



**Rural Virginia Prosperity Commission**

**From the Grassroots:  
Final Report of the  
Rural Virginia  
Prosperity Commission  
to the Governor  
and  
the General Assembly  
of  
Virginia**

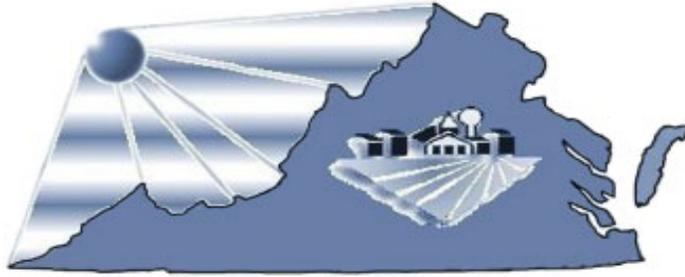
**December 1, 2001**

## **Acknowledgements**

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## **Disclaimer**

The data used in the analysis for developing the recommendations was the most current available at the time the analysis was made. We have tried to update the data wherever possible, but some, like the percent of people over 25 without a high school diploma or equivalent, is based on 2000 Census data which are still not available.



**Rural Virginia Prosperity Commission**

**Final Report of the  
Rural Virginia Prosperity Commission**

**Respectfully submitted by**

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## Executive Summary

From Galax to Fairfax, from Monterey to the Chesapeake Bay, from St. Charles to Cape Charles, the goal of the Rural Virginia Prosperity Commission is economic opportunity for all Virginians. No one who is willing to work should be left behind if it is in the power of public policy to prevent it. The Commonwealth cannot make any community prosperous. But it can help communities gain access to the tools of the new economy so that they can make their own prosperity. It can also help people learn to use those tools to realize their visions and dreams.

The new economy thrives on the critical mass of economic activities characteristic of urban centers, not rural areas. Consequently, the disparity in incomes and economic opportunity between rural and urban/suburban Virginia is widening. Rural youth, particularly the brightest, whether well or poorly educated, leave home for better opportunities in the urban economy. The spiral of decline is unyielding—tax bases erode, incomes decline, leadership despairs, school spending is reduced, civic life and leadership suffer, and even more youth leave. Because Virginia shares a common wealth, the assistance to communities unable to pay their own way for public education and other services becomes a drain on the state budget and an impediment to solving problems in other parts of the state.

The Rural Virginia Prosperity Commission was created by the Virginia General Assembly in January, 2000 (House Joint Resolution 129 and Senate Joint Resolution 140, Appendix A). The legislation establishing the 18-member Commission instructed it to “undertake a detailed analysis of rural Virginia economies and recommend flexible but targeted state policies which, combined with local efforts, will help foster sustainable economic growth in Virginia’s rural areas.”

This report details the findings of the Commission, outlines its vision for rural Virginia, and offers a broad strategy for economic prosperity in rural Virginia. The report also contains a set of focused recommendations for strategic investments by the Commonwealth to facilitate economic prosperity in rural Virginia. No attempt is made to define what prosperity means for rural Virginia: each community must undertake this task for itself. The Commission’s recommendations deal with those things that the Commonwealth can and should do to improve the chances for success from a variety of approaches to prosperity that will have to come from the grassroots.

The recommendations the Commission offers are a package—no single recommendation alone is likely to be a silver bullet. The problems are too complex to be solved with simple solutions. Yet if all of the recommendations are implemented, the odds for success are very promising. It will take time to turn things around. The Commission is confident that given effective implementation of the entire package and some patience, these recommendations can provide a new and bright economic future not just for rural Virginia but for everyone in the Commonwealth.

The recommendations address six strategic needs for prosperity in rural Virginia

1. *Capital Access*: No place can prosper without entrepreneurs, and entrepreneurs require access to capital. Ways are needed to make more credit available to rural entrepreneurs who have good ideas but little collateral. The capital access program Virginia already has in place needs to be expanded to reach rural areas.
2. *Workforce Training and Adult Education*: Rural Virginia suffers from having too many adults without high school diplomas and with inadequate opportunities for customized worker training and retraining. Without a high school diploma or GED, workforce training may be of little value. The community college system must be made a partner in a major effort to upgrade the human capital in rural Virginia.
3. *Digital Telecommunications Infrastructure*: For understandable economic reasons, the private sector has been slow to provide high-speed, broadband digital telecommunications access to much of rural

Virginia. Returns on investment are much higher if they are made in or between urban centers. Yet without such access, rural communities have no possibility of overcoming the disadvantages of remoteness. Public/private partnerships are needed to ensure that rural Virginia is not left behind in acquiring access to digital telecommunication opportunities.

4. *Tiered Incentives for Investment in Lagging Rural Areas*: Several neighboring states provide tiered tax incentives aimed at offsetting some of the inherent disadvantages of being remote and lacking the critical mass needed to sustain economic growth. A tiered incentive program, tailored to Virginia's needs, is essential for communities in rural Virginia to compete successfully with places in neighboring states.
5. *Long-Term Institutional Support*: Local grassroots leadership in rural Virginia must be enhanced and nourished. A focal point for rural concerns must be established through new public/private sector partners in the form of a Center for Rural Virginia.
6. Create a cabinet-level *Secretary of Agriculture*: Virginia is one of few states that does not have a cabinet-level secretary of agriculture. A prosperous agriculture will not be enough to assure a prosperous rural Virginia. Yet a prosperous and innovative agriculture is important for economic health in rural Virginia, and achieving such requires that agriculture be represented at the highest levels of the executive branch of the Commonwealth government.

Recommendations for three other areas have been proposed: infrastructure (Appendix C, Exhibit A), K-12 education (Appendix C, Exhibit B), and primary industries (Appendix C, Exhibit C). They have not been detailed in the six recommendations because they have existing advocacy support and because they are better handled through the Center for Rural Virginia than as individual recommendations. However, they are included in the report of the Commission. Many of the recommendations are related to on-going and longer-term research than the Commission can currently provide.

The Rural Virginia Prosperity Commission offers specific proposals to address each of the six strategic needs. The proposals are based on the premise that rural prosperity must be achieved from the grassroots. Each community must define for itself what prosperity means and take positive steps to achieve its goals. The recommendations offered are intended to empower community leaders to achieve rural prosperity in their own ways.

# **The Work of the Commission**

## The Work of the Commission

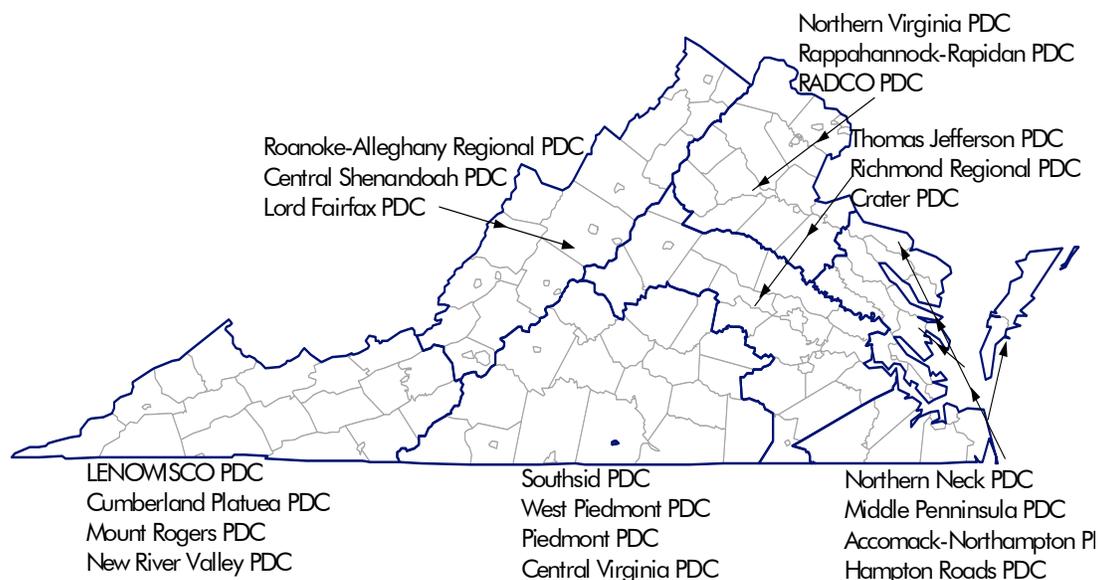
The 18-member Commission included: 6 members of the House of Delegates, 4 members of the Senate, and 8 interested citizens. The legislation also provided an appropriation to Virginia Tech to help staff the Commission; additional staff were made available by the Weldon Cooper Center for Public Service at the University of Virginia and by the Rural Economic Analysis Program at Virginia Tech.

At the first meeting of the Commission on August 25, 2000, Delegate Steven Landes was elected chairman, and Senator Emmett Hanger, Senator Phillip Puckett, Delegate Whittington Clement, and Mr. Eric Fly were elected Vice Chairmen.

To better understand the problems facing rural Virginia, the Commission held a series of six regional public meetings (Figure 1) across the Commonwealth beginning in October 2000 and concluding in May 2001. In addition, staff conducted a series of meetings prior to each regional meeting in each Planning Districts across the Commonwealth.

**Figure 1. Planning District Commission groupings for regional meetings**

Beyond gathering information through these regional meetings, staff consulted numerous groups and agencies



having an interest in the economic development of rural Virginia. Staff also prepared a set of briefing papers dealing with specific concepts and issues vital to performance of the mission assigned the Commission by the General Assembly. Those briefing papers are included as Appendix D in this report.

Based on what the Commission had heard in the first three regional meetings, some legislation was proposed in the January 2001 Session. It included expanding the shell building initiative to include renovation of existing buildings and construction of buildings for technology-related businesses; allowing two non-contiguous areas to be combined to meet the 200-acre net development requirement for regional industrial parks; continuing the Agricultural Vitality Program and the Virginia Farm Link; and several budget amendments (Appendix E). Proposed, but not passed, was a Constitutional amendment equalizing the taxing and borrowing authority of Virginia's counties with that of Virginia's cities.

**FINDINGS  
OF  
THE RURAL VIRGINIA  
PROSPERITY COMMISSION**

## What It Means To Be Rural

The problems of rural Virginia differ in detail from one part of the state to another. Yet the problems affect all areas of the state. All areas of the Commonwealth must be involved in seeking solutions. No magical marketplace exists to cure the ills and solve the problems. The problems documented here can and will linger and, unfortunately, can get worse. Efforts need to be made to break this cycle and prescribe how economic opportunities in rural Virginia can be improved.

The problems that face rural Virginia are complex. They are rooted in a dynamic market economy. Those who have spent lifetimes studying and thinking about the economic problems associated with being rural know that we have less than perfect understanding of the problems and of solutions that might have some chance of affecting a positive change. The major discussion that follows focuses on the following three questions that are central to the case for the Rural Virginia Prosperity Commission's recommendations:

- What is rural?
- What must any region have to prosper?
- Will the economic problems of rural Virginia self-correct?

### *What Is Rural?*

We cannot talk about the road back to prosperity in rural Virginia without first thinking about what it means to be rural.

**No one way to define rural**

We have no single right way to define rural Virginia. Rurality occurs along many different dimensions. Some counties have parts that are quite urban and other parts that are very rural. In Washington County, for example, Abingdon is a rapidly growing town. The strip along I-81 from Abingdon to Bristol is now almost completely built up. Yet once we leave that strip, we are in country that most people would recognize as rural.

Places can be rural in some ways and not in others. Places that are rural but near large and growing cities, like Amherst, Bedford, and Botetourt counties, have quite different economies and opportunities from those in extreme southwestern Virginia or in some parts of the Eastern Shore or in the central Piedmont. Places near a major research university, like those in the New River Valley, have different possibilities from those in the Northern Neck. Places that have interstate highway access have different economic opportunities from places in the Piedmont between Lynchburg and Richmond City. We must not make the serious mistake of thinking that all rural places are homogeneous.

**Rural places are not all the same.**

We can define rural in many ways:

- Rural is where people make their living from resource-based industries—farming, forestry, fisheries, or mining.
- Rural is non-metropolitan.
- Rural is where population densities are low.
- Rural is where few business services exist.

### *Resource-Based Economies*

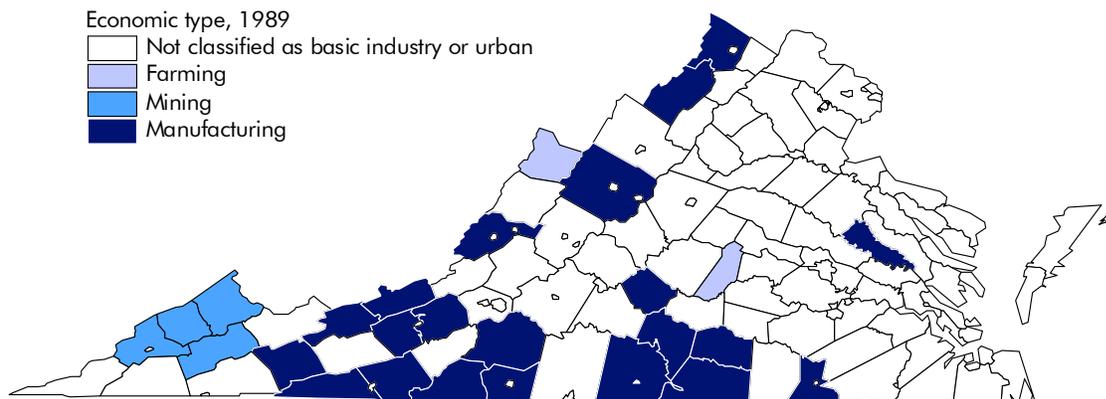
The notion that the only areas that are rural are those dependent on resource industries is no longer acceptable (Figure 2). Rural areas used to be places where people made their living primarily from natural resources— from farming, forestry, fisheries, or mining. Today, that concept of rural is too limiting. If resource-based is the only way to define rural, few rural areas are left in Virginia.

Rural areas are no longer dependent on resource industries.

No counties in Virginia are primarily dependent upon forestry or fisheries for their economies, even though forestry and fisheries are elements of the local

economies in a number of places. Only two counties in Virginia—Highland and Cumberland—are dependent on farming for 20 percent or more of their economy. Both are small counties; they had a combined population of only 11,553 in 2000. In many other counties farming is important. Agriculture and agribusiness generate about 11 percent of all jobs and some 10 percent of economic activity in the state (Lamie). These numbers will be much higher in counties where farming is prevalent. But farming has become so efficient that it is not the chief way most rural people make their living. Four counties in southwest Virginia are dependent upon mining: Buchanan, Dickenson, Russell, and Wise. Together they had a population of 113,805 in 2000.

**Figure 2. Types of Economic Activity in Non-Metropolitan Counties, 1989**

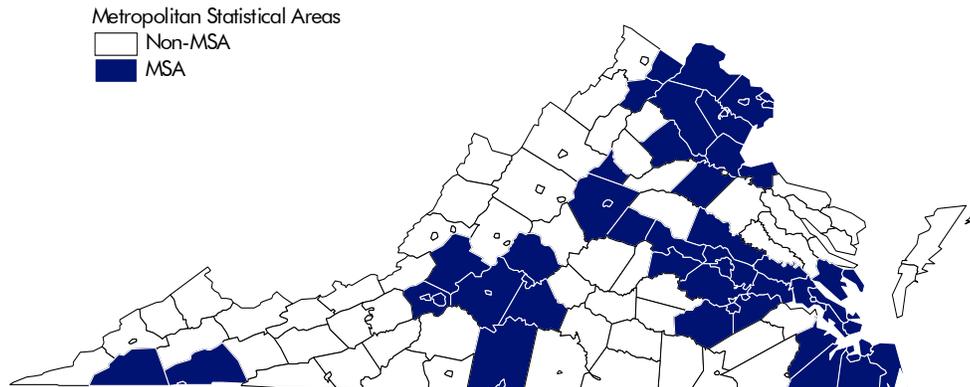


Source: Economic Research Service, USDA. <http://www.ers.usda.gov/Briefing/Rurality/Typology/Data>. Accessed Nov 28, 2001.

### *Rural as Non-Metropolitan*

Rural development researchers commonly define rural as all that area not included within the Census Bureau's Metropolitan Statistical Areas (MSAs). Rural by this definition means non-metropolitan. As a rough cut, that delineation works fairly well. In Virginia, 61 counties and cities are within the most recent definition of MSAs (Figure 3). Yet in Virginia, as in other states, the way in which MSAs are defined includes counties adjacent to urban areas where workers commute into the metropolitan area. Hence, in Virginia, such counties as Amherst, Bedford, Botetourt, Clarke, Fluvanna, Greene, Isle of Wight, Scott, Warren, and Washington are not counted as rural since they are part of MSAs. The population in 2000 of the non-MSA Virginia was 1,569,726, or about 22 percent of the total population of the Commonwealth.

**Figure 3. Metropolitan Statistical Areas (MSA), 1996**



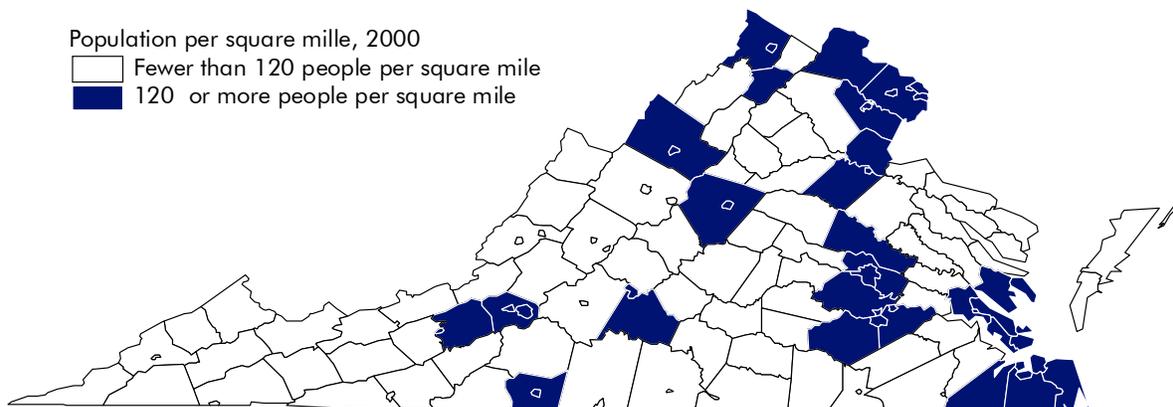
Source: US Bureau of Labor Statistics. “Metropolitan Areas and Components, 1996, with FIPS Codes.” <http://stats.bls.gov/sae/790metdf.htm>. Accessed Nov 28, 2001.

Using the metropolitan/non-metropolitan delineation to define rural leaves a lot of places that would commonly be thought of as rural in urban classifications.

### ***Population Density***

A workable way to delineate rural is by areas that are relatively sparsely populated. This lack of population concentration separates truly rural counties from those with more concentrated business activity associated with denser population. Figure 4 shows the counties in Virginia divided between those that have fewer than 120 people per square mile and those that have more than 120 people per square mile.

**Figure 4. Population per square mile based on 2000 population estimates.**

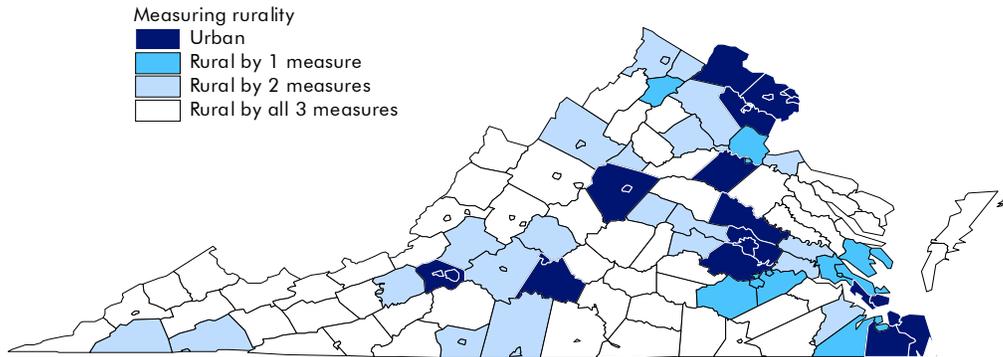


Source: Weldon Cooper Center for Public Service. “Demographic Profiles.” US Census Bureau. Found at [http://www.ccps.virginia.edu/Demographics/2000\\_Census/DemoProfiles/DemoProfile.html](http://www.ccps.virginia.edu/Demographics/2000_Census/DemoProfiles/DemoProfile.html). Last accessed Nov. 27, 2001.

A natural break occurs in the population numbers around 120. In 2000, 85 Virginia localities were rural by this definition. Some counties such as Warren lack substantial cities but have slightly more than 120 people



**Figure 6. Identifying rural by population per square mile, business services index, and MSAs**



### ***Socio-Economic Conditions in Rural Virginia***

Making a living in rural areas has always been a challenge. Early discussion about the “death of distance” seemed to imply that these disadvantages were about to disappear. Yet for all the reasons explained above, the death of distance may pose even greater threats today to rural economic prosperity.

If a way forward holds promise for rural prosperity, it involves taking advantage of what is unique about each rural place that cannot be duplicated in urban centers. Some rural places have unique soils and climate. For some places, natural beauty and scenery or their history attract a new population of permanent residents who wish to live there and are able to telecommute or who are retirees. For other places, proximity to growing urban markets may be the attraction.

Location may be the sole reason these rural places are unique. Do they have any prospect of economic prosperity? The candid answer is probably “No,” not unless some way can be found to use public policy to tilt the playing field in their favor.

Farming, forestry, and fisheries may be able to provide prosperity for some parts of rural Virginia. But these resource-based industries are not likely to ever again produce enough income to support a population as large as the current population in many of the counties that are rural by two or more of the criteria we discussed.

**The problem is not self-correcting.**

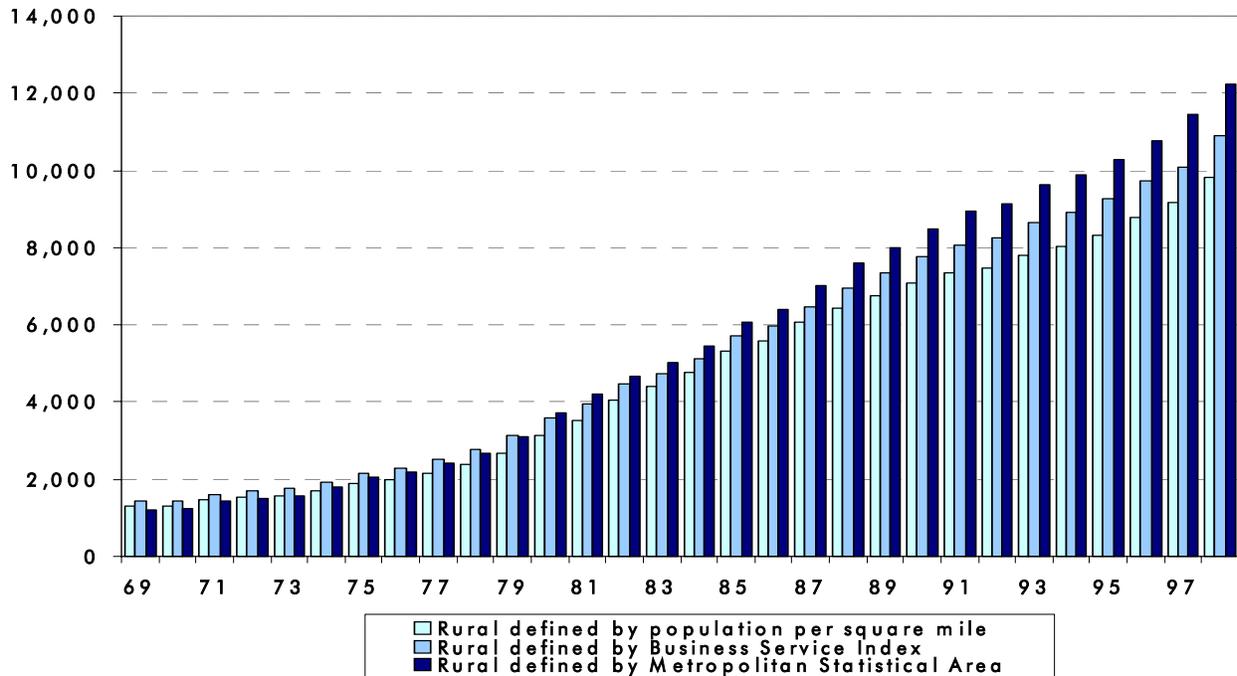
As the traditional economic base of rural areas has eroded, incomes in rural Virginia have declined relative to the urban parts of the Commonwealth.

- In 1998, 85 percent of all personal income received by Virginians went to those who live in the urban counties.
- In the 1996-98 period, 87 percent of all growth in personal income in Virginia occurred in the counties within MSAs.

The difference in income between rural and non-rural continues to grow whether rural is measured by population, business service index, or MSA. The rate of growth is accelerating in recent years. Average per

capita income in 1998 was around \$10,000 higher in Virginia's urban counties than in the rural counties (Figure 7).

**Figure 7. Difference in per capita income, urban versus rural areas of the state, 1969-98**



Source: US Dept. of Commerce. *Regional Economic Information System 1969-98*. Bureau of Economic Analysis. RCN-0250

Whatever is driving the modern economy in Virginia does not appear to favor rural areas. Another consequence is that the brighter, better educated, and more ambitious young people migrate out of rural areas. Thus, they deprive the places they leave of the investments that have been made in their education as well as their potential leadership and entrepreneurship.

Despite the efforts of the state, children in school in rural Virginia have access to many fewer resources than to children in urban/suburban Virginia. As Figure 8 suggests, almost 90 percent of rural school children do not have access to the statewide average of \$6,229 per pupil (Va. Dept. of Education).

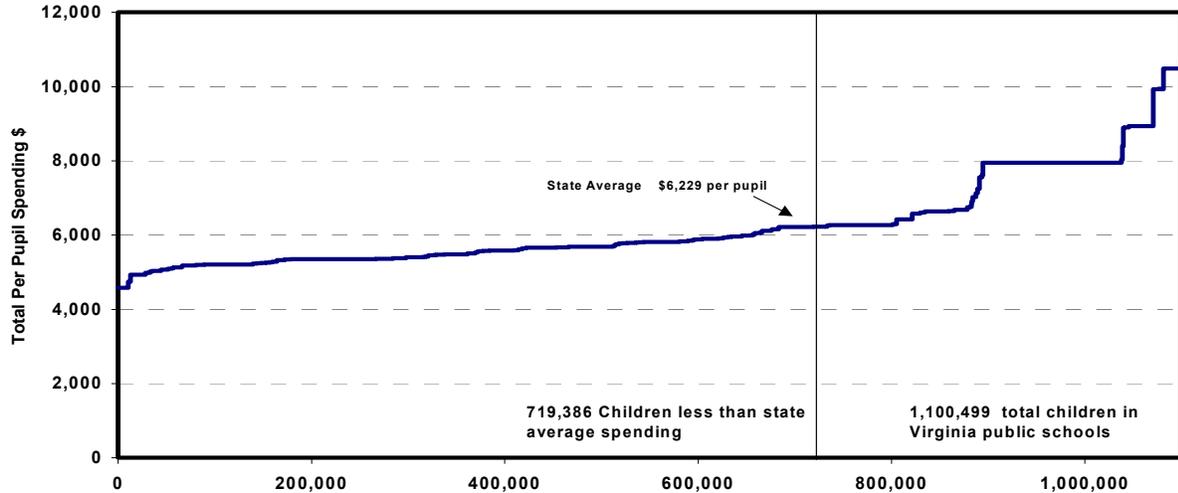
Many people who are left behind in economically distressed communities are older and lack a high school education. They are often dependent on transfer payments for a large part of their income.

People often assert that the disparity in resources available in Virginia's rural communities could, in fact, be corrected if rural people would simply make a greater effort by taxing themselves at rates that would overcome the disparity. Yet rural people make as great an effort to provide schooling resources to their children as do Virginias in non-rural communities.

Both rural and non-rural communities spend above and below the average of 5.1 percent of discretionary income per pupil (Figure 9).

Proportionally, no more rural communities than urban/suburban ones are on either side of the average line. Thus it is fair to assert that rural communities make as much of an effort in support of their schools as non-

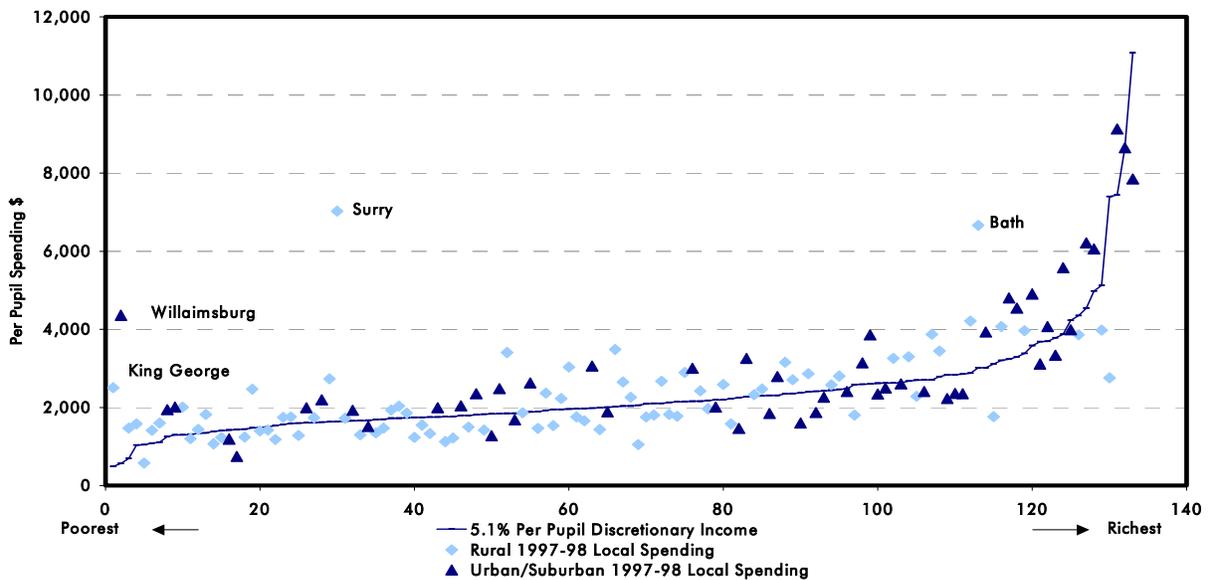
**Figure 8. Spending on Virginia school children, 1997-98**



Source: Va. Dept. of Education. *Superintendent's Annual Report for Virginia* found at <http://www.pen.k12.va.us/VDOE/Publications/>. Richmond, Va.: 1998 Last accessed Nov. 27, 2001.

rural communities, and indeed some rural communities (those above the line) make a greater effort than some non-rural communities (those below the line). Raising property taxes in rural areas where discretionary income is small will pressure those families more than a comparable increase in more affluent urban areas. Consequently, raising taxes is not a workable solution to the spending levels in rural communities.

**Figure 9. School division local spending compared to 5.1% per pupil discretionary income, 1997-98**

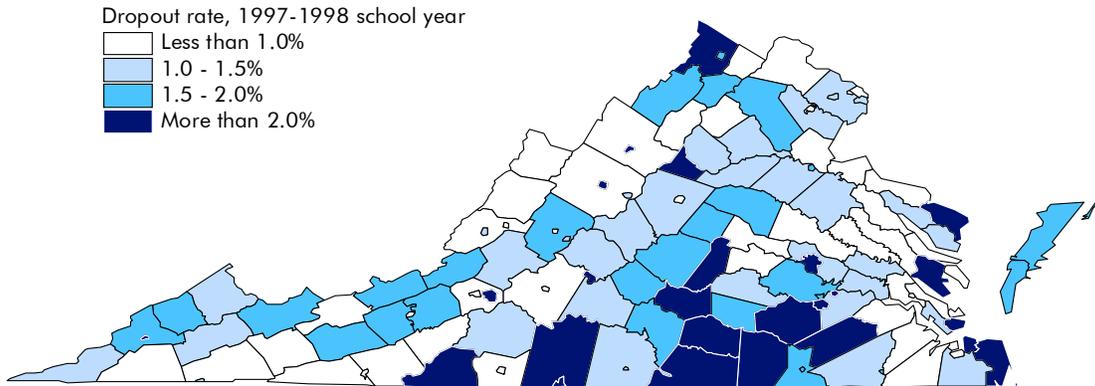


Source: *Compare Cost of Living*. Found at <http://homestore.com>. Last accessed Nov. 28, 2001 and Va. Dept of Education.

Figure 10 shows that the high school dropout rate in the rural counties of Virginia does not differ much from that of the urban centers. Yet based on the 1990 Census (most current available for these data), many rural counties had upwards of 40 percent of the population 25 years old or older who had not finished high school (Figure 11). And in five counties, over 50 percent of the population had not finished high school. Data on

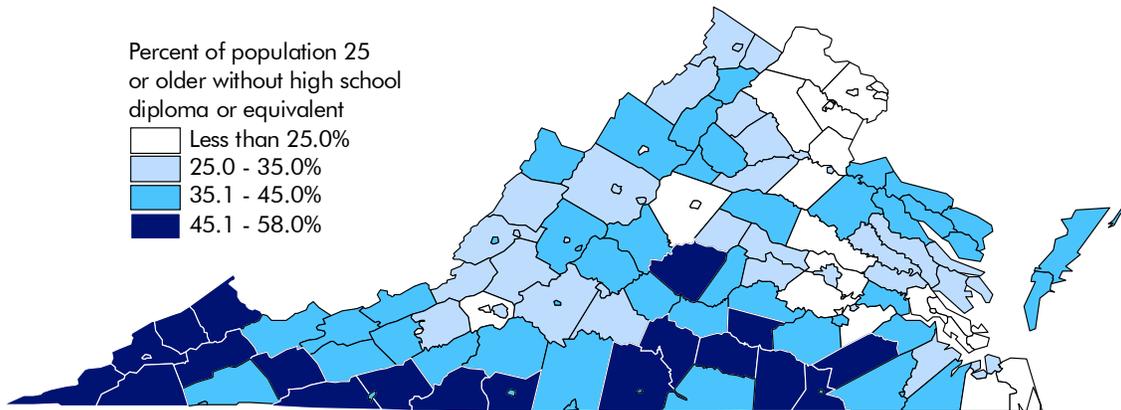
educational attainment by locality from the 2000 census are not expected to be available for several months. Yet that picture is likely to be only marginally better when the new data are examined because the younger and better educated continue to leave rural communities.

**Figure 10. Dropout rate, 1997-98 school year**



Source: Va. Dept. of Education. *1997-98 Superintendent's Annual Report for Virginia*. Richmond, Va., 1999.

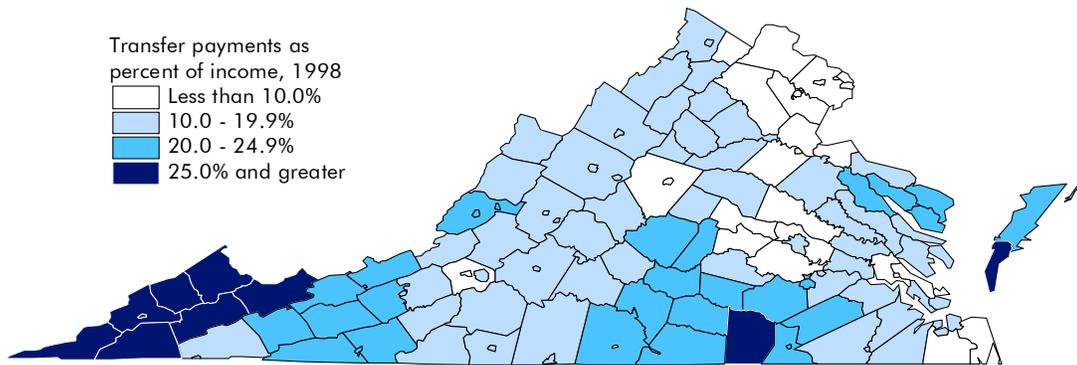
**Figure 11. Percent of population over 25 without high school diploma or equivalent, 1990**



Source: US Dept. of Commerce, Bureau of the Census. *Selected Social Characteristics: 1990*. Washington, DC, 1991.

This differential migration leaves behind an older and less well educated population that is increasingly dependent upon transfer payments for a major part of their income. Transfer payments include some private pensions but are primarily made up of Social Security and various types of public assistance. Figure 12 shows the percentage of all personal income in 1998 that was obtained from transfer payments. The higher percentages are in rural areas.

**Figure 12. Percent of income from transfer payments, 1998**



Source:

US Dept. of Commerce. *Regional Economic Information System, 1969-98*. Bureau of Economic Analysis, RCN-0250.

The bottom line is that rural areas with troubled economies become increasingly dependent upon income transfers from the growing urban centers. Not only are they dependent upon transfer payments as direct income to individuals, they are also dependent upon intergovernmental transfers to support schools and local governments.

Figure 13 shows the local revenue as a percent of total local plus state revenues used for local services. The smaller percentages of local funds are in the rural counties, suggesting state funds are being transferred from economically strong urban areas to rural areas. In 1998, 46 rural counties received \$189 million (Dept of Taxation data) more from the state budget in intergovernmental transfers, not including transfer payments to individuals, than they contributed in income and sales taxes (Figure 14). If rural areas cannot catch up, subsidies from urban to rural Virginia will continue and are likely to grow in the future.

Rural areas may be in danger of becoming "mailbox economies."

If current trends continue, much of rural Virginia will become dependent upon what has been called "a mailbox economy."

### ***What Is Needed to Prosper***

Prosperity is not defined, rather each community must define it for itself.

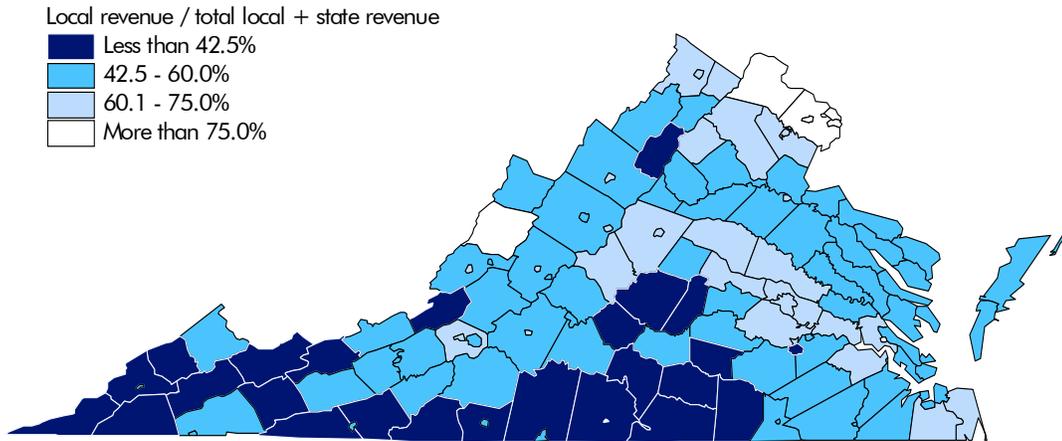
What has been happening to the economy of rural Virginia is not unique to Virginia. In all the developed countries around the world, rural economies are struggling to find prosperity. The reasons rural areas struggle include

- Technological improvements in the primary industries that traditionally supported rural people mean that fewer people are required to meet the world's demands for food, forest products, fisheries, and mineral products. These industries, by their very nature, must have rural locations. A rural location is not essential for many other industries. Thus there is no longer any compelling reason why rural areas must have a significant proportion of the population.
- Without a significant population base, demand for many of the things that are offered for sale in small towns has dried up. To achieve sufficient sales volume to be profitable, a consolidation of rural retailing into fewer regional centers has occurred. Some might refer to this phenomenon as the

“Walmarting” of rural areas.

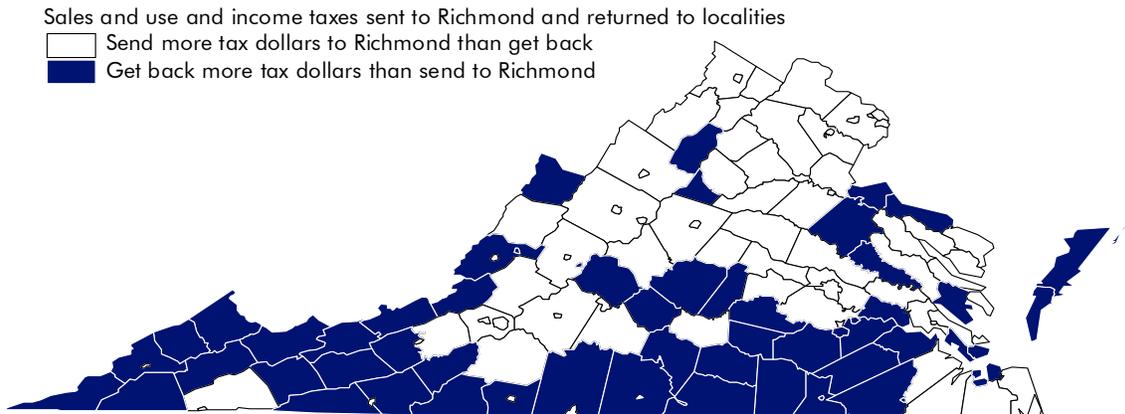
- Improvements in transportation have opened up possibilities to achieve economies of scale that heretofore were not practical. With lower transport costs and substantial economies of scale, market forces have tended to cause a greater and greater concentration of economic activity in urban centers.

**Figure 13. Local revenue as percent of total local plus state revenue, 1998**



Source: Auditor of Public Accounts. “Exhibit A. General Government,” *Comparative Report of Local Government Revenues and Expenditures, Year Ended June 30, 1998*. Richmond, Va.: Commonwealth of Virginia, April 1999.

**Figure 14. Transfer Payments to and from the State**



Source: Va. Dept. of Taxation data, 1998.

We will consider each of these reasons in greater detail.

### ***Technology in Primary Industries***

America entered the 20<sup>th</sup> century with farms that depended mostly upon horses or mules to provide power. Cows were milked by hand. Wheat was harvested with binders and threshed with huge stationary machines

powered by steam engines. Cotton had to be cultivated with mules and then chopped and harvested by hand. Not surprising, then, is that about 50 percent of the population had to be on the farm to meet the food and fiber needs of the rest of the population.

In the last century, not only has new laborsaving technology been introduced on farms, new varieties of crops have increased yields several fold. America entered the 21<sup>st</sup> century needing only about 2 percent of its population on the farm to feed itself and much of the rest of the world.

What is more, many activities once performed on the farm are no longer performed in rural areas. The principal energy source for farms once was grain grown on the farm and fed to horses and mules; now it is electricity or petroleum that comes from afar. In many areas, much of the fertilizer used was manure from livestock; now it is manufactured chemicals brought in by rail cars or trucks. So while the proportion of our population engaged directly or indirectly in food and fiber production has been relatively stable at about 2 percent, much of that population need not be located in rural areas.

Similar changes have taken place in most of the other traditional rural industries. The wood products industries have moved from when trees were felled with an ax or a two-man crosscut saw to a time when even the power-driven chain saw is being replaced with large mobile machines that cut the tree and remove the limbs. Huge machines replaced the pick and shovel in the mines. In the fisheries industry, the advent of diesel powered fishing trawlers and sophisticated navigation tools have created a situation in which much of the world's wild fisheries are being over-fished.

What unique product does rural Virginia have to sell that the rest of the world wants?

If Virginia, like the rest of the United States, needs about 2 percent of its population on the farm to feed itself and others, it would need less than 150,000 people. Even adjusting for forestry, mining, fisheries, and related services, rural Virginia needs no more than 500,000 people to have a prosperous rural economy based on agriculture, forestry, fisheries, and mining. Depending on the definition of rural used, however, somewhere between 1.6 and 2.7 million people live in rural Virginia. A rural Virginia based solely on traditional industries, therefore, had a surplus population of between 1.0 and 2.2 million people in 2000.

There is no longer any compelling economic reason why rural areas should contain more than perhaps 10 percent of the population. As a result, large numbers of rural people have migrated to urban areas to find economic opportunities. Some rural areas have declined in population. Many others have had very slow population growth. That growth has been possible only if there were significant numbers of non-farm jobs within a reasonable commuting zone.

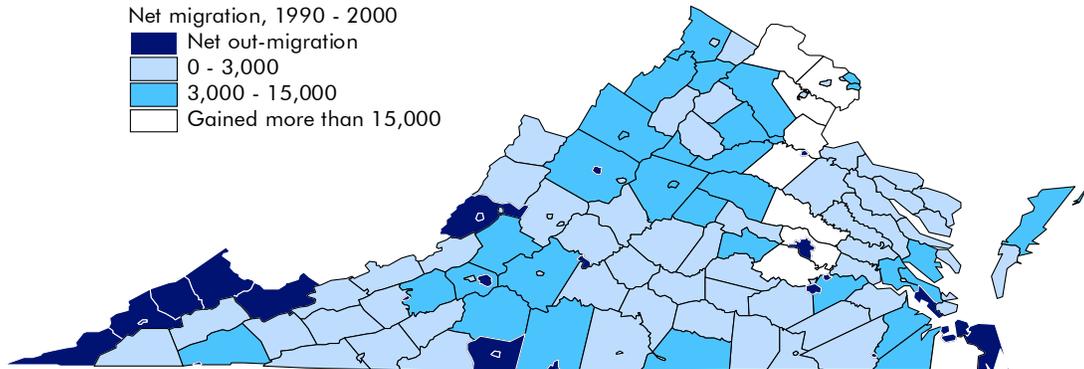
Net migration is a useful measure of conditions in a locality. If more people are moving out than moving in, it is an indication that they are "voting with their feet" against the area they are leaving. Yet these numbers must be taken with caution. Much depends on the age of those who are migrating and the destination to which they migrate. People away in college, for instance, can be show up in the statistics as out-migrants. Similarly, people may simply move a few miles across a local government border and appear to be out-migrants.

Data from the 2000 Census that allow us to identify migrants by age, destination, or origin are not available at this writing. The only data available are gross migration numbers by local government jurisdiction.

In the 1990s, only a few counties in Virginia experienced net out-migration (Figure 15). They were mostly concentrated in the old coal-mining counties of Southwest Virginia. Many independent cities in Virginia,

however, did have net out-migration. Much of that out-migration, however, may simply be the result of a movement to the suburbs rather than a move to rural places.

**Figure 15. Net migration, 1990-2000.**



Source: Weldon Cooper Center for Public Service. "Population Growth and Components of Change, 1990-2000." Data by Geographic Levels, Demographics and Workforce, 2000 Census. Found at [http://www.ccps.virginia.edu/Demographics/census\\_main.html](http://www.ccps.virginia.edu/Demographics/census_main.html). Last accessed Nov. 27, 2001.

Non-farm jobs do not have to be in rural areas and small towns. Historically, most business firms were attracted to such places because labor costs were low. But as transportation and communication costs worldwide have declined, many of the economic activities that require low-cost and low-skilled labor have found that competition forces them to move offshore where such labor is even more abundant than in rural America.

### ***Economies of Scale, Agglomeration, and Small Towns (Appendix D, Exhibit C "It takes a Critical Mass")***

In most types of economic activities, unit costs drop as volume increases. To obtain economies of scale, however, sufficient demand has to be available to absorb large volumes. Lack of such demand is a problem for many rural areas and small towns where population numbers and disposable income are below that in larger urban centers.

The marketplace answer to this problem has been retail consolidation in regional centers. Such consolidation would not have been possible in an earlier era when roads were bad and transportation slow. Better roads and faster transportation have made it easier for consumers to travel to regional centers to do their shopping, thus undermining retail businesses in small towns.

The economic reason many small towns existed has evaporated.

Perhaps the ultimate example of this process is what has been referred to as "the Walmarting of America." Large retailers such as Wal-Mart are able to obtain huge volume discounts and are thus able to sell goods at prices well below what would be profitable for the small "mom and pop" retailers. Going head-to-head with large discount merchandise in price competition is a losing proposition for small retailers.

For rural areas, retailers like Wal-Mart are a mixed blessing. They offer standardized merchandise at prices that otherwise would not be available. But because they make few input purchases in local markets, almost all the money spent in such stores quickly leaves the local economy. Furthermore, these high-volume

retailers typically have relatively few employees per dollar of sales and do not contribute to the local payroll in ways smaller, locally owned retail shops do.

The bottom line is that the primary economic reason that many small towns existed has evaporated.

Something else has also been at work that has to do with critical mass. Economists call it the economics of agglomeration. It takes two forms.

The first form occurs when businesses of a similar nature concentrate in a particular place or region. A good example is fish farming. Fish get sick. When they do, fish farmers stand to lose substantial sums. Yet with many fish farms in a given area, that area will be attractive to veterinarians who specialize in the exotic diseases of fish, and hence can be called in quickly to deal with the problem. Consequently, the safest place to make an investment in fish farming is in an area where a concentration of fish farms already exists.

The second form of agglomeration economies is seldom observed outside of urban centers. When substantial business activities are concentrated in one place, the businesses are able to share costs of installing and operating things like water and sewer systems and airports.

Agglomeration economies lower the costs for everyone. This lowered cost for services leads to still more concentration as businesses that do business with firms in such urban centers move to be near their customers. Agglomeration economies mean that growth in a given place tends to feed upon itself. The reverse is also true. Once a place begins to decline, the great danger is that critical mass will dissolve and the decline will take on its own momentum.

Once a place begins to decline, the critical mass needed for prosperity will dissolve and the decline will take on its own momentum

#### *Transportation Costs*

Once most rural Virginians lived within a few miles of a grist mill because everyone required cornmeal. It would not keep for long in the meal bin before it got weevils. Therefore, fresh corn had to be ground frequently to replenish the family's supply. With bad roads and only horse drawn transportation, mills needed to be close by. As transportation improved, the corn milling became concentrated in fewer and fewer mills that received their corn by train and shipped out the meal the same way.

The lesson in this story is simple: With large, unrealized economies of scale, lower transportation costs will tend to cause markets to refocus the geography of economic activities. Lower transportation costs are a mixed blessing to rural people. They make it easier to access the things of the city, but they also mean that fewer and fewer economic activities are likely to be located in rural areas. In addition, as the costs of transport fall, local producers and suppliers face competition from other producers who before were hampered by freight costs in competing in distant markets.

And as transportation costs have fallen and economies of scale have been allowed to have a free reign, many rural areas have lost critical mass and have gone into a spiral of economic decline.

## Strategic Choices

Virginia has three strategic choices if rural communities are to improve economically:

- See more rural Virginians move to urban places;
- Subsidize rural communities with income earned in urban areas, or
- Find ways to “grow” the economies of rural places in Virginia;

Allowing continued population losses in rural Virginia might increase per capita incomes in declining areas, but it will only add to congestion and growth problems in urban Virginia. It will also devastate existing local businesses that remain in rural communities. Mass out-migration is not a very appealing option nor is it one we are likely to consider in any serious way.

Increasing subsidization of rural communities is also not a very appealing option. Increased subsidization would make more and more rural Virginians dependent on handouts from their urban neighbors. It also tends to encourage housing development and population growth in some areas of rural Virginia. Since research shows housing growth alone does not pay for required governmental services, the amount of subsidy would tend to grow at an increasing rate through time.

Rural Virginia's economic struggle is not unique. Rural communities everywhere are struggling to find prosperity.

The task of the Rural Virginia Prosperity Commission is the final alternative: to find a way to stimulate economic growth in rural Virginia communities.

### ***Basics of Regional Economic Growth***

We must remember: No place can grow and thrive unless it has something of value to sell to the outside world. Every place must have an economic base or else it becomes a subsistent economy.

Generally, regions sell what they have in greatest relative abundance and what is in demand in the rest of the world. The traditional economic base of rural places was agricultural commodities, forest or fishery products, or mining output.

Having an economic base in goods or services for which demand is not growing very fast, however, will assure that a region declines relative to other regions with goods and services for which demand is growing rapidly. The problem of resource-based economies is that the demand for homogeneous commodities is not growing rapidly.

*Economic Base:* that part of the economy that produces goods and services primarily for sale to the rest of the world.

Hence, prosperity in rural Virginia requires that rural places find new economic bases, ideally centered on goods or services for which demand is growing rapidly. These new bases can sometimes be build on the output from resource-based sectors. However, they are more likely to be new activities not now being pursued in a particular rural community.

In the years after World War II, several places in rural Virginia created new economic bases in manufacturing. Manufacturing grew using relatively low-cost surplus labor being released from farming. Indeed, so successful

was that strategy that manufacturing became the largest source of income in many rural counties of Virginia. Such a strategy was successful when it focused on relatively mature industries in which production processes were well established and relatively unskilled workers could be trained easily to perform routine tasks. Rural Virginia has a lot of those workers.

Commission recommendations are based on what will improve the chances for success.

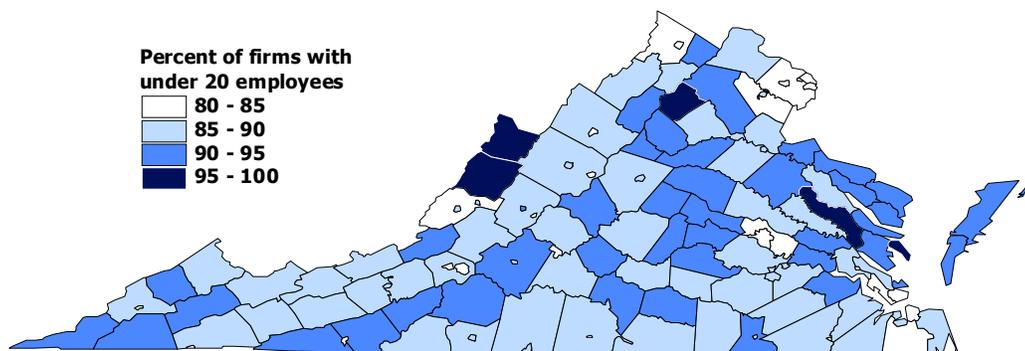
The conditions no longer exist that made a branch manufacturing plant strategy viable for much of rural Virginia. Those conditions have been destroyed by foreign competition. It was not just policies like NAFTA (North American Free Trade Association), the WTO (World Trade Organization), and GATT (General Agreement on Tariffs and Trade) that brought that foreign competition. Improvements in the efficiency of handling goods in ports, improved communications that allow United States management to exercise control over far-flung operations, and expanded basic infrastructure in developing countries have now made it possible to find still cheaper labor of the sort required by mature industries. Most of that new and cheaper labor supply is beyond the borders of the United States.

Hence, not only does it appear that resource-based industries are no longer viable options for the economic base of much of rural Virginia, but neither does it appear that the sort of large-scale manufacturing that competes head-on with foreign production is a viable option.

Manufacturing may still have a place as part of the economic base in some parts of rural Virginia. But it is highly unlikely that it will take the form of big plants producing large volumes of standardized products for mass consumption. More likely, niche manufacturers will provide the manufacturing base. These operations will produce a special order, custom product that utilizes a few skilled craftsmen or technicians capable of adapting rapidly to changing signals from the markets. Unfortunately, few rural places in Virginia have these kinds of workers.

Many of these manufacturers, like many other industries, will rely on fewer workers. Most firms in Virginia employ fewer than 20 people (Figure 16). In some areas of the Commonwealth, over 60 percent of the businesses employ less than four people. Of the 24,554 new jobs created between 1991 and 1999, only 3,062 were in rural areas.

**Figure 16. Percent of firms employing less than 20 people**



Source: US Bureau of the Census. County Business Patterns. Found at [http://www.ccps.virginia.edu/Demographics/2000\\_Census/DemoProfiles/DemoProfile.htm](http://www.ccps.virginia.edu/Demographics/2000_Census/DemoProfiles/DemoProfile.htm). Last accessed Nov. 27, 2001.

We must, therefore, ponder the big question as we proceed: What does rural Virginia have to sell to the rest of the world for which demand is growing and which can be sold at a profit?

## Is The Problem Self-Correcting?

Finally, we turn to the question: Is the problem of lagging incomes in rural areas self-correcting?

Many rightfully believe in market mechanisms and think many economic problems are self-correcting. Yet we have powerful reasons to believe that the economic problems of rural Virginia will not fix themselves.

The first reason, and the one easiest to understand, has to do with human capital—education, skills, and ambition embodied in individual human

Local leaders are needed to meet the challenge.

beings. People can move. The better educated and the more adaptable they are, the better able they are to move. The more ambitious they are, the more likely they are to move to places where opportunities are greatest. Without the human capital that is being drained away by out-migration of the better educated, more adaptable, and more ambitious young people, rural Virginia will lack a vital component of any economic renewal—people who have the abilities and commitment to bring about change. These people become the entrepreneurs—the important ingredient in all economic activity. They are the people who are increasingly hard to find in many of Virginia’s rural communities.

The other reasons are more complicated. But we have begun to understand that economic development is a bit like a chain reaction in nuclear physics. Once achieved, it tends to be self-sustaining. Achieving a self-sustaining reaction, however, requires first assembling a critical mass. That necessary critical mass is made up of many things: infrastructure, access to technology (especially information technology), financial capital, human capital (especially entrepreneurs), a skilled workforce, and the like.

Critical mass also relates to things like sufficient air travel to support an airport with frequent, direct flights to other major centers; a large, diverse pool of local skills and talents to allow firms to out-source specialized tasks; easy opportunities to interact informally and feed off the ideas of others engaged in similar activities; and all the other things that are possible in large urban centers but are not possible or are harder to accomplish in sparsely populated rural areas.

Each community must decide for itself what prosperity means and take steps to achieve it.

Once that critical mass is achieved, places tend to grow to the point of congestion—and sometimes beyond. Those places that fail to achieve that critical mass either sink into poverty or shed population to reduce the ratio of people to resources.

The only foreseeable self-correction that market forces will bring to the economic problems of rural Virginia is out-migration of people. The cost of accepting that self-correction is high for those who cannot easily pull up stakes and move; for the urban centers which must receive an influx of migrants ill-prepared to make a living in an urban setting; for those who have invested capital in the rural places that will be left behind; and for the urban areas that will have to subsidize the rural communities. There has to be a better way.

## Summary

- What it means to be rural today is not as clear as it used to be. We can identify many ways to be rural, and we can describe many different types of rural places in Virginia. No “one size fits all” solution to rural prosperity is likely to work.
- Being rural has always carried economic disadvantages. But the disadvantages are perhaps greater in this new economy than they have ever been.
- The traditional resource-based industries can no longer support a sizeable population in rural Virginia. Prosperous farming, timber, fisheries, or mining industries may be very desirable, but they can never again be prosperous enough to support very many rural residents at a level of economic well-being that will be acceptable to the people in Virginia’s rural communities.
- Neither can traditional manufacturing of standardized products be counted on to provide an economic base for rural Virginia. It cannot withstand competition from manufacturers located in low-wage, offshore economies. Thus, an economic development strategy that focuses on subsidizing relocation of manufacturing plants will not be sufficient in rural areas of the state.
- The problem is not going to self-correct. The longer income opportunities lag in rural Virginia, the greater will be the out-migration of the better-educated, more ambitious young people that any area must have to prosper.
- Prosperity in rural Virginia requires that rural places have something to sell in the global market economy. Unless they have something to sell for which demand is growing, incomes in rural places will lag.
- If a new economic base cannot be discovered and employed, either more young people will leave the rural areas and move to the urban areas, or increasingly greater subsidies will have to be provided to rural residents from the wealth of our urban areas.

The overriding problem is that the old economic base of rural Virginia is no longer sufficient to support that population of rural Virginia at a level of income reasonably comparable to that of urban Virginia. New economic bases must be found. If new solutions are not found, the rural areas of the Commonwealth will either see population decline or the needed subsidies, in the form of various types of transfer payments from urban areas, will grow over time.

The better way to provide economic prosperity to rural Virginia is the Commission’s vision and recommendations.



No silver bullet--a package is needed.

**Solutions from the Grassroots:  
Recommendations to  
The Governor  
and  
The General Assembly of Virginia**

## A Vision and Recommendations

The Commission has a vision of a rural Virginia

- that provides economic opportunities for all who are willing to prepare themselves and seek to better their economic well-being;
- that retains the enduring values of rural life: communities where neighbors know and help neighbors, and where landowners take seriously their obligations as stewards of our natural resources and the environment;
- that is made up of sustainable communities that can make full use of the natural increase of their populations.

The Commission's vision is of a rural Virginia that embraces change.

That vision cannot be imposed from the outside. Each community in rural Virginia will have to decide for itself what prosperity means for it and take steps to achieve it. Local leaders will need to rise to the challenge and take charge of their own destinies. The Commonwealth can help, but it must not impose.

The Commission's vision is of a rural Virginia that is resilient, adaptable, and innovative.

Nor is it a vision without change: Change is inevitable. Sometimes it will come in the form of great shocks from outside. The Commission's vision is of a rural Virginia that is resilient, adaptable, and innovative, that embraces change and uses it as a source of energy to build a better life for all rural Virginians.

Different communities will find different roads to economic prosperity. Yet each will build on what it is that makes that community unique and special. A healthy rural Virginia will be a diverse rural Virginia.

## The Commission Recommendations in Detail

The Rural Virginia Prosperity Commission adopts a strategy of “Rural Prosperity from the Grassroots.”

**Basic Premise:** A strategy of rural prosperity from the grassroots begins with the proposition that each community needs to define for itself what prosperity means and assume primary responsibility to take positive steps to achieve its goals. Even if it were possible to define prosperity for all communities, it could not be achieved without grassroots efforts. Hence, the most appropriate strategy is to empower community leaders to achieve prosperity in their own way.

**Role of Actors:** Local communities initiate; the Commonwealth facilitates.

Elements of the Strategy:

1. A program to institutionalize support for enhancing community leadership capacity to define strategic objectives, evolve practical strategies for economic development, and implement steps to achieve those objectives.
2. Support from the Commonwealth in providing the prerequisites for economic prosperity that cannot reasonably be met by local action. This support will include vigorous programs
  - to remedy deficiencies in telecommunications infrastructure;
  - to improve transportation access to remote parts of the Commonwealth;
  - to provide assistance in meeting needs for water supply and waste water infrastructure;
  - to expand opportunities for access to capital by entrepreneurs;
  - to encourage adults to remedy their own educational deficiencies;
  - to provide enhanced opportunities for employers to obtain training and retraining for workers;
  - to improve K-12 educational performance;
  - to use tax incentives to encourage job and income-creating investments by the private sector in depressed areas;

The Commission proposes specific recommendations to implement such a strategy through modification and/or expansion of existing state programs and in a few instances, creation of new programs.

## Virginia's Capital Access Program

**Basic Premise:** A well-documented shortage of debt financing exists for new businesses and for expansion of existing businesses in rural Virginia communities. Economists understand that this shortage is the result of the higher risks for lenders that are inherent in operating a small business in isolated rural areas, in the fixed costs of administering the relatively small loans that rural businesses typically require, in the lack of specialized knowledge by lenders in many types of rural businesses, and in the lack of collateral in a small business that is increasingly based on digital technology. Without better access to capital in rural areas, there is little hope of locally based economic growth. To remedy the problem, a program to spread risks (and thus reduce risks) for individual loans is required. Such programs have been used with success in other states, and an existing program in Virginia can be expanded to fill the need. With the Virginia Capital Access Program already in operation, startup costs or creation of a new bureaucracy is not necessary.

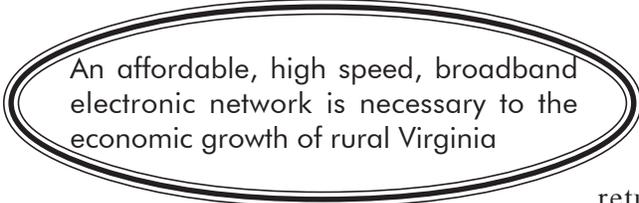
Without better access to capital, rural entrepreneurs have little hope of helping rural areas grow.

**Recommendation:** Recommendations are for \$2 million per year authorized state deposits to the reserve fund plus a recurring \$0.25 million per year in added operating budget to manage the program and help promote it in rural areas. Legislative action authorizing a “double match” up to 14 percent by the state is already in place and is currently being applied to the first \$1 million a bank loans in the program and for technology companies. The same double matching authority can be used to encourage loans in economically distressed rural localities identified in the tiered incentive program.

**Background information:** Appendix B, Exhibit 1, p 40.

## Rural Digital Infrastructure

**Basic Premise:** The future economic well-being of Virginia's rural areas will, in large part, be determined by the degree of access they have to affordable, high-bandwidth electronic networks and how well rural Virginians are prepared to use them. In the coming digital economy, rural businesses will have a growing



An affordable, high speed, broadband electronic network is necessary to the economic growth of rural Virginia

need to be efficiently connected with business partners and customers. Without this capability, rural areas will be left with only low wage, regionally focused businesses that are severely limited in their potential to grow and compete in the new economy. Because private investors can usually obtain higher rates of return from telecommunications infrastructure

investments in larger urban centers, it is not evident when, or if, market forces will cause private investors to act to meet the telecommunications infrastructure needs of rural Virginia without some intervention by the Commonwealth.

### Recommendations

1. Direct the Center for Innovative Technology (CIT) and the Secretary of Technology to coordinate meetings with public and private stakeholders to achieve the following goals:
  - a. Evaluate the present state and need for new infrastructure in rural Virginia to fill strategic gaps in present commercial networks and coordinate plans to fill the gaps;
  - b. Set bandwidth goals with a timetable for achieving the goals; and
  - c. Encourage private development, and where necessary, facilitate the extension of advanced networks throughout the state to serve rural counties, cities, and towns with affordable, high-bandwidth connections for businesses, local governments, education, health care, and citizens.

The work will be coordinated with the Tobacco Commission and the E-58 project.

2. In areas not sufficiently served by the private sector (at minimum established data rates), local governments should be allowed to create public/private partnerships to provide the necessary services. Alternatively, if the private sector does not provide minimum established data rates, local governments should be allowed to create the necessary services themselves. At an appropriate time, these services should be offered to the private sector at fair market value.

**Background information: Appendix B, Exhibit 2, p 46.**

## Adult Education and Workforce Training and Development

**Basic Premise:** Rural prosperity requires that the rural workforce be well-educated and well-trained. Too many rural Virginians have not finished high school, which effectively cuts them off not only from the best jobs but also from the kind of advanced worker retraining that is necessary in the new economy.

Workforce training is a requirement for a healthy economy.

The Virginia Community College System must become a more active player in providing customized training and retraining to meet the needs of employers. To meet the needs of a prosperous rural Virginia, a major effort must be focused on meeting remedial needs of the adult workforce and in making the community colleges partners with employers in providing workforce training and retraining.

### Recommendations

1. Support the proposed Virginia Tiered Incentive Program that provides for a \$2,500 tax credit per employee to employers who promote the GED program and assist their employees in earning a GED.
2. Support the proposed Virginia Tiered Incentive program that provides for a \$2,500 tax credit to employers who place an employee in, or employ a job candidate from, an approved Department of Labor and Industry apprenticeship program when the employee successfully completes the program of study.
3. Enact legislation directing the Virginia Community College System to
  - a. offer non-credit courses at a time and place that meet the needs of employers and at a cost not to exceed the incremental cost of each course;
  - b. deal directly with employers in designing and offering courses to meet current and projected workforce training needs; and
  - c. report annually to the General Assembly on what has been done.

Definition: Incremental cost means the addition to total cost that is incurred as a result of the course. The procedures for determining incremental costs shall be promulgated by the Auditor of Public Accounts and shall be used by each community college in carrying out the provisions of this act.

**Background information: Appendix B, Exhibit 3, p 48.**

## Tiered Incentives for Economically Distressed Areas

**Basic Premise:** For non-resource-based industries, inherent economic disadvantages exist in many rural locations. Those disadvantages have become increasingly serious in the new economy. While special tax incentives for economic activities in rural areas will not by themselves eliminate those disadvantages, incentives carefully focused on the special needs of economically distressed and lagging rural areas can reduce some of the disadvantages. The key is to keep the incentives focused and limited to the type of economic activities where they are likely to make a difference at the margin and where they can be shown to be cost-effective.

### Recommendation

Adopt a three-tiered system of preferential tax treatment for employers in economically distressed localities of Virginia. This preferential tax program would apply not only to rural counties but also to lagging urban areas.

### Qualifications necessary for each tier and tax credits available

1. All unused tax credits may be carried forward against tax income tax liabilities for up to a maximum of five years as long as the job still exists and is filled.
2. The maximum credit for expenditures on tuition at community colleges may not exceed the actual outlays by the employer.
3. An employer need not be a corporation to qualify for the tax credits. Proprietorships and partnerships that file income tax returns on earnings from a business may qualify.

An incentive program must be focused and limited to activities that will make a difference to economically distressed localities.

### Tier 1 Localities

Eligibility: 65% or less of median Virginia household income (Source: US Census Bureau at <http://www.census.gov/hhes/www/saife/stcty/estimate.html>); **and** 140% or greater than state average unemployment rate for last three consecutive years (Source: Virginia Employment Commission); **or** 175% or greater than state average free lunch eligibility (Source: Department of Education at [http://www.pen.k12.va.us/VDOE/Publications/rep\\_page.htm](http://www.pen.k12.va.us/VDOE/Publications/rep_page.htm))

Jobs: \$3,000 tax credit per new job to maximum of 20 jobs per firm per year;

Job Training/Retraining: up to \$500 tax credit per employee for tuition paid by employer to community colleges for worker training or retaining;

GED: \$2,500 tax credit per employee who obtains GED;

Apprenticeship training: \$2,000 tax credit per employee who successfully completes a state approved apprenticeship program;

Investment: minimum investment in capital assets of \$250,000 gets a tax credit of 3% of the cost of investment to be taken from employees withholding that the firm owes the state.

### Tier 2 Localities

Eligibility: 65.1 to 75% of median Virginia household income; **and** 120 to 139.9% of state average unemployment rate for last three consecutive years; **or** 150 to 174.9% of state average free lunch eligibility

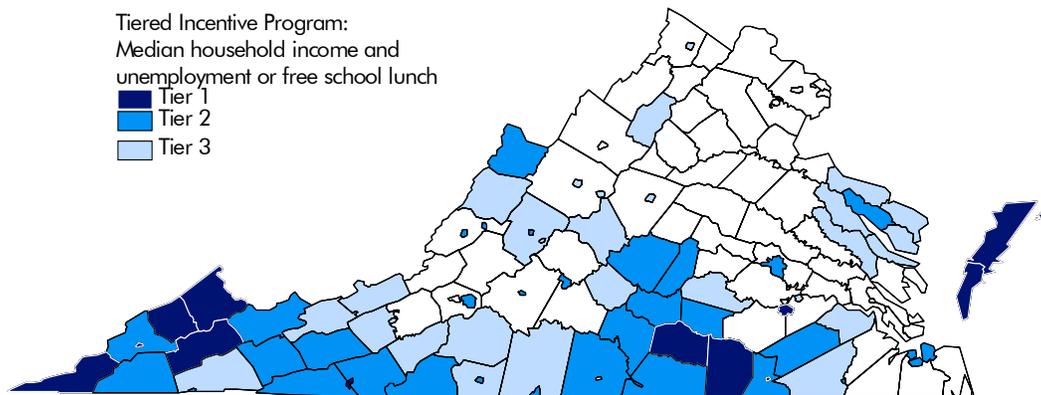
Jobs: \$2,500 tax credit for each new job to maximum of 15 jobs per firm per year;  
 Job Training/Retraining: up to \$400 tax credit per employee for tuition paid by employer to community colleges for worker training or retaining;  
 GED: \$2,500 tax credit per employee who obtains GED;  
 Apprenticeship training: \$2,000 tax credit per employee who successfully completes a state approved apprenticeship program;  
 Investment: minimum investment in capital assets of \$250,000 gets a tax credit of 2% of the cost of investment to be taken from employees withholding that the firm owes the state.

**Tier 3 Localities**

Eligibility: 75.1 to 85% of median household income, **and**  
 100 to 119.9% of state average unemployment rate for last three consecutive years **or**  
 125 to 149.4% of state average free lunch eligibility

Jobs: \$2,000 tax credit for each new job up to maximum of 10 jobs per firm per year;  
 Job Training/Retraining: up to \$300 tax credit per employee for tuition paid by employer to community colleges for worker training or retaining;  
 GED: \$2,500 tax credit per employee who obtains GED;  
 Apprenticeship training: \$2,000 tax credit per employee who successfully completes a state approved apprenticeship program;  
 Investment: minimum investment in capital assets of \$250,000 gets a tax credit of 1% of the cost of investment to be taken from employees withholding the firm owes the state.

**Figure 17. Localities falling in Tier 1, Tier 2, and Tier 3**



**Localities in each Tier, based on median household income and unemployment or free school lunches**

<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 3</u>
Accomack	Bedford City	Amelia
Brunswick	Bristol	Appomattox
Buchanan	Buckingham	Bath
Dickenson	Carroll	Bland
Emporia	Charlotte	Buena Vista
Lee	Clifton Forge	Charlottesville
Lunenburg	Covington	Essex
Northampton	Cumberland	Floyd
Norton	Danville	Franklin
Petersburg	Franklin City	Giles
Russell	Grayson	Henry
Galax	Greensville	Hopewell
	Halifax	King and Queen
	Highland	Lancaster
	Lexington	Middlesex
	Lynchburg	Nelson
	Martinsville	Northumberland
	Mecklenburg	Page
	Norfolk	Pittsylvania
	Nottoway	Pulaski
	Patrick	Radford
	Portsmouth	Rockbridge
	Prince Edward	Southampton
	Richmond	Staunton
	Richmond City	Surry
	Roanoke City	Washington
	Scott	Waynesboro
	Smyth	Westmoreland
	Sussex	Winchester
	Tazewell	
	Wise	
	Wythe	

**Background information: Appendix B, Exhibit 4, p 51.**

## Center for Rural Virginia

**Basic Premise:** The Commission recognizes the diversity of problems existing in rural Virginia. These problems are unique to each area and cannot be solved with a “one size fits all” approach. Residents and leaders in local communities must take the lead in defining what prosperity means for their communities, in



A Center for Rural Development is needed to continue the work of the Commission.

helping formulate coherent and clear strategies for achieving that vision of prosperity, and in implementing actions to promote that strategy. That process will be a continuing one as outside events change the environment in which economic actors in these communities must operate. To be successful, most rural communities will need programs in leadership training and on-going technical support to economic development, community development, and

implementation of strategic plans. In addition, rural communities will need support to analyze how public and private policy affects them and to advocate for their interests in the formulation of Commonwealth policies.

### Recommendation

The Rural Virginia Prosperity Commission be continued with the expectation that the Commission will organize the Center for Rural Virginia and the Commission will serve as the initial Board of Directors. The Center would have a program portfolio that includes

- advocacy,
- constituency development,
- leadership training
- technical assistance
- input to research and policy analysis agendas,
- policy development, and
- input to rural development outreach efforts of institutions of higher education, and a catalyst for rural development in Virginia.

The Center for Rural Virginia will act as a champion for the rural digital economy and will

- a. promote growth of rural e-business strategies,
- b. promote and coordinate technical education for rural citizens,
- c. identify funding for new infrastructure in rural areas through the Virginia Capital Access program, Virginia Resource Authority, Advanced Communications Assistance Fund, and others.

The Center will advocate for the state to provide tax incentives when a technology business or industry relocates to a rural Technology Zone as designated by the local city, county, or town.

**Background information: Appendix B, Exhibit 5, p 54.**

## Secretary of Agriculture

**Basic Premise:** Virginia is one of only five states that does not have a Secretary of Agriculture who reports directly to the Governor or a Commissioner of Agriculture mandated by the state constitution. In Virginia, the Commissioner of Agriculture and Consumer Services is one of more than ten agencies that report to the Secretary of Commerce and Trade. That arrangement buries the voice for the important resource-based industries of rural areas too deeply in the bureaucracy to provide strong leadership for sectors that are vital to rural Virginia. Moreover, as much as 20 percent of all jobs in the Commonwealth are directly or indirectly tied to resource-based industries. This significant part of the Commonwealth's economy needs representation in the Governor's cabinet if it is to realize its full potential.

### **Recommendation**

Create a cabinet-level Secretary of Agriculture.

**Background information:** Appendix B, Exhibit 6, p 56.

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# **APPENDIX A**

## **LEGISLATION CREATING RURAL VIRGINIA PROSPERITY COMMISSION**

**HOUSE JOINT RESOLUTION NO. 129**

*Establishing the Rural Virginia Prosperity Commission.*

Agreed to by the House of Delegates, February 15, 2000

Agreed to by the Senate, March 2, 2000

WHEREAS, the U.S. economy is experiencing its longest economic expansion in history; and

WHEREAS, the Commonwealth as a whole has shared in this broad-based economic expansion which has brought to the Commonwealth double-digit annual general fund revenue growth over the past few bienniums; and

WHEREAS, numerous areas of the Commonwealth are sharing this record growth where technology is generating unprecedented economic prosperity; and

WHEREAS, urban and suburban areas of the Commonwealth of Virginia have benefited from the growth and expansion of information technology; and

WHEREAS, even after almost 10 years of strong economic growth in the Commonwealth, the rural areas of Virginia have not benefited to the same extent as the urban and suburban areas of Virginia; and

WHEREAS, the falling commodity prices for farm products have helped keep inflation under control but have reduced the income of farmers in Virginia's rural areas; and

WHEREAS, the assault on tobacco and its harmful effects has decimated the Southwest and Southside regions in Virginia with their historically strong economic dependence on tobacco; and

WHEREAS, increased global competition has helped some areas of the Commonwealth; the free trade policies of the North American Free Trade Agreement (NAFTA) and the General Agreement on Trade and Tariffs (GATT) have hurt certain manufacturing industries, such as textiles, which are predominantly located in rural areas resulting in high unemployment; and

WHEREAS, the strong economies of the urban and suburban areas with their economic growth and high wage jobs have exacerbated the rural community's out-migration, especially for the younger residents of the rural parts of Virginia; and

WHEREAS, the social and economic problems confronting rural Virginia and its suburban neighbors, where rapid housing growth competes for space, land, and local services, are diverse with different state policies and laws affecting different local economies in diverse ways, and therefore, strategies may need to be initiated and/or modified to provide maximum effectiveness for Virginia's rural and rural/suburban areas; and

WHEREAS, the Commonwealth cannot achieve full prosperity until all regions of the Commonwealth share in the state's current unprecedented economic growth and allow its communities and its citizens to reach their full potential; and

WHEREAS, rural economies that are not in a position to equally contribute to the Commonwealth's economic prosperity will inevitably require continuous fiscal contributions from urban and suburban areas of the state to simply continue to provide essential public services; and

WHEREAS, sustained rural development that improves a community's economy cannot occur until creative solutions that link strong resources and programs with a local capacity to tackle its own unique problems are developed; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Rural Virginia Prosperity Commission be established. The Commission shall undertake a detailed analysis of Virginia's rural economies and recommend flexible but targeted state policies which, combined with local efforts, will help foster sustainable economic growth in Virginia's rural areas. The Commission shall study and recommend what policies and strategies can be instituted or restructured to help rebuild Virginia's rural economy to maximize the effectiveness of federal, state, local and private efforts to assure rural prosperity and a high quality of life in rural communities.

The Commission shall be comprised of 18 members as follows: 6 members of the House of Delegates to be appointed by the Speaker of the House, in accordance with the principles of Rule 16 of the Rules of the House of Delegates; 4 members of the Senate to be appointed by the Senate Committee on Privileges and Elections; and 8 citizen members, four of whom shall be appointed by the Speaker of the House and four of whom shall be appointed by the Senate Committee on Privileges and Elections. The Commission shall include representatives of both urban and rural areas of Virginia. The Division of Legislative Services and the Rural Economic Analysis Program at the Virginia Polytechnic Institute and State University (Virginia Tech) shall provide staff assistance for the study. All agencies of the Commonwealth shall provide assistance to the Commission, upon request.

The direct cost of the study shall not exceed \$33,000. An additional estimated \$150,000 is allocated for analytical, planning and advisory services for Virginia Tech. Such expenses shall be funded by a separate appropriation to Virginia Tech.

The Commission shall submit an interim report to the Governor and the 2001 Session of the General Assembly and shall complete its work by December 1, 2001, and submit its findings and recommendations to the Governor and the 2002 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The Committee may withhold expenditures or delay the period for the conduct of the study.

**SENATE JOINT RESOLUTION NO. 140**  
*Establishing the Rural Virginia Prosperity Commission.*  
Agreed to by the Senate, March 9, 2000  
Agreed to by the House of Delegates, March 8, 2000

WHEREAS, the United States economy is experiencing its longest economic expansion in history; and

WHEREAS, the Commonwealth as a whole has shared in this broad-based economic expansion which has brought to the Commonwealth double-digit annual general fund revenue growth over the past few bienniums; and

WHEREAS, numerous areas of the Commonwealth are sharing this record growth where technology is generating unprecedented economic prosperity; and

WHEREAS, urban and suburban areas of the Commonwealth of Virginia have benefited from the growth and expansion of information technology; and

WHEREAS, even after almost 10 years of strong economic growth in the Commonwealth, the rural areas of Virginia have not benefited to the same extent as the urban and suburban areas of Virginia; and

WHEREAS, the falling commodity prices for farm products have helped keep inflation under control but have reduced the income of farmers in Virginia's rural areas; and

WHEREAS, the assault on tobacco and its harmful effects has decimated the Southwest and Southside regions in Virginia with their historically strong economic dependence on tobacco; and

WHEREAS, increased global competition has helped some areas of the Commonwealth; the free trade policies of the North American Free Trade Agreement (NAFTA) and the General Agreement on Trade and Tariffs (GATT) have hurt certain manufacturing industries, such as textiles, which are predominantly located in rural areas resulting in high unemployment; and

WHEREAS, the strong economies of the urban and suburban areas with their economic growth and high wage jobs have exacerbated the rural community's out-migration, especially for the younger residents of the rural parts of Virginia; and

WHEREAS, the social and economic problems confronting rural Virginia and its suburban neighbors, where rapid housing growth competes for space, land, and local services, are diverse with different state policies and laws affecting different local economies in diverse ways, and therefore, strategies may need to be initiated and/or modified to provide maximum effectiveness for Virginia's rural and rural/suburban areas; and

WHEREAS, the Commonwealth cannot achieve full prosperity until all regions of the Commonwealth share in the state's current unprecedented economic growth and allow its communities and its citizens to reach their full potential; and

WHEREAS, rural economies that are not in a position to equally contribute to the Commonwealth's economic prosperity will inevitably require continuous fiscal contributions from urban and suburban areas of the state to simply continue to provide essential public services; and

WHEREAS, sustained rural development that improves a community's economy cannot occur until creative solutions that link strong resources and programs with a local capacity to tackle its own unique problems are developed; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That the Rural Virginia Prosperity Commission be created to undertake a detailed analysis of Virginia's rural economies and to recommend flexible but targeted state policies which, combined with local efforts, will help foster sustainable economic growth in Virginia's rural areas. The Commission shall study and recommend what policies and strategies can be instituted or restructured to help rebuild Virginia's rural economy to maximize the effectiveness of federal, state, local and private efforts to assure rural prosperity and a high quality of life in rural communities.

The Commission shall be comprised of 18 members as follows: 4 members of the Senate to be appointed by the Senate Committee on Privileges and Elections; 6 members of the House of Delegates to be appointed by the Speaker of the House, in accordance with the principles of Rule 16 of the Rules of the House of Delegates; and 8 citizen members, four of whom shall be appointed by the Senate Committee on Privileges and Elections, and four of whom shall be appointed by the Speaker of the House. The Commission shall include representatives of both urban and rural areas of Virginia. The Division of Legislative Services and the Rural Economic Analysis Program at the Virginia Polytechnic Institute and State University (Virginia Tech) shall provide staff assistance for the study. All agencies of the Commonwealth shall provide assistance to the Commission, upon request.

The direct cost of the study shall not exceed \$33,000. An additional estimated \$150,000 is allocated for analytical, planning and advisory services for Virginia Tech. Such expenses shall be funded by a separate appropriation to Virginia Tech.

The Commission shall submit an interim report to the Governor and the 2001 Session of the General Assembly and shall complete its work by December 1, 2001, and submit its findings and recommendations to the Governor and the 2002 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

Implementation of this resolution is subject to subsequent approval and certification by the Joint Rules Committee. The Committee may withhold expenditures or delay the period for the conduct of the study.

Source: <http://leg1.state.va.us/001/lis.htm>. accessed November 16, 2001.

# **APPENDIX B**

## **BACKGROUND INFORMATION FOR RECOMMENDATIONS**

- Exhibit 1. *Capital Access*
- Exhibit 2. *Digital Economy*
- Exhibit 3. *Workforce Training and Adult Education*
- Exhibit 4. *Tiered Incentive Program*
- Exhibit 5. *Center for Rural Virginia*
- Exhibit 6. *Secretary of Agriculture*

## Exhibit 1: Rationale for Capital Access Program

The Virginia Capital Access Program recognizes the economic development importance of extending capital to existing small businesses in rural communities. These small businesses are often computer or information technology based or have specialized equipment and personnel needs; consequently, they often do not have acceptable collateral to secure regular loans. The program

- Does not lend state money. It uses state funds to match the borrower's contribution to a reserve fund. Since the state deposit will range from 3 to 7 percent, the "leveraging" of state deposits is from 14.3 to 1 (for 7 percent state deposits) to 33.3 to 1 (for 3 percent state deposits). Leveraging in recent years of the Virginia Capital Access Program has been about 30 to 1.
- Extends beyond the traditional commercial and small business loan programs to the "almost bankable" loans, providing for new and expanded economic activity that would not otherwise occur.
- Comes at an added cost to the borrowers of usually 3 to 4 percent of the amount of the loan; consequently, they have to want the loan and believe that their business plan or ongoing business expansion can and will succeed. However, the 3 or 4 percent of the loan amount is spread over the life of the loan, so that the added cost is not prohibitive.
- Uses bank money and bank lending procedures; therefore, it requires no new bureaucracy at the state level and generates no claim on state funds.
- Loans are restricted to \$250,000 so that the program serves small businesses. Up to 96 percent of jobs in many rural counties are in firms with less than 20 employees.
- Will be administered by the existing and rapidly growing Virginia Capital Access Program in Virginia Small Business Financing Authority in the Department of Business Assistance.

Small businesses are the key to the development of a strong, broad economy. They are the primary creators of new jobs, especially in rural Virginia counties where as many as 96 percent of all jobs are in firms with fewer than 20 employees. In 1998, these smaller firms accounted for 86 percent of the jobs throughout Virginia's diverse rural and urban economy (U.S. Dept of Commerce (b), 1998).

Unfortunately, small businesses are subject to changed financial conditions as the consolidation process results in changes in size and strategies by both large and small banks. To minimize their risks, bankers tend to become collateral-oriented in their lending to small businesses rather than seeking to support the specific needs of the small businesses. The result is that several critical phases of the small business life cycle are under-served: (1) start-ups, (2) rapid-growth needs, (3) new product development, and (4) business efforts to survive economic downturns and business cycles.

In our research we found numerous efforts have been made to create programs to compensate for the lack of access to capital. Examples are venture capital, Small Business Investment Corporations (SBIC), SBA guarantees, and other state and federal guaranty programs. Each of these programs has had limited success due primarily to their lack of presence in the rural communities and, therefore, their lack of direct and close contact with the small business community.

During our research, we discovered that the Michigan Capital Access Program (MCAP) has been more successful than any other in the country. We believe that its success can be attributed largely to the direct use of the banking community that has a presence in the rural communities and contact with the small businesses. The banks have trained loan officers who have the lending skills required and who know their markets. The MCAP has grown without the need to develop a significant new infrastructure or new state bureaucracy. The MCAP has been in full operation since 1986. A recent independent evaluation of the economic benefit derived from this program was conducted by Roger Hamlin, Michigan State University. The study indicated that the program has had significant economic results through 1996, with over 7,000 loans extending \$300 million in total loans to borrowers and providing economic growth that has created 76,000 new jobs. From annual loans averaging a total of \$35 million, the associated expanded business activity has resulted in increased tax revenues to the state and localities of over \$150 million per year. The study reported that 88 percent of the loans made under the program would not have been made without the program, suggesting the program has been effective in extending capital to “almost bankable” loan requests backed by effective ideas and business plans (Hamlin).

Virginia’s version of a capital access program is very similar in structure. The premiums are set by the bank, depending on the perceived risk for the loan, with a range of 3 to 7 percent of the enrolled loan amount for the bank/borrower combined portion. At the maximum premium level, the bank and the borrower would each contribute 3.5 percent and the Virginia Small Business Financing Authority (VSBFA) would then match that 7 percent contribution, thus creating a total deposit into the reserve/contingency fund of 14 percent of the enrolled loan amount. If the business is a technology company or the participating bank is in the first \$1 million in loans, the VSBFA operating policy (action taken in the 2000 General Assembly session) allows VSBFA to double the borrower/bank combined contribution to the reserve fund, resulting in a maximum overall 21 percent deposited to the reserve fund. The more frequently the bank utilizes the program, the larger the reserve fund becomes and the greater the protection the fund affords by spreading the risk over a larger loan portfolio.

The Virginia Capital Access Program (VCAP) has been in operation since 1996 as a state supported program. The program operated on a small scale initially, but to date has extended nearly \$24 million in loans to 326 projects, creating 753 jobs (Table 1). Employment multipliers would greatly expand the total jobs created. While still small relative to needs, the growth suggests that the program is being well received by the bankers and borrowers who are using it. The banks that have participated to date represent a relatively small number, however, and few are located in the rural areas of the state. The VSBFA is responsible for a variety of other programs and has a limited staff. Scott E. Parsons, Director of Financial Services, noted in a May 18 meeting with Rural Virginia Prosperity Commission staff that only limited time and resources have been available to promote VCAP with the banks and much of that activity has been in and around the larger cities. In addition to VCAP, the VSBFA administers and directs an Economic Development Revolving Loan Fund, a Loan Guaranty Program, the Industrial Development Bond Program, the Virginia Export Financing Assistance Program, the Small Business Environmental Compliance Assistance Fund, and financing for Child Day Care Programs.

We believe VCAP is the best method for expanding lending to the small business community, especially in the rural communities. Any monies deposited into the reserve fund are leveraged significantly. If the state match required for a reserve program loan were to average 4.0 percent, a \$2 million authorization from the state would leverage up to \$50 million in loans (\$2 million divided by 0.04). A \$50 million loan availability would service the needs of 1,000 small business borrowers with \$50,000 per loan. VCAP loans would stimulate the rural economies by creating more jobs. The expanded economic activity would increase tax revenue to both the localities and the state. Spreading 1,000 loans across the 46 rural counties that are

**Table 1. Virginia Capital Access Program: As of 11-2-01**

Fiscal Year of Operation July 1 – June 30	Number of Banks Enrolled	Number of Banks Actively Participating	Number of Loans Enrolled	Total Amount of Financing Generated	Total Matching Funds Contributed by VSBFA	Number of Jobs Created	Leverage Factor	Change in financing volume from previous year
				\$	\$			%
1996	1	1 <sup>a</sup>	7	582,230	Total of 74,717 for 1996 & 1997	27	41 to 1	N/A
1997	1	1	22	2,447,319		73		421
1998	5	2	11	467,153 <sup>b</sup>	16,325	67	29	(524)
1999	7	5	27	826,337	25,855	84	32 to 1	177
2000	9	7	74	3,128,366	103,442	79	31 to 1	379
2001	14	9	123	9,097,858	307,908	223	31 to 1	291
2002 YTD	14	11	62	6,163,756	206,639	200	29 to 1	
<b>TOTAL</b>			<b>326</b>	<b>23,952,225</b>	<b>746,640</b>	<b>753</b>	<b>29 to 1</b>	

<sup>a</sup> CFB is the pilot bank for an initial 18-month period utilizing funds reallocated from the *Loan Guaranty Program*. Program is not offered statewide until General Assembly provides funding in FY1998.

<sup>b</sup> CFB merges with Wachovia; Wachovia does not enroll any loans for the first 8 months of their participation.

Source: Virginia Small Business Financing Authority in the Virginia Department of Business Assistance

receiving some \$189 million more per year than they are sending to Richmond in taxes would mean 22 new loans per county, a significant boost to economic activity in the form of income, sales, and property taxes. The demonstrated success in Michigan makes this type of program attractive.

We believe the program that the state already has in place could be more effective with more personnel support and a larger commitment by the state to reserve deposits. A recurring budget of \$250,000 per year committed to programs in rural Virginia would allow the VSBFA to better work with the banks in promoting VCAP along with, and sometimes in combination with, the other capital programs available. If the state were to authorize \$2.0 million each year in fiscal years 2002, 2003, and 2004, cumulative loan capacity approaching \$100 million would be created.

The economic activity created by the additional loans to small businesses would result in increased taxes and other state revenues: Michigan has averaged about \$5 in economic activity per \$1 in loans through their capital access program. The primary goal of making capital more accessible to small businesses in Virginia could be achieved by expansion of the existing VCAP, creating significant additions to state and local tax revenues. Action to improve access to capital in rural Virginia communities will be a necessary condition to efforts to revitalize the lagging economies in those communities.

### **Budget Possibilities for Fiscal 2003, 2004, and 2005**

Levels used are \$20 million in loans in fiscal 2003, and then \$30 million and \$40 million for fiscal years 2004 and 2005, respectively. The Virginia Small Business Financing Authority is confident these loan levels can be reached if the recommended \$2 million in annual state deposits are available.

#### **Revenue Estimates If \$20 to \$40 Million in Loans Are Extended by the Virginia Capital Access Program from Fiscal 2003 to 2005**

##### ***Method 1: Use a Measure of Tax Revenue per \$1 Loaned by the Capital Access Program***

Analysis of the Michigan program from 1988 to 1996 shows \$4.71 in total tax revenue, state plus local, per \$1.00 loaned (Hamlin).

Michigan's tax structure:

- 6.0 percent state sales tax
- 4.3 percent flat income tax

Virginia's tax structure:

- 3.5 percent state sales tax
- 2.0 to 5.75 percent income tax

About 60 percent of the Michigan tax revenues came from sales tax. Tax revenues will be smaller in Virginia because the tax structure is different.

*A conservative \$1.00 in tax revenue per \$1.00 loaned by the Virginia Capital Access Program yields, from \$20 million loaned in fiscal 2003, \$20 million in state plus local tax revenue. Those tax revenues would go to \$30 million and \$40 million in fiscal years 2004 and 2005, respectively (Table 2).*

**Table 2. Net Estimated Tax Revenue to the State for Fiscal 2003, 2004, and 2005**

Fiscal Years	2003	2004	2005
	-----\$ million-----		
Cost to State	2.25	2.25	2.25
New Tax Revenue	20.00	30.00	40.00
<b>Net to State</b>	<b>17.75</b>	<b>27.75</b>	<b>37.75</b>

**Method 2: Calculate the Tax Revenue to the State Based on the Jobs Created by Virginia Capital Access Loans of \$20 Million in Fiscal 2003, \$30 Million in Fiscal 2004, and \$30 Million in Fiscal 2005.**

Step 1: Estimate the added sales resulting from the loans of \$20 million. Sales data are needed to estimate employment. The employment multiplier in economic development and economic impact research is often expressed as jobs per \$1 million in final sales revenue.

The average ratio of sales dollars to current liabilities across the 20 businesses representing various business activities is 6.43 (Table 3). This 6.43 reflects the relationship between a new short-term loan (current liability) in the company's balance sheet, and dollar sales associated with the loan amount.

Step 2: Estimate the employment associated with the \$20 million in loans and the related \$128.6 million (\$20 million times 6.43) in sales revenue.

The research literature provides estimates for new employment per \$1 million in new final sales from 20 to 60 jobs with the higher numbers for service businesses, retail activity, and information technology-based businesses where much of the budget goes to personnel. Lower numbers are for highly mechanized manufacturing operations. The estimates shown in Table 4 come from a number of business types, university educational programs, recreation programs, agricultural tourism, etc.; research sources are cited in the table.

Using 35.5 new employees per \$1 million in added sales as the multiplier, 4,565 new jobs (35.5 times 128.6) would result from the \$20 million in loans and the related economic activity that generates the \$128.6 million in new sales.

**Table 3. Ratios of \$ Sales to Current Liabilities for Selected Companies Operating in Virginia**

Corning	3.73:1	Roanoke Electric Steel	7.32:1
Westvaco	6.69:1	Smithfield	9.39:1
Stanley Furniture	7.26:1	Trigon	2.55:1
CSX Rail	2.42:1	Hercules	12.58:1
Kroger	8.75:1	Lowe's	9.40:1
Bassett Furniture	8.77:1	Du Pont	3.15:1
Norfolk Southern	3.26:1	Rite Aid	8.74:1
Ingersoll Rand	4.41:1	Heartland Trucking	4.96:1
Home Depot	10.43:1	HCA Health Care	4.02:1
Dell Computer	4.87:1	Gateway Computer	5.89:1

Source: NASDAQ. Enhanced Fundamentals. Found at <http://nasdaq.com>. Last accessed Nov. 29, 2001

At \$11 per hour, a new employee will earn about \$22,800 per year. In 1997, Virginians paid 7.4 percent of their personal income to the state in income and sales taxes (estimated by dividing total personal income into sum of state sales taxes and state personal income taxes paid, Weldon Cooper Center for Public Service [a]). For each new employee \$1,687 (0.074 times \$22,800) is paid in taxes to the state.

**Table 4. Examples of Employment Multipliers by Type of Business**

<b>Business Type</b>	<b>Employment Multiplier (Jobs per \$1 million in final sales)</b>	<b>Source</b>
Ball bearing mfg.	26.2	<a href="http://www.ces.ncsu.edu/resources/economics/change/change3.html">www.ces.ncsu.edu/resources/economics/change/change3.html</a>
Leather products mfg.	36.6	<a href="http://www.ces.ncsu.edu/resources/economics/change/change3.html">www.ces.ncsu.edu/resources/economics/change/change3.html</a>
Tourism	24.7	<a href="http://www.hawaii.gov/dbedt/he7-99/niche1.html">www.hawaii.gov/dbedt/he7-99/niche1.html</a>
University (James Madison)	51.5	<a href="http://www.jmu.edu/instresrch/resrchstud/economic/econimpt.htm">www.jmu.edu/instresrch/resrchstud/economic/econimpt.htm</a>
National park	54.2	<a href="http://www.msu.edu/user/smythdav/npca.htm">www.msu.edu/user/smythdav/npca.htm</a>
Sports facility	34.5	<a href="http://www.bea.doc.gov/bea/regional/articles/rims2/tableC.htm">www.bea.doc.gov/bea/regional/articles/rims2/tableC.htm</a>
Riverfront development	24.9	The Economic and Fiscal Impacts of Riverfront West on the Kentucky Economy, Economic Research Group, Center for Economic Education, University of Cincinnati. At <a href="http://www.cba.uc.edu/econed/CovingtonRiverfrontWestStudy.pdf">www.cba.uc.edu/econed/CovingtonRiverfrontWestStudy.pdf</a>
University education center	30.0	Economic Impacts of the Georgia Center on Surrounding Communities. At <a href="http://www.gactr.uga.edu/gcq/gcqfall96/economic.html">www.gactr.uga.edu/gcq/gcqfall96/economic.html</a>
Agricultural tourism Recreation activities	37.2	Ramiro E. Lobo, G. Goldman, D. Jolly, D. Wallace, W. Schrader, and S. Parker, "Agricultural Tourism," <i>California Agriculture</i> , November-December 1999. At <a href="http://www.sfc.ucdavis.edu/agritourism/agritourSD.html">www.sfc.ucdavis.edu/agritourism/agritourSD.html</a>
Average employment multiplier across all business types = 35.5		

The state gets \$7.702 million (\$1,687 times 4,565 new employees) *in state income and sales taxes alone*. In addition, tax revenues would be generated from corporate income taxes for expanded activity, local sales taxes, licenses and fees, and property taxes from increased local investments in new and expanded businesses. The state would benefit indirectly if local revenues are also increased. Table 5 shows estimates for fiscal years 2003, 2004, and 2005.

**Table 5. Net Estimated Tax Revenue to the State for Fiscal 2003, 2004, and 2005**

Fiscal Years	2003	2004	2005
	-----\$ million-----		
Cost to State	2.250	2.250	2.250
New Tax Revenue	7.702	11.553	15.404
<b>Net to State</b>	<b>5.452</b>	<b>9.303</b>	<b>13.154</b>

## Exhibit 2: Rationale for Rural Digital Infrastructure

The phrase “Digital Dominion” should describe Virginia as the state with the best infrastructure and digital literacy of any state in the nation. Virginia is among the top in states Internet use, as evidenced by the northern Virginia concentration of major Internet users such as AOL and the US Department of Defense. Virginia has a head start with its programs between the state and private telecommunications industry to provide unique network services through Network Virginia (public use) and Virginia Link (private use). However, to secure prosperity for its rural areas, Virginia must continue to work to extend its competitive advantage to all areas of the state. Virginia should seize the vision of a rural Commonwealth that is both the best networked of all rural areas and will be populated with the most technologically literate citizens in the nation.

Providing business access to high-speed networks is a complex undertaking. To develop Virginia’s rural network capacity will require selection among multiple possible technologies, compliance with many regulations, coordination of many private companies, and significant capital investment. To simply have a fiber backbone passing through an area is insufficient. Often for technical or economic reasons, local users are prevented from tapping into high-speed fiber that runs literally a few feet from their businesses. Careful planning must go into developing infrastructure that will connect all businesses in rural locations with the networks that transport their data to the world.

Most present networks in rural Virginia are provided through a patchwork of services offered by cable companies and private Local Exchange Carriers, both Incumbent Local Exchange Carriers (ILECs) and Competitive Local Exchange Carriers (CLECs). Some areas have adequate service to meet today’s business needs, but many areas do not. Few rural areas have readily available, affordable networks with sufficient capacity needed to attract the businesses that are heavy users of digital communications services. Development of advanced infrastructure is not keeping pace in rural areas to meet future business needs such as video conferencing, tele-manufacturing, data centers, and web hosting.

Presently in most rural areas, demand for advanced telecommunication services is insufficient to provide the return on investment required by private investors. However, demand will increase as new businesses and industries that use digital networks are attracted to rural areas and as existing businesses increase their use of e-business strategies. To increase demand, a facilitative investment approach is needed to (1) encourage existing businesses to take advantage of e-businesses benefits and (2) attract new businesses that are heavy users of advanced telecommunications.

We are fortunate that Virginia is a state rich in assets of people, technology, and capital. These recommendations are based on the concept of Virginians helping Virginians, so that all areas of the state are prepared to participate in the digital economy.

Today, considerable privately owned fiber optic cable is in place, which could act as a network backbone if additional cable were installed to fill gaps. However, competitive, regulatory, and other issues hinder the coordination of its use. Center for Innovative Technology (CIT) will be a facilitating entity to construct accurate maps of existing infrastructure to be used to develop and facilitate plans to close the gaps in existing fiber backbones so that rural areas will have access to advanced networks.

CIT’s work will be primarily concerned with *infrastructure* planning and development. However, the presence of advanced infrastructure alone will not provide a competitive advantage to the region. Citizens and

businesses must be ready to make full use of the infrastructure and services available. To this end, the Center for Rural Virginia could play a pivotal role in improving business use of high-speed networks and technical skills of the citizens who live here.

1. The Center for Rural Virginia would promote the integration of the Internet and other advanced telecommunications services with the normal processes of doing business in rural areas. Building the use of e-business provides a two-fold benefit: 1) rural businesses profit from the larger markets and greater efficiencies of the digital economy, and 2) demand for advanced services attracts more investment in rural telecommunications.
2. The Center for Rural Virginia would develop and implement plans to train rural workers and students in the skills needed in a digital economy: computer literacy, programming, use of the Internet, networking, web site design and development, and others. The Center for Rural Virginia would work with and through community colleges, Department of Business Assistance, public schools, and other agencies to coordinate and promote training. The goal would be to make Virginia known as the state with the most technically literate rural citizens in the nation.
3. The Center for Rural Virginia could act as a champion for rural telecommunications to mediate and resolve conflicts thus smoothing the transition to a digital economy.

Some municipalities would like to develop and provide their own telecommunications services at a level more advanced than the private sector is willing to provide. These localities must be allowed “to pull themselves up by their bootstraps” by building and operating their own infrastructure as long as they go through the same SCC certification rules as the private sector providers.

## **Exhibit 3: Rationale for Workforce Training, Adult Education, and Apprenticeship Training Programs**

### ***Workforce Training***

The role of the Virginia Community College System (VCCS) has changed. When originally created in 1968, the community college primarily educated students for either a two-year Associate degree or toward a Bachelor's degree at a four-year institution. The originating legislation (Code of Virginia, Section 23-214a) states that the mission is to "offer instruction in ...freshman and sophomore courses in arts and sciences acceptable for transfer in baccalaureate degree programs." Under this program courses are taught to many students in the traditional lecture format and on a schedule suited to college and faculty. The Commonwealth has long subsidized this traditional academic education at the rate of about 70 percent of cost with 30 percent of cost paid by the student. This model remains the present VCCS funding formula, forcing individual community colleges to deliver credit courses that generate a reliable funding stream.

Today, community colleges labor under an expanded workforce training and educational role that includes technical skill training for local businesses and their workforces. In 1998, the General Assembly stated that VCCS would be the official workforce-training agency in the Commonwealth.

Skill training requires a different delivery method by the college because the business customer needs and expects training opportunities with customized curriculum to exist at times and places convenient to its employees.

- Business customers need skills training in non-traditional and not widely known topics.
- Business customers need training or retraining in the latest business and manufacturing technologies.
- Business customers expect training to be delivered to small groups, in the minimum time necessary, and on a schedule responsive to the business, not necessarily to the college.

This type of training does not fit the credit mission of the traditional academic institution; thus the community college must deliver these services outside the system's traditional mission and funding processes. The problem is that non-credit courses get little subsidy from the state since in the past they were considered avocational in nature and not meriting state funding. A way needs to be found to fund business and industry non-credit education and training needs that differs from the more avocational or hobby-type non-credit courses.

### ***Current funding***

Community colleges are funded based on a measure of *credit* enrollment called "Full-Time Equivalent" student (FTE). The FTE is a measure used to handle the problem of part-time student enrollment when funding is based on full-time students. Thus the fractional part time student's hours are converted into a fractional equivalent of an FTE for purposes of creating a state funding stream via the funding formula. An FTE is defined as the number of full-time students enrolled if each were taking a full load: 15 credits per semester. Any combination of courses and full or part-time students can be used to arrive at the 15-credit hours to generate one FTE.

A possible alternative to qualifying business education and training as credit coursework, thereby generating an FTE state-funding stream, is to offer non-credit industry certified training. Non-credit education and training may be of any duration and need not meet the accreditation standards of credit courses. Non-credit

courses may be taught by anyone the industry/business deems competent in the subject. However, the college must charge a minimum of 30 percent over the cost of the training. This requirement often puts the cost of workforce training out of reach of the businesses that need the training most to remain competitive.

Because of this high charge for courses, rural community colleges often have trouble providing non-credit education and training to the struggling businesses that need them most. A fundamental difference exists in the types of businesses that locate in rural and urban areas. Those located in rural areas are generally low wage, low margin businesses that cannot afford to upgrade the skills of their workforce. This situation quickly becomes a significant long-term competitive disadvantage to both the business and the community.

### ***Summary***

The VCCS's present funding criteria does not adequately fit the needs of Virginia's business and industry since funding is based on academic criteria, not vocational training. In addition to the problem of the FTE-centered formula, schools are measured by the number of full-time faculty employed. Workforce training divisions have few, if any, full time faculty since adjunct faculty from industry usually do the workforce training. Because overhead is reimbursed based on the number of FTEs generated, the community colleges have trouble paying overhead costs for their facilities. If a building is used solely for workforce training, it generates few FTE's as most instruction is non-credit. Running a workforce development division solely on non-credit training in rural areas is almost impossible under the present VCCS funding formula.

### ***Adult Education***

Since 1988 the Virginia Department of Education has not received an increase in funding for adult basic education from the state. The small increases that have occurred have come from the localities. This lack of financial support has resulted in a loss in matching federal dollars during a time period that saw a significant increase in available federal funds.

What's at Stake?

- Children's literacy levels are strongly linked to the educational level of their parents, especially their mothers. Parental income and marital status are both important predictors of success in school, but neither is as significant as having a mother (or primary caregiver) who completed high school.
- Children of parents who are unemployed and have not completed high school are more likely to drop out of school than are children of employed parents.
- Children of adults who participate in literacy programs improve their grades and test scores, improve their reading skills, and are less likely to drop out. Adults enrolled in family literacy programs stay longer than in most adult-only programs, and their attendance rate is higher.

Adults who have not mastered the basic skills cannot model appropriate literacy behavior and often pass on to their children the attitudes and abilities that keep them from breaking the cycle of illiteracy.

- When teens drop out of school they are likely to drop into the welfare system. Welfare recipients with low educational skills stay on welfare the longest; those with stronger skills become self-sufficient sooner.

## ***Apprenticeship Program***

Apprenticeship is a method of training employees in a skilled occupation through a combination of on-the-job work experience and related classroom instruction. To be registered, an apprentice must be working for a Virginia-based employer who has agreed to be a sponsor. Both the apprentice and the employer sign a document provided by the Virginia Department of Labor and Industry, which details their commitment to related instruction and on-the-job-work experiences. Apprentices who successfully complete the prescribed number of hours of training and instruction in an apprenticeship program become certified journey level workers.

By Virginia law (23-218(D) and 40.1-118(10)), the State Board for Community Colleges establishes policies to coordinate apprenticeship related instruction delivered by state and local public education agencies. The Chancellor, with the approval of the State Board for Community Colleges, provides for the administration and supervision of related and supplemental instruction for apprentices. The Virginia Apprenticeship Council advises the State Board for Community Colleges on policies to coordinate apprenticeship related instruction and has the authority to determine whether an apprenticeship program is eligible and conforms to the standards governing registered apprenticeship programs.

Since the early 1990s VCCS and the Virginia Department of Labor and Industry (DoLI) have been jointly responsible for delivering the adult Apprenticeship Training programs in Virginia. VCCS establishes the policies to coordinate apprenticeship related instruction that is delivered by 6 college programs and 10 subcontracted programs (vocational/technical centers). DoLI registers the apprentices and works with the sponsoring employers to qualify the work, schedule and progress of the students.

DoLI has the responsibility for contacting employers about the apprenticeship program; working with the sponsoring employer to qualify the schedule of work processes in the trade or industry divisions in which the apprentice is to be trained and the approximate time to be spent at each process; evaluating on- the-job training components of the apprenticeship program, registering apprentices and maintaining the apprenticeship data management system.

Both VCCS and DoLI agree that the current arrangement of splitting the program leaves them without a clear line of accountability. Both agencies are aware of the attendant problems and are doing their best to carry on under the circumstances. Each of them recognizes the need to put the system back together with one entity controlling and that such an effort will take time.

The Rural Virginia Prosperity Commission can provide immediate help to the program by providing additional incentives to employers to use the apprenticeship program by way of the tax credit and by placing the issue of overhauling the apprenticeship program as an agenda item for the educational unit of the Center for Rural Virginia. Additional money is a critical need for a professionally developed public relations/marketing package for use with recruiting sponsors and students.

## Exhibit 4: Rationale for a Tiered Incentive Program

1. A tiered incentive program focuses upon firms that create the bulk of the jobs in rural areas. As much as 96 percent of all jobs in rural areas are in firms that employ 20 or fewer employees. An incentive program with a minimum number of jobs that must be created to qualify will exclude most of the firms that account for the major job growth in these counties.
2. It places an emphasis upon incremental economic development that does not overpower the institutions of small rural communities and thus helps them grow without sacrificing the rural quality of life.
3. By placing an upper limit on the number of jobs for which tax credits may be claimed, no open-ended lien is placed on future state tax revenues .
4. It is cost-effective. Under plausible assumptions, the jobs tax credit will be repaid to the state in five years if one assumes that state is charging a 5 percent interest on initial outlays, except the GED tax credit which will be repaid in less than three years at 5 percent interest.
5. Establishing tax credits for tuition expenditures to community colleges for worker training and retraining allows employers to bargain directly with the community colleges for the kind of training needed and encourages community colleges to be customer-oriented in providing workforce training.

### *Cost Effectiveness*

#### *Job Credits*

- Not all the new jobs will be created because of tax incentives. Some of them would be created anyway. A Georgia study shows that of 10 jobs for which credits are claimed, only 3 were created because the tax credit program existed (Ihlanfeldt and Sjoquist). Therefore, if credits are claimed for 20 jobs, the state has a one-time revenue loss of \$60,000 (20 x \$3,000). Since only 6 of those 20 jobs are because of the tax credit program, the cost per new job is \$10,000.
- If we treat that \$10,000 one-time cost as an investment, how much would the state need to recover in additional tax revenue in future years to repay it? Assuming we wanted to recover it in five years at 5 percent interest, the state would need about \$2,300 more per year in additional revenue.
- Analysis of the relationship between growth in personal income in Virginia and state sales and income tax collections indicate that the state collects about 7.4 percent (Weldon Cooper Center [b]) of all recent growth in personal income in the state. Thus the total growth in personal income in Virginia needed to recover the \$2,300 would be about \$31,100.
- If the net new jobs pay an average of \$24,000 per year and if the statewide income multiplier is 1.3, the job tax credits program would pay for itself in five years at 5 percent. Yet since the state collects some revenues in forms other than sales and income taxes, the state could recover the investment in the tax credit program with somewhat lower wages or multipliers.

#### *GED Credits*

- The one-time cost in lost state revenue from the GED credit would be \$2,500. Since this credit goes to employers, we assume that all of these credits are for GEDs that otherwise would not have been earned.
- Statistics show that a high school graduate earns on average \$8,976 more per year than a person without a high school diploma. If the state collects 7.4 percent of those increased earnings, it would realize \$664 in increased tax revenue for every additional GED earned, even without applying a multiplier. (7.4 percent calculated from data from Weldon Cooper Center for Public Service (a), 1999.)

- That amount would repay the state the initial cost of the GED tax credit at 5 percent in a little less than four years.

#### *Worker Training and Retraining Credits*

- The Virginia Department of Business Assistance will continue to administer workforce training and retraining tax credits.
- Worker Training and Retraining Credits are more difficult to evaluate for two reasons: a) we have less reliable data on how much the training will increase income; and b) the credits are maximums so that the amount of credit depends upon what actual tuition is charged. Currently, the tuition charge per credit hour varies from community college to community college, but it averages about \$40 per credit hour or \$120 for a three-credit course.
- Assume a tax credit of \$200 to retrain a worker. To repay that tax credit in five years at 5 percent, the state would need to realize additional taxes of \$63 per year for five years. To obtain that added tax revenue, personal income would need to increase by \$835 per year as a result of the training. If we assume a multiplier of 1.3, the worker being trained or retrained would need to earn about \$636 more per year as a result of the training or retraining.
- To repay a tax credit of \$175 in five years at 5 percent, the state would need to realize additional taxes of \$40 per year for five years. To obtain that added tax revenue, personal income would need to increase by \$540 per year as a result of the training. If we assume a multiplier of 1.3, the worker being trained or retrained would need to earn about \$420 more per year as a result of the training or retraining.
- To repay a tax credit of \$150 in five years at 5 percent, the state would need to realize additional taxes of \$35 per year for five years. To obtain that added tax revenue, personal income would need to increase by \$468 per year as a result of the training. If we assume a multiplier of 1.3, the worker being trained or retrained would need to earn about \$360 more per year as a result of the training or retraining.
- We have no assurance that these earnings could be obtained on average, but they are not unreasonable expectations.

#### *Investment Tax Credit*

- Encourages investment in rural and lagging areas of the state in new plant and equipment, in expansion, and in modernizing existing facilities.

### ***Estimated Fiscal Impact of Tiered Tax Incentive Program***

**Assumptions:** The estimated fiscal impact on Virginia of the Tiered Incentive Program can only be determined if certain assumptions are made, and the results are quite sensitive to those assumptions. As presently defined, the 73 localities in the three tiers have a combined population of about 2.1 million or 29.3 percent of the population of Virginia. Tier 1 has 223,000 people; Tier 2 has 1,219,000 people; Tier 3 has 627,000 people.

- **Job Credits:** About 916,000 jobs are in the three tiers. To fully employ the natural increase in the workforce, we would need to add about 8,000 jobs per year (less than 1 percent job growth per year). While it would take some time to ramp up to such a level of job growth, we based our cost estimates on the assumption that such a target can be realized.

**GED Credits:** We estimate about 250,000 people between the ages of 25 and 65 who live in localities included in the three tiers do not have high school diplomas. Because of age or lack of basic education, only half that number would be likely to enter a GED program, whatever the incentives. We based our cost estimates for the GED credits on a target of 5 percent of those 125,000 lacking high school diplomas having acquired GEDs by 2010.

- **Worker Training and Retraining Credits:** These credits are restricted to expenditures by employers with the community colleges and have the effect of merely shifting revenues from taxes to user fees. Nevertheless, they do mean that in the short run less tax money is available for appropriations. We have very little in the way of information about how many such credits might be claimed in each tier. We based our cost estimates on achieving almost 30,000 retrained workers by 2010, or about 3.7 percent of the existing 1999 workforce in the areas covered by the tier program
- **Investment Tax Credits:** Several other states use a credit against the withholding of employees' personal income tax because many firms otherwise eligible for this incentive will not have any profits that otherwise might be subject to the tax on the firm. We are unable to estimate the costs of this incentive in the form of lost revenue for the Commonwealth.

### *How to Interpret the Cost Estimates*

You should interpret the cost estimates below first as effects on state revenues. Costs are revenues lost as a result of the tax credits. All costs are based on the assumption that the program will achieve the targets laid out above. These assumptions can be changed. Staff has prepared a spread sheet that allows the effects of changes to be evaluated more or less instantly. You should note two things about the assumptions:

1. Beginning in 2007, the tiered incentive program is projected to return more revenue to the state treasury than is lost as a result of the tax credits.
2. All parts of the tiered incentive program are designed to eventually repay the state treasury at 5 percent interest for the initial outlays in revenues forgone in the earlier years.

<b>Estimated Total Impact</b>	
<b>Year</b>	<b>Million \$</b>
2002	-3.4
2003	-5.3
2004	-9.8
2005	-14.7
2006	-7.2
2007	+1.6
2008	+10.4
2009	+19.2
2010	+28.0

## **Exhibit 5: Rationale for the Center for Rural Virginia**

**Rationale:** Because defining rural is difficult, at best, and because unique and diverse problems confront rural areas and because the work started by the RVPC needs to be on-going, an organization is required to build a coherent rural constituency and to serve as an advocate for rural people and places. Because of the advocacy function for state policy, the organization needs to have 501(C)3 private, non-profit status; it should not be a statutory creation of state government; a state government agency, or directly affiliated with a university. The non-profit status will also help the Center operate independently of the party controlling the political institutions of the state.

### ***Program for a Center for Rural Virginia***

1. The Center should develop a broad-based rural constituency inclusive of as many groups as possible, not dominated by any, building on the strength of the existing groups whose support is essential to a genuine rural voice in Virginia.
2. The Center needs to develop and nourish local leadership to help tailor programs to the needs of each community.
3. With the support of its constituency, the Center should become a voice advocating for rural communities and people in Virginia.
4. The Center should maintain relationships with university-based research and policy analysis groups. Such relationships will assure that the Center's views on the most pressing research and policy issues are known and being addressed and will assure that the Center's positions are supported by sound research and policy analysis.
5. The Center should maintain relationships with university-based rural development outreach efforts to assure that the agenda of concerns known to the Center are being addressed by the outreach efforts.
6. The Center should take the lead in the development of needed policy reform and new policy in consultation with its several constituencies, the research/policy analysis group, and the outreach effort.
7. In its actions, the Center should constantly seek to encourage innovation in solving the problems of rural people and places and should assist in incubating good ideas whether originated in the Center or elsewhere. The Center should see its fundamental role, after it fulfills its functions of constituency building and advocacy, as a catalyst for the development of rural Virginia.
8. The Center for Rural Virginia would promote the integration of the Internet and other advanced telecommunications services with the normal processes of doing business in rural areas. Building the use of e-business provides a two-fold benefit: 1) rural businesses profit from the larger markets and greater efficiencies of the digital economy, and 2) demand for advanced services attracts more investment in rural telecommunications.
9. The Center for Rural Virginia would develop and implement plans to train rural workers and students in the skills needed in a digital economy: computer literacy, programming, use of the Internet, networking, web site design and development, and others. The Center for Rural Virginia would work with and through community colleges, Department of Business Assistance, public schools, and other agencies to coordinate and promote training. The goal would be to make Virginia known as the state with the most technically literate rural citizens in the nation.
10. The Center for Rural Virginia could act as a champion for rural telecommunications to mediate and resolve conflicts thus smoothing the transition to a digital economy.

### ***Suggested Structure and Governance***

Under its 501(C)3 status, the Center shall be headed by a senior Executive Director with two professional and two clerical staff members. After state funding of the Center for a start up period of five years, state funding should be reduced by 1/5 each year over the ensuing five years by which time it is anticipated that

private and other funding will have replaced the state start-up investment. The Center shall have a Board of Directors with 20 members. The initial appointment of members to the Board of Directors shall be by the Rural Virginia Prosperity Commission as constituted in December 2001. After the initial appointments, subsequent board appointments shall be made by the existing Board of Directors.

### ***Initial Work Agenda of the Center for Rural Virginia***

The initial agenda of the Center for Rural Virginia shall be to develop and/or shepherd the recommendations of the Rural Virginia Prosperity Commission including, but not limited to, the following:

- Capital access for rural areas
- Adult education and workforce enhancement
- The digital economy
- Incentive tiers for economic and rural development
- Infrastructure
- K-12 Education
- Primary industries

In addition the Center shall explore the significance to rural Virginia of issues brought before the Rural Virginia Prosperity Commission that required further study including, but not limited to, the following:

- Barge transportation
- Apprenticeship programs for workforce enhancement
- Small airports (general aviation)
- Rail service to rural Virginia
- Production and marketing of fiber crops
- Precision agriculture
- Tourism including nature tourism
- Business incubators
- Micro manufacturing of furniture
- Virginia Space Port
- Rural K-12 teacher recruitment and retention
- Community development financial institution program of the federal government
- Virginia Farm Links
- Virginia's Finest and Virginia Grown agricultural commodity promotion program
- Cost-sharing for on-farm conservation requirements and/or environmental protection program
- Right-to-farm laws and programs
- High-value farming enterprises

The Center for Rural Virginia should also seek to establish links with the National Rural Partnership Program, which may provide federal funding in support of the establishment of a state rural development council. Such a relationship will provide contacts and connections to rural development activities and centers throughout the nation.

## **Exhibit 6: Rationale for a Secretary of Agriculture**

Virginia is one of only five states that does not have a Secretary, Commissioner, or other title of leadership for agriculture that reports directly to the Governor. In the Commonwealth, Agriculture and Consumer Services is one of more than 10 agencies that reports to the Secretary of Commerce and Trade.

In 1999, the Gross State Product (value of all goods and services produced) in the Commonwealth of Virginia was \$242.221 billion. Depending on the time period analyzed and the exact methodology employed, research shows that the combined farming and agribusiness sector generates from 10 to 12 percent of economic activity in the state or from \$24.2 to \$29.1 billion per year.

The importance of the entire agricultural complex supports the creation of a new secretariat. The sector also generates from 12 to 15 percent of all jobs in the state, and if the forestry sector is added, the share of all employment is close to 20 percent and the contribution to the Gross State Product approaches 15 to 16 percent (Lamie and Foreman et al.). Significant amounts of the tourism and recreation dollars generated in the Commonwealth come from the use of land and open space in Virginia's rural and farming communities.

Creation of a new Secretariat would elevate the status of agriculture, aquaculture, and forestry, or all primary industries to a level appropriate with the contribution of these sectors to the Commonwealth. A new Secretariat would also enhance the opportunities of the sectors to participate in a changing global economy as the importance of exports and sales of products overseas multiplies with each passing year.

Revitalizing the economies in Virginia's rural counties and communities is a major challenge, but the contributions of agriculture and agribusiness will clearly be an important part of any long term strategic plan adopted or facilitated by the state. The creation of a new Secretariat will facilitate growth and viability in the broadly defined agricultural sector and will increase the likelihood of agriculture being in a position to make a major contribution to any eventual revitalization of Virginia's rural economy.

# **APPENDIX C**

## **OTHER RECOMMENDATIONS AND BACKGROUND INFORMATION**

### **SUPPORTED BY THE RURAL VIRGINIA PROSPERITY COMMISSION**

*Exhibit 1: Rural Infrastructure*

*Exhibit 2: K – 12 Education*

*Exhibit 3: Primary Industries*

## Exhibit 1: Rural Infrastructure

**Basic Premise:** Rural areas with low population densities have inherent problems in achieving the efficiencies in infrastructure that do not exist in more densely populated urban areas. The demand in many sparsely populated rural areas or small towns is simply insufficient to use the output of the large systems that are necessary to get the lowest costs. To achieve such levels of demand, the system must operate over a large area and that increases distribution costs. At some point, the increased distribution costs offset the economies of scale in treatment. The result has been that most rural systems are too small to be efficient. In order to make the service affordable to users, grants are required. Yet the grants also encourage continuation of inefficient operations.

### **Recommendations:**

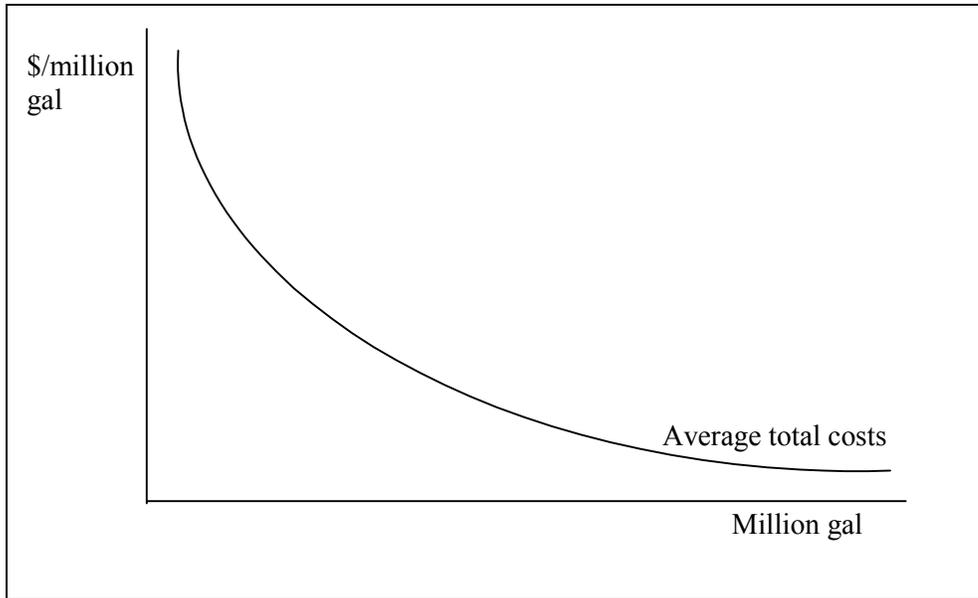
1. Reserve grants for design of systems and for situations where an optimally designed plant for the particular rural area still results in costs that are higher than can be recovered from user fees, given the income and economic capabilities of the area served.
2. Encourage regionalization of infrastructure without regard to county or municipal lines. Require use of state-of-the-art optimization techniques to design regional least-costs systems as a prerequisite for approval of loans from the Virginia Resources Authority.
3. Strengthen the operations of the Virginia Resources Authority to assure that adequate resources are available to provide debt financing for needed infrastructure in rural areas.

*Definition:* Infrastructure means roads, bridges, airports, school buildings and related facilities, jails, and water supply and waste water treatment facilities.

*Relationship to Economic Development:* Infrastructure is a necessary, but not a sufficient, condition for economic development. Having it does not assure that economic development will occur, but the lack of it assures that economic development will not occur.

*Economic Concerns:* The name of the game in the infrastructure economics is economies of scale. All types of infrastructure require large fixed costs. The greater the use of infrastructure (up to the design capacity), the lower the average costs. As a general rule, larger infrastructure facilities are more efficient than smaller systems provided they can be used to capacity.

*Example:* In water supply, the economies of scale are enormous. A series of South Carolina studies in the 1980s showed that if all costs are fully recognized, including amortization of fixed costs, smaller water supply systems delivering about 500,000 gallons per day had costs of about \$6/thousand gallons in the treatment plant. Costs dropped substantially as volume increased, and at 15 million gallons per day, costs were less than \$1/thousand gallons.



Economies of scale in waste water treatment are even greater.

*Optimal Policy:* Optimal policy for infrastructure provision in rural areas is to encourage regionalization. Most communities will resist regionalization and opt for full local control if they can receive grants that give them an out. Consequently, grants should be limited to those cases where an optimally designed regional plant is unable to achieve sufficient economies of scale to allow essential infrastructure to be put in place at costs the local communities can afford.

## Exhibit 2: K-12 Education

**Basic Premise:** K-12 education is vital to the economic future of rural Virginia for at least three reasons: 1) if rural schools are substandard, investors will be very reluctant to invest money in a community, 2) basic education provides the foundation for a lifetime of continuous learning, and 3) rural schools play a more significant role in the life of their community than is true of schools in more urban settings. Yet while good schools are a necessary condition for prosperity in rural Virginia, they are not a sufficient condition. Without other steps recommended here, rural localities will simply educate their young people who will then move away. The fundamental problems with rural schools in Virginia cannot be solved with money alone. Our research shows that rural taxpayers are making proportionately as much effort based on discretionary income as are urban and suburban taxpayers in the Commonwealth. Yet huge inequalities remain in the per pupil resources that are available. The RVPC notes with interest the recommendations of the Tax Commission urging the State of Virginia to assume a greater proportion of the funding for K - 12 schools.

### **Recommendation:**

The Center for Rural Virginia, recommended by the Commission, should address the issues of rural schools both as educational institutions and as resource partners in developing rural communities.

Part of the rural schools agenda of the Center for Rural Virginia would include but not be limited to

- Reviewing and developing educational policies at the state and local levels that reinforce the role of public schools in local community and economic development strategies.
- Providing opportunities for rural schools, in partnership with community organizations, to apply for state grant funds to undertake viable community development initiatives.
- Providing a recognition program that awards rural public schools and their communities for completing a significant rural development project.
- Supporting research and creating a database that will foster the role of public schools as vital resources in local rural development and incorporating such research results and profiles of exemplary practices into the preparatory programs of both public education practitioners and community and economic development specialists.
- Working with educational interest groups in the state, the Center should find ways of improving the performance of Virginia's rural schools. The process of school system improvement is very complex, and the Effective Schools program employed by some of Virginia's school divisions appears to take account of that complexity.

A great disparity exists in the access to resources available to most children attending rural schools compared to children attending urban and suburban schools. The disparity means that many rural school children simply do not have access to adequate resources to support a decent education. While money spent on schools does not, in and of itself, guarantee that schools will be effective, the absence of resources assures that children will receive inferior educations. In 1997-98, only 31,460 children out of 278,254 attending rural schools (11%) had access to even the statewide average of \$6,229 per pupil.

The major source of disparity in school spending is the capacity of local communities to support their schools with local resources. Even with state school aid, spending ranges from \$4,580 to \$10,740, a 2.3 fold difference. Without the state assistance, the disparity would be an almost 16 fold difference.

When comparisons of the capacity of communities to pay for schools are made based on the discretionary income people have, spending in poor, rural communities is comparable to that of urban/suburban communities. All communities, whether rural or urban/suburban, spend an average of 5.1 percent of their discretionary income on schools. Thus, some poor, rural communities are spending a higher percentage (above average) of their discretionary income on schools than some wealthy, urban/suburban communities (the ones spending below average).

The argument about the willingness of rural people to tax themselves as the major explanation for school spending disparity is false. Indeed, the analysis shows that rural communities spend as much in percentage terms on schools as do communities with strong economies. Rural communities then see their brightest and best graduates leave for the jobs in communities that never paid for their education. Clearly, as jobs and income increase through development, some of the additional income will be spent on schools. Rural development efforts have the added value of providing jobs at home for more of the students who are successful in the local schools.

Improving the performance of schools is a very complex process that will require major reforms in addition to the testing programs initiated by the state. The Effective Schools program employed by the St. Paul schools of Scott County is a research based, tried, and tested model for reforming whole school systems.

Clearly, the role of schools in the life of rural communities is quite different from that in more urban/suburban communities. Some of the best educational settings in rural schools involve students in the public or business life of their communities. Seeing the rural schools both as educational and as community development institutions is important in thinking about rural schools and about rural community development.

See “The Story of Rural Schools in Virginia” by the RVPC staff for more detail on the analysis supporting the recommendations.

## **Exhibit 3: Primary Industries: Agriculture, Coal, Fishing, and Forestry**

**Basic Premise:** Primary industries (farming, forestry, fisheries, and mining) have been the traditional base of rural economies in Virginia. They will continue to play an important role in the economies of rural places. If the primary industries are to provide a significant level of income for many rural Virginians, these industries will need to adapt to changing markets. In many cases, the best prospects for success are in discovering high-value foodstuffs via research techniques in biotechnology or new niche markets through marketing research.

### **Recommendations:**

1. Support the creation of a secretariat for the Commonwealth as Secretary of Agriculture or Secretary of Agriculture and Forestry as deemed appropriate by the Commission.
2. Support Right-to-Farm legislation
3. Support
  - a. Virginia Tech's major 2002 initiative on Food, Nutrition, and Health to employ high-tech procedures to develop high-value plant and animal foodstuffs with controlled nutrition and scientifically verified positive contribution to health of consumers across the Commonwealth.
  - b. Efforts to investigate expanding the scope of Virginia's farm market program to include retail market outlets for locally grown produce, meat, poultry, and other products.
  - c. On-going programs
    - "Virginia Farm Link," which matches older farmers with younger farmers to help keep land in production and provide an entry for young farmers.
    - "Virginia's Finest," which helps build markets for Virginia grown quality products.
    - "Virginia Grown," which identifies products grown in Virginia.
  - d. Budget requests for state voluntary cost-share programs, which help farmers pay for conservation and environmental practices that provide a public good.
  - e. Research programs
    - A feasibility study of micro-mills and micro-furniture makers to see if an upscale market for higher priced and premium items will justify a "Virginia's Finest" furniture line.
    - Market research and development for existing and new wood products and by-products (bark, chips, sawdust) for domestic and export markets.
    - Programs in commercial recirculating aquaculture production of both fresh and saltwater species to reduce the cost of production and negative environmental impacts.
    - Continued development of new technology, such as on-farm precision farming to allow farms with adequate acreage and field size to adapt fertilizer, insecticides, etc., to each square foot of the field, reduce input costs, and produce an environmental benefit.
    - Continuing efforts of Virginia Tech and Virginia State to provide cost-reducing technology to enhance profitability of traditional crops and to develop alternative and more profitable crops.
    - Production and processing research and market development for fiber crops in Virginia.
  - f. Continued support for the coal tax credit.
  - g. Programs to improve access to credit for entrepreneurs in farming communities, to provide adequate telecommunications access in rural communities, and support tier programs with benefits focused on economic development in rural communities.
  - h. Virginia's agriculture and forestry marketing programs to enhance economic opportunities for rural Virginia.
  - i. Increased support for Virginia's animal and plant disease and pest prevention programs.

## ***Agriculture***

Much of the acreage in Virginia is in traditional commodity products. Signs clearly indicate that the marketplace is at work to force changes:

- Corn, soybeans, wheat, and cotton are global commodities that can be grown almost anywhere and often at lower cost than in the U.S. If selling prices increase above costs for any commodity, farmers tend to increase production; prices are forced down—often below costs. However, expensive machinery will stay in production and farmers will face cash flow problems. Virginia cotton producers have recently faced this micro-macro trap. Prices at \$1.00 per pound in the mid-1990s prompted 100,000 new acres of cotton. Prices in fall 2001 will be below \$0.40 per pound and costs of production are \$0.65 to \$0.70 per pound. Jumping to new commodities without study and a strategic plan can make a bad farm financial picture worse.
- Poultry production has increased steadily, responding to efficiencies in production, increasing demand, and market prices that generated profits. Most of the corn is brought in from the Midwest because, as research shows, it is cheaper than growing it in Virginia. The Virginia poultry sector has been and will be strong. Cost-reducing technology and new product development to enhance consumer demand has boosted the poultry sector.
- The remaining government program commodities—tobacco, peanuts, and milk—are facing uncertainty with the possibility of program elimination. Some 38,300 acres were in tobacco and 77,000 acres were in peanuts in Virginia in 1999. As these sectors move toward free market status, prices will drop, and the risk exposure of Virginia farmers will increase. Strategic planning will be important in adjusting to forced changes from outside factors on these farms.
- As farmers look for alternatives to commodity crops, they will need new and improved market outlets.
- Added support of programs such as Virginia's Finest and state-level marketing programs will help to revitalize contributions of agribusiness to economic activity and quality of life in rural communities.

Virginia's farm sector growth is concentrated in poultry; high-value vegetables and fruits; wine/grapes; horses; nursery, greenhouse, and turf grass. These trends suggest (1) investment dollars will move to the high-value crops and products, and (2) investments, capital, and land will continue to move out of the globally grown and low-priced commodity products. As development pressure continues, farmers in some counties will be pressured to move out of farming because they cannot generate a profit on land valued at \$10,000 or more per acre for development purposes. A science-based move to high value foodstuffs will be important to the future of Virginia farmers of all sizes.

A new secretariat for Agriculture or Agriculture and Forestry will enhance the visibility of the sector and increase the chances for policy and programmatic changes that will improve the economic status of Virginia's rural communities.

## ***Coal***

Over time, less coal has been mined from the mines in Southwest, Virginia. Average man-hours worked have decreased, as have wages. Unemployment in the high-production counties was 11.1 percent and in the low producing counties was nearly 8 percent in 1999. The state average in 1999 was 2.8%.

These seven counties have access to a coal severance tax and a license tax. The coal severance tax is applied in lieu of property tax and is 1 percent of gross receipts. The license tax is to improve roads used in

transportation of coal and coal workers and cannot exceed another 1 percent of gross receipts. In 1995, legislation established the Virginia Coalfield Employment Enhancement Tax Credit. Apparently, the state recovers about 50 percent of the amount through additional spending by the coal companies. If the tax did not exist, more miners would be jobless. The impact of removing the tax credit could be significant.

### ***Fishing***

Commercial landings in Virginia showed a slight upward trend that peaked in 1995, but have decreased since. The general consensus is wild fishing has been over-fished. Since marine fishing is not controlled, the decreases in total fish poundage of any species cannot be easily reversed. Only through international treaties and close regulation and monitoring could the existing trends in fish numbers be reversed. The best alternative currently available is recirculating aquaculture production. The introduction of domesticated marine species into the market may provide for the current demand for marine species. The cost of the facility to breed domestic species is significant, and research to improve the systems is slow in being done.

Freshwater fishing generates income from fishing licenses and camping fees. Fish released in streams are produced in federal, state, or private hatcheries. These hatcheries do not necessarily meet the consumer demand for freshwater fish. As with the marine aquaculture, production and environmental problems need to be solved so that production of freshwater fish can provide an alternative for farmers.

### ***Forestry***

Timber is harvested from most counties in Virginia. Private landowners own 77 percent of the commercial timberland. The forest industry owns 10%; local, state, and federal governments own the remaining 13%. Much of the furniture sold in the United States is only assembled here. The pieces are produced in China and other low cost areas. This offshore production results in a poor market for hardwoods, especially in large-scale commodity production.

Timber is a widely accessible resource in rural Virginia and offers potential as lumber prices trend higher. Micro operations to take advantage of regional species for upscale and branded furniture lines have potential. Market research and processing technology require research to assess the viability of this potential.

# **APPENDIX D**

## **BRIEFING PAPERS**

*Rural Affairs Study Commission, 1971*  
*Organizing Our Thinking about Virginia's Rural Communities*  
*It Takes a Critical Mass to Prosper*  
*Mobilizing People in Communities*  
*Limits of State and Federal Governments to Help Rural Communities*  
*Prosper*  
*Rural Development Initiatives around the U.S.*  
*Reconfiguring "Regionalism" in Rural Virginia*



Rural Virginia Prosperity Commission

# Briefing Paper

September 19, 2000

## Rural Affairs Study Commission A Report to the General Assembly of the Commonwealth of Virginia, 1971<sup>1</sup>

**Staff Note:** *The report from 30 years ago indicates many of the issues the Rural Virginia Prosperity Commission of 2000 will be addressing are not new. This briefing paper captures the highlights of that report. Complete copies are available to anyone upon request. Contact Karen Mundy, Department of Agricultural and Applied Economics (0401), Virginia Tech, Blacksburg, VA 24061; 540-231-9443; or karenm@vt.edu.*

The Rural Affairs Study Commission 1971 Report was the second of two reports, the first of which was presented in 1969. The 1971 Report provided the Commission's final recommendations for alleviating Virginia's rural-urban imbalance. Recommendations were classified under the three policy sectors: *Human Services*, *State Development*, and *Natural Resources*. Most recommendations for encouraging population and economic growth in nonmetropolitan areas called for changes in laws and increases in responsibility for existing local and state government agencies which would require increased funding to implement. The Division of State Planning and Community Affairs was made responsible for semiannual progress reports regarding the status implementation of the Commission's recommendations.

In the Report's "Summary and Recommendations" section, the Commission noted that the rural-urban imbalance would disappear when equality of access to services that support a satisfactory life-style was provided to all areas. *Human Service* policies included community services, education, and health services. Community services included access to basic water and sewage facilities, cultural opportunities, libraries, and occupational education. Cultural opportunities were to be made available by hiring additional art and music teachers. Additional culturally based teaching materials would be a new responsibility of the Commission

on Arts and Humanities. Their role would expand to include developing and implementing a plan for cultural enrichment throughout the state. Public library services were to be made available to every citizen through additional state funding.

Recommended changes and educational policy, in general, were expected to address the finding that the quality of schooling in rural areas was lower than in metropolitan areas even though rural and metropolitan residents spent the same percentage of their income to support education. The Commission called on state government to adopt a policy statement that "no child should be disadvantaged by lack of access to quality education merely because of where he was born." They recommended using school facilities for community-wide educational projects. They also supported changes in legislation that would provide specialized programs through regional educational cooperatives. These legislative changes would need to be accompanied by new laws protecting school boards from tort liability and enabling cooperatives to receive state matching funds. Finally, the Commission recognized the need to heighten the acceptance of occupational education as a means of providing skilled labor for the industrial sector. The Commission recommended additional funding to construct facilities specifically for occupational education and to provide vocational counseling and placement services in secondary schools.

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<sup>1</sup> D. Woodrow Bird, Chairman. The Rural Affairs Study Commission Report, 1971. *Rural Affairs Study Commission: A Report to the Governor and the General Assembly of the Commonwealth of Virginia*. (Richmond, Va: 1010 James Madison Building, 109 Governor Street).

The Commission, finding that medical services were unevenly distributed throughout the state, proposed a regional approach for delivering health-care services in rural areas. Facility increases would be matched with adjustments in programs that trained practitioners. Such adjustments included increases in enrollment and scholarships for those who were interested in pursuing needed specialties such as family practice and who were willing to work in geographically underserved areas. Other adjustments included increasing paraprofessional training programs and changing the laws relating to the legal liability of the supervising physicians and their assistants. Finally, a joint educational effort by health and educational agencies would be undertaken to achieve consumer health awareness in the areas of illness prevention and early entry into appropriate health-care facilities.

Recommendations for *State Development* policy included improving the highway system, eliminating substandard housing, evaluating the complete range of tax structure relationships, strengthening local government by abandoning the unique situation which creates cities wholly separate from counties, and encouraging the employment of an administrator for each county. Secondary road improvements would be focused in “slow growth” or “no growth” areas and would be accompanied by education for County Boards of Supervisors regarding the process for allocating funds. The Commission found that more than two-thirds of substandard housing was located in rural areas; improved housing conditions were recommended. To acquire sufficient public resources, fiscal resources were to be studied to provide possible alternatives to the real property tax revenue base.

The Commission called for additional funding and research to facilitate the better management of Virginia’s *Natural Resources*. The Soil and Water Conservation Commission would maintain responsibility for providing the leadership and coordination needed to resolve Virginia’s shoreline erosion problems. The Agricultural Opportunities Development Program would continue to be funded. Finally, a state land-use study commission was recommended to assign responsibilities for long-range land-use plans. At the local level, all counties were urged to develop long-range land-use plans and adopt subdivision regulations and zoning ordinances.

To ensure that future water resource needs would be met, the Board of Conservation and Economic Development and the Commission recommended creating a study commission to provide strategies for the implementation of better water resource management policies. To help prevent the depletion of usable ground, legislation would be enacted to protect the ground table within an area. Responsibility for coordinating the funding of water storage and flood prevention facilities would rest with the Conservation, Small Watersheds Flood Control and Area Development Fund.

The Commission stated that “A basic need for achieving rural-urban balance is to have **private initiative in combination with government** mobilize the resources necessary to ensure that the recommendations of this Commission are carried out” (emphasis added, p. 18). The Commission believed these changes would attract and retain residents in rural areas.

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Rural Virginia Prosperity Commission

# Briefing Paper

October 30, 2000

## Organizing Our Thinking About Virginia's Rural Communities

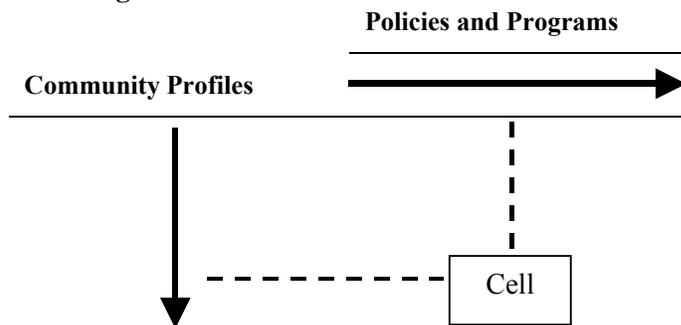
All communities, even small communities, are complex. But, behind that complexity, certain characteristics make each community unique. When facing economic problems, each community will react in ways consistent with those unique and often deeply imbedded community philosophies, beliefs, attitudes, and goals.

Depending on how rural is defined, the Commonwealth has 60 to 90 rural counties. This large number makes the tasks facing the Rural Virginia Prosperity Commission very tough indeed. The general charge to the Commission is to develop policies, programs, and any new institutions that might be needed to reverse the negative economic trends in rural communities throughout Virginia. If the approaches employed to address what appears to be a myriad of different problems are to be pragmatic, a framework to organize thinking about the communities, their particular problems, and early reflections on solutions would be helpful.

One approach is to think within the structure offered by a matrix with "Community Profiles" on one axis and an array of "Policies and Programs" on the other axis (Figure 1). A relatively small number of community profiles will capture and categorize the big differences across communities. Differences will occur in incomes, educational achievement, access to the internet, proximity to airports and interstate highways, ages of community residents, net changes in population, and job creation in the economic development districts, to mention just a few. The listing of policies and programs will include programs by the state to attract new companies, to help finance existing businesses that want to expand, and to assist in development of business plans via Virginia's Small Business Development Centers. Local and regional programs can be included, and policies, such as use-value taxation, which influence local financing capacity, can be incorporated into

different policy/program packages. Education will have to be included with a range of considerations from improved public schools to workforce enhancement in the high-tech job market of tomorrow. And private sector programs and initiatives by corporations, faith-based organizations, and others will be needed to bring broad participation and impact.

**Figure 1. Matrix of Community Profiles and Policies and Programs**



Time and effort are needed in completing the matrix, but the result will be worth the effort. A particular community profile can then be connected with the appropriate policy/program emphasis. In the matrix, the objective is to find the cell where the profile row and the policy/program column which appears to match community needs intersect.

Obviously, such a framework does not eliminate the need to think about the issues in an analytical fashion. If anything, this approach reinforces the need for analysis, inference, and synthesis. The thinking will have to start with efforts to identify key characteristics of the community, to uncover any obstacles to change, and to look behind the façade of complexity for conditions that appear to need only a catalyst to launch a pattern of progressive change. If we visualize a connecting cell and a match in the matrix, we have already started to establish a causal link between a community problem and a policy or program that can solve that problem.

There is no substitute for searching for linkages, probing what appears to be causal flows even when a time lag might be present, and synthesizing all the pieces into a potentially workable solution. The matrix concept helps bring order and logical flow to the process.

Aggregation and synthesis will always be necessary. The Commission cannot develop a different strategy for each county. The matrix framework facilitates the task of aggregating across several counties to a subset of counties. The particular characteristic in the community profile will identify which counties face a common problem. However, the counties with common problems and, perhaps, common needs, may not be located adjacent to each other. This lack of proximity may rule out the possibility of some regional approaches. And recognizing early that regional approaches that require close proximity may not work is important.

To illustrate the process, an important measure of economic well-being in rural counties is the level of per capita income. An initial aggregation could be the subset of counties in which per capita disposable income, after adjusting for inflation, trended lower during the 1990s. Having identified the counties and the communities in the counties, the next logical step is to probe into the why of the income declines. As the investigators considers the causes of the income decline, the need to re-divide the identified group of counties may appear. One subgroup of counties might be having problems because farm commodity prices are low leading to income changes not only for farmers but also for the agribusiness firms that provide farm inputs. A second subgroup of counties might be losing income because a number of residents are reaching retirement age, and retirement incomes are usually lower. Obviously, the policy/program needs to correct the problems will differ in the two sets of counties, and without a mechanism to identify these subtle differences, the Commission's work may be ineffective.

This approach also guards against the tendency to only think about multi-county solutions where a region made up of adjacent counties is involved. A rural county in the Central Piedmont may have a profile and a related set of needs similar to a rural county in the Southwest. **Failing to broaden "regional" to include a subset of counties with similar profiles, similar problems, and similar needs but located in different regions could be a serious mistake.** Duplication of programs and efforts in geographically separated counties could result, and the effectiveness of proposed solutions could be compromised.

As the Commission moves ahead, it may be useful to keep this framework and the related process in mind. Analysis and investigation start with data and information that build a profile for a county, independent city, or other jurisdiction. When that initial step is complete, the need for analytical thinking steps to the front. Causal links between community characteristic and the symptoms of stress such as declining incomes, high unemployment, population losses, or low levels of investment must be established by analysis and inference. These causal links will need to be eliminated or changed by policies and programs if progress is to be made in correcting the growing economic divergence between rural and urban areas of the Commonwealth.

The challenge is huge. The divergence between rural Virginia and urban Virginia is, in fact, growing. The need is to get back to a status of a "common wealth" where all are sharing. The matrix framework will not solve the problems. It will not do the hard work for the Commission members and the staff. But it can bring organization to efforts to get started in the right direction.

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Rural Virginia Prosperity Commission

# Briefing Paper

November 15, 2000

## It Takes a Critical Mass to Prosper

“Do rural areas have to cease being rural to prosper?” This question raises issues about what fundamental, underlying economic forces generate economic growth. If only the symptoms of the rural areas being left behind are treated, long-term meaningful improvement is not likely to be achieved. The purpose of this briefing paper is to describe the role of economies of scale in economic development.

### Economies of Scale

Economies of scale are hugely important to regional economic development. Simply stated economies of scale mean that if you can spread production costs over a larger number of units you can reduce your per unit costs. For example, if it takes the same priced tractor to plow a 2,000 acre field as it does to plow a 200 acre field, the farmer with the 2,000 acre field has a cost advantage because of economies of scale.

There are two kinds of economies of scale. The first is **internal** to a firm as in the farm example above. Rural areas, to some degree, benefited from this type of economy of scale in the branch-plant era of rural industrialization. To build the bigger plants, you needed space. Rural areas had lots of space at much lower costs than urban centers. Firms were able to get bigger using branch plants.

The second economies of scale are **external** to firms. External economies of scale are commonly divided into two types: agglomeration economies and urban economies.

**Agglomeration economies** arise as additional firms of a particular type concentrate or cluster in a given region. Good examples are the catfish industry in

the Mississippi Delta, the furniture industry in North Carolina, and the computer industry in the San Francisco Bay area. When you get a lot of catfish farms in one place, you attract veterinarians who specialize in the diseases of pond-raised catfish. Thus, if a problem occurs, you do not need to pay the air fare for a specialist to come in, and you get help quickly. By attracting feed suppliers and other specialists with inputs for the industry, per unit costs are reduced. Because of the concentration of similar businesses, services like accountants and bankers have a better understanding of the needs of those firms and can serve them better and at a lower cost.

**Urban economies** are associated with shared infrastructure like water and sewer systems, transportation facilities like airports, and telecommunications. They also include a diverse pool of services that allows localities to contract with specialists rather than maintain them on staff. Examples include copy machine repair services, specialized accountants, and consulting engineers of various sorts. Because of the concentration of people, information exchanges take place through daily, informal contacts.

Rural areas cannot compete on the basis of these urban economies. By definition, rural areas are places remote from urban economies. And the urban economies have become increasingly powerful in affecting costs of operations. Urban economies are not critically important in all industries, but they are in many. In a world of increasing competition where margins above costs are often very small, firms have to take advantage of all the economies of scale available or they go under.

The implications of economies of scale are twofold:

1. Either the rural area offsets the urban economies with cost savings of other types or, other things constant (quality of life, education of the work force, access to raw materials), it gets left behind.
2. Rural areas need to develop economies around industries where urban economies do not much matter, and they need to achieve some agglomeration economies by clustering firms in a particular sector—as with cat fish farming, furniture manufacturing, or bed and breakfasts.

### **Clustering Industries**

We have reports that the bed and breakfast operators in Highland County welcome new bed and breakfast operations. The larger the cluster of that industry in Highland County, the more people they will attract, and the better off they all will be. They do not see new entrants as just new competition. These business people appear to understand economies of scale, even if they might not be able to articulate the idea in economic terms.

Clustering bed and breakfasts or catfish farms or furniture industries or any other industry as a strategy has a downside, however. Without diversity, a region is vulnerable to an economic downturn in that industry. Evidence shows that about the only rural areas that have prospered in the 1990s are those with clusters of firms. Having a diversity of industries is

wonderful, but one cluster, without diversity, is better than becoming stagnant.

Achieving some sort of critical mass of business and economic activity is essential. Without a critical mass, most rural areas will be left behind. Rural areas with special amenities may possibly attract electronic commuters or tourists. But even then, economies of scale will matter.

### **Increasing economic activity**

Unless the role of economies of scale is taken into account, we might possibly have policy recommendations that do very little good. We will have wasted our time. For example, we can improve education in rural Virginia, but the young people will continue to leave unless some of the places achieve a scale of economic activity that results in more attractive local career opportunities. Moreover, unless rural areas can achieve sufficient critical mass in a given industry, they will have a difficult time attracting specialized high technology workers. These workers will be reluctant to relocate in places where no alternative employers can use their skills.

Whatever approach is used to increase regional economic activity, probably the most successful results will come from encouraging new businesses that are similar to successful, existing businesses. The result could lead to agglomeration economies of scale. And they could make the difference between success and failure for the community.

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Rural Virginia Prosperity Commission

# Briefing Paper

December 4, 2000

## Mobilizing People in Communities

Although rural communities face problems that seem overwhelming, things can change if people work together on solutions. The first step to working together for change is to realize that the future of a community is under the control of people. This briefing paper discusses what social scientists and community developers have learned about mobilizing people to work together to solve problems and improve the quality of community life.

Community development has been formally practiced and critiqued for about 40 years. During that time, dependable *general* answers about how communities solve their problems have emerged. Specific answers vary from each situation to the next.

### What We Know

Community development scholars see two dimensions to development: *process* and *task*. *Process* refers to strengthening community members' interactions and helping them find positive ways to work together. The task dimension helps community members to work through a particular, definable problem so that they can see tangible results and achieve a particular goal. These two dimensions are interrelated because good process makes a task easier to complete, while success in completing a task tends to make people feel that others are trustworthy and helpful.

Both dimensions can be incorporated into a five-step plan that community members can initiate themselves, but often an outside facilitator or community development professional is helpful.

These steps are

1. Community members come together to identify the needs of the community systematically.
2. This group identifies prominent elements of community structure, such as community norms, power structures, divisions, resources, and potential leaders.
3. Specific tasks or projects are described and the group begins to mobilize community-wide cooperation for change.
4. The roles of and contributions from community organizations are re-enforced. Only if absolutely necessary, a new organization or formal group is created to work on the problems identified.
5. The task is accomplished, and often better community organization and stronger community relationships result.

While each step is integral to strengthening community relationships, steps one and two enable the residents and the community developer to lay the groundwork for successfully accomplishing any task. A community developer's most critical initial contribution is to help the community understand and prioritize basic needs. If this step is not completed, projects generally do not succeed because the wrong work is done in the wrong way. A community that needs better physical or economic infrastructure needs very different plans and resources than a community that wants to improve educational services.

After priorities are set, a developer can then bring expertise in developing realistic goals and time-lines,

coordinating outside technical assistance, and ensuring that all local stakeholders are involved. Most importantly, a community developer works to make sure that the skills of community members such as grant writing, cost-benefit accounting, or project planning, are nurtured so that continuing dependence on outside intervention is avoided. In other words, a community developer's job is to work himself or herself out of a job in that community.

Community development projects from the onset must incorporate substantial community involvement. Without step three, relationships within the community tend to degenerate. Local residents start to rely on outside experts (or the federal or state government) instead of one another for solutions to community problems. Even in cases where an outside agency prompted the development activity (for example, state guidelines for increasing school standards), local residents must support the activity for long-term success to be realized.

Mobilization of community-wide support requires that community members not only decide how to implement the task but they also participate in actually accomplishing the task. Progress on step three leads to step four in which existing community groups are utilized as much as possible. Often, before these groups are effective, they may need training or increased resources. The increased sense of community from training together strengthens community relationships and the capacity of the community to solve future problems.

### **What Is Being Done?**

In most successful programs, community development professionals live and work within a

community. They have formal employment ties to the community and to some organization external to the community, like cooperative extension. The external tie provides them with authority and a mandate, helps keep them focused, and provides access to technical assistance resources. Success in such programs is as much the result of relationships between the developer, the community, and the larger support organization, as it is the unique talents of the development professional.

Examples include the very successful University of Wisconsin Extension, Community, Natural Resource and Economic Development (CNRED) program. Extension agents in CNRED have backgrounds in business administration, economic development, natural resource management, economics, sociology, and public administration, among others. All have at least a Masters degree in their field. They have university faculty status—including tenure. They can be removed from a county where conflict occurs, but they are protected from dismissal from the system if they have acted professionally. Thus, they can tackle contentious or unpopular issues.

A Virginia example is the initiative of Carroll County School Division with Virginia Cooperative Extension. At the expense of Carroll County, an Extension agent was hired whose responsibility is to develop community projects that will involve the schools more with the community. The goal of this project is to provide better, more relevant education. Carroll County leadership has expressed an interest in making a similar arrangement for another position whose explicit responsibility is economic development.

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Rural Virginia Prosperity Commission

# Briefing Paper

December 14, 2000

## Limits of State and Federal Government to Help Rural Communities Prosper

State and Federal government is limited in what they can do to assist rural communities. They can enact policies that clear the way for local initiatives. They can provide funds, when appropriate, to help carry out those initiatives. They cannot make a failing community become successful by enacting policies and providing funding unless the people want to improve the community and are involved in solving their own problems.

The people who live in rural places are disadvantaged because of issues of distance and remoteness that translate into higher costs and poorer access to infrastructure like roads, electricity, or high-speed internet. However, the evidence is clear that some communities are successful and other communities are not, independent of the advantages or disadvantages they face. The differences between successful and unsuccessful communities are not necessarily explained by economic circumstances. Access to resources and infrastructure is necessary, but it does not mean they will be fully exploited.

Further, the circumstances of communities are so unique that it is virtually impossible for an outsider, no matter what his training or skill is, to know what will lead to success in a community. Nor do the unique circumstances of each community argue against outside intervention. However, the most effective intervention is on a continuing basis and is usually directed more at community development than at economic development. Successful communities are frequently the result of issues as difficult to quantify as community attitude and leadership.

The Rural Virginia Prosperity Commission has some real limits and real opportunities for state (and federal) policies and programs to help rural communities.

Clearly, state action in several areas will directly affect the well-being of rural communities.

- Infrastructure
  1. Roads and surface transportation
  2. Electricity
  3. Telephone
  4. Internet
  5. Water and sewer
  6. Public buildings for schools and government services
- Local government powers and restrictions
  1. Revenue-raising authorities and options appropriate to rural communities
  2. Land-use planning tools and powers for local communities
  3. Growth-control tools and powers for local communities
  4. Flexibility in adaptation of state and federal regulations to local circumstances, for example state and federal bridge specifications that are sometimes totally inappropriate to the rural road in question
- Technical assistance and community intervention
  1. Technical assistance for local officials on community development and local government management
  2. Research and information on the problems of local government and its management to make technical assistance more specific and effective

3. Interventions that provide, encourage, or enhance community development
- Private sector resources
1. Access to venture and operating capital markets
  2. Investment in infrastructure like telecommunications.

### **Limits and Opportunities for the Rural Virginia Prosperity Commission**

Some recommendations of the Commission for state action can directly affect the wellbeing of rural communities, if in the respective communities, people are willing to exploit opportunities thus

created. Some issues affecting rural Virginia will require continued and on-going examination as well as research and policy analysis. The Commission needs to provide some things that will have an immediate impact on rural communities, and then to evaluate and examine the means whereby other needs, like problem-solving capacity which is less amenable to direct state intervention, can be provided for over time. Finally, on-going advocacy is needed for rural people and places. Some form of institution, like Rural Development Councils many states have that can serve as a broker to carry out that advocacy, will likely be required.

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Rural Virginia Prosperity Commission

# Briefing Paper

January 8, 2000

## Reconfiguring “Regionalism” in Rural Virginia

Rural development discussions have a recurring thought: regional strategies and why counties should work together. Reasons for regional strategies include spreading the fixed costs of infrastructure investments like water systems, roads, and waste treatment facilities. Working together can also provide the critical mass that is often missing in rural communities. The economies of scale and the critical mass that come from many businesses in the same general location give urban centers an advantage over rural communities. By working together, the regional advocates argue, disadvantages facing rural areas can often be eliminated.

Such reasons for regional strategies are legitimate and important, but they assume that counties are adjacent. Restricting the vision of regionalism to adjacent counties may overlook significant opportunities. Rural counties are, by definition, big in size relative to the number of people. The needed critical mass of potential workers, financial institutions, service and repair businesses, and numerous buyers needed to make a market are often missing. Creating a critical mass across jurisdictions could be important in efforts to improve rural economies.

Often, a particular rural county is more like a county or counties in another part of the state than counties within its own geographical region. When counties fit this pattern, it can make sense to bring together a set of counties with common attributes and common opportunities that are not geographically close. This new view of regionalism expands the opportunities to boost economic activity by working and planning together.

A variety of possible opportunities tends to jump out at people when they start thinking more broadly about regional opportunities. Two examples will help illustrate this expanded concept of what could be regional.

All rural counties have space, and many have scenery and related activities that support tourism. If a network

of scenic counties were put together, it might include a county in the mountains of Southwest, one in the Highland counties along the West Virginia border, a county with caverns in the northern Shenandoah Valley, and a county bordering the Chesapeake Bay. No one of these counties, perhaps, provides enough opportunity for a private firm to organize a tourism company with modern bus service, the popular bed and breakfast lodging facilities, and the overall attractive package for which vacationers would be willing to pay. But the entire network across different rural regions of the state, with choices on sites visited and total days involved, could be a major economic opportunity for a private, for-profit business. Tourists and vacationers spend money, and money will be spent in every stop along the route. This expanded view of regionalism gives the counties a way to sell to the outside world something they have in abundance—space, scenery, and a relaxed pace.

No major new investments would be needed. Much of the basic infrastructure, including the *Virginia Is for Lovers* program ([www.virginia.org](http://www.virginia.org)), is in place. New bed and breakfast accommodations might show up at popular stops on the tour, and new small business opportunities will develop at each stop to facilitate local scenic trips, offer regional dining fare, sell local wares, and serve the interests of the travelers in other ways. Selling access to local scenery and selling local skills and crafts can and does work, and it might work even better when spread across the variety of different rural areas of the Commonwealth.

A second example deals with an asset many rural communities have in common: timber. The type of timber is different in different regions, however. Some regions have quality stands of hardwoods such as oak, birch, and maple. Other regions have pine and yellow poplar, finish woods in some furniture applications and framing stock in others. What might a regional opportunity in timber look like?

Mass produced and relatively low priced furniture production and marketing is very cost competitive. Other countries, with far lower wage rates, mass produce furniture and sell it at prices below the costs of the most efficient U.S. firm. U.S. firms that have moved to plastics and laminates to reduce costs, while trying to maintain the look of natural wood, have been met in the marketplace by imported furniture items with the same style and look—in natural wood. This global market makes competition difficult for mass production of generic furniture items using Virginia's bountiful timber resources. The overseas competition is just too tough.

But the opportunity for success may be substantially different for high-value furniture, perhaps custom made for the upscale market. Custom orders could specify type of wood and design, with the buyer looking for items to fit a certain décor. A customized business of this type is not necessarily an opportunity for a large manufacturing facility that will have low costs because of size. Big volume is not likely, but big volume at one site may not be needed. Logs are bulky and costly to transport. Hauling different species of logs from different parts of the state to a common site to fill custom orders may not be feasible. But hauling costs are not the only problem. Many of Virginia's rural communities lack the roads and bridges to accommodate trucks with heavy loads of logs.

An alternative approach might be a small head office with sophisticated telecommunications to manage a network of micro-manufacturing units. The units would maintain cutting edge technology with computer-based capacity to select from a number of basic designs and employ flexible, high tech employees. Timber would be bought and processed locally, with high-value furniture being shipped by appropriate fee-based transport operations such as UPS. Multiple market outlets are possible. Both full- and part-time workers might be needed in a just-in-time inventory strategy.

Another possibility would be branded items, perhaps in the *Virginia's Finest* program, aimed at upscale custom-built homes. Could a brand name featuring

Virginia's native timber grow and develop? Perhaps that branded product could work, especially if the designs and woods could be tailored to exactly what the homeowner wants. Does Virginia have any prestigious custom builders who might wish to offer such a product to their buyers?

Home building is cyclical, which makes the demand for furniture tend to be cyclical also. Another market niche might be needed to maintain an even flow of orders and products. A line of office furniture might work, especially if the early emphasis were on Virginia business firms with pride in their Virginia roots. Volume could grow to a sufficient level that full-time employment would be justified for a number of employees in each region. A line of Virginia branded office furniture could be an e-commerce opportunity of importance to Virginia's rural communities.

The opportunities for such a new approach to regionalism could be numerous. The Bed and Breakfast Association of Virginia already has a start and serves as an example ([www.bbav.org](http://www.bbav.org)). Locations, rates, and descriptions of local attractions are available by county. A program of planned trips could add activity in each rural community and would likely enhance the value of the existing bed and breakfast businesses. Thinking about opportunities that do not need contiguous counties or cities could be a useful addition to our rural community development strategies. It could help communities find ways to sell assets they have in abundance and to take advantage of information and business technologies.

A state-level rural development center focusing on economic development in rural communities could facilitate this different way of thinking about regional strategies. Development experts operating in an environment that stresses broad, analytical thinking would be able to identify ways that rural areas could work together to be more effective and then help put the new ideas to work. Moving in this direction and getting local jurisdictions to work together will not be easy. Strong leadership and a new statewide rural development presence will be needed, but the payoffs could be big for our rural communities.

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Rural Virginia Prosperity Commission

# Briefing Paper

January 18, 2001

## Rural Development Initiatives around the United States

Virginia's Rural Prosperity Commission is mandated to examine the circumstances of rural Virginia and suggest long-term strategies to improve the lives of rural people. Virginia's special initiative and similar ones in other states have been undertaken because of the growing gaps in income, infrastructure investments, leadership capacity, and quality of life between rural and urban/suburban areas. The Federal Reserve Bank of Kansas City has established a Center for the Study of Rural America, and the U. S. Congress funds the national Rural Policy Research Institute (RUPRI) at the University of Missouri. Both of these institutions focus on issues at the national level. The Bush and Clinton administrations organized rural interests around the formation of rural development councils in each state. That effort, administered by the US Department of Agriculture, is called the Rural Development Partnerships program (<http://www.rurdev.usda.gov/nrdp/index.html>). Currently, 37 states have State Rural Development Councils (SRDCs). (Alabama, Arizona, Arkansas, Delaware, Georgia, Hawaii, Kentucky, Louisiana, Nevada, New Jersey, Rhode Island, Tennessee, and Virginia do not have state councils).

The experience in other states suggests seven institutional dimensions of rural policy development, implementation, and practice at the state level:

1. *A rural constituency organization external to government, able to facilitate and maintain communication between diverse interest groups; coordinate private, public, and non-governmental organizations; and advocate for rural issues.* Where such an organization is a private, non-profit organization without domination by any political party, it functions effectively for a longer period of

time. Such organizations coordinate the activities of all of the other kinds of institutions described below. SRDCs associated with the National Rural Partnership program are effectively serving this function in many states.

2. *Active non-governmental organizations (NGOs) working on the problems of rural people.* Many NGOs working on behalf of rural people are more narrowly focused than the rural constituency organization described in 1. However, when such groups are provided with some coordination and assistance, they can become an important force on behalf of rural people and places.

3. *An organization with rural and community policy analysis capacity.* In many states, such an organization is associated with the land-grant university. In a few states, the major policy analysis capacity is in state government. In North Carolina, it is in a private, non-profit organization.

4. *A state-action agency with an explicit rural development mandate and capacity to carry out local action programs.* In some states, Cooperative Extension provides that function through field Extension agents. (Wisconsin has such agents in 65 of its 70 counties.) In other states, state agencies play that role. Virginia's Center on Rural Development (CORD) previously played that role using mini-grants to empower local self-help activities.

5. *Legislative or other rural power coalitions.* Such groups in state legislatures or major lobby groups like municipal or county associations are important in keeping rural policy issues on the policy agenda and in articulating political support for rural constituents.

6. *Private sector firms with rural interests willing to contribute to rural policy discussions and action.*

7. *An organization capable of and qualified to raise money from public, private, and philanthropic sources.* In many states, the rural constituency organization (1) also provides this function.

A single organization may perform several of these functions, or several organizations may join to perform a single function. For example, some states have a coordinating body for governmental organizations and another for private and non-profit organizations. In states where an active rural development program is focused at the local level, NGOs exhibit greater support and involvement, frequently collaborating in the action initiatives. Some state agencies, including Cooperative Extension, have explicit rural development responsibilities. Federal support to Cooperative Extension includes some limited funding explicitly for Community Resource Development, which is a federal extension mandate.

Whether any of the possible combinations of institutional arrangements are functionally better than any other combination cannot be known.

However, in the states where many different organizations are involved, rural areas seem to be stronger.

The table below summarizes the seven institutional dimensions for seven states for which we have detailed information. The activities described are separate from the actions and activities of temporary legislative commissions such as the Rural Virginia Prosperity Commission. The commissions in Virginia and elsewhere can create, empower, or build on the absence or presence of the other institutions involved in rural development on an on-going basis. Rural development policies, actions, and programs vary greatly across states as to how they are carried out. The apparent effectiveness of the programs also varies greatly. However, a central institution to plan, advocate, coordinate, and provide access to or include research capacity for rural economic development **and** a well-staffed educational and intervention action program appear to be necessary conditions for effective programs and improved economic performance in rural communities.

**Institutional Dimensions for Rural Development**

State	Constituency Organization	Active NGOs	Policy Analysis Capacity	RD Agency with Local Intervention Capacity	Rural Caucuses	Private Sector Actors	Fund raising Organization
Arkansas	No	Few	Some University capacity	State agency – limited capacity	No	Ag. business	No
Kentucky	No	Few	Some University capacity	Coop. Ext – limited capacity	?	?	?
Michigan	RDC	None	Some University capacity	Coop. Ext. – limited capacity	Several	Utilities	No
Missouri	RDC	Some	Good University capacity	Coop. Ext – capacity unknown	Several	Utilities	?
Nebraska	RDC and others	Several	Good University capacity	Coop. Ext – capacity unknown	?	?	?
North Carolina	RDC	RD Econ Center	Good Private/ non profit capacity	RD Econ Center – limited	?	?	?
Wisconsin	RDC	Several	Very good University capacity	Coop. Ext. – 65 staff in counties	?	Banks, ag. business, utilities, coops.	RDC

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# **APPENDIX E**

## **LEGISLATION PASSED IN THE 2001 SESSION OF THE VIRGINIA GENERAL ASSEMBLY**

## **BUDGET AMENDMENTS IN THE 2001 SESSION OF THE VIRGINIA GENERAL ASSEMBLY**

## Legislation, 2001

### VIRGINIA ACTS OF ASSEMBLY — CHAPTER

*An Act to amend and reenact § 15.2-941 of the Code of Virginia, relating to shell building initiative.*

[H 2848]

Approved

Be it enacted by the General Assembly of Virginia:

1. That § 15.2-941 of the Code of Virginia is amended and reenacted as follows:

§ 15.2-941. Participation by local government in certain loan programs.

Any locality or other political subdivision may participate in a program known as the “Virginia Shell Building Initiative.” *It is the intent of the General Assembly that this program, administered by the Virginia Economic Development Partnership, ~~makes~~ make available moneys to any locality or any other political subdivision for the express purpose of constructing industrial shell buildings, or renovating existing buildings, to be sold or leased at public or private sale to any person that will locate thereon any manufacturing, processing, technology-related or similar establishment.*

Prior to filing an application with the Authority to participate in this program, the governing body shall hold a public hearing on the application and disposal of the proposed industrial shell buildings and related real estate. This public hearing process shall fulfill the public hearing requirements for the disposal of property set forth in § 15.2-1800.

### VIRGINIA ACTS OF ASSEMBLY — CHAPTER

*An Act to amend the Code of Virginia by adding a section numbered 36-139.5:1, relating to eligibility for Industrial Site Development Program.*

[H 2735]

Approved

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding a section numbered 36-139.5:1 as follows:

§ 36-139.5:1. *Eligibility for Industrial Site Development Program.*

*The Department, in determining eligibility for the Industrial Site Development Program, shall allow exceptions to the Department’s minimum requirement of 200 net developable acres because of geographic, topographic or land availability limitations.*

### VIRGINIA ACTS OF ASSEMBLY — CHAPTER

*An Act to amend the Code of Virginia by adding in Title 3.1 a chapter numbered 3.3, consisting of sections numbered 3.1-18.9 through 3.1-18.12, relating to the Office of Farmland Preservation.*

[S 1160]

Approved

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding in Title 3.1 a chapter numbered 3.3, consisting of sections numbered 3.1-18.9 through 3.1-18.12, as follows:

*CHAPTER 3.3.*  
*OFFICE OF FARMLAND PRESERVATION.*

*§ 3.1-18.9. Agricultural Vitality Program continued as Office of Farmland Preservation.*

*The Agricultural Vitality Program within the Department is continued and hereafter shall be known as the Office of Farmland Preservation.*

*§ 3.1-18.10. Powers and duties of Office of Farmland Preservation.*

*The Office of Farmland Preservation shall have the following powers and duties:*

- 1. To develop, in cooperation with the Department of Business Assistance, the Virginia Farm Bureau Federation, the American Farmland Trust, the Virginia Land Conservation Foundation, the Virginia Outdoors Foundation, the Virginia Association of Counties, and the Virginia Cooperative Extension, (i) model policies and practices that may be used as a guide to establish local purchase of development rights programs; (ii) criteria for the certification of local purchase of development rights programs as eligible to receive grants, loans or other funds from public sources; and (iii) methods and sources of revenue for allocating funds to localities to purchase agricultural conservation easements;*
- 2. To create programs to educate the public about the importance of farmland preservation to the quality of life in the Commonwealth;*
- 3. To provide technical, professional, and other assistance to farmers on matters related to farmland preservation; and*
- 4. To administer the Virginia Farm Link program established pursuant to § 3.1-18.11.*

*§ 3.1-18.11. Virginia Farm Link program.*

*There is hereby created the Virginia Farm Link program to provide assistance to retiring farmers and individuals seeking to become active farmers in the transition of farm businesses and properties from retiring farmers to active farmers. Such assistance shall include, but not be limited to, (i) assistance in the preparation of business plans for the transition of business interests; (ii) assistance in the facilitation of transfers of existing properties and agricultural operations to interested buyers; (iii) information on innovative farming methods and techniques; and (iv) research assistance on agricultural, financial, marketing, and other matters.*

*§ 3.1-18.12. Reporting requirements.*

**The Commissioner shall submit a written report on the operation of the Office of Farmland Preservation by December 1 of each year to the chairmen of the House Committee on Agriculture and the Senate Committee on Agriculture, Conservation and Natural Resources. The provisions of this chapter shall not preclude local purchase of development rights programs established pursuant to Chapter 17 (§ 10.1-1700 et seq.) of Title 10.1 from being eligible to receive grants, loans, or other**

## Budget Amendments, 2001

Item 93 #1h

Chief Patron: Bryant

Co-Patron(s): Wright

**Office of Commerce and Trade FY 00-01 FY 01-02**

Department of Agriculture and \$0 \$350,000 GF

Consumer Services 0.00 1.00 FTE

**Language:**

Page 84, line 44, strike "\$7,059,883" and insert "\$7,409,883."

Page 85, line 21, after "2." insert: "Out of the amounts for this item, \$350,000 the second year from the general fund shall be provided to establish the Virginia Farm Link program."

**Explanation:** This amendment provides \$350,000 the second year from the general fund to establish the Virginia Farm Link program.

Item 409 #10h

Chief Patron: Cox

Co-Patron(s): Wright

**Natural Resources FY 00-01 FY 01-02**

Department of Conservation \$0 \$10,000,000 GF  
and Recreation

**Language:**

Page 375, line 21, strike "\$20,735,796" and insert "\$30,735,796."

Page 376, line 32, after "Fund," insert: "and \$10,000,000 the second year from the general fund."

**Explanation:** This amendment provides funding in the second year for agricultural best management programs.

Item 103 #2h

Chief Patron: Landes

Co-Patron(s): Bennett, Clement, Dudley, Kilgore, May, Stump

**Office of Commerce and Trade**

Department Of Business Assistance Language

**Language:**

Page 91, after line 25, insert: "G.1. The Department of Business Assistance is encouraged to revise theeligibility requirements for the Industrial Employee Training Program to include employers that create 25 new jobs or a minimum investment of \$1 million.

2. If the employer is located in a high unemployment or a low median income locality, the Department is encouraged to modify program eligibility requirements to include five or more additional jobs or a minimum investment of \$1 million."

**Explanation:** Recommendation of Rural Virginia Prosperity Commission.

Item 103 #5s

Chief Patron: Hawkins

Co-Patron(s): Hanger, Miller K., Puckett, Ruff

**Office of Commerce and Trade**

Department Of Business Assistance

Language

**Language:**

Page 91, after line 25, insert: “G. The General Assembly encourages the Department to revise the eligibility requirements for the Workforce Services Program from the creation of 25 new jobs and a minimum of \$1,000,000 of investment to the creation of 25 new jobs or a minimum investment of \$1,000,000.”

**Explanation:** This amendment is based on a recommendation of the Rural Prosperity Commission. The intent is to make rural areas of the state more economically attractive to new or expanding businesses.

**Item 103 #6s**

Chief Patron: Hawkins

Co-Patron(s): Hanger, Miller K., Puckett, Ruff

**Office of Commerce and Trade**

Department Of Business Assistance

Language

**Language:**

Page 91, after line 25, insert: “G. To determine Workforce Services Program eligibility, the General Assembly encourages the Department to take into consideration if the employer applicant is located in a jurisdiction with either high unemployment or a low-median income. If this criterion is met, then the threshold for assistance should be reduced from 25 new jobs and a \$1,000,000 capital investment to 5 or more new jobs or a minimum of \$1,000,000 of investment.”

**Explanation:** This amendment is based on a recommendation of the Rural Prosperity Commission. The intent is to make rural areas of the state more economically attractive to new or expanding businesses.

**Item 107 #6h**

Chief Patron: Landes

**Office of Commerce and Trade**

Department Of Housing And Community Development

Language

**Language:**

Page 97, after line 35, insert: “4. In determining eligibility for the Industrial Site Development Program, the Department shall allow two non-contiguous areas to be combined for purposes of meeting the Department’s minimum requirement of 200 net developable acres.”

**Explanation:** Recommendation of Rural Virginia Prosperity Commission.

**Item 107 #8s**

Chief Patron: Hawkins

Co-Patron(s): Hanger, Miller K., Puckett, Ruff

**Office of Commerce and Trade**

Department Of Housing And Community Development

Language

**Language:**

Page 97, after line 35, insert: “4. The Department, in determining eligibility for its Industrial Site Development Program, shall allow two (2) non-contiguous areas to be combined for purposes of meeting the Department’s minimum requirement of 200 net developable acres.”

**Explanation:** This amendment permits the Department of Housing and Community Development to recognize as eligible applicants for its Industrial Site Development Program those applicants who combine two non-contiguous areas to reach the minimum requirement of 200 net developable acres.

**Item 124 #4h**

Chief Patron: Landes

Co-Patron(s): Bennett, Clement, Dudley, Kilgore, May, Stump

**Office of Commerce and Trade**

Virginia Economic Development Partnership

Language

**Language:**

Page 106, line 12, strike “H.” and insert “H.1.”

Page 106, after line 18, insert: “2. The Virginia Economic Development Partnership shall revise its guidelines for the Shell Building Program to permit technology-related infrastructure to be included in the construction of new shell buildings and in renovation of existing shell buildings.”

**Explanation:** Recommendation of Rural Virginia Prosperity Commission.

**Item 124 #5s**

Chief Patron: Hawkins

Co-Patron(s): Hanger, Miller K., Puckett, Ruff

**Office of Commerce and Trade**

Virginia Economic Development Partnership

Language

**Language:**

Page 106, line 12, strike “H.” and insert “H.1.”

Page 106, after line 18, insert: “2. The Virginia Economic Development Partnership shall revise its guidelines for the Shell Building Program to permit technology-related infrastructure to be included in the construction of new shell buildings and in the renovation of existing shell buildings.”

**Explanation:** This amendment is self-explanatory.

**Item 525 #2s**

Chief Patron: Hawkins

**Transportation**

Department Of Transportation

Language

**Language:** Page 461, after line 37, insert: “P. The Department of Transportation shall include the standard bridge conduit plan for the placement of fiber-optic conduits in the right-of-way on construction projects that are under design and/or scheduled to begin construction during FY 2001 and FY 2002. In addition, the Department of Transportation may amend its contract with DTI on the interstate system for installation and maintenance of the fiber optic network to facilitate the expansion of fiber optic conduits along the National Highway System. The Department may apply approved cost recovery methodology to these installations. The Department of Transportation shall report by December 1, 2001 to the House Transportation and Senate Transportation Committees on the selected projects and the estimated cost of such placements and the

estimated benefits.”

**Office of Commerce and Trade**

Department Of Housing And Community Development

Language

**Language:**

Page 97, after line 35, insert: “4. The Department, in determining eligibility for its Industrial Site Development Program, shall allow two (2) non-contiguous areas to be combined for purposes of meeting the Department’s minimum requirement of 200 net developable acres.”

**Explanation:** This amendment permits the Department of Housing and Community Development to recognize as eligible applicants for its Industrial Site Development Program those applicants who combine two non-contiguous areas to reach the minimum requirement of 200 net developable acres.

**Item 124 #4h**

Chief Patron: Landes

Co-Patron(s): Bennett, Clement, Dudley, Kilgore, May, Stump

**Office of Commerce and Trade**

Virginia Economic Development Partnership

Language

**Language:**

Page 106, line 12, strike “H.” and insert “H.1.”

Page 106, after line 18, insert: “2. The Virginia Economic Development Partnership shall revise its guidelines for the Shell Building Program to permit technology-related infrastructure to be included in the construction of new shell buildings and in renovation of existing shell buildings.”

**Explanation:** Recommendation of Rural Virginia Prosperity Commission.

**Item 124 #5s**

Chief Patron: Hawkins

Co-Patron(s): Hanger, Miller K., Puckett, Ruff

**Office of Commerce and Trade**

Virginia Economic Development Partnership

Language

**Language:**

Page 106, line 12, strike “H.” and insert “H.1.”

Page 106, after line 18, insert: “2. The Virginia Economic Development Partnership shall revise its guidelines for the Shell Building Program to permit technology-related infrastructure to be included in the construction of new shell buildings and in the renovation of existing shell buildings.”

**Explanation:** This amendment is self-explanatory.

**Item 525 #2s**

Chief Patron: Hawkins

**Transportation**

Department Of Transportation

Language

**Language:** Page 461, after line 37, insert: “P. The Department of Transportation shall include the standard bridge conduit plan for the placement of fiber-optic conduits in the right-of-way on construction projects that are under design and/or scheduled to begin construction during FY 2001 and FY 2002. In addition, the Department of Transportation may amend its contract with DTI on the interstate system for installation and maintenance of the fiber optic network to facilitate the expansion of fiber optic conduits along the National Highway System. The Department may apply approved cost recovery methodology to these installations. The Department of Transportation shall report by December 1, 2001 to the House Transportation and Senate Transportation Committees on the selected projects and the estimated cost of such placements and the estimated benefits.”

**Explanation:** This amendment requires VDOT to include the placement of fiber-optic conduits on certain projects that are under design or construction during this biennium.

Source: <http://leg2.state.va.us/MoneyWeb.NSF/sb2001> Accessed November 16, 2001.