

Senate Agriculture Subcommittee on Jobs, Rural Economic Growth and Energy Innovation

Senator Heidi Heitkamp, Chairwoman

Hearing: Importance of Regional Strategies in Rural Economic Development

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May 1, 2014

Chairwoman Heidi Heitkamp, Ranking Member Johanns, and members of the subcommittee, I very much appreciate the opportunity to discuss the importance of regional development strategies and how we, as practitioners, use the cohesiveness of the region as a strategy within northeastern North Dakota. I serve as the Executive Director of the Red River Regional Council. The Red River Regional Council is one of eight regional councils in North Dakota and one of approximately 540 such organizations across the United States. We are the only North Dakota regional council headquartered in a rural area, outside the region's urban center.

I come from a four-county region located in the northern Red River Valley neighboring Minnesota and Manitoba. We serve to unite and collaborate with the cities and counties within the region. Our common goal is to build and embrace a thriving area. We have been doing so for the past 40 years. We impact lives daily and this is truly my passion. It is my personal and professional mission to ensure my elementary and middle school children and their friends have quality opportunities to reside and thrive in our rural area in northeastern North Dakota.

I was a Farmers Union youth program participant and earned the North Dakota Farmers Union Torchbearer Award. This program provided the foundational education on civic engagement and responsibility which resulted in my attraction to regional councils as a career choice. Having started working at a Regional Council while a junior at the University of Jamestown in 1991, I quickly grew to appreciate the strong role an organization such as this can play – particularly in rural areas. As an intern, I worked with local officials to successfully complete grant application materials to the Economic Development Administration (EDA) to fund infrastructure improvements to the Dakota Growers Pasta Company in Carrington, ND. Starting in 1993, I served in several roles at the Red River Regional Council including disaster recovery coordinator, economic developer, housing developer, and business development

director over a 15 year period. I left the agency for five years and in 2013, returned as the Executive Director.

Today, I will highlight three essential key foundations necessary to support regional development strategies. These key foundations are:

1. leverage of private and public partners and resources;
2. program integration; and
3. vibrant rural communities that support production agriculture.

I would also like to highlight three current projects that exemplify the use of regional strategies to both solve local issues as well as set the stage for economic growth and diversification in North Dakota. These projects are:

1. Vision West ND.
2. Western Area Water Supply Project.
3. Current Comprehensive Economic Development Strategic Plan efforts underway in northeastern North Dakota.

THREE KEY FOUNDATIONS TO SUCCESSFUL REGIONAL RURAL DEVELOPMENT STRATEGIES

For successful development and implementation of regional rural development strategies, there are three key foundations that must exist. These foundations include the ability to leverage resources, establish effective partnerships, and strong communities.

#1 Key Foundation: Leverage

Leverage is our middle name in rural America. I have referred to all of our private and public local, regional, state, and federal partners as the “Capital SWAT Team.” Rural states like North Dakota, as well as the states each of you represent, have a competitive advantage with its access to our leaders and strong relationships with all of the necessary partners. This is critical when it is time to package and implement a project. Our private and public partners are very eager and responsive to quality economic development project proposals which can require five to ten financial partners to fully implement. Our tagline, Moving Ideas to Actions, requires leverage on multiple fronts all the time. Often, the RRRRC staff is the leader of the SWAT Team within the region.

As a regional council, our cities, counties, and business community rely on our expertise to be a liaison between their projects and resources. We manage multiple federal grant awards for economic development, disaster recovery, infrastructure, historic preservation, housing preservation and development, and environmental restoration.

Rural development, by its very essence, requires cooperation of multiple private lending institutions and state and federal agencies in partnership with local governments – very much in concert with the direction provided under Secretary Vilsack’s leadership. Rural regions, counties, and communities do not have adequate capital to execute development projects without these extended partnerships. Maintaining funding during the yearly appropriations process for EDA and USDA Rural Development is vital to organizations such as ours.

#2 Key Foundation: Program Integration

In North Dakota, the regional councils are independent organizations governed largely by regional elected officials. For the Red River Regional Council, member county dues comprise 13 percent of our annual revenues and approximately 87 percent is derived from contracts for grant administration, development services, program management, and funding development. As such, we need to be innovative in our ability to integrate local, state, and federal programs to provide continued services with skilled, experienced staff. We need to mesh multiple funding sources to maintain our small staff. Securing funding to pay for professional staff time to be proactive in project/program development and implementation can be the most difficult.

We currently have contractual agreements with several federal agencies including: USDA Rural Development, EDA, Small Business Administration (SBA via the Small Business Development Center (SBDC)), State Historic Preservation Office (SHPO), Environmental Protection Agency (EPA) (via the North Dakota Department of Health), US Department of Housing and Urban Development (HUD) (via the North Dakota Department of Commerce), Federal Emergency Management Agency (FEMA) (via the North Dakota Department of Homeland Security) and others.

Maintaining funding during the yearly appropriations process for both the EDA USDA Rural Development planning programs is critical to successful regional planning at the local level. Often, maintaining one staff position may require funding from multiple sources – integrating programs with similar missions. Multi-disciplines can be managed more effectively in a rural area if the programs can be integrated on some level.

While demand for our services remains high, our ability to raise the required match can become an issue. Most programs require a 1:1 match as well as prohibit funding for indirect costs without a federally approved indirect cost plan. Without an indirect cost plan, we are forced to subsidize our federally-funded programs at an additional 25 percent in many cases. As a small agency, it would be helpful if the federal government would approve an agency specific indirect cost rate for small awards similar to the SBA policy. SBA provides a nationally agreed upon facilities and administration rate of 24 percent to all recipients and sub recipients of SBDC cooperative agreements.

We are not a university that has major physical facilities – we need overhead to maintain a humble office setting and provide professionally managed services. A federal indirect rate would provide a cleaner accounting than creating line item budgets and additional tracking and reporting requirements for such expenses as rent, phone, copier, utilities, office supplies, etc.

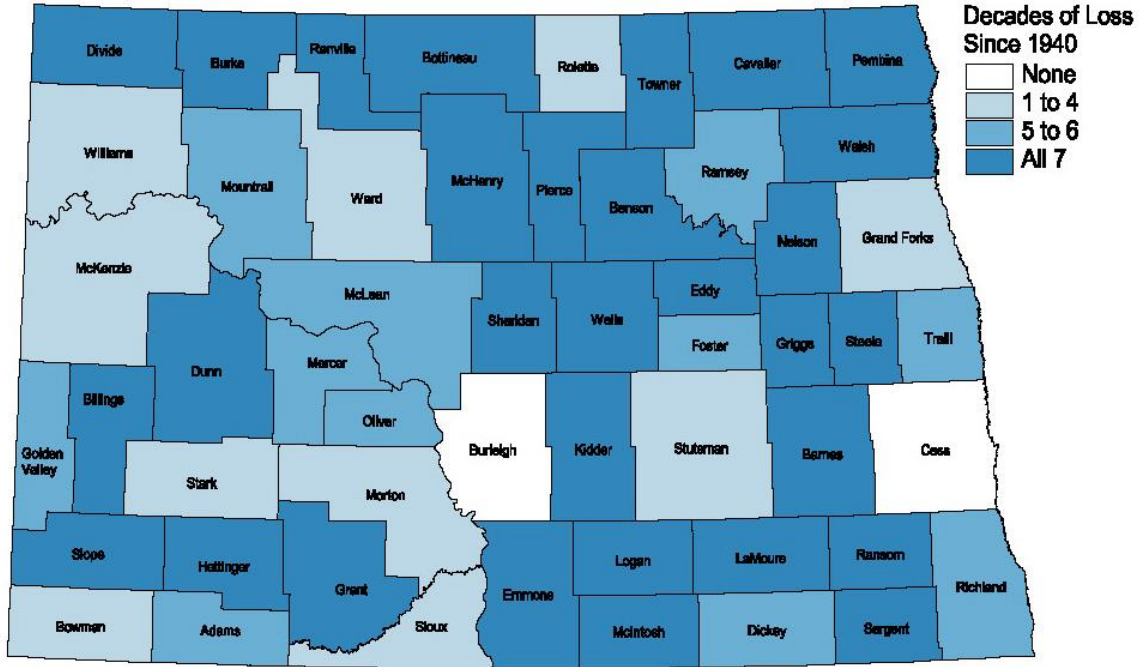
We would like to assure administrative requirements are adequate to provide necessary documentation of efforts and expenses but not so burdensome as to significantly impact our effectiveness in serving our cities and businesses. Today, technology allows us to do very accurate time and progress reporting. Because of technology, grant compliance may be simpler than in the past. We need to leverage both time and money as to most effectively to achieve results locally.

#3 Key Foundation to Successful Regional Rural Development Strategies: Strong, Vibrant Rural Communities

Agriculture has been the historic leading industry in North Dakota with approximately 25 percent of the both State’s employment and economy derived from agriculture. Energy development may become the leading industry in North Dakota, if it hasn’t already. There are 357 incorporated cities in North Dakota and only 12 of these cities have a population greater than 5,000 people. Ninety percent of North Dakota’s approximate 69,000 acre land mass is engaged in production agriculture compared to the national average of 50 percent. We could consider North Dakota a large scale agriculture production factory that has a 1.65 multiplier effect.

As efficiencies were gained through the use of mechanization, technology, and applied biological research, farmers grew both their operations and yields. This modernization required less manual labor, thus leading to population decline in rural counties. Since 1940, 30 of the 53 counties in North Dakota experienced 70 years of population decline (Figure 1). By 1990, the majority of the state’s population resided in urban areas of the state. According to the 2010 Census, 47 percent of the state’s population resided in a rural area which is down from nearly 80 percent in 1940.

Figure 1: Decades of Population Decline for North Dakota by County Since 1940

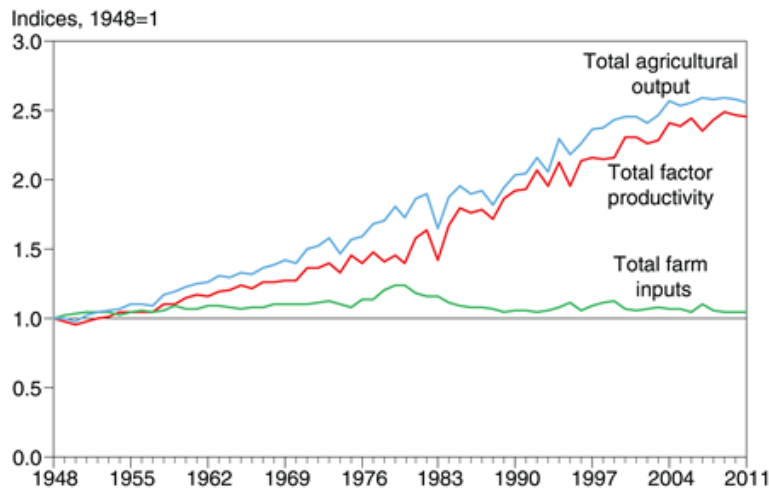


Source: U.S. Census Bureau

Gains in agriculture efficiencies and productivity have been a doubled-edged sword in rural America. Productivity is the source of much of the demise of our communities. The loss of population has had a significant impact on the ability of rural areas to maintain basic services such as infrastructure, healthcare, education, emergency services, retail establishments, utilities, and technology advancements. We’re losing our population critical mass to support these services. Rural municipalities need state and federal partnership investments to support these core facilities and services.

Even as farm acreage and manual labor applied to agriculture declined, total farm output more than doubled between 1978 and 2011 in the United States. Our area has a long history of strong production agriculture on some of the richest soils in the world. North Dakota leads the country in production of dry edible beans (25% of national production), canola (83%), flax seed (87%), honey (22%), sunflower oil (40%), durum (36%), and spring wheat (37%). Figure 2 charts the ever increasing productivity of American agriculture production.

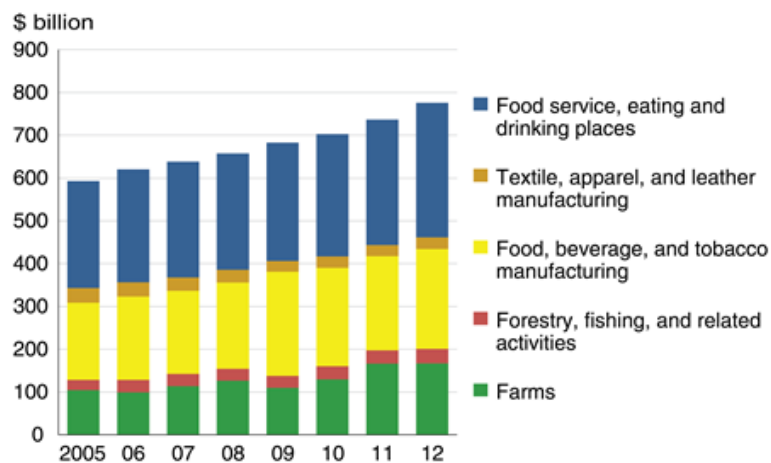
Figure 2: US Agriculture Output, Input, and Total Factor Productivity 1948-2011



Source: USDA, Economic Research Service, Agricultural Productivity in the U.S. data product.

Farming is not only the foundation in our rural communities but is also a keystone to the nation’s economy. In 2012, agriculture provided 9.2 percent of the nation’s employment. Food manufacturing represented 14 percent of the entire nation’s manufacturing industry. It’s rural America that is providing the raw products necessary for food manufacturing. The farmer producing the raw product receives approximately 15 percent of the value-added final product. The greater value of the crop is realized by processors and food services as highlighted in Figure 3.

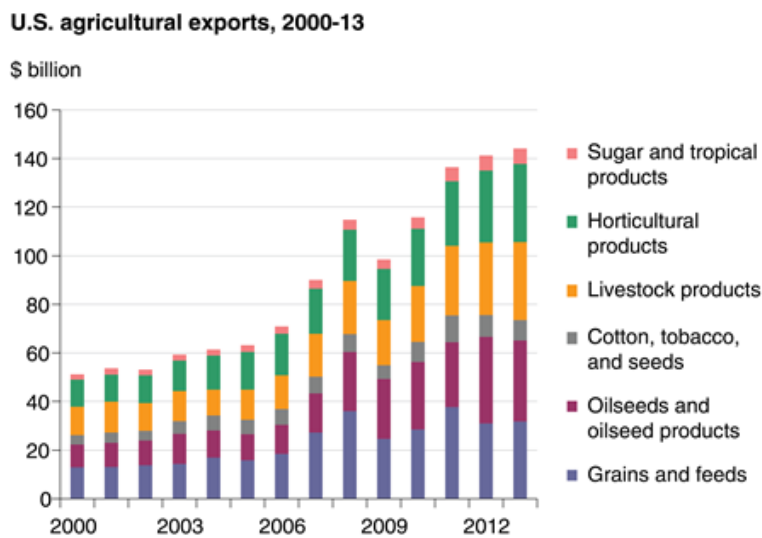
Figure 3: Value Added to GDP by Agriculture and Related Industries, 2005-2012



Note: GDP refers to gross domestic product.
Source: USDA, Economic Research Service using data from U.S. Department of Commerce, Bureau of Economic Analysis, Value Added by Industry series.

The U.S. has been exporting more and more of its agriculture commodities. These exports greatly enhance the nation’s role in the global community, as well as play an important part in homeland security. Demand from developing countries, along with higher farm commodity prices has led to a more than doubling of exported commodities from 2006 to 2013. Foreign demand for wheat, soybeans, cotton, corn and their processed products accounts for about half of U.S. export value. U.S. farm exports to developing countries are now more than double what are exported to developed countries. These trends widened the U.S. agricultural trade surplus to \$37.1 billion in 2013. A summary of U.S. agricultural exports is provided in Figure 4.

Figure 4: US Agricultural Exports More Than Doubled from 2006 to 2013



Source: USDA, Economic Research Service using data from U.S. Department of Commerce, U.S. Census Bureau, Foreign Trade Database.

Farming is an industry that must simply grow its own replacement leaders. The average age of a North Dakota farmer is 57 years old. The startup costs and high competition for land makes it very difficult for a new farmer to enter the industry without a multi-generational family investment in building that farm. Farming cannot be relocated or easily duplicated and is capital intensive. Farming can only remain an attractive career choice for our youth if the farms are supported by vibrant, thriving rural communities. Living in rural America cannot be a substandard living with less and less basic amenities.

In order to keep a percentage of today’s children in our rural area, it requires local, state, and federal partnership investments in basic necessities...water, sewer, roads, healthcare, education, utilities, telecommunications – all of which are supported in the 2014

Farm Bill. The President's FY15 budget request would cut funding for rural development programs under USDA — a priority for the Red River Regional Council and the National Association of Development Organizations — to \$2.5 billion, which is a \$456 million decrease from the FY14 funding level. The proposed cuts would be achieved, in part, through the elimination of Water and Waste Disposal and Community Facilities guaranteed loans (funded at \$50 million and \$75 million in FY14, respectively).

The country requires strategic investments in its rural communities. Not only do we need farmers, we need their families. These spouses and children assist in developing adequate, quality employment opportunities as the vast majority of small and mid-sized farms require off-farm employment for the family's living. Today's high tech farms cannot be adequately supported with low tech, substandard communities many miles away from even the most basic services.

EXAMPLES OF REGIONAL DEVELOPMENT STRATEGIES AT WORK IN NORTH DAKOTA

Regional strategies for economic development have long been a part of our North Dakota landscape. Three such regional strategies are Vision West ND, Western Area Water Supply Project, and regional Comprehensive Economic Development Strategies. Each of these initiatives is highlighted below.

In 2010, I found many new challenges working for a private engineering firm, Advanced Engineering and Environmental Services (AE₂S), for three years. As a Funding Strategist, I assisted our clients in planning and developing funding packages for large and small water and wastewater infrastructure projects in Minnesota, Montana, and North Dakota. At AE₂S, we worked with cities and rural water districts in the Bakken oil and gas production region in western North Dakota to address the ever-growing municipal and industrial needs.

The Bakken oil and gas development grew at exponential rates beginning in 2008. Since that time, North Dakota has become the second largest oil producing state, and small, rural communities cope with the challenges that come with rapid growth. This adaptation follows a period of 70 years of population decline in this agricultural area of the state. With matching grants provided by the ND Department of Commerce, we developed capital improvement plans for many cities and rural water districts in western North Dakota to determine the most efficient ways to grow water, wastewater and transportation infrastructure.

We also provided financial consulting to assess both current financial condition and project future city revenues based on property tax growth due to new development as well sales tax revenues. Cities, after experiencing decades of population and economic decline,

needed professional guidance and assistance on all fronts to learn how to manage this new opportunity and have confidence in their financial ability to grow.

AE₂S was a partner in two instrumental regional development strategies in the Bakken region: Vision West ND and the Western Area Water Supply Project. Both projects are good examples of regional strategy development which identify needs and solutions that extend beyond city and county boundaries that would be best addressed with on a regional basis.

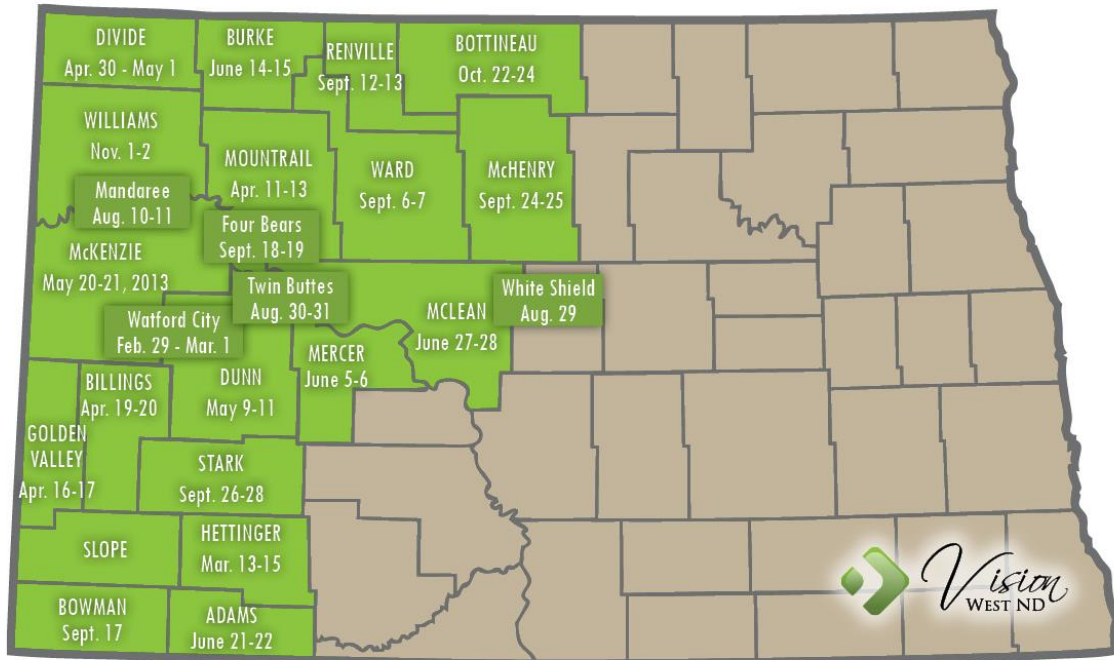
Vision West ND – A Regional Strategy for the Nation’s Fastest Growing Area

One of the top national priorities is energy independence. Due to technological advancements over the past decade, this goal is within reach. For America in general, this is very good news. For the rural people living and working in western North Dakota, however, this means a transformation in how they live their lives. Neither the assurance that the oil boom will lead to sustained economic diversification nor the ability to navigate the impacts of growth are assured.

With the quickly changing needs in western North Dakota, the HUD Regional Sustainable Communities grant program was pursued and granted to a partnership between the ND Association of Oil and Gas Producing Counties, Southwest Rural Economic Area Partnership (REAP), and the REAP Investment Fund. Matching funds were provided by the North Dakota Departments of Trust Lands and Commerce. This funding allowed for the creation of an extensive, regional rural planning project entitled Vision West ND. This effort united 19 counties and the several tribal communities on the Standing Rock Reservation. Only four of the 116 towns in the 19-county Vision West ND region have a population exceeding 3,000 people, thus creating the need for extensive planning assistance.

The project began in late fall 2011. The result of the collaboration is evidenced with a series of 23 economic development strategic plans and 26 municipal infrastructure assessments all completed in eighteen months. Additional components included planning and zoning recommendations, project schematics for priority local projects, comparative economic boom cycle analyses, and a regional plan for sustainable development. It is by implementing the Vision West ND Regional Plan for Sustainable Development that a clear path forward to a sustainable future can be pursued. The Vision West ND Regional Plan has been under development since late 2011 and will be published soon. More information can be found at www.visionwestnd.com. Figure 5 includes a map of the Vision West ND project area and includes dates of the economic development strategic planning session within each county.

Figure 5: Vision West ND Project Area Map and Economic Development Strategic Planning Dates (2012 and 2013)



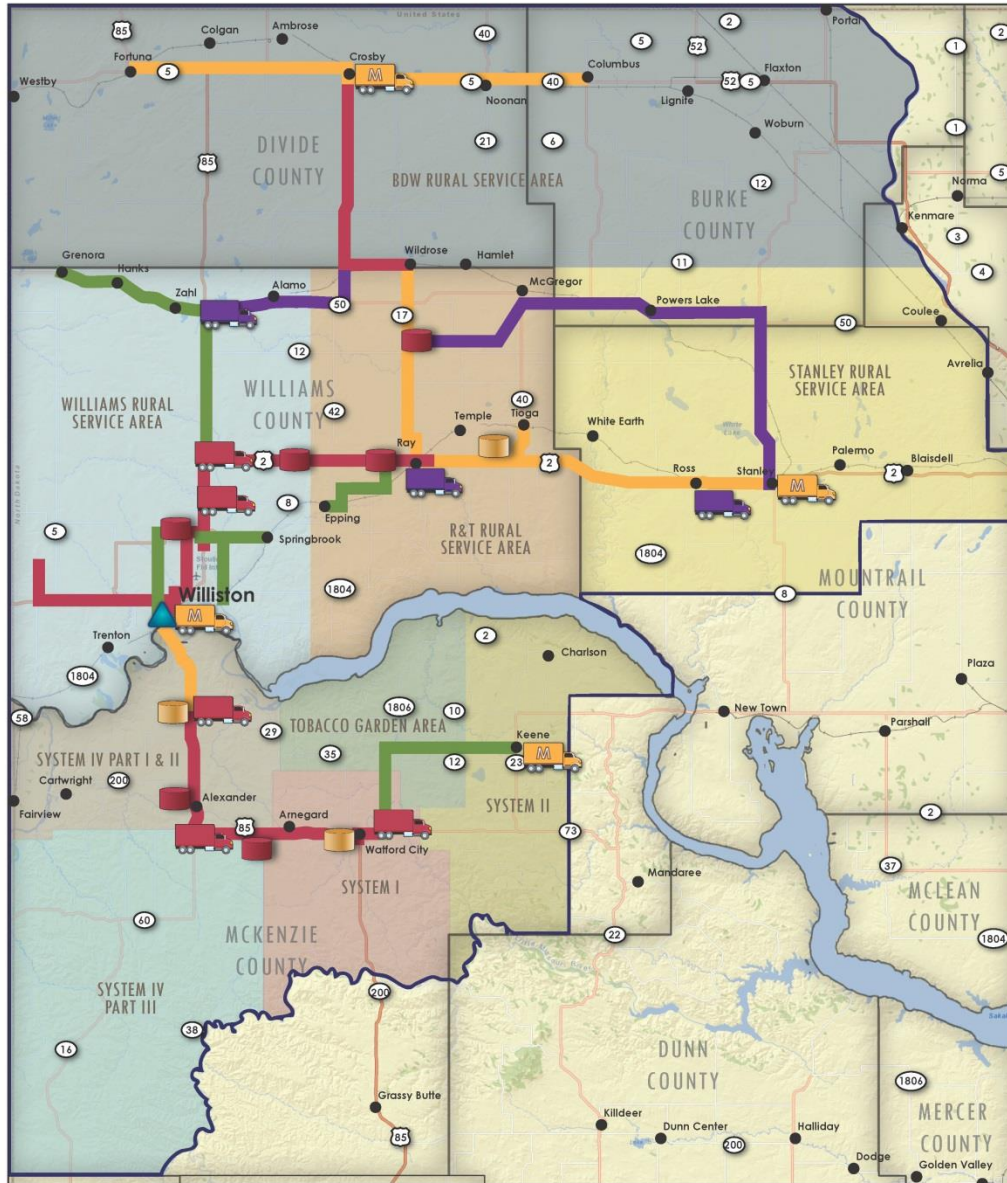
Western Area Water Supply Project – Solving Water Shortages in the Bakken Region

A fine example of a regional rural development strategy is the Western Area Water Supply Project (WAWSP). The explosive population growth resulted in domestic water rationing in some western communities. These counties required significant upgrades in domestic water supply availability in northwestern North Dakota. Four rural water districts and the City of Williston formed WAWSP to address water supply challenges throughout this area. WAWSP has been designed to meet the long-term domestic water supply need for a region that is anticipated to grow from 20,196 people (2000 population) to a projected peak population of 100,000 people.

Oil and gas development in western North Dakota is a thirsty industry. Each well requires upwards of five million gallons of water to complete the initial hydraulic fracturing process. Industrial water sales will assist in debt payments for this \$350 million domestic water supply system. Although the total cost of the project far exceeds available resources through USDA Rural Development, each of the partner rural water districts have utilized USDA Rural Development’s programs to fund portions of the individual water systems. More information can be found at www.wawsp.com. A map of the WAWSP service area is provided as Figure 6.

Figure 6: Western Area Water Supply Project Map

WESTERN AREA WATER SUPPLY PROJECT
Major Infrastructure Components
9/30/2013



- | | | |
|---------------------------------|-----------------------------------|--|
| Existing Transmission Lines | Existing Reservoir | Existing Member Depots in Operation |
| 2011/2012 Improvements | 2011/2012 Reservoir | WWSA Depots in Operation |
| 2013/2014 Improvements | 2013/2014 Reservoir | WWSA Depots Operational by Summer 2013 |
| 2015/2016 & Beyond Improvements | WTP/Intake Expansion/Improvements | Future WWSA Depots |
| WWSA Project Boundary Line | | |



Building the Comprehensive Economic Development Strategy for Northeast North Dakota

Today, the Red River Regional Council is in the process of developing our five-year regional Comprehensive Economic Development Strategy (CEDS) per a funding requirement of the Economic Development Administration (EDA). All EDA Partnership Planning Grant-funded economic development districts across the country share the same CEDS requirement.

For the Red River Regional Council's CEDS, we have adopted a similar methodology as was used in Vision West ND by starting first with four county economic development strategic plans in partnership with local Job Development Authorities. Each county has created Strategy Committees with broad based public and private membership to analyze key success factors and local capacity relative to 25 different economic and community development strategies. It is my hope that we will create and support development opportunities that will assure that the rising economic tide in North Dakota lifts all ships (regions) in the state.

As EDA requires only a regional strategy, the county strategic plans have been financially supported with additional local funds as well as USDA Rural Development in one of our counties. Our county strategic planning sessions have been well received and have even united our counties from within. From our county plans, we will establish our regional CEDS with significant input from more than 100 county strategy committee members. We like to create win-wins with our partners – our CEDS initiative is just that.

REGIONAL STRATEGIES TO RURAL ECONOMIC DEVELOPMENT ARE ESSENTIAL

Our rural communities are very small and require cross-jurisdictional partnerships to exist and thrive. By conducting regional strategic planning, opportunities and needs for such partnerships rises to the top when our regional leaders are all around the same table. Having lived within the New York City metro area for a few years, I quickly learned the value of leadership in rural areas and having the ability to make a meaningful impact. My parting words to my East Coast friends in 1993, "Someday, North Dakota will be the place to be." Who knew 20 years later, North Dakota would be leading the country with most economic indicators. The strengths of North Dakota have been bolstered by oil and gas, but the heart of North Dakota remains in agriculture which relies on healthy, strong rural communities.

The 2014 Farm Bill supports a regional approach and encourages cross-agency partnerships. We look forward to a continued, strong relationship with USDA Rural Development to implement what we can from the current legislation in our region of the country. We appreciate the ability to partner with the federal government; we appreciate the guidance; and we appreciate that USDA Rural Development supports locally and regionally driven successful projects. Thank you for recognizing the importance of programs such as these

in strengthening and creating vibrant rural communities of today and the future. You are and have been making very cost effective and wise investments in rural America.

There are three things I'd ask you remember today. Regional strategies for rural economic development require these three foundations:

1. The leveraging and partnerships between private, local, regional, state, and federal resources;
2. Effective leverage requires regional practitioners to integrate program delivery to most efficiently and effectively achieve regionally and locally driven results; and
3. The entire country relies on strong, vibrant rural communities for continued excellence in agriculture productivity for both domestic and export use.