

Accelerating American Rural Economic Development

By James P. Gibson, CEcD

11 LOW COST APPROACHES

Recognizing that rural economic development practitioners not only face a difficult work environment, but regulatory rules also present challenges. This article shares the author's perspectives in improving the rural community development process, by questioning if minor issues can be modified, then exponential results could be achieved. Can legislation governing the use of economic development public funds be relaxed in distressed communities? Can there be greater transparency with telecom companies and mechanisms for public-private partnerships? Can the concept of fragmented high schools be reformed for greater efficiency? Can future professionals get exposed to economic development while in school? Can economic development professionals be incentivized to work in distressed communities?

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accelerating american RURAL ECONOMIC DEVELOPMENT

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the New York Times recently published an article from economist Eduardo Porter, leading off with the question, 'Can rural America be saved?' He points out that rural America is getting older, making less money, and losing population – not the best indicators for future prosperity. There are a few ideas floating out there to try to arrest these trends and hopefully make rural places attractive once again. There is even a subtle hint that perhaps it's not worth it to try to 'save' rural America. Insidiously, one of the suggestions was a program of economic relocation, where if one wanted to leave rural America then the government would help pay for the move.

As someone who has lived most of their life in a small town and actively worked to make one a prosperous place, I can acknowledge the economic and demographic headwinds that my colleagues and I face as we passionately try to get wins for our rural cities.

Congress recently created the Opportunity Zones and annually renews the New Market Tax Credits; both programs are meant to direct investments into distressed areas, thereby creating jobs, stimulating the economy, and so on. Other state and federal programs operate under the same theory – a distressed community lands an employer that pays above average wages and the local economy can flourish.

However, more can be done at a fundamental level that has nothing to do with providing large incentives to companies or spending great sums of

Practicing economic development in a rural community can be challenging. But I feel it's worth it. The problem is that, simply put, the rules are different in a rural town compared to a metro area. It's like playing rugby versus playing soccer. The way economic development legislation and policy are written is that the same rules apply for everyone – big city/small town, urban/rural.

We must customize our approach and allow rural communities to get creative in order to be competitive.

public funds. The thought behind these suggestions is the rules are different for rural economic development compared to anywhere else. Many rural communities can be resistant to change and no amount of cash-waiving incentive can change that. Professional economic developers can be incentivized to work in rural communities and technical assistance programs can be targeted there as well. Some government programs simply need rules relaxed or expanded, while other problems may be easily fixed with transparency and improved communication. Following are 11 practical and simple ways to improve the rural economic development process. Each is highlighted throughout the text in *italics*.

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WHY WE OUGHT TO CARE ABOUT RURAL AMERICA

Porter quoted a reference that an innovative company cannot survive unless located in an innovation cluster and that diffusing these companies will lead to stagnation and business failures – and that may very well be true. However, if we were to agglomerate production then we would see pric-

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es increase. There is an economic theory that states as products mature in their life cycles, they need to locate in places with lower costs. So there is at least one economic reason for a vibrant rural America – we actually need good places for domestic production of low-cost goods. If we give up on rural America and more production shifts to higher cost areas then consumers would pay more. Otherwise, this production shifts to much lower cost foreign markets. However, there is a documented trend that manufacturing is coming back to the United States. Rural America should try to be on the forefront of this trend and capitalize on it as best it can.

Rural America could be a wonderful resource to solve many of our country's problems. Instead of agglomerating population and production in just a few megacities, what if that was diffused across the country?

There are tangible health benefits to living, not just in a small town, but in a place close to nature that could help combat the nation's mental health and obesity problems. The country's mental health could be improved if people were able to live closer to where they work and live among a few trees rather than a concrete jungle. Rural America has better air and water quality and is close to natural amenities like rivers, lakes, forests, and mountains. Rural America is where we grow food – and a lot of it. People would have greater access to locally grown food. If for no other reason, national food security, we all have a vested interest to keep rural America afloat.

A FAILURE OF RURAL LEADERSHIP AND VISION

Rural America not keeping economic pace with the rest of the country is not entirely an economic issue. It is the manifestation of a lack of vision and leadership in rural communities. Like many groups, those living in rural America are a proud, independent people. And if this trend is going to be corrected, rural America is going to have to confront something they should have dealt with and embraced long ago – change and how to manage it.

I grew up in Daingerfield, Texas, a town of 2,500 that once was 5,000. A large steel mill provided most of the jobs and supported other industries in the region. These were well paid, union jobs that supported a vi-

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brant economy. In the 1980's the steel mill closed down and Daingerfield has not been the same since. The mill will open up from time to time, but the employment is very cyclical. Many of the supporting industries have closed shop. Population has drained from the community. Some efforts were made to bring in other industry, but these efforts often experienced opposition, because folks are holding out that the steel mill will return to its glory days. Recently, I have been told by some in local leadership of the futility to try to diversify.

Here is a local urban legend that was told to me. In the late 1970's/early 80's, Wal Mart wanted to put its first store in Northeast Texas in Daingerfield and the town leaders said no – it will kill our downtown! Wal Mart did pass and went to another town that accepted them and that city is thriving by all accounts.

If, on the other hand, the community had rallied together to plan economic diversification, then the town might look very different after 30 years. Big box retail stores do affect downtowns – there is no arguing that. But Wal Mart will never replace the experience and customer service that a locally owned shop can provide. If the locals had realized that the downtown can complement instead of compete with the Wal Mart, then everyone has a chance to benefit.

Sadly though, leadership and vision cannot be incentivized. Either a community will have it or they will not. Or, they can be inspired to act based on what a neighbor has done.

WHAT CAN BE DONE?

I personally am not ready to give up and walk away from rural America. But what must be done? What does an intervention look like? Stimulating large-scale investment to save rural America is an unrealistic idea. If we were to just throw money at rural America and hope it catches up, then we will be greatly disappointed. But it is possible that with some policy and legislative changes to the economic development environment, rural America might begin to flourish once again.

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There is an economic theory that states as products mature in their life cycles, they need to locate in places with lower costs. So there is at least one economic reason for a vibrant rural America – we actually need good places for domestic production of low-cost goods. If we give up on rural America and more production shifts to higher cost areas then consumers would pay more. Otherwise, this production shifts to much lower cost foreign markets.

In Texas, we have the economic development sales tax, but there are certain conditions that dictate how we can use that money. Under current conditions, we are required to play by the same rules as prosperous communities. Practicing rural economic development is hard enough and the strategies to accomplish our goals are slightly different.

RULES GOVERNING USES OF ECONOMIC DEVELOPMENT FUNDS

In Texas, we have the economic development sales tax, but there are certain conditions that dictate how we can use that money. Under current conditions, we are required to play by the same rules as prosperous communities. Practicing rural economic development is hard enough and the strategies to accomplish our goals are slightly different. It would be great if there was a statutory change that allowed distressed communities to use those funds on a non-traditional project on the condition it had a documented economic impact and ROI. What would be classified as a major economic development win in a distressed community could be considered foolish in another.

1. Allow distressed communities greater flexibility in the use of economic development funds.

Here are two speculative examples: Imagine there is a remote community that once had a grocery store but is now classified as a food desert – meaning that residents must travel 10 miles or more to shop for food.

Or, imagine that a community does not have a commercial day care center. Child care might be provided by private individuals or perhaps a local church. Working families or single parents must struggle to find available child care or perhaps not work at all.

Under current policy, if someone wanted to open a grocery store or a child care center they would not be able to access any economic development funds, even though both of these projects could have a significant impact on the community.

BROADBAND ACCESS

Texas cities are statutorily prohibited from competing with telecom providers. Communities without good broadband feel the only alternative is to seek another provider or become one themselves.

AT&T has 1GB of fiber in my community. But, we had to go through a difficult process to find the right person to simply report what was already there. Maybe the telecoms need to do a better job of communicating what is already available. It might already be there, but nobody knows it. Rural communities might be willing to

put up some money to help offset the cost of extending broadband. There should be transparent mechanisms for public-private partnerships with the telecoms to extend broadband into rural areas. Nobody seems to know what the rules are for this or to whom one should talk. This process must be simplified and that's where federal legislation and regulations could help.

- 2. Require telecom companies to inform communities of existing broadband capabilities*
- 3. Change legislation to allow for communities to enter into a public-private partnership to extend broadband*

WORKFORCE DEVELOPMENT

Perhaps the largest obstacles to sustainable rural prosperity are education and workforce issues. Maybe it's time rural America reimagines public education policy as it relates to workforce development.

A cultural issue to overcome is that many rural communities' identities are linked to the school. Rural schools truly are institutions that bind the community together. And, these institutions should be cherished and preserved. But there might be another way to accomplish that.

The modern high school was designed to churn out factory workers. The problem is that different schools have different programs and the talent working at those schools can be concentrated in quality schools or specialized programs. One school may offer a culinary program while another has a STEM curriculum and another has a strong arts program and another may teach 3-D printing. Each of these schools may have less than 300 students at the high school and maybe even in all grades. Every school cannot offer every program under the sun to meet the needs of this fragmented population.

Educational policy leaders and local school boards, and maybe everyone to that extent, should realize that local high schools are graduating people to work in a regional workforce and not just for local businesses. However, the funding mechanism for local schools comes from the local property tax base and the local governing body is elected from the taxing district. This makes the focus of decisions to be very local. But few school boards are encouraged to think at a regional level.

What if the concept of high school was to be completely retooled? Let's say that an 8th grade education becomes the established minimum, much like how it was

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before WWII. High school can then become a form of advanced training. The funding of regional high schools comes from the taxing entities consolidating into larger 'districts' where the tax bases are shared. Then different high school facilities can essentially become magnet schools where the high school in one community might be a STEM school while the other one down the road might become a vocational school and so on. The students would not have to pay transfer fees, however there would be substantial transportation issues.

As mentioned above, communities see their identities in their local schools and a system such as a regional school district would never fly. But this is an example of an idea that could serve rural America well if there was the vision and leadership to champion a radical concept.

4. Change the funding mechanism for high schools where multiple schools are grouped into regional school districts. Specialized programs are housed in existing facilities. Students can choose which advanced program to attend after completing a basic 8th grade education.

TRAINING FUTURE ECONOMIC DEVELOPMENT TALENT

In most, if not all, small cities, the city manager/administrator is also tasked with running the economic development program. When I was in graduate school, we did not cover economic development. I remember our urban management professor briefly mention it in one class. There are a few dedicated economic development master's degree programs in the country, but are universities exposing public administration students to this important field? Public administration programs should include economic development in their curricula - even if it is a module within a class, an entire required class, or a specialized tract within a public administration program, universities could provide some level of training to future professionals.

Right now, rural city managers receive on the job training and economic development learning becomes more vocational in nature. That is not the ideal condition to learn, experiment, fail, and repeat. Failures in the city management profession often will be followed by a job

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With the cost of college education skyrocketing and a graduate degree even higher, well intentioned graduates who may want to work in a rural community find it difficult because of pay differentials. If someone completed a master's degree and wanted to work in economic development, they would have to look for a higher paying job to repay their student loans, and these jobs are normally found in larger cities.

loss. Further, many small towns do not have the resources to provide the training for their city managers to receive basic, much less, specialized economic development training. I was at my fourth job before I even attended classes in basic economic development because the three previous jobs lacked the financial resources to send me. And, as the city manager/administrator of a small town, you really cannot be out of the office for a week.

5. Encourage university accreditation organizations to include some level of economic development training in undergraduate and graduate public administration programs.

ATTRACTING ECONOMIC DEVELOPMENT TALENT TO RURAL AMERICA

With the cost of college education skyrocketing and a graduate degree even higher, well intentioned graduates who may want to work in a rural community find it difficult because of pay differentials. If someone completed a master's degree and wanted to work in economic development, they would have to look for a higher paying job to repay their student loans, and these jobs are normally found in larger cities. There is the Public Service Loan Forgiveness program that is designed to provide an incentive for a commitment to public service. In this program if you work 10 years in public service and make qualifying payments, the balance of your qualified loans is forgiven. This is probably not a good tool to recruit talent to lead in a rural community.

This program is fraught with problems, chief among them being that there is, essentially, an income cap. You have to make below a certain threshold over the 10 years to qualify for the loan forgiveness. And most of these economic development jobs, even in a small town, pay above that. The qualifying payments are based on your income so these are unaffordable payments anyway.

To correct this, what if a program was established that was modeled after the teacher loan forgiveness program? Under this program, if a teacher works at the same distressed school for five consecutive years, they are eligible for some loan forgiveness. The amount of forgiveness is greater if they teach in a specialized field.

Amend the Opportunity Zone authorizing legislation to allow for establishing revolving loan funds so that distressed communities could finance quality economic development plans.

Following this logic, if a professional works in a distressed community practicing economic development for five years, they can be eligible for, say \$15,000 in student loan forgiveness. Something such as this might be enough of an incentive for a student to graduate and then lead a rural economic development program.

An ancillary result of diffusing economic development talent into rural areas could be that communities would attract innovators who could lead, or at least nudge, local decision makers into new ways of thinking.

6. *Expand student loan forgiveness programs to include rural economic developers working in distressed communities.*

OTHER TALENT INCENTIVES

Community professionals, specifically teachers, police officers and firefighters, are eligible under special programs from some banks and mortgage companies to receive special treatment as it relates to mortgages. It might be a slight interest rate reduction or relaxed down payment requirements. Could economic developers working in distressed communities be extended the same consideration? If an economic development professional purchases a home it will bind them to the community, and it may turn their job into a long-term commitment.

7. *Encourage banks and mortgage companies to include rural economic developers working in distressed communities in special mortgage programs.*

TECHNICAL ASSISTANCE

Some communities may just need a solid economic development plan but they don't have the resources to fund it. Imagine that a solid economic development plan will cost \$80,000. A community may shop around for a plan at the lowest cost if they are funding it. Under this scenario, the community is at risk of getting a poor-quality plan.

There are grant opportunities that will pay for a plan. However, the community is not invested in the process or the plan, and they can allow the plan to just sit on the shelf – they didn't pay for it, why bother, and who cares? There are no political ramifications or accountability when it happens this way.

Could these new Opportunity Zone funds be allowed to form revolving loan funds where rural communities can borrow the money to fund a plan and pay it out over three to five years? When the community actually has to pay for the plan, they ought to hold themselves accountable because they are paying the bill.

What if these Opportunity Zone funds developed a consultant network of rural economic development experts and were able to use them at a reduced rate to assist distressed communities? The Opportunity Zone fund would have a vested interest in this approach because it is building the local capacity to properly manage prospects that they can in turn earn a return on their investment.

8. *Amend the Opportunity Zone authorizing legislation to allow for establishing revolving loan funds so that distressed communities could finance quality economic development plans.*

9. *Amend the Opportunity Zone authorizing legislation to allow for the funds to employ economic development consultants to provide technical assistance to distressed communities at a reduced rate.*

COMMUNITY BEAUTIFICATION

In Texas, a city can collect hotel occupancy taxes that can be used to promote tourism within that community. Arts and sports promotions are allowed uses of those funds. I would propose another use-- community beautification. One of the tests of the uses of hotel occupancy taxes is that it must generate heads in beds. But people like to visit places that are attractive. More so, people like to live in places that are attractive. If a city desired to start a community beautification program to fund things like public art, murals, and landscaping in public right of ways (ROWS), then those funds would have to come from general fund taxes like property and sales tax. These resources are already stretched providing basic services like police and fire protection. Allowing hotel taxes to finance improvements like these for beautification could easily be changed with legislation.

The rights of way controlled by the state highway departments are drab, sterile, industrial – all in the name of driver safety. Can regulations be relaxed at either the

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Let's take talent that already have a passion for rural communities and incentivize them to work there. This could be done by targeting existing student loan forgiveness programs to economic developers, encouraging them to buy houses in the towns where they work, and providing some basic training in undergraduate and graduate university programs.

state or federal levels to allow local entities to add some character to these areas like planting selected trees and shrubs or allowing for certain low-profile landscaping improvements?

10. *Change legislation allowing for hotel occupancy taxes to fund community beautification projects.*

11. *Change regulations governing the use of landscaping in state highway ROWs.*

CONCLUSION

The bottom line is that we are not going to correct a problem in five years that took 50 to create. Mr. Porter is correct that we cannot – nay, should not – incentivize saving rural America by throwing money at it.

Practicing economic development in a rural community can be challenging. But I feel it's worth it. The problem is that, simply put, the rules are different in a rural town compared to a metro area. It's like playing rugby versus playing soccer. The way economic development legislation and policy are written is that the same rules apply for everyone – big city/small town, urban/rural. We must customize our approach and allow rural communities to get creative in order to be competitive.

In order to combat failures of vision and leadership, newly created Opportunity Zones could expand their product offerings to allow rural communities to finance the development of quality economic development plans and establish subsidized consultant services. New and innovative ideas would be injected into rural America.

Let's take talent that already have a passion for rural communities and incentivize them to work there. This could be done by targeting existing student loan forgiveness programs to economic developers, encouraging them to buy houses in the towns where they work, and providing some basic training in undergraduate and graduate university programs.

Let's recognize that economic development programs behave differently and allow rural communities to get creative with economic development funds. Legislation and regulations could be changed to allow funds to be used for community beautification. Finally, reconsider the concept of high schools and the housing of training programs. Reforms like these, implemented on a grand scale, may very well make rural America competitive again and start an American Rural Renaissance. ☺

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