

Approved _____

3-21-89

Date

MINUTES OF THE SENATE COMMITTEE ON ECONOMIC DEVELOPMENT

The meeting was called to order by Senator Dave Kerr at _____
Chairperson

8:00 a.m./p.m./on March 16, 1989 in room 123-S of the Capitol.

All members were present except:

Senator Paul Feleciano

Senator Gerald Karr, Excused

Senator Jerry Moran

Senator Jack Steineger, Excused

Committee staff present: Senator Ben Vidricksen, Excused

Bill Edds, Revisor of Statutes Office

Lynne Holt, Kans Leg Research Dept

Carol de la Torre, Secretary to the Committee

Conferees appearing before the committee:

Dan Pilcher, Program Manager, Economic Development, National Conference of State Legislatures.

The meeting was called to order by Senator Dave Kerr, Chairman.

The Chairman introduced Dan Pilcher, Program Manager, Economic Development, National Conference of State Legislatures. His remarks are found in Attachment 1. Mr. Pilcher stated that states are beginning to realize that some of the state-wide economic development programs are not reaching rural areas. They are finding a need for programs geared just to rural economic development. He felt the key to the reason some communities in rural areas prosper was due to local leaders, who actively work at economic development. The states need to determine how they can encourage the leadership from the local communities. States may have an array of programs, but if there aren't leaders the communities will not be able to tap into them. Mr. Pilcher stated the need to do a "needs based assessment". The first step should be a strengths and weaknesses analysis, followed by coordination of what programs that state has.

Senator Kerr asked whether most states have one agency over their rural economic development effort. Mr. Pilcher stated there are states that draw on the resources of several departments while others have one agency. It is a mixture. He stated he would send the Committee some further examples of what other states are doing.

There being no further business, the meeting was adjourned.

**RURAL DEVELOPMENT;
RECENT STATE INITIATIVES**

A Presentation
to the

Senate Economic Development Committee
House Economic Development Committee

Kansas Legislature
Topeka, Kansas
March 16, 1989

By

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*Sen Eco - Dev
3-16-89
Attachment 1*

Introduction

For most states, rural economic development has been a prominent issue for the last several years. States, and regions within states, which have been based mainly on natural and agricultural resources, have suffered economically.

Problems of Rural Areas

Rural communities usually have lower per capita income and higher unemployment, when compared to urban/suburban areas, and are often characterized by population flight. Lack of economic opportunities in rural areas hampers the educational achievement of rural youth. Because of the lack of economic opportunities in rural areas, underemployment places large numbers of people in "working poverty."

The challenges that face states and rural communities include slowing the outmigration of population, restructuring local economies to meet the economic challenges of the 1990s, and investing prudently in infrastructure.

State Responses and Strategies

Developing Diversified Markets, Value-added Processing, and New Products and Uses

Most states have responded to the problems of rural areas by seeking to help develop diversified markets for rural products and services. In addition, states have sought to develop value-added processing of agricultural and natural resource products in-state as well as to devise new uses for those products.

Investing in Entrepreneurship

Business entrepreneurship increasingly has come to be seen as a potentially viable strategy for economic development in rural areas, just as it has become a central strategy for state economic development plans. This strategy requires a new infrastructure need for rural areas: telecommunications to enable rural businesses to use information technology.

Business Recruitment

The attraction of businesses--the strategy of business recruitment--has been for many communities the principal definition of economic development for years. The quality of rural life--pleasant and attractive environments, recreational opportunities, sense of community, appealing life-style--remains an important attribute in seeking to attract businesses.

Most states in recent years, however, have increasingly turned to sophisticated economic development strategies that stress "growth from within" and have thus de-emphasized recruitment. To the extent that a "grow your own" business strategy can be nurtured in rural areas, the business recruitment strategy of local communities may be seen in a more balanced light.

Mark Popovich, a rural development specialist at the Council of State Planning Agencies in Washington, D.C., sees small, local communities turning away from the promise of the "buffalo hunt" of recruitment because they lack the massive infrastructure that is usually needed to support relocating businesses. He cautions that there is no "panacea" for rural areas. The involvement of new people at the local level in rural development through a leadership program can help localities explore new roles and initiatives.

Broad-Based, Comprehensive Strategies

The key to why some rural communities prosper while others stagnate or wither may be found in "sustained, broad-based local economic development efforts," according to a book published in the summer of 1988 by the National Governors' Association. The report, A Brighter Future for Rural America? Strategies for Communities and States, notes that although state and federal governments can be of assistance, the leadership must come from local, individual rural communities.¹

State government can help localities anticipate and adapt to economic change.

Using a statistical model to predict job changes in 548 rural counties in seven states (North Dakota, Nebraska, Kansas, Oklahoma, Iowa, Missouri, and South Dakota) during the period 1979-84, the NGA researchers found that 15 variables, which were thought to be important in determining the economic fortunes of rural communities, explained only 17 percent of the variance.

The implication of this finding for local and state leaders is that a county can grow economically--even if it lacks a local state university, lacks access to an

interstate highway, is not near a metropolitan area, lacks a large town and has only average levels of income, college-educated people, and federal development funds. The NGA team studied 48 "high-growth" counties and then visited 16 of these counties that had experienced sustained growth. More than half a dozen "keys to success" were found to be common to encouraging rural economic development:

- o Job growth depended heavily on traditional manufacturing as well as on the more visible high-tech manufacturing and service industries. The growth firms were involved in "bending metal, making consumer products, or contributing to the ubiquitous automobile industry."

- o Most of the 14 of the 16 high-growth counties visited by the NGA team that had stressed industrial recruitment, particularly of branch plants, had recently de-emphasized that strategy. Local leaders reported helping retain existing firms and assisting their expansions.

- o "Entrepreneurship" has become a significant strategy for the high-growth communities, although new, start-up firms by local entrepreneurs had not yet become a major part of the employment base. Some firms represent a blend of the entrepreneurship and recruitment strategies. For example, Valley City, N.D., recruited an entrepreneur who started a new computer industry firm. Other towns, such as Minneapolis, Kansas, and Forrest City, Iowa, grew by recruiting branch plants of motor home manufactureres that have since been bought out by local entrepreneurs.

- o Almost all of the high-growth communities have been working at economic development for at least twenty years--and some for four decades. Attributes of their efforts included a positive attitude towards economic growth; help to firms with financing, land, and buildings; and an effective, organized partnership of local government leaders and businesspeople. Often, one person served as the catalyst to keep the momentum of local efforts moving, even when times were bad. Examples were an ex-newspaper editor, an ex-school teacher, local businesspeople, and a community activist (later elected to the state legislature). The NGA report found that having a full-time economic development professional made a significant difference for the high-growth communities.

- o Outside support was found to be another key aspect of success. Forty eight of the 102 businesses that were the source of most jobs in the 16 high-growth counties received some type of state or federal financial assistance.

o The new innovations in state-level economic development initiatives are also being applied and adapted to rural areas. This involves a wide array of programs: new forms of capital financing, especially seed and venture capital; aid to small, new technology-intensive businesses; export promotion; education reform and state job training initiatives; funding of university-based scientific research; encouragement of technology innovation and transfer.

In short, states are emphasizing a "wholesale" strategy that concentrates on long-term investments and building new partnerships between the public and private sectors to foster a positive "entrepreneurial climate" where people and institutions invest in the process of growth and take risks.

The definition, therefore, of what constitutes a favorable "business climate" is shifting away in many states from the policy of reducing business costs, often through various tax incentives and breaks, and the idea that recruitment should be the main economic development strategy.

Oklahoma, for example, in 1987 launched a group of initiatives that included developing a five-year strategic economic development plan, the Oklahoma Center for the Advancement of Science and Technology, and the Oklahoma Capital Investment Board. Many other states--Indiana, Kansas, New York, Ohio, and Pennsylvania, for example--have launched similar efforts.

o The NGA team, which examined how state economic development initiatives are being applied to rural areas, found that these policies and programs are being "customized" to fit the needs of rural areas. These adaptations include help for rural industries, encouraging community leadership, establishing rural "advocates" or rural affairs offices within state government, and supporting regional organizations.

Most state and local efforts at rural economic development are too recent to have shown measurable, demonstrated results, the NGA team cautions, and they believe that states are still in the experimental phase.

Finally, the NGA report suggests six principles that may serve to guide state efforts at fostering rural economic development:

(1) Anticipate and Adapt to Change. State policies should be organized around understanding and adapting to economic, technological, and demographic change instead of providing long-term subsidies.

(2) Catalyze Change in Institutions. States should try to catalyze change in both public and private institutions, as well as in individuals, to

increase their capability to respond to changing economic, demographic, and technological forces.

(3) Support Community-Led Growth Strategies. States must undertake community-based development strategies that respond to local problems and foster local initiatives instead of relying on state-level efforts that come from the state capitol.

(4) Work Through Public-Private Partnerships. States should encourage the establishment of public-private partnerships between government, business, and community leaders.

(5) Federal, state and local governments should establish a new "alliance" with the Federal Government delegating more responsibility to the state. The Cooperative Extension Service, rural electric cooperatives, local development districts, and other organizations that were established with substantial federal support should work more closely with state "line" agencies, such as economic development and community affairs agencies.

(6) Support Entrepreneurship, Defined Broadly. State economic development policy should encourage entrepreneurship in a broad sense, "flexible, growth-oriented firms at all phases of development, including new firms, small growth-oriented businesses, and dynamic larger corporations."

Examples of State Rural Development Initiatives

Alaska

Alaska Gov. Steve Cowper advocates that an existing energy fund be renamed and used to stimulate economic activity in the distressed "Railbelt." The fund would divide \$80 million this year and \$80 million in 1990 among communities in the Railbelt. The monies could be used for such projects as tourist facilities, "build-ready" plant sites at airports, and improved access roads and port facilities. The balance of the fund would be allocated to the state Science and Technology Foundation.

Arkansas

A noteworthy initiative has been launched in Arkansas by the Winthrop Rockefeller Foundation to encourage home-grown businesses in rural areas and small towns. The foundation committed \$5 million to a new development institution called the Southern Development Bancorporation, which is a holding company that includes a bank, a real estate development fund, a seed capital fund, a venture capital fund, and a staff of "enterprise agents" who originate deals, train fledgling entrepreneurs, and work with new firms.

SDC, which is based in Arkadelphia, is modeled on the Shorebank Corporation in Chicago. Shorebank's officers worked with the foundation in designing SDC and implementing the strategy. One loan fund was modeled after a program in Bangladesh, which makes small-business loans to low-income people but substitutes peer pressure for collateral. The state helped SDC raise \$6 million from private investors, including \$150,000 from the Arkansas Capital Corporation. Gov. Bill Clinton's economic development chief was worked on the SBC initiative, and the governor has promised that the state's finance agencies will co-invest with SDC on specific projects.

Meanwhile, Gov. Clinton is urging more assistance this year for a rural development program that was created in 1988 in 11 of the state's most distressed counties. Clinton also wants to have more counties participate in the program.

Iowa

Iowa Gov. Terry Branstad has proposed a rural enterprise fund that would provide seed money for local development organizations, support for rural business incubators, increased rural housing, and funds to expand an existing state assistance program for localities with less than 5,000 population. Branstad also advocates that the state make the commitment to a two-way, educational video communications system that eventually would serve the entire state.

Michigan

Two initiatives in Michigan warrant discussion: one involves the governor's leadership and the other involves Northern Michigan University.

In his state-of-the-state address in February 1989, Gov. James J. Blanchard announced an initiative to address in a comprehensive manner the business development needs of the state's two million rural residents.² Although forestry and agriculture have been the focus of Michigan's rural economic development efforts, the two industries account for only 8.3 percent of the state's rural economic activity. Rural areas possess, however, more than 2,500 small- to medium-sized manufacturers that make a substantial economic contribution.

Blanchard proposed the "Rural Business Partnership" to devise development investments for "quality proposals" that are generated at the grass-roots level by communities, businesses, and non-profit organizations (educational institutions, cooperatives, trade associations, etc.) The Rural Business

Partnership will bring together local communities, the state Commerce Department, Michigan State University and the Cooperative Extension Service, and Michigan foundations.

Blanchard called for four steps to address the diverse nature of rural Michigan by encouraging flexible, grass-roots generated initiatives:

- o Create a gubernatorially appointed "Rural Business^(S) Partnership Board" to advise the state Commerce Department and the governor on rural economic development, on federal rural development policy, to help coordinate efforts, and to evaluate proposals from rural areas for funding from the "Rural Business Partnership Fund."
- o Each autumn, hold a "Rural Development Conference" under the auspices of the Rural Business Partnership to spotlight the needs of rural areas and promising initiatives.
- o Appoint a Rural Business Partnership Executive Director to staff the Commission and to administer the Partnership.
- o Appropriate \$9.3 million to establish the Fund, which will "support the development and marketing of rural Michigan products and services, helping rural communities compete for private economic investment."

In Michigan, Gov. Blanchard is a Democrat and the House is controlled by Democrats while the Senate is Republican-controlled. Consequently, the bipartisanship and public-private partnership that is evident in the economic development efforts of states such as Kansas is lacking in Michigan. Whether Blanchard's proposal is adopted remains to be seen.

Blanchard's proposal is notable for several reasons. First, it is "market-driven" in that it relies on locally generated economic development proposals that must compete with each other for funding by the Rural Business Partnership Fund. In other words, the governor and the state Commerce Department are not trying to mandate a detailed strategy on rural areas. Second, it will generate local leadership initiative and build new alliances among individuals and institutions, and this may be the most important benefit of all.

A second rural development initiative in Michigan that is noteworthy is based at Northern Michigan University in Marquette, which is on the Upper Peninsula. The new president of NMU has adopted rural economic development as a major thrust of the university. The Northern Economic

Development Center at NMU is headed by Dr. Richard Anderson. The center, which has received funding from the Economic Development Administration of the U.S. Commerce Department, is notable because it emphasizes sound research analysis of the region's economic problems and because it is involved in comprehensive program delivery.

One program involves training people in homecrafts and then seeking outlets in department stores in the Detroit area. Homecrafters receive assistance in technical manufacturing, management, product quality standards, and marketing. The program also taps into the statewide Michigan Modernization Service for managerial and technical help.

Minnesota

To address the diverse needs of rural Minnesota, away from the growth areas of the Twin Cities, ~~the~~ the legislature two years ago created the Greater Minnesota Corporation, a public-private entity that was initially funded with more than \$100 million. That state's voters in November 1988 approved a ballot measure that will direct half of the net proceeds from the new state lottery to the Greater Minnesota Corporation.

Minnesota's rural development strategy is founded on education, research, and diversification. The Corporation is designed to be the linchpin in a carefully coordinated rural development effort by forming partnerships among education, agriculture, business, and labor. The partnerships will concentrate the state's applied research and development efforts on new products, firms, and jobs for the industries of the future. The Corporation's applied research program seeks to encourage the commercialization of the work of research labs.

Nebraska

Nebraska Gov. Helen Orr in 1989 will take part in a series of sessions with rural communities to help assess their strengths and weaknesses, to devise work plans for localities, and to remove barriers to cooperation and assistance among state and local governments and among communities.

New York

In New York, the Legislative Commission on Rural Resources has provided a focus for rural economic development policy and programs. Ron Brach, Commission executive director, stresses the need to recognize the "broad parameters" of rural development, including education, county and town

government services, health care, and not just a focus on agriculture. This focus on the totality and interrelationships of rural life raises the question of how states can develop a comprehensive rural development strategy.

North Carolina

In North Carolina, the state's community college system, which has 58 institutions, plays an important role in statewide economic development. It provides program for no charge to firms that modernize their plants or to new and expanding industries.

South Dakota

South Dakota Governor George Mickelson is creating a rural community development division within the Governor's Office of Economic Development, although additional funding will not be sought for the division. Several existing programs will be placed in the new division. It will serve also as a clearinghouse for localities that need help and expertise from the state.

¹ A Brighter Future for Rural America? Strategies for Communities and States, DeWitt John, Sandra Batie, and Kim Norris, National Governors' Association, Washington, D.C., 1988.

² Building the Future: The Michigan Strategy, Governor James J. Blanchard, February 1989, p. 15-16.