CREC CENTER FOR REGIONAL ECONOMIC COMPETITIVENESS

State Approaches To Developing Rural Economies

Issue Brief

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State Economic Development Executives Network
Helping State Economic Development Leaders Thrive

STATE APPROACHES TO DEVELOPING RURAL ECONOMIES

INTRODUCTION

Rural America faces unique challenges in building thriving economies – stemming primarily from geographic remoteness which makes routine economic interactions more difficult and costly for businesses. This is borne out by indicators that show declining population, limited employment opportunities, and lack of public investment that highlight potential negative consequences on the enduring economic vitality of rural communities. When rural areas decline, this sets in motion a vicious cycle of further disinvestment and decline. Rural job growth, for instance, has lagged the gains in urban areas since the Great Recession, causing rural residents to look increasingly outside their communities to find new work and opportunities. This further reduces the talent and local leadership available to build future prosperity.

This white paper developed for the State Economic Development Executives (SEDE) Network[1] describes state approaches and promising practices for rural economic development based on recent research findings and the collective wisdom of state economic development officials for improving and expanding rural regions.

Without concerted state efforts in partnership with other stakeholders, rural challenges are likely to grow. States can help develop comprehensive strategies that take stock of the existing assets and needs for rural communities and regions across America. Rural development issues frequently surface as a key concern to state leaders, and several states have recently acted by implementing programs specifically targeted to building local capacity and enhancing the infrastructure of rural communities.

[1] The State Economic Development Executives (SEDE) Network is a partnership among top state economic development officials, led by the Steering Committee of State Commerce Secretaries from across the country, with the Center for Regional Economic Competitiveness (CREC), the National Governors Association (NGA), and the State Science & Technology Institute (SSTI) working to provide content on topics of interest. The Pew Charitable Trust provides financial support for this effort.

Despite improved state economies with low unemployment, virtually every state economic development agency leader expresses their concerns about the disparity in economic performance between thriving urban areas and struggling rural communities.

In our conversations earlier in 2019, State Economic Development Executives identified several key concerns:

1. Stopping the Outmigration of Talent
2. Helping Businesses Compete
3. Creating an Environment to Attract People to Rural America

Building effective state strategies benefits from a better understanding of the existing academic and policy papers focused on what works to boost rural economic performance. At the same time, the myriad of Federal investments in rural development by agencies like the Office of Rural Development (US Department of Agriculture), the U.S. Economic Development Administration (US Department of Commerce), and the multi-state regional commissions such as the Appalachian Regional Commission and the Delta Regional Authority also offer important lessons for states considering ways to help rural communities. Input from a survey of state economic development agencies also provided invaluable insights for this report.

It is important to recognize that not all rural America are suffering from economic decline. In fact, significant parts of it are thriving while others are transitioning to become more

What is Rural?

In general, rural areas are sparsely populated, have low housing density, and are far from urban centers. However, the definition of "rural" is more complicated than it may seem. [2] Rural can span from the less populated towns outside of large and small city centers to remote areas in the mountains, plains, and deserts across the nation. In the 1910 Census, more than half of the total population (54.4 percent) lived in rural areas. In the 2010 Census, only 1 in 5 persons (19.3 percent) lived in rural areas.[3]

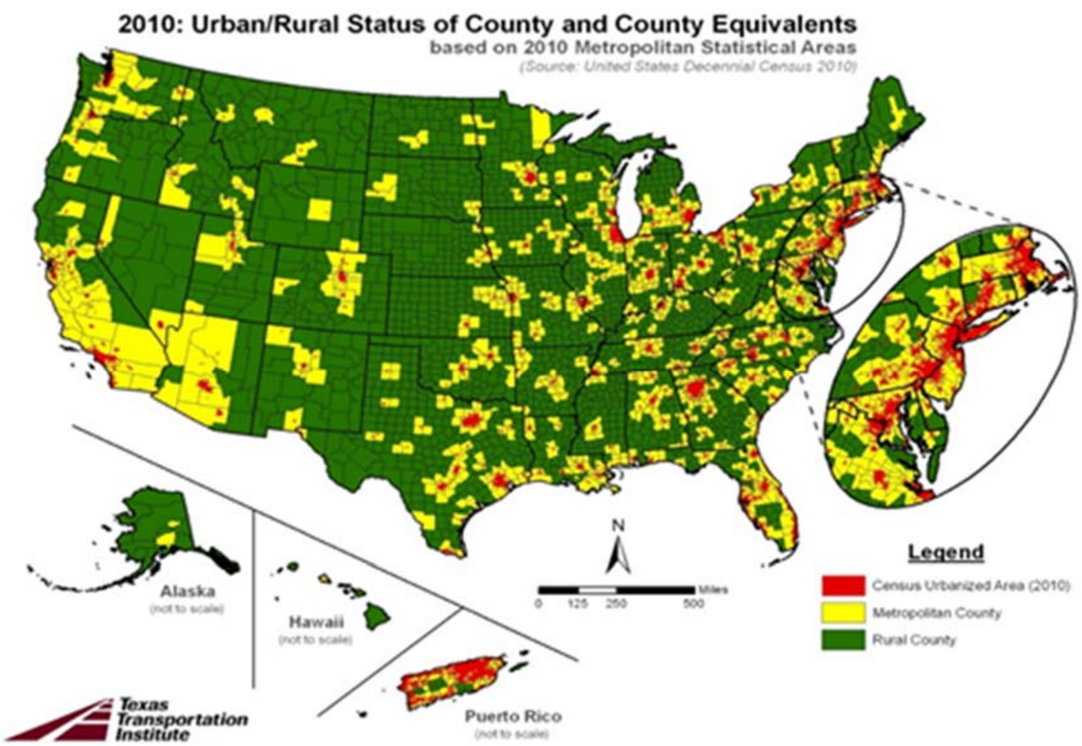
Census currently categorizes the 3,142 counties in the U.S. into three levels of rurality based on the

[2] For more information see US Department of Agriculture, Rural Information Center at https://www.nal.usda.gov/ric/what-is-rural

[3] US Census, "New Census Data Show Differences Between Urban and Rural Populations," December 2016. https://www.census.gov/newsroom/press-releases/2016/cb16-210.html

percentage of the population living in the rural areas of the county. The counties were delineated as 1,253 mostly urban (less than 50.0 percent of the county population lived in rural areas), 1,185 mostly rural (50.0 to 99.9 percent lived in rural areas), and 704 counties completely rural (100.0 percent lived in rural areas).[4] The definitional distinctions become important in the allocation of federal funds. For instance, the Catalog of Federal Domestic Assistance (CFDA) identifies 55 programs using this Census-guided definition to target program funds in excess of $30 billion to rural communities. Most Census-guided rural assistance programs provide grants (42 of 55) and rely on census-derived data to determine eligibility (47 of 55).[5] Figure 1 below provides a map of the most

Figure 1: Rural/Urban Classification of U.S. Counties



[4] The Census Bureau defines what is urban and what is rural after each decennial census using specific criteria related to population thresholds, density, distance and land use. Specifically, Census identifies two types of urban areas: urbanized areas with 50,000 or more people and urban clusters with at least 2,500 people and fewer than 50,000 people. Rural areas encompass all population, housing and territory not included within an urban area.

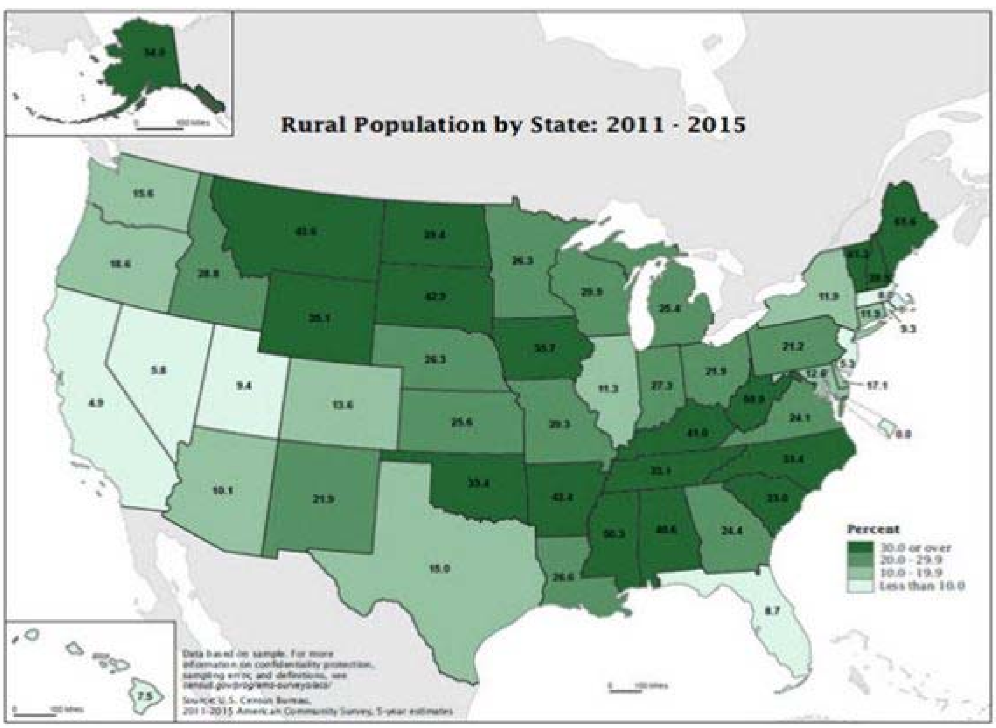
[5] George Washington Institute of Public Policy. *Federal Funding for Rural America: The Role of the Decennial Census.* December 2018.

recent classification of counties by Census.[6] About 97 percent of the country's land mass is rural but only 19.3 percent of the population (or 60 million Americans) lives there.[7]

Thirty-two states have rural populations that exceed the U.S. average of 19.3 percent. Maine, Vermont, West Virginia, Mississippi, and Montana have among the highest percentages of rural population based on the most recent Census count. Eighteen states have below average rural populations. California, New Jersey, Nevada, Massachusetts, Hawaii, Florida, Rhode Island, Utah, and Puerto Rico all have rural populations under 10 percent. None of the District of Columbia's population is considered rural. Figure 2 provides the estimated rural population by states based on the most recent figures from Census.

Using the Census definition for rural, however, is often considered insufficient because the issue of defining "rural" has a lot of nuance. That is why one recent review found the US government has at least 15 different official definitions of the word "rural."[8] Additionally, most every state uses its own definitions and it rarely aligns exactly with the way Census

Figure 2: Rural Population Concentration by State



[7] U.S. Census Bureau

[8] "The federal definition of 'rural' — times 15," Washington Post, June 9, 2013. https://www.washingtonpost.com/politics/the-federal-definition-of-rural--times-15/2013/06/08/a39e46a8-cd4a-11e2-ac03-178510c9cc0a_story.html?utm_term=.052f1f7eb60a

defines these regions. The USDA's Economic Research Service (ERS) has worked with researchers for decades in creating a variety of county classification schemes that measure "rurality," reflecting the diverse structure of smaller communities. Federal agencies use these schemes to determine program eligibility for rural communities. Among the classifications include:

- Rural-Urban Continuum Codes (nine codes, three for metro areas and six for nonmetro),
- Urban-Influence Codes (twelve codes, including ten for nonmetro areas),
- Natural Amenities Scale (six-element scheme for coding climate, topography, water areas),
- ERS Typology Codes (six mutually exclusive categories of economic dependence and six overlapping categories of policy-relevant themes).

These definitions rely on coding counties into one category or another. However, some counties are simply too large or too varied to classify simply, so ERS developed sub-county classifications schemes as well, including Rural-Urban Commuting Areas, and Frontier and Remote Area Codes.[9]

ECONOMIC PAIN POINTS FOR RURAL AMERICA

A host of economic indicators show there is a growing Rural–Urban economic divide in America. For instance, since the 2007-2009 Great Recession, economic recovery in rural communities has not matched that of urban areas. Employment in rural communities has still not returned to its pre-recession levels while metro area employment surpassed its pre-recession peak in 2013 (see Figure 3).[10] Rural areas tend to have lower average incomes, higher rates of unemployment, declining population, and greater reliance either on one major employer or on cyclical industries such as farming, mining and commodity extraction for their economic livelihood.

As rural job growth lags the gains for urban areas, rural residents increasingly must look outside their communities to find new work and opportunities. This has led to another challenge for rural areas: Brain Drain. Rural areas have seen net migration into urban areas. This is especially the case with younger more educated workers who are willing to

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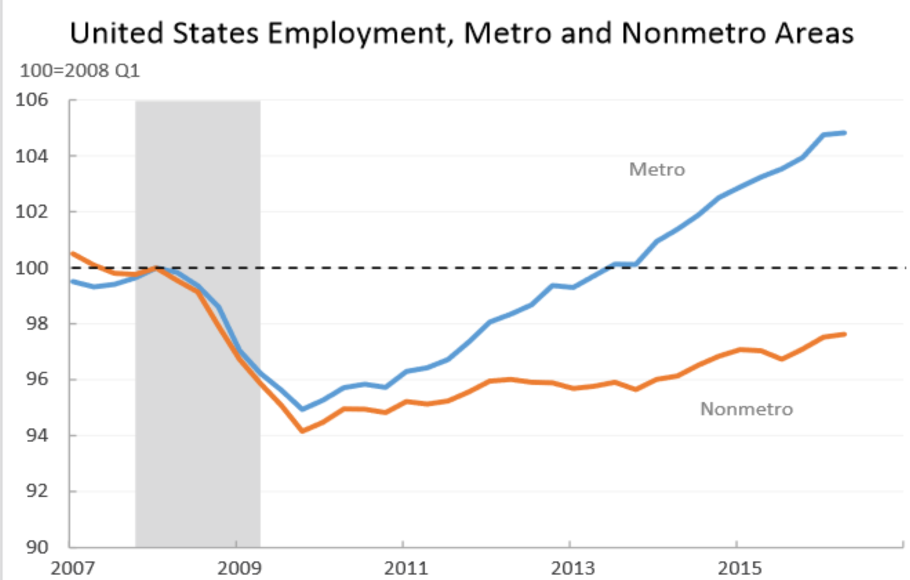
[9] For more details on this discussion and information on each of these classification schemes see: https://www.ers.usda.gov/topics/rural-economy-population/rural-classifications/

[10] U.S. Congress Joint Economic Committee. *Understanding Economic Challenges in Rural America*. Minority Staff Report, May 2017.

Figure 3: Job Recovery for Metro and Nonmetro Areas



Source: USDA ERS Calculations based on data from the Bureau of Labor Statistics Local Area Unemployment Statistics.
Note: Gray shading denotes recession. Data are indexed to the first quarter of 2008. Data is measured quarterly.

move to seek better employment opportunities.[11] This drain of rural talent is further exacerbated when major IT firms, like Google, Amazon and Apple, and other innovation-driven firms choose to cluster in metropolitan areas which are already prosperous and heavily populated, creating further net regional migration pulls.

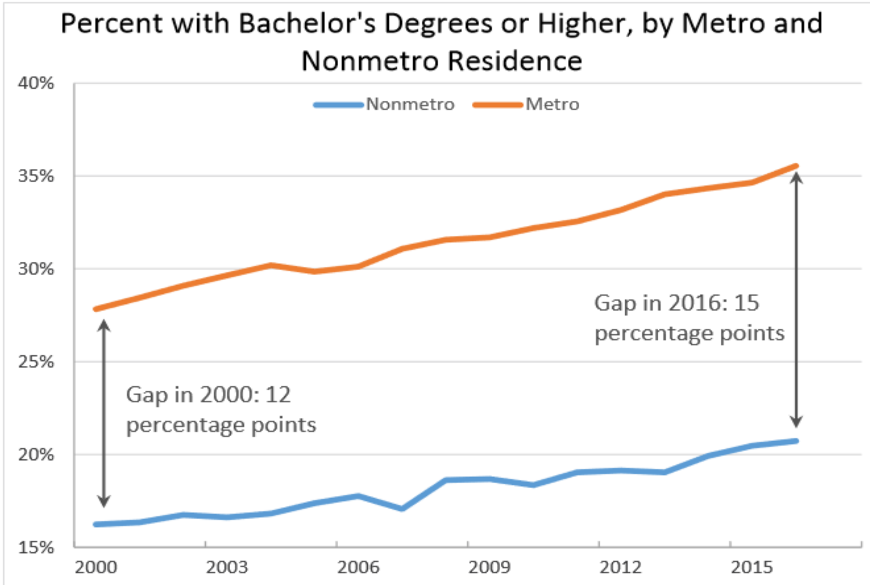
Figure 4 shows the gap between urban and rural areas for highly educated workers is growing, with a 15-point difference in college completion between metro and nonmetro workers. Having a smaller pool of skilled labor makes rural communities less attractive to investment.

Additionally, rural communities face a variety of structural challenges constraining growth. The geographic remoteness of rural areas makes routine economic interactions more difficult and costly. Insufficient rural infrastructure—roads, water systems, and access to broadband—limits the ability to grow. A full 39 percent of Americans in rural areas lack access to broadband, compared to just 4 percent of urban Americans.[12] The wider availability of broadband internet, for instance, has the potential to expand access for

[11] America's Rural – Urban Economic Divide https://www.economicshelp.org/blog/143272/economics/americas-rural-urban-economic-divide/

[12] Federal Communications Commission, "2016 Broadband Report," January 2016.

Figure 4: Educated Worker Gap for Metro and Nonmetro Areas



Source: US Census Bureau, . Data are for individuals 25 years or older.

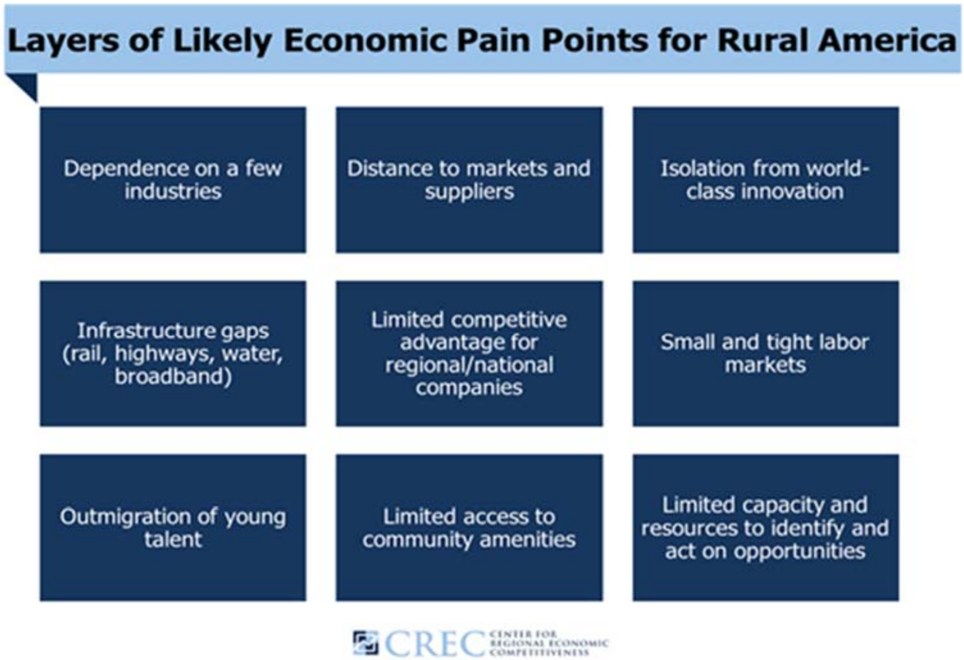
rural communities to new markets, educational opportunities, community development, health care, and other benefits. However, limitations due to geography and economic incentives make expanding broadband to rural areas difficult or unfeasible. Beyond broadband, rural leaders identified the following areas as their areas of greatest need for infrastructure investment:[13]

- Lane widening and repairs for the highways that connect distant towns and makes cross country trucking shipping safer and more efficient.
- Repairs for bridges that have begun to show signs of age and wear.
- Water infrastructure necessary to meet rural community needs while maintaining requirements under clean water laws.
- Conservation funding to preserve natural habitats for hunters and fishers.
- Public transportation that helps the elderly and disabled in rural communities.

Even opportunities to access federal funds can be more difficult for rural communities since they often do not have professional staff to prepare and submit competitive grant applications.

[13] U.S. Congress Joint Economic Committee. *Understanding Economic Challenges in Rural America*. Minority Staff Report, May 2017.

Figure 5: Economic Pain Points for Rural America



In short, Rural America has layers of problems to overcome to effectively grow their economies. The result from these various economic pain points is most evidenced in the population growth disparity between rural and urban America. According to one recent report, nearly 35 percent of rural counties in the United States are experiencing protracted and significant population loss. Those counties are now home to 6.2 million residents, a third fewer than lived there in 1950.[14] In all, 746 counties representing 24 percent of all U.S. counties are depopulating and 91 percent of them are rural. In contrast, just 9 percent of urban counties are losing population.

Addressing the challenges facing rural communities requires a comprehensive strategy that takes stock of the existing assets and needs in rural America. The work of states on economic and workforce development, infrastructure, education, and place-making education must tailor approaches to meet the unique challenges facing rural communities.

Pressing State Rural Economic Development Issues

To support the State Economic Development Executives (SEDE) Network's mission of promoting communication and collaboration among top state commerce officials, the Center for Regional Economic Competitiveness (CREC) surveyed states in early 2019 on their challenges, approaches, and successes with state rural economic development efforts.

[14] University of New Hampshire Carsey School of Public Policy, "Rural Depopulation in a Rapidly Urbanizing America," February 2019.

The State Rural Economic Development Survey asked, "Among your state's many economic development activities, how important is supporting rural economic development efforts?" On a scale of 1 to 100 – with 100 being most important – the average of respondents was 70. This indicates rural economic development is an important, but not necessarily urgent matter for state economic development organizations.[15]

Sixty percent of state EDOs have specific rural economic development plans, while another group of states incorporates rural economic development efforts into broader statewide economic development plans. When asked to identify the most pressing rural

Figure 6: Most Pressing Rural Economic Development Issues (Ranked Order)

1. Broadband Deficiency
2. Workforce Skills Gap
3. Transportation Gaps/Poor Infrastructure (roads, sewer, etc.)
4. Brain Drain - Natives Leave Area for Better Opportunities
5. Place Deterioration/Lack of Community Investment (schools, parks, etc.)
6. Population Decline/Lack of Diversity
7. Overreliance on Single or Limited Number of Industries
8. Housing Stock/Affordable Housing Decline
9. Innovation Isolation/Lack of Entrepreneurship
10. Lack of Community Leadership Training

Source: SEDE Network State Rural Economic Development Survey, February 2019

economic development issues stemming from those plans, or present in the state, the top 10 issues in rank order are identified in Figure 6.

Each of these problems are extremely complex and not easily solved. Take the top ranked issue of Broadband Deficiency in rural America. Over 19 million people in the United States lack access to broadband internet, but the problem in concentrated in rural areas, where nearly one-fourth of the population (or 14.5 million) lack access to broadband internet.[16] Most experts suggest this data understates the issues for rural areas because FCC's method for counting homes with broadband access assumes that homes could get it if at least one home in the census tract already has broadband. This is a big assumption in rural areas in which census tracts can be large. Long distances between homes and business in rural areas do nothing but increase the costs of extending broadband into

[15] There were several states that listed the importance above 90, while the lowest score given was 19.
[16] Eighth Broadband Progress Report https://www.fcc.gov/reports-research/reports/broadband-progress-reports/eighth-broadband-progress-report

rural areas. In rural Appalachia, for instance, rocky soil also inhibits traditional efforts to dig trenches for fiber optic cable.

Technological improvements show promise in bridging the rural broadband gap. Garrett County, Maryland used funding from the Appalachian Regional Commission to repurpose unused television channels known as "white space," which are often no longer in use due to the switch to digital TV.[17] These channels can act as wi-fi extenders, and their low frequencies mean they do not require a direct line-of-sight to be effective. Galen Manners of Arkansas built his own broadband network using the rooftop of a tall building in a local town, leveraging his expertise in networking cell towers. This private wireless network, now known as Wave Wireless, provides coverage to 2,500 customers across Arkansas and Kansas.[18]

Innovative policy models also can adjust the pricing model for rural broadband to make it feasible for providers to expand. For example, local governments can use a pay-for-success model to collaborate with private digital services providers. Rural communities have taken the initiative to do what internet services providers cannot or will not do: find solutions to the technical and financial impediments to rural broadband.

However, white space and wireless connections have their own regulatory and technological challenges to overcome. For example, the database of available white space is unreliable, making it difficult to use in transmitting across the shared spectrum. Wireless connections, conversely, require a line of sight between radios, meaning that tall objects (such as trees, hills, or even man-made structures) can cause interference.

Certain Federal and state policies can make rural broadband implementation easier, and there are several Federal programs funding rural broadband. For example, lawmakers in Georgia have been working to address the issues that service providers have in navigating right-of-way issues in laying down fiber optic cable. Other changes to regulations would allow phone companies to retire copper lines faster, replacing them with fiber or increasing access speeds to utility poles through a "One Touch Make Ready" rule.[19]

[17] Rural America Is Building Its Own Internet Because No One Else Will https://motherboard.vice.com/en_us/article/paax9n/rural-america-is-building-its-own-internet-because-no-one-else-will
[18] The parents of FCC Commissioner Ajit Pai were customers of Wave Wireless before they moved from the area.
[19] 50 million US homes have only one 25Mbps Internet provider or none at all https://arstechnica.com/information-technology/2017/06/50-million-us-homes-have-only-one-25mbps-internet-provider-or-none-at-all/

Grants from the FCC and Department of Agriculture help to subsidize rural broadband as well. Iowa's "Connect Every Acre" initiative gives property tax breaks to ISPs for providing broadband to unserved areas.

Rural communities continue to strive for solutions to their broadband connectivity problems, and governments, economic development organizations, and internet service providers continue to innovate. While the above technological and policy solutions are not exhaustive, they point to the fact that there may not be a single answer to bridge the divide, but a determined collection of initiatives tailored to the needs and capabilities of specific areas.

Or consider the complexity of the number eight ranked problem of Housing Stock in rural America. This is an emerging issue in importance because it is a critical element of any effort to grow the local population and attract talented workers (issues #2, #4, an #6 in the list of the most important ones facing rural areas). Housing markets are affected by three factors: demand, supply, and affordability. Rural America is challenged on all three fronts.

Even though urban growth is outpacing rural growth, demand for rural housing has increased in recent years. Some rural areas, such as the North Dakota's Bakken Shale region, saw massive jumps in population. Even in slow-growing regions, new housing demand is emerging as old housing stock deteriorates or as new residents seek different housing product than are available in these areas. Today, the economic recovery means that many regions, especially in the Great Plains and Mountain West, need new housing for new workers in-migrating for open jobs.

As demand has grown, supply has stagnated. A number of causes are at work. Rural populations are older, and older rural residents often age in place. Overall in-migration and out-migration rates are also lower. As a result, there is limited churn in rural housing markets.

Rural housing supply is further constrained by two other factors: declining quality of existing housing stock and higher construction costs in rural areas. The maintenance backlog on existing residence is large. Federal sources estimate that nearly 6% of rural homes are substandard.[20] Higher relative construction costs also create barriers to new construction and

[20] Housing in Rural America, http://www.ruralhome.org/storage/documents/ts2010/ts-report/ts10_rural_housing.pdf

aggressive maintenance. A recent Minnesota study found that labor shortages, increased labor costs, and higher material costs have deterred developers from building new housing in rural regions.[21] Finally, declines in federal rural housing programs further exacerbate this situation.

Affordability is affected by the decline in federal funding for rural housing and is of course worsened by rising poverty in rural regions. A recent Urban Institute analysis of rural housing challenges finds, not surprisingly, that America's poorest regions, such as the Mississippi Delta and border regions in Texas, also have the most pressing housing affordability problems.[22]

As these pressures have built up, the impacts of housing challenges are affecting multiple groups in rural regions. Certainly, impoverished families and those in precarious economic conditions continue to pay the price, spending limited funds on increasingly pricy substandard housing. Meanwhile, community economic development prospects are also at risk as states and regions seeking to attract new workers and new residents have no place to house them.

Consider a few snapshots. In New Hampshire, the rental vacancy rate is 1.96% and median rental costs have jumped 20% in five years.[23] Without new housing, the state can't attract and retain new workers. Nebraska and other Midwest states face similar pressures. For example, in Platte County, NE, it is estimated that there are 990 unfilled jobs. Yet, there are only 65 homes available on the market.[24] The math just won't add up.

These housing challenges continue to wrack impoverished rural regions, while also limiting the growth options for communities that have open jobs and business opportunities. The crisis further hurts rural regions as they cannot benefit from the economic stimulus that comes from the construction of new housing. These impacts are sizable. For example, a study in Colorado found that home building accounted for 3.4% of gross state product.[25]

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[21] Center for Rural Policy and Development, "The Workforce Housing Shortage: Getting to the heart of the issue," April 2018.
[22] Urban Institute, "Rental Housing for a 21st Century Rural America," October 2018.
[23] New Hampshire Business Review, "How workforce housing affects the economy," January 2019.
[24] Wall Street Journal, "Rural America Has Jobs. Now It Just Needs Housing," May 2018.
[25] Housing Colorado, "Driving a Vibrant Economy: Housing's Role in Colorado's Economic Success," January 2017.

Addressing the rural housing crisis will require a mix of solutions, and here are a few ideas that deserve more attention.

- *Increase Public Funds for Housing*. It's unavoidable that we'll need more money to address current housing challenges. HUD and USDA programs fund a large share of affordable workforce housing in rural America, and they are not doing enough to address the problem. It's been estimated that USDA could face a $5.6 billion shortfall in capital needs for its current portfolio of properties by 2024.[26]
- *Develop New Incentives for Rural Housing Development:* High construction costs and less well-heeled customers mean that rural housing developers face something of a "market failure." Their returns from building rural workforce housing may be insufficient, encouraging continued focus on urban regions or in building higher-end housing. The range of potential incentive options is large and should include creation of new state and local funding pools, tapping into existing programs like Community Development Financial Institutions (CDFIs) or Opportunity Zones, and better utilization of other incentives such as the Community Reinvestment Act and the Duty to Serve program focused on Fannie Mae and Freddie Mac-backed mortgages in rural markets.[27]
- *Promote New Kinds of Housing in Rural Regions*: Owner-occupied single-family homes remain the norm in most rural places, but other housing options are needed. For instance, new kinds of senior housing could be especially important—not only to provide better and safer living options for seniors, but to also open more existing housing stock for new residents and families. Similarly, manufactured housing production could fill an important niche in the rural housing mix, but financing for these units can be challenging.[28]

As we continue much-needed public conversations about how to build a more prosperous America for all citizens, we must not forget that housing needs to be a key part of these conversations—not just in offsetting the high cost gentrifying urban areas but in providing more opportunities for people to live in rural regions. This is smart policy for economic mobility and for economic development as well.[29]

RECENT TRENDS AND PROMISING INITIATIVES IN RURAL ED

[26] USDA, https://www.rd.usda.gov/files/reports/USDA-RD-CPAMFH.pdf
[27] Federal Housing Finance Agency, https://www.fhfa.gov/PolicyProgramsResearch/Programs/Pages/Duty-to-Serve.aspx
[28] Check out the I'M HOME Network for one example. https://prosperitynow.org/get-involved/im-home
[29] Our thanks to Erik Pages, President of Entreworks Consulting and CREC Senior Fellow, for providing permission for us to reprint this blog post as part of this report. The original posting can be found at: http://entreworks.net/Newsletter/CurrentNewsletter.htm

There are several emerging trends in terms of rural development strategies. First, there are some rural places that are thriving right now, mostly through leveraging existing assets like scenic amenities, or by having meaningful economic links to a major metro area, or by capitalizing on some other inherent asset or strength like being situated near oil or gas reserves. For those rural communities not as fortunate, key attributes contributing to strong economic growth include leveraging universities and research institutions; community colleges and workforce development; entrepreneurial awareness, support, and access to early-stage risk capital; diversified and thoughtful strategic economic development planning; opportunities to grow manufacturing, logistics/supply chain, and foreign direct investment; opportunities to grow technology, professional, scientific and technical Services; and quality of place. [30]

Patience is also required in building the foundation for economic success, as it is becoming less and less likely that leaders can lure a homerun project or savior business to rural communities. This has led to a growing trend towards more organic community development strategies. The focus here is on collaborative community development and community building. This entails building a good quality of life in the community, with

systematic input from local residents, instead of the posture that rural areas will take any job that they can get. For example, the Orton Foundation is promoting the community heart and soul methodology which actively seeks to incorporate the collective wisdom of all residents. Community Heart & Soul brings people together to build stronger, healthier and more economically vibrant small cities and towns based on what matters most to everyone.[31]

Another trend is targeting niche emerging markets, which involves taking a much more refined industry focus than just supporting Agriculture or Manufacturing efforts. Instead, analysis and evidence of potential for growth would lead to a specific focus on precision agriculture, hydroponics, or leveraging shale gas assets to promote plastics manufacturing from the by-products in an area, as examples. The niche focus would then lead to the deliberate building of networks and contacts in these markets and planning for the development of supportive state and community ecosystems. The niche industry approach

[30] Ross DeVol, *"Micropolitan Success Stories from the Heartland,"* Walton Family Foundation, May 2018. The research highlights five growing micropolitan areas, including Findlay, Ohio; Brookings, South Dakota; Oxford, Mississippi; Jasper, Indiana; and Ardmore, Oklahoma.

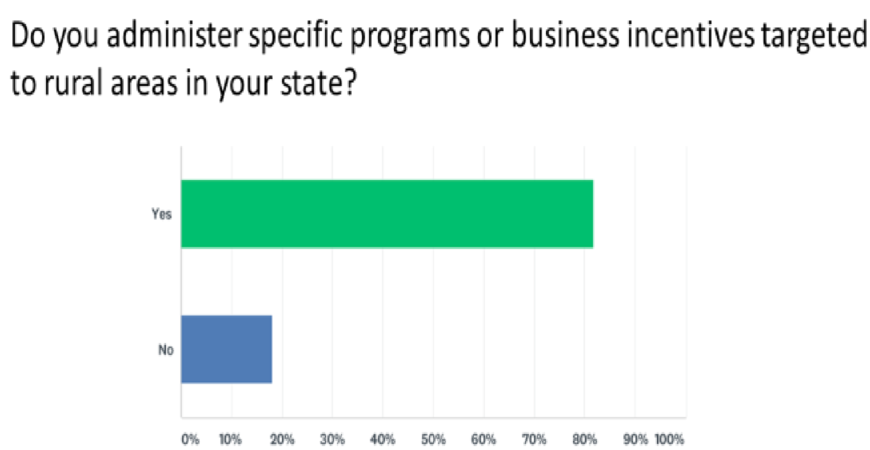
[31] http://www.orton.org/build-your-community/work-with-us/

can also tie nicely into more inclusive strategies of supporting entrepreneurship broadly, and in planning for how states and regions can embrace the gig economy.

RuralRISE is one such effort driving entrepreneurial ecosystem development in rural communities with sponsorship and support from the Kauffman Foundation.[32] Through discussions with 170 participants at the first RuralRISE Summit in 2018, 90 valuable resources and almost 1,400 ideas were exchanged which led to 12 key insights and findings for building for successful ecosystem building. Related to this, as well, is a movement of new nonprofits and social entrepreneurs that are concentrated on building rural communities from the ground-up, engaging and bringing that type of energy that comes from new thinking and from new residents coming into the community.[33]

Even with these recent trends, business incentives remain a critical component for rural economic growth strategies. Over 80 percent of state economic development organizations have targeted business incentives to rural areas in their states. Besides state incentives, alternative financing strategies like crowdfunding, federally-backed grants like CDFI and tax credits like new markets tax credits or the new Opportunity Zones program also hold great promise to help rural areas. The Opportunity Zones program, for example, provides a tax incentive for investors to re-invest their unrealized capital gains into Opportunity

Figure 7: States with Targeted Rural Economic Development Programs and Incentives



Source: SEDE Network State Rural Economic Development Survey, February 2019

32 https://www.ruralrise.org/

33 See the listing of POWER program grants for coal impacted communities being made by the Appalachian Regional Commission for some examples. https://www.arc.gov/funding/POWER.asp

Funds that are dedicated to investing into Opportunity Zones designated by the chief executives of every U.S. state and territory.[34]

There are also many promising initiatives being undertaken by state economic development organizations. These were captured in the State Rural Economic Development Survey, which asked states which incentives or programs administered by the state have been the most impactful.

The survey specifically asked, “Which incentive or program has been most impactful?” The responses included programs that focus on:

- ✓ Infrastructure;
- ✓ Workforce training;
- ✓ Quality job creation;
- ✓ Community-based or county-specific grants for specific economic development projects;
- ✓ Small business financing;
- ✓ Agricultural industry development for small operations focused on hydroponics or farm purchases
- ✓ Buy-local campaigns designed to recycle wealth within the community and from near-by metro areas.

Community foundations have become engaged in helping to foster some of these efforts, especially those designed to anchor wealth in rural communities and breathe new life in the local economy.

Finding Effective Solutions

The challenges facing rural America are many, and effective solutions have often proven more intractable in large part because rural areas struggle to find the leadership and resources required to execute them. Several studies have attempted to identify how to build more economic resilience in rural regions and communities, based on statistical predictors and the examination of specific cases. For instance, in a recent 2019 study sponsored by the Appalachian Regional Commission, “economic resilience” is defined as the capacity of a local economy—town, county, or region—to recover or bounce back from an “economic shock.”[35]

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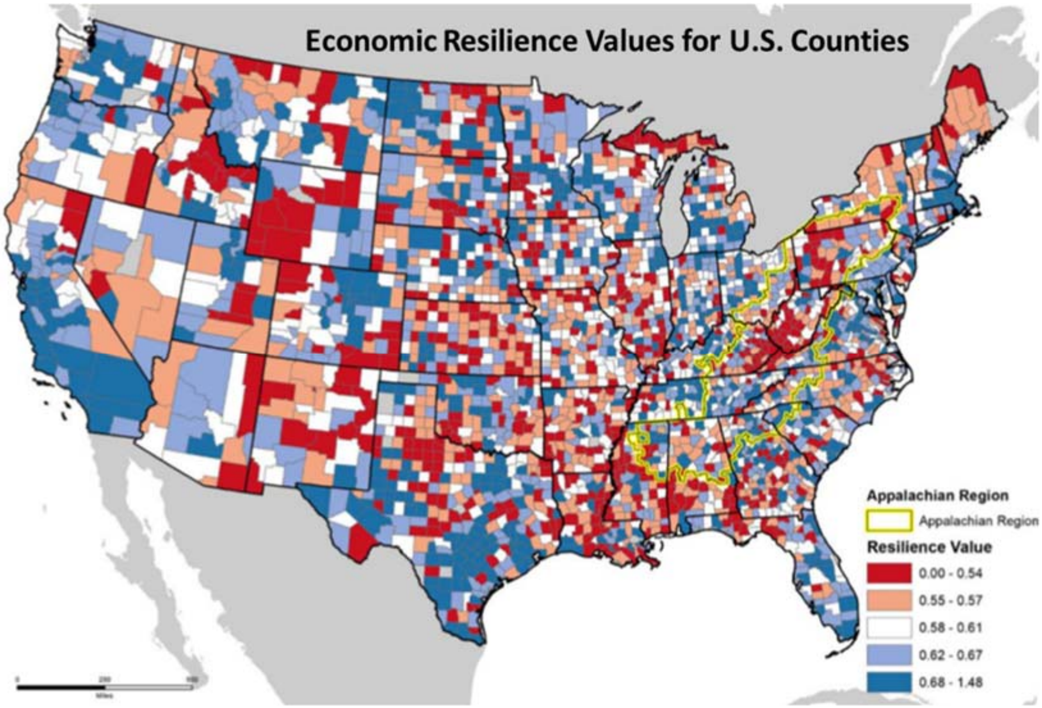
[34] Treasury has certified more than 8,700 census tracts as Qualified Opportunity Zones (QOZs) across all states, territories, and the District of Columbia. For more information on Opportunity Zones, our partners at CDFA have extensive resources available, [click here](#).

[35] Appalachia Regional Commission, *Strengthening Economic Resilience in Appalachia*, February 2019. The goals of this research project were to: Develop a comprehensive, quantitative framework to explore economic resilience; Identify strategies

Figure 8: Economic Resilience of U.S. Counties



Source: Appalachia Regional Commission, *Strengthening Economic Resilience in Appalachia*, February 2019.

Economic shocks can come in many forms, such as the Great Recession of 2008 or a major employer shutting its doors. Understanding what makes a community resilient to an economic shock is very important and can help communities succeed economically. In the ARC study, researchers tried to explain county-level job change using 35 variables categorized by demographic /mobility, economic/industry, and community/health. The map shows counties across the United States ranked by their economic resilience value, with blue indicating a greater ability to rebound after experiencing significant economic shocks. The researchers found that having a proportionately younger (age 25-44) workforce, more ethnic diversity, more in- and less outmigration as well as more in-commuting, and a larger population with greater shares of college graduates were all important factors associated with greater resilience. Proximity to major metropolitan areas is also associated with greater economic resilience.[36]

for strengthening local economic resilience; Conduct up to 10 in-depth case studies; and Produce a guidebook that interprets and integrates findings of the research, written specifically for economic development practitioners.

[36]ARC, *Strengthening Economic Resilience in Appalachia* Technical Report, February 2019. https://www.arc.gov/assets/research_reports/StrengtheningEconomicResilienceTechnicalReport-Feb2019.pdf

After reviewing the data and conducting in-depth studies in ten communities, the ARC study identified best practices for fostering economic resilience in rural areas.[37] The practices for growing economic resilience are listed in Figure 9.

Figure 9: Eight Best Practices for Growing Economic Resilience

1. Invest in education, technology, infrastructure, and broadband.
2. Engage the community over the long term.
3. Create communities where people want to live.
4. Engage youth and next-generation leaders in the community.
5. Identify and grow the community's and region's assets.
6. Build networks and foster collaboration.
7. Move multiple industries forward for economic development to grow value chains.
8. Cultivate entrepreneurs and develop resources for business start-ups.

Source: Appalachia Regional Commission, *Strengthening Economic Resilience in Appalachia*, February 2019.

Similar recommendations are made in a Small Business Majority report in February 2019. To better understand the state of rural small businesses, Small Business Majority, a national small business advocacy group, held focus groups with small business owners in rural communities, facilitated roundtable discussions with rural economic development intermediaries (such as Small Business Development Centers, chambers of commerce, economic development organizations and local officials), and conducted a national poll of rural small business owners across America. The findings indicate that solutions to rural issues should include increasing support for rural small business owners by:

1. Promoting and increasing small business assistance in rural areas;
2. Increasing small business lending options and investments in rural entrepreneurs;
3. Improving affordability and access to healthcare in rural areas;
4. Investing in rural infrastructure and access to broadband; and
5. Improving the ability for small businesses to attract and retain a skilled workers.[38]

Michael Porter, with the Harvard Business School Institute for Strategy & Competitiveness (ISC), has also weighed in on the economic performance of rural regions stating, "It's time to rethink our approaches to rural economic development, drawing on

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[37] ARC, *Strengthening Economic Resilience in Appalachia* Guidebook for Practitioners, February 2019. https://www.arc.gov/assets/research_reports/StrengtheningEconomicResilienceGuidebook-Feb2019.pdf

[38] Small Business Majority, *Examining the Unique Opportunities and Challenges Facing Rural Small Businesses*, February 2019. https://smallbusinessmajority.org/sites/default/files/research-reports/Opportunities_and_Challenges_Facing_Rural_Small_Businesses.pdf

broader learning about the sources of competitiveness in the global economy."[39] For Porter and the ISC, there are six key steps for boosting rural economies.

Figure 10: More Rural Economic Development Solutions

Key Steps for Boosting Rural Economies

1. Rural economic development should focus on the **unique** strengths of each area, rather than concentrating on ameliorating generic weaknesses
2. The appropriate economic unit for strategy purposes must include not only rural areas but also **adjacent urban centers**
3. Rural economic development should **address and harness the efficient spatial distribution** of economic activity rather than attempt to replicate urban economies
4. A **single** national rural policy is unlikely to be meaningful and successful
5. Each community should bear **responsibility** for its economic success, not the federal government
6. Federal and state governments need to provide rural regions with the necessary **tools** and **financing mechanisms** to develop and execute an effective strategy

Source: Harvard Business School Institute for Strategy & Competitiveness

Other studies on the topic noted the importance of innovation and the arts. SRI's research emphasized the importance filling gaps in a state's innovation ecosystem and recommended initiatives to generate risk capital, encourage more entrepreneurial behavior through improved connections between start-ups and existing firms, and to develop the talent needed to innovate. [40]

Meanwhile, an expanding body of research and practice showcases positive economic and quality-of-life outcomes associated with the rural creative sector. Rural America has a robust cultural history that has enriched the nation and its people, and recent research shows that creative sector initiatives are most effective when attuned to the particular creative assets and needs of rural communities; creative sector initiatives work best as part of a cohesive economic development plan in rural areas; and creative sector initiatives

[39] See https://www.isc.hbs.edu/competitiveness-economic-development/research-and-applications/Pages/economic-development-in-rural-areas.aspx

[40] SRI International, "Nebraska's Next Economy," Prepared for Nebraska Department of Economic Development, 2016.

add value when integrated with additional state and local policies and practices such as workforce development, community development and housing.[41]

Interestingly, the SEDE Network members, in CREC's survey, came to a similar conclusion on the factors that make rural economic development success possible. One network member noted, "States should acknowledge that rural communities and counties are different - there is no one-size-fits-all strategy that will work - the best programs are those that can be tailored to the communities."[42] For example, one community's economy may be tourist based. Another's may be focused on extraction. The programs need to be adaptable for the respective communities.

The State Rural Economic Development Survey specifically asked, "What factors make Rural ED success possible?" Overwhelmingly the responses identified the following:

- **Having strong community leadership** with committed businesses, organizations, and residents.
- **Developing a solid strategic plan** to guide the community forward, including having input from business owners, education institutions, and State.
- **Effective marketing of a region's assets**, target industries, and real estate opportunities to audiences outside of the local market.
- **More collaboration between workforce development and economic development**, including through Workforce Innovation and Opportunity Act (WIOA) programs and continued investment in retraining incumbent workers.
- **Continue to invest in infrastructure** like broadband access, rural housing stock, basic services, schools, parks, etc.
- **Sharing best practices**.

MEASURING SUCCESS

As states develop and implement rural economic development efforts, it is important to have performance measures in place. Effective measures help reduce process costs and increase mission effectiveness. Performance indicators should help states understand whether their programs are working well to achieve their economic development goals.

When asked "How will we know if we have succeeded in our rural economic development efforts?", states responded with a variety of potential metrics which are grouped below into three broad categories of measures including employment & income growth, bettering

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[41] National Governors Association, *Rural Prosperity through the Arts & Creative Sector*, March 2019. https://www.nga.org/ruralarts/

[42] SEDE State Rural Economic Development Survey, 2019.

the business climate & general economic conditions, and community improvement indicators.

Employment & Income Growth Metrics	Business Climate & Economic Condition Metrics	Community Improvement Metrics
• Job growth • New jobs • Workforce growth • Wage growth • Per capita income growth • Median family Income levels • Unemployment rate	• Change in economic output • Tax base increases • Change in # of employers • Total # of expanding employers • # of active entrepreneurs • Growth of specific industries • Availability of infrastructure, including broadband • # of skilled workers in key occupations	• Population growth/stability • School population increasing • Graduation rates • Poverty decline • Vibrant downtown • Home sales strength • Level of economic distress improvement

When selecting metrics, consider the following principles for selecting appropriate indicators to evaluate program performance:[43]

- ***Start with the big picture.*** A clear goal or performance statement is the foundation of good evaluations, not to mention effective program management. This means that rural efforts should have a statement of purpose and expectations for outcomes in order to facilitate evaluation.
- ***Align indicators with program goals.*** For program evaluation purposes, it is important to distinguish between indicators that describe outputs (activities or deliverables) and those that describe outcomes (measures tied to program purpose). Evaluation indicators should focus on outcomes, but often the challenge is that the investment being made is not expected to be directly tied to an outcome, so policy makers should make explicit the steps anticipated from the investment being made to the outcome expected.
- ***Consider data sources and availability.*** It is important to track that which can be easily measured. If indicator information will be collected from communities or incentive recipients, it is important that the data can be collected, verified, and reported in a pragmatic way that will meet the needs of economic development managers and legislative oversight.

[43] SEDE Network, "Performance Indicators White Paper," March 2016.

Conclusion / Recommendations

Not all rural America is in decline. Far from it. Some parts are thriving, while others have economies that are in transition. However, Rural America must constantly battle against lurking economic pain points: dependence on a few industries; distance to markets and suppliers; isolation from world-class innovation; infrastructure gaps; small and tight labor markets; outmigration of young talent; providing community amenities; and limited resources to act on opportunities.

State economic development agencies are critical partners in the ongoing success of Rural America. This report provides insights from state economic development executives, as well as recent reports, on promising practices for boosting rural economies. It will take a combination of these practices as well as strong leadership to be effective. Ultimately, addressing the challenges facing rural communities requires a comprehensive strategy that takes stock of the existing assets and needs in rural America. The work of states on economic and workforce development, infrastructure, education, and place-making must tailor approaches to meet the unique challenges facing rural communities.

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