed to benefit low and moderate income persons, to prevent slums, and blight, or to alleviate urgent community development needs. Slightly over 30 percent of these grants go for housing rehabilitation, aound 40 percent for public infrastructure including sewer, water and street improvements, and about 25 percent of the grants go for comprehensive projects which encompass at least two of the following project categories: housing, infrastructure, and economic development. To the extent that this money is used for economic development purposes, the money is loaned out to private businesses by the community and supplements the Federal (State) Economic Recovery Fund monies.

2) Public Schools Energy Investment Loan Programs: This program provides loans to public schools only to help support energy conservation measures, aiding schools with the substitution of an expensive fuel with a relatively cheaper fuel. These energy investment measures have a positive effect on the schools' annual operating cash flow, helps to create jobs, and optimizes the long-term return on the schools' investments.

3) Insitutional Conservation Program: Federal grant monies are provided to schools, hospitals, local government units, and public care facilities for energy conservation measures. Because these types of organizations are concerned primarily with the delivery of quality service, cost-efficiency remains a secondary concern. This tends to make them less responsive to market signals that would normally stimulate energy conservation. This program is estimated to have saved $9.4 in 1985, the equivalent of 350 jobs retained by teachers, nurses, etc. Thus, lowered energy costs can mean more jobs to a community, better services at no extra cost to a community, or some combination of both.

4) District Heating: The district heating program is designed to encourage the development and expansion of economically viable hot water district heating systems. District heating is seen as an important energy alternative for Minnesota. Such systems can adjust to a wide variety of fuel sources, such as solid waste, peat, coal and others. District heating also provides a community with revenue generating options and it reduces air pollution in downtown areas by eliminating the need for individual heating systems in buildings. District heating, therefore, offers many benefits to a community. Grants for the planning of systems are first available after which design and construction loans are presented to those municipalities demonstrating economic and technical feasibility of the project as well as assurance of adequate provision for property and efficient operation of the project.

5) Star Cities: The Star Cities program presents a model for grass roots economic development planning and implementation. With the help of DEED, each local unit of government must est blish an organization responsible for the community's economic development, create a local development corporation, and set a five year economic development strategy, and successfully market its city to an industrial client. The Star City program has proved very successful at strengthening a community's potential for attracting or retaining businesses and jobs.

6) Community Energy Councils: This program provides for the development of conservation projects at the local level. Grants are issued to communities to help deliver community conservation programs to downtown businesses, homeowers, and senior citizens. They are also provided to help build cooperative partnerships between local government, utilities, and community organizations to design programs that generate high participation and ongoing local support. An estimated 36 communities and 17,000 people have participated in the local programs over the past two years.

7) "Other" Technical Assistance: Other forms of technical assistance are available to communities to help them improve their economic development skills, help achieve their economic development objectives, and create new jobs in the community. Workshops on labor and retail market surveys, business retention, business financing, and other subjects are conducted as the need arises.