Written Statement for the Record

The Honorable Bob Fox

Commissioner, Renville County, Minnesota

On Behalf of the National Association of Counties

for the hearing

"Examining Opportunities for Growth and Investment in Rural America"

Welcome and Introduction

Chairman Delgado, Ranking Member Fischbach, and Members of the Committee, my name is Bob Fox and I serve as Commissioner for Renville County, Minnesota and Vice Chair of the Agriculture and Rural Affairs Steering Committee for the National Association of Counties (NACo). It is an honor to participate in today's hearing on behalf of Renville County, NACo and our local intergovernmental partners across rural America.

Renville County is 982 square miles of some of the finest agricultural land that sets above the Minnesota River Valley. We hope to be one of the top producing counties in Minnesota of sugar beets and corn, depending on how Mother Nature treats us with warm sunshine and adequate moisture. Our eastern border sets 80 miles from the Twin Cities metro, while our western border is less than an hour drive to South Dakota.

While Renville County's story is unique, the overall challenges we face – which I will outline in my remarks today – are shared by rural counties everywhere.

State of Rural America

As our nation transitions to a post-COVID economy, it is important to understand the historical challenges facing rural counties preceding the COVID-19 pandemic.

Many rural counties continue to struggle with population retention. Ongoing population losses reduce our tax base, which has a direct effect on our ability to provide core services and fund infrastructure projects. Local property taxes are also the major source of revenue for counties so adverse trends in property values are significantly impacting county revenues and expenditures. And even when local governments need to raise revenue, 43 states impose some type of limitation on counties' ability to increase local taxes.

As COVID-19 hit, many rural counties continued to struggle from the 2008 Recession. In 2016, NACo reported on the Recession recovery of county governments and found nearly half of our nation's 3,069 counties had yet to fully recover from the Great Recession. By 2020, over 800 counties entered the COVID-19 pandemic without returning to Pre-Recession general revenue levels – most of which (79 percent) had a population of less than 50,000.

General revenues are the backbone of county funding because they are not restricted to a particular activity and provide flexibility to county boards in allocating funds to needed services. Unfortunately, state and federal funding is increasingly insufficient to help cover mandated county services. Most often, about 93 percent of the state and federal funding used by a county is restricted to a specific function (capital and operational grants and contributions, called "dedicated grants"). Fifty-nine (59) percent of counties recorded dedicated grants covering a smaller percent of county expenses between 2007 and 2013.[1]

Matching requirements also place many federal grant and loan programs just out of reach for rural counties. Despite significant and historic appropriations to critical programs, matching requirements make leveraging federal resources impossible for many rural counties. Subsequently, counties are increasingly forced to fund mandated services with general revenues and charges.

In Renville County, our 2021 budget concerns centered around main street businesses and the agricultural community. We provided our residents with a budget increase of only 2% through a local levy. The flexibility of local levy dollars helped Renville County meet the infrastructure needs that were not being met by state and federal programs.

We applaud the American Rescue Plan (ARP) Act for including $61.5 billion in direct federal aid to county governments in recognition of revenue losses due to the pandemic. However, throughout my remarks today, it is important to remember the U.S. Treasury is preventing local governments from using our ARP lost-revenue funds as a non-federal match. As rural counties look for ways to leverage

[1] https://www.naco.org/articles/counties-still-challenged-recession%E2%80%99s-recovery

this critical assistance – many of the USDA grant and loan programs mentioned today will remain out of reach.

County Role and the COVID-19 Pandemic

Counties are responsible for delivering a broad array of programs and services that provide a foundation for strong and stable economies. To achieve this outcome, counties make significant investments in our nation's essential infrastructure; maintain our nation's justice and public safety system; and support public health through funding for hospitals and mental health programs.

Collectively, counties own or operate over 1,000 public hospitals, 1,900 local public health departments, more than 800 long-term care facilities, and 750 behavioral health departments. Additionally, we are responsible for other essential functions including emergency operations centers, human services, jail management, 911 services, veterans' services, coroners, and medical examiners.

Renville County opened a new hospital in September 2015. The RC Hospital and Clinic was made possible by a $19 million USDA Rural Development Community Facilities direct loan, and a $4.75 million Community Facilities loan guaranteed through a partnership with AgStar Financial Services.

By mid-March of 2020, Renville County had opened our emergency operation center. County Public Health took over as the lead public health responder in partnership with Emergency Management. The Emergency Operation Center operates on a "worst-case-scenario" plan and can accommodate 30 in-patients by diverting other spaces for patient care. Public Health's major priorities for the hospital included: community mental health, continue daycare information and support, as well as assuring safe and adequate food supply for residents of the county.

In May 2020, our hospital moved forward with a new partnership with a larger health system which helped us offer drive-through testing for COVID-19 at our hospital and two satellite clinics.

While serving as our nation's front-line defense against the COVID-19 pandemic, counties are also fighting a war against crumbling infrastructure. Collectively, counties invest more than $100 billion each year in our nation's roads, bridges, transit, water systems and other public facilities to help facilitate commuters and shipping goods around the globe.

Unfortunately, the costs incurred by local governments in response to the COVID-19 pandemic vastly outpaced revenues. In a recent survey on the fiscal health of counties, NACo found that 74 percent of county respondents faced significant challenges in providing core services to residents due to increased expenses from combating the public health crisis. Prevention, mitigation, and vaccination expenses far exceeded the declining revenues for the vast majority of counties.

Additionally, long-term unemployment levels topped 4 million in January 2021 – representing roughly 40 percent of the 10 million unemployed Americans. Long-term unemployed individuals have exponentially increased the demand for local public services throughout the pandemic while local governments seek to respond to these needs with 1 million fewer workers than the year before.[2]

County COVID-19 Recovery

As I mentioned earlier, many counties that were experiencing economic hardship pre-coronavirus, appear to have experienced exacerbated economic impacts during the coronavirus recession. Specifically, rural America's recovery from the 2008 recession was woefully incomplete as COVID-19 hit in 2020 with unemployment in non-metro counties far below 2007 levels.

In August 2020, eighty-one (81) percent of counties reported unemployment levels above a healthy level of unemployment (defined by the Federal Reserve to be about 4.5 percent). This amount includes 19 percent of counties reporting local area unemployment rates far above the national average of 8.4 percent.[3]

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[2] https://www.naco.org/sites/default/files/documents/COVID%20Financial%20and%20Economic%20Impacts.pdf
[3] https://www.naco.org/resources/featured/local-area-unemployment-statistics-economic-analysis-covid-19

In July 2020, NACo estimated counties would experience a $202 billion budget impact due to COVID-19 through FY 2021, derived by increased expenditures and losses within tax and non-tax revenue streams.[4]

While the financial impact has varied by county, most counties have incurred unforeseen expenditures brought on by the pandemic. As such, stabilization of county budgets will be key in county economic recovery.

Infrastructure/Resource Needs in Post-COVID Economy

As owners of 45 percent of public roads and almost 40 percent of the National Bridge Inventory who also directly support 78 percent of the nation's public transit systems and 34 percent of public airports, counties are stepping up at the local levels to deliver critical projects for our residents despite a lack of federal investment and many state laws that prevent us from raising local taxes to support these efforts.

More than 98 percent of rural Americans receive their drinking water from small systems, the cost of which to operate and maintain is significantly higher than urban areas. The U.S. Department of Agriculture (USDA) – Rural Development's Water and Wastewater Program is critical to helping small communities improve existing infrastructure, protect their drinking water resources, and comply with federal drinking water regulations. Counties urge you to increase funding for this program to assure that the highest quality drinking water and sanitation services are available to rural America during the pandemic.

USDA-Rural Development's Electric Loan Program is a $46 billion portfolio that helps nearly 700 borrowers in 46 states finance safe, modern, and efficient infrastructure. USDA-Rural Development's financed electrical systems provide service to more than 90 percent of the nation's counties that are

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[4] https://www.naco.org/articles/county-budgets-see-202-billion-covid-19-impact

identified as suffering from persistent poverty, out-migration, or other economic hardships. The program also provides financial assistance through High Energy Cost Grants to rural communities with extremely high energy costs to acquire, construct, extend, upgrade and otherwise improve energy generation, transmission or distribution facilities. Counties urge you to fully fund these programs that are critical to maintaining services to millions of rural Americans during the crisis.[5]

Lastly, the COVID-19 pandemic underscored the true utility of broadband service. As the pandemic increased demands in teleworking, virtual learning and telemedicine, counties turned to public hotspots to meet the needs of residents. Although a concern for many years, when the COVID-19 pandemic sent everyone home to work and learn online, a rapidly growing number of people learned what many already knew – the nation's information technology infrastructure was insufficient. In both rural and urban counties, residents do not have the level of access needed to run businesses, take classes, operate machinery, and practice medicine.

While the digital divide exists in communities of all sizes, rural counties were disproportionally impacted by the lack of connectivity throughout the pandemic. In a 2020 study entitled "Understanding the True State of Connectivity," NACo reported that roughly 77 percent of small counties (0-50k in population) were – on average – experiencing the internet below the FCC's definition of a minimum standard for broadband service (25Mbps/3Mbps).[6]

In 2011, Renville County started conversations with neighboring Sibley County on how to bring internet to residents with speeds capable of meeting the demands of the 21st century. We worked with two local phone companies to improve their services and secured a new provider to work on a joint project that touched portions of McLeod, Nicollet, Renville, and Sibley Counties.

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[5] file:///C:/Users/ascott/AppData/Local/Microsoft/Windows/INetCache/Content.Outlook/3B7CQM5R/NACo%20leadership%20letter_4.6.pdf

[6] https://www.naco.org/resources/page/understanding-true-state-connectivity-america

Additionally, we secured a state grant – covering roughly 40% of total project costs – to extend middle mile fiber through Renville County. With the middle mile secured, we used COVID-19 funds to partner with two providers to extend service to our weakest areas. The expanded footprint provided service to children and parents forced to learn and work from home due to the COVID-19 pandemic.

Understandably, the industry – beholden to shareholders and profit – must direct their attention to markets that can maximize their return on investment. Fortunately, our public-private partnership was able to help attract the industry to markets that would have otherwise remained underserved or overlooked.

Not all counties, however, have the ability to leverage partnerships like ours. Currently, over 18 states impose strict restrictions preventing local governments from making much-needed investments in local broadband infrastructure and services. By restricting local governments from making the initial investments in broadband networks, we are effectively preventing local governments from providing an affordable alternative to service or partnering with ISPs that could lease networks in otherwise cost-prohibitive communities.

Programs like USDA's ReConnect Program are critical for rural counties seeking to expand and improve connectivity. In FY 2020, USDA awarded 87 individual grant awards totaling over $673 million under the ReConnect Program. However, with an average award of $6.04 million for fully funded projects, the 25 percent non-federal match would require roughly $1.5 million before a rural county could leverage ReConnect resources. You can see how slower economic recovery coupled with Treasury's ruling on non-federal matching eligibility will further prevent rural counties from addressing the digital divide.

Closing

In closing, local governments need a strong federal partner that recognizes our unique roles and responsibilities. This requires reliable, direct, and flexible funding and financing that can be adapted to meet the needs and challenges facing our rural counties.

The host of USDA Rural Development grant and loan programs are critical to rural counties across the country and demand significant attention and appropriation. However, if local governments cannot meet the steep fiscal or operational requirements to leverage these programs – our collective efforts to address the challenges facing rural America are done in vain.

Thank you for the opportunity today and I look forward to your questions.