



State Rural Initiatives

Where the Money Comes From

A Preliminary Report



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In recent years rural issues and concerns have achieved renewed significance in the minds of state policy makers. Evidence continues to mount that policymakers see the need for programs to benefit rural communities and citizens, but in times of tight state budgets and calls for fiscal restraint, policymakers wonder if they can afford new programs, projects or initiatives.

This paper represents a preliminary report on research in progress. It is intended to show *how states are financing rural programs, projects and initiatives*.

The attached inventory contains over 40 programs, projects or initiatives that are statewide in scope and that were initiated or significantly expanded in recent years. While we continue to refine and improve the inventory, a couple of conclusions are clear from the information presented.

- (1) States are, in fact, responding to rural needs with new or expanded programs, many of which are significant in scope and cost, and
- (2) They are financing the efforts by every method known, including general revenue appropriations, creation of new revenue sources (taxes and fees), diversion or reallocation of current revenue streams, recombination of existing programs, public bond issues, grants from philanthropic sources, grants or contracts from public sources (notably the federal government), and in rare instances, grants from private corporations.

There are important questions that are beyond the scope of this report: How well are the programs working? Are these programs the wisest and best uses of the funds for rural people? Are there other programs that would yield better results?

This research was compiled for the Fourth Annual Agriculture Chairs Summit (2006) by Bobby Gierisch of the Rural Policy Research Institute (RUPRI). Many people contributed, most notably Jonathan Watts Hull of Southern Legislative Conference and Eric Beverly and Kim White of the Texas Office of Rural Community Affairs. Portions of the entries for Illinois and North Carolina were provided by staff of the rural policy offices in those states, and legislative and program staff in many states provided necessary information. Shannon Sneary provided important technical help. We thank everyone for their contributions.

For important information on how the inventory was compiled, including important caveats, please see "A Note on Methods" at the end of the inventory.

The Inventory

Small Projects, Programs and Initiatives

(Generally costing less than \$1 million per year)

Agriculture Education and Rural Development

The Maryland Agriculture Education and Rural Development Assistance Fund (MAERDAF) was established in 2000 through S.B. 679, to address the inadequacy of funds available in rural areas for economic and community development and for agriculture and forestry education. The Fund provides grants to rural regional planning and economic development organizations, rural community development programs, and advanced technology centers that serve agricultural and natural resources-based small businesses in rural areas.

In 2003, the Fund was brought under the administration of the Rural Maryland Council (by S.B. 744, which also renamed the Council and relocated it to the state Department of Agriculture).

Funding for MAERDAF comes from general fund revenues. Over the five year history of the fund, the appropriation has varied from its initial \$422,000 (which included \$75,000 for the Forum for Rural Maryland, which later became the Rural Maryland Council). In the current fiscal year, funding for MAERDAF is approximately \$150,000.

Cooperative Development

The Illinois Cooperative Development Center (ICDC) is a unit within the Illinois Institute for Rural Affairs (IIRA) at Western Illinois University (WIU). Its purpose is to promote value-added rural development by helping farmers and small businesses find business structures that allow the risk of ventures to be spread over more owners. The Cooperative Development Center provides a range of services to help interested parties create a cooperative, including strategic visioning, incorporation and bylaws, equity drives, feasibility studies, board of director training, and marketing analyses, as well as other forms of technical assistance.

Initially, the project was intended to work with groups of farm producers interested in adding value to their crops by retaining ownership of the commodities as they moved through the production process. New Generation Cooperatives popular in Minnesota and other Great Plains States were one of the models used. The Cooperative Development Center now works with other more traditional businesses such as grocery

stores, housing developments, general merchandise stores and other businesses in rural Illinois.

The collaborative model is also being applied to help investors participate in wind farms where several farm investors can pool their funds to purchase a wind turbine. Both New Generation Cooperative and Limited Liability Corporation models have been applied to these ventures. Likewise, Ethanol Cooperatives have been started in rural Illinois through this initiative. Current efforts are to work with soybean growers who want to produce bio-diesel, livestock producers who want to create marketing alliances, as well as agritourism operators and farmer groups involved in alternative agriculture.

The ICDC was originally funded through the Illinois Council for Food and Agricultural Research (C-FAR) through the Illinois Department of Agriculture. That effort then extended to grants from the Illinois Clean Energy Foundation to support increased activities to foster wind energy. For the past two years, the Cooperative Development Center has been funded with an annual grant from the USDA through a competitive bidding process. The Cooperative Center received \$189,000 for FY05 and \$287,000 for FY06.

Sustainable Rural Communities

In 2005 Oregon State University (OSU) created a broad, interdisciplinary initiative to build the capacity of rural communities to improve the environmental, economic, social and cultural well-being for their residents, and to support state government in its new efforts to address challenges in rural policy.

The initiative involves coordinated research, teaching and outreach activities to achieve four main objectives:

- Prepare a new generation of community leaders, professionals, and scholars to take on complex responsibilities as communities seek economic and social viability
- Generate new knowledge about the challenges facing rural communities and what policies work best to address them
- Engage rural communities in learning their strengths and opportunities in developing specific long-term strategies, and
- Build public understanding about the contributions of, and constraints on, rural communities and about the impacts of state and federal policy on them.

The Sustainable Rural Communities Initiative was developed in response to a University-wide solicitation by the OSU Provost for proposals to further the University's strategic plan. The initiative was one of six funded at the level of \$300,000 per year for five years. The funds were generated internally by OSU through general budget efficiency and other 'belt-tightening' measures.

Outsourcing State Jobs: Smart Sites

The Smart Sites program was created by S.B. 199 in 2004, to promote the development of technology-based industry in rural Utah. It sets up a fund from which state agencies that contract with a "smart site enterprise" may obtain a refund of up to ten percent of the cost of those contracts. A "smart site enterprise" means a business or other entity that provides any of a long list of high-tech and financial services. It must be located in an enterprise zone.

The Smart Sites program is administered by the Department of Community and Economic Development and financed by an appropriation of \$40,000 from the general revenue fund.

Creating a Rural Development Council

With H.B. 5242 (2004) the Connecticut legislature established in law the Connecticut Rural Development Council in accordance with the Federal Farm Security and Rural Investment Act of 2002. The RDC must have a board and membership as required by the federal act, and it is to monitor, report and comment on policies and programs that address or fail to address the following goals with respect to rural areas: (1) Coordination of state, federal, tribal and private sector relationships to increase efficiency, eliminate duplication, identify gaps and promote the interests of rural areas, and (2) promotion of the fiscal autonomy of rural municipalities.

The newly constituted RDC is funded by an appropriation from general revenue of \$50,000.

Petroleum Storage Tanks

Washington's H.B. 1823 (2005) revises and reinstates the Underground Storage Tank Community Assistance Program (USTCAP) for rural, underserved areas. The program helps to cleanup and upgrade older rural gas stations by providing grants to certain owners or operators who discontinued using an underground storage tank due to economic hardship. An owner or operator is eligible for a \$200,000 grant for each retailing location if the property:

- is located in an underserved rural area
- was previously used to provide motor vehicle fuel, and

- is at least 10 miles from the nearest motor vehicle fuel service station.

In consideration of the grant, the owner or operator must agree to sell petroleum products to the public, maintain the tank site for retail sale of petroleum products for at least 15 years, sell to local government entities on a negotiated cost-plus basis, and comply with all financial and environmental responsibilities.

From the Pollution Liability Insurance Trust Account, \$1 million is designated for the biennium ending June 30, 2007, to carry out the program.

Rural Physician Incentives

With H.B. 301 (2003), Idaho created the rural physician incentive fund to be administered by the state board of education together with an oversight committee to pay:

- The education debts of rural physicians who practice primary care medicine in medically underserved areas of the state that demonstrate a need for assistance in physician recruitment; and
- The costs of administering the rural physician incentive program, which are capped at 10 percent of the annual fees assessed.

The bill requires the board, through the oversight committee, to establish procedures for determining the areas of the state that qualify for assistance in physician recruitment. An eligible area must demonstrate that a physician shortage exists or that the area has been unsuccessful in recruiting physicians by other mechanisms.

The bill authorizes the state board of education to assess a fee to students preparing to be physicians in the fields of medicine or osteopathic medicine who are supported by the state pursuant to an interstate compact for a professional education program in those fields. The bill prohibits the fee from exceeding an amount equal to four percent (4%) of the annual average medicine support fee paid by the state.

Leadership Tuition Tax Credits

In North Dakota, a new financial institution tax credit was created (S.B. 2158, 2004) for making a contribution to fund a tuition scholarship for participation in the Rural Leadership North Dakota Program conducted through the North Dakota State University Extension Service. A contribution may be earmarked for use by a designated recipient. The credit is equal to the lesser of (1) fifty percent of the aggregate amount of contributions made during the taxable year, (2) 5.7 percent of the tax before all credits, or (3) \$2,500.

Opportunity Returns: Regional Economic and Community Development

In 2003, Illinois Gov. Rod Blagojevich adopted a regional approach to community and economic development by creating 10 regions through which to deliver services. The approach, dubbed Opportunity Returns (OR), is designed to coordinate service delivery by state agencies to minimize duplication and to better tailor services to regional needs. The regions have full-time managers and assistants who meet with elected officials and business leaders to identify concerns and then work with state agencies to deliver services to these groups. This decentralized program can be especially beneficial to rural areas because it provides for differences between rural and urban as well as recognizing differences among regions within Illinois. The OR program builds on efforts in a previous Administration to conduct a 5-year planning strategy to gather information about priorities in each region and implement programs aimed at addressing the needs.

The potential effectiveness of the OR program is limited only by availability of funds for local projects and initiatives. However a new initiative to fund infrastructure transportation and education infrastructure is currently being unveiled. That capital program incorporates projects raised as part of the OR initiatives.

Opportunity Returns was funded by a reallocation of general revenue funds already appropriated to the Illinois Department of Commerce and Economic Opportunity, the lead state economic development agency. The OR funding is subject to annual appropriation but is intended to be an on-going program.

Entrepreneurship Centers

The Illinois Department of Commerce and Economic Opportunity funded a set of Entrepreneurship Centers designed to coordinate the delivery of programs such as the Small Business Development Centers, Procurement Centers, and technology based operations. The 17 Entrepreneurship Centers work with entrepreneurs at all levels from start-up operations to larger companies seeking to advance to the next level of operations. The Entrepreneurial Network has sufficient flexibility to create delivery programs designed specifically for the area in which they are located. Common programs include entrepreneurship networking sessions, training seminars, business plan competitions, and related approaches. Most of the Entrepreneurship Centers are administered by institutions of higher education which indicates the importance attached to the role of education in preparing entrepreneurs. In some cases, universities have been able to acquaint undergraduates or gradu-

ate students with basic business practices and thereby help them launch business ventures.

The program is made more complex by the fact that the Entrepreneurial Network includes both state and federally-funded programs. The program has claimed substantial successes even in rural areas where reaching entrepreneurs can be more difficult and expensive.

This program is funded through general appropriations in the budget of the Illinois Department of Commerce and Economic Opportunity. It is a line item in the budget that is subject to annual appropriation.

Revolving Funds for Rural Health

Arkansas has two revolving loan funds targeted specifically at improving healthcare access in rural communities.

Arkansas' H.B. 1384 from the 2003 session created the *Rural Medical Clinic Revolving Loan Fund*. The legislation provided \$225,000 for rural medical clinics, including \$205,000 for loans or grants to communities and/or physicians to establish medical clinics in rural areas. The legislation also provided \$20,000 for critical needs as determined by the Director of the Arkansas Department of Health.

Arkansas also has a *Rural Health Services Revolving Fund* to strengthen rural health care systems and service at the local level. Established by the General Assembly in 1989, through S.B. 75, the legislation gives the Arkansas Department of Health resources to help rural communities retain basic medical services and implement new, innovative approaches to health and health care. The program provides matching funds (up to \$200,000 per applicant) in eligible counties, localities, commercial and non-profit operations. The program offers two levels of match, 50/50 and 25/75, depending upon the applicant's completion of a community health needs assessment.

The original legislation approved an appropriation of \$3.3 million to the revolving loan fund, \$3 million of which was to be disbursed as grants to localities, with the balance provided to the Department of Health (now the Department of Health and Human Services) to administer the program. For the current fiscal year, the fund has a roughly \$1.3 million balance.

Funding for the revolving loan fund is from general revenue appropriations.

Support for Entrepreneurship

The Georgia Entrepreneur and Small Business Coordinating Network was established by Governor Sonny Perdue in 2004, to improve the support

of minority business start-ups, rural and agriculture focused entrepreneurs, entrepreneurial education in the state's school systems, and community small business assistance. The initiative was originally championed by the Economic Development and Technology Ventures, which worked very closely with staff from the state Department of Economic Development to establish a regional network of staff to assist communities in becoming better environments for new and expanding businesses. Originally called E-Net, the program is now called the Entrepreneur Friendly Initiative to reflect its focus on preparing communities to support their local entrepreneurs.

The initiative, which is now operated exclusively by the Department, works with both rural and urban communities around the state to help them identify local leadership groups and champions; increase community awareness of and support for strategies, needs and resources; enhance relationships with state and federal resources; and map local assets, among other activities. Communities completing a series of steps can become certified as "entrepreneur ready" by the state.

Funding for the program, including the small staff in Atlanta and the regional staff throughout the state, has come entirely from existing resources representing less than \$1 million in general revenue funds.

Rural Medical Residency Training

In 2005 the Utah legislature approved S.B. 119 authorizing the Medical Education Council to establish a pilot program to place physicians in rural residency training programs. The goal of the program is to improve the recruitment and retention of physicians in rural counties.

The program is authorized for ten years with an appropriation from general revenue of \$300,000 per year, subject to future budget constraints.

Business Development for Disadvantaged Rural Communities

S.B. 57 sets up a fund for infrastructure projects to promote economic development in distressed areas of Utah's rural counties. The bill creates a board to receive competitive proposals from rural counties for improvements to public properties, and to make loans or grants up to \$75,000 per project. Projects should be located within disadvantaged communities as reflected in per capita income, property and sales tax revenues, unemployment levels, and similar factors, and projects should result in economic development.

S.B. 57 appropriates \$250,000 for fiscal year 2005-2006 from general revenue to fund the business development program.

Medium Projects, Programs and Initiatives

(Generally costing \$1-10 million per year)

Building Entrepreneurial Communities

Nebraska's L.B. 90 (2005), The Building Entrepreneurial Communities Act, is a package of measures creating one new program and re-funding two others. (L.B. 90 also includes funding for ethanol incentives, listed elsewhere in this inventory.)

- The Building Entrepreneurial Communities Act provides grants to collaborating municipal or county governments for projects to create community capacity to generate and retain wealth in the community and region. Grants may be for two years and up to \$25,000; at least one of the collaborating municipalities or counties must have chronic economic distress.
- The Agricultural Opportunities and Value-Added Partnership Act is designed to promote small business formation and economic opportunity in rural areas through innovative partnerships among farms, ranches, communities and businesses. Grants are available to farms, ranches and a variety of public and private entities for a maximum of \$75,000 per year, renewable for up to three years.
- The Nebraska Rural Development Commission was established in the early 1990's, but its funding was eliminated in the budget crises of the late 1990's. As a result of L.B. 90, funding was restored.

All of the above measures are funded from general revenue funds. The Building Entrepreneurial Communities Act is funded at \$250,000 per year; The Agricultural and Value-Added Partnership Act is funded at \$850,000 per year; and the Rural Development Commission is funded at \$150,000 per year. The first two programs expire in 2011.

Farms for the Future

Farms for the Future is a two-step program instituted in 2001 to help Maine farmers increase the long-term viability of their farms. In Phase 1, farmers apply to receive a package of services worth up to \$10,000 to work with skilled professionals to develop a detailed business plan.

Those who complete a Phase 1 business plan may apply for a competitive grant to implement the plan. Successful applicants get a Phase 2 cash grant for 25 percent of the cost of their plan, up to a maximum of \$25,000. The remaining 75 percent is the responsibility of the farmer and may include cash, low-interest loans, other grants, and in-kind services. Additionally, successful applicants must sign a non-develop-

ment covenant in which they agree to maintain their property in agricultural use for ten years. Farmers can buy back the covenant at any time by repaying the full amount of the grant.

Farms for the Future was implemented as a pilot program in 2000 with an appropriation from general revenue of \$200,000. In 2002 the legislature and the voters approved a \$2 million bond issue to fully implement the program. These funds were matched by \$200,000 from the contractor that administers the program for the Maine Department of Agriculture, Food and Rural Resources.

Heritage Regions

In 1989 Pennsylvania initiated the Heritage Regions program to capitalize on the Commonwealth's rich industrial and agricultural history. Currently there are 12 heritage regions, encompassing 36 of the Commonwealth's 48 rural counties. Each region tells a different story of Pennsylvania's past, with themes like oil, lumber, and steel production along with transportation, and agriculture. Collectively, the Heritage Regions strive to generate economic development through tourism, foster partnerships, and promote cultural conservation, recreation, open space, and education and interpretation.

Each region develops a vision and a plan that includes appropriate projects and priorities. The Commonwealth supports Heritage Regions with three kinds of grants:

- A flat grant of \$100,000 per region for management and personnel services
- Various planning grants that require a local match (25/75 local/state)
- Implementation grants for acquisitions and buildings, a 50/50 match

In recent years state funding for the program has been approximately \$3 million per year, appropriated from general revenue.

Rural Partner Development Funds

In 2001 the Indiana general assembly passed S.B. 160 charging the Indiana Rural Development Council (IRDC) with developing a rural economic development strategy. The strategy included goals and recommendations concerning a variety of issues and was delivered to the legislature to inform members of the needs of rural Indiana and to assist in monitoring issues and responding to the needs of rural residents.

In response to the IRDC report, the 2003 general assembly created two new rural funds: The Rural Development Council Fund and The Rural Development Administration Fund.

The Rural Development Administration Fund provides grants to local, regional or state groups to pursue innovative projects in the areas of economic/community development, planning, leadership, infrastructure, health, telecommunication/education, workforce development and agriculture.

The Rural Development Council Fund supports the operational needs of the IRDC and provides funding for the creation of new regional rural development groups and the operations of existing rural development groups.

The general assembly appropriated \$3.6 million per year from general revenue to support the IRDC funds.

Purdue Center for Regional Development

At the behest of President Martin Jischke, Purdue University established a Center for Regional Development in 2005. The Center will include approximately 7 full-time staff plus support, and its main functions include:

- creating regional profiles of economic, demographic and social characteristics;
- conducting survey research and analysis;
- benchmarking;
- facilitating discussions of regional issues;
- organizing and facilitating regional initiatives; and
- developing regional leadership.

While the Center's mission is not solely *rural*, its goal is to help Indiana become the nation's leader in supporting creative, *regional* approaches to development - with special attention to rural areas as significant components of those regions.

Core funding is provided by the University, and in its first 10 months of operation, the Center secured more than \$1.5 million in grants. The two largest are from the U. S. Economic Development Administration, one for \$492,000 over three years and the other for \$425,500.

Institute for Rural Entrepreneurship

In 2003, the North Carolina Rural Economic Development Center established the Institute for Rural Entrepreneurship to stimulate and support the development of small- and medium-size enterprises in North Carolina's 85 rural counties. Since its creation, the institute has developed a statewide alliance

of business service providers that now includes nearly 60 organizations; developed a 100-county database of North Carolina businesses; created and distributed business development tools for entrepreneurs and community leaders; trained hundreds of local leaders in entrepreneurship development; and, in 2005, secured a \$2 million grant from the Kellogg Foundation to build a comprehensive entrepreneurship development system for rural North Carolina by mid-2007.

Funding for the program comes from a variety of sources, including:

- An annual appropriation of \$144,000 from the North Carolina General Assembly for basic operations
- \$24,000 from the community college system for an ongoing program to help qualifying laid off workers go into business for themselves
- A \$2 million grant from the Kellogg Foundation to build a "seamless" entrepreneurship development system in the state. The grant is divided among several organizations, with the Rural Center serving as the lead.
- \$500,000 from the Community Development Block Grant program to support 10 community small business demonstration programs (administered by North Carolina Department of Commerce)
- Contributions from local organizations and corporations for scholarships to local training programs and for statewide summits and conferences

Water 2030 Initiative

In March 2004, the North Carolina Rural Center launched the Water 2030 Initiative to determine North Carolina's water resource needs for the next 25 years and to explore choices that will ensure that North Carolinians, in every part of the state, will have access to ample supplies of clean water for years to come.

The primary activities of the initiative include: 1) an update of the state's water and sewer database, expanding it to include storm water and flood hazard data; 2) the creation of a state water supply and demand assessment, with projections for 2005 through 2030; 3) an aggressive public education and outreach effort to build understanding of water resources among all citizens of the state; and 4) a set of recommendations for state and local action.

Funding for the project has come from the following sources:

- A general revenue appropriation of \$400,000 over four years from the North Carolina General Assembly
- \$1.2 million from the Environmental Protection Agency, with help from the North Carolina Congressional delegation
- \$500,000 from the North Carolina Clean Water Management Trust Fund
- \$300,000 from existing Rural Center resources

Funds for Community Foundations

As one part of a large economic growth program, in 2003 the Iowa legislature enacted a law to encourage individuals, businesses and organizations to invest in community foundations (H.F. 692, 2003). Beginning in 2004, an amount equal to 20 percent of an individual or entity's endowment gift to a community foundation could be taken as a credit against the payment of state income taxes. Under supplemental legislation in 2005 (HF 868) the amount of all tax credits may not exceed \$2 million annually, and the tax credits may not be awarded after December 31, 2008.

This program is not limited to rural areas, but community foundations are an increasingly popular way to finance local community improvements.

Agriculture and Resource Based Industry Development

The Maryland Agriculture and Resource Based Industry Development Corporation (MARBIDCO) was established by the Maryland General Assembly in 2004 with S.B. 589. The Corporation is a public entity that provides financing to agricultural and resource-based businesses. The state's purpose in creating MARBIDCO was to:

- develop agricultural industries and markets
- support appropriate commercialization of agricultural processes and technology
- alleviate the shortage of nontraditional capital credit available at affordable interest rates for investment in agriculture
- provide assistance to young farmers in land acquisition through the purchase of development rights on farmland.

The state has yet to fund MARBIDCO, though progress has been made in establishing a basis for funding. For example, legislation in 2005 (H.B. 1594) established certain funding targets and mechanisms.

The Rural Maryland Council has received a \$20,000 USDA Rural Business Enterprise Grant for start-up costs. The General Assembly believes a capitalization of approximately \$45 million is necessary for the Corporation to be successful, and the state Department of Agriculture has projected the total cost for

staff, operating expenses, and grants for 2007 at \$700,000.

Office of Rural Community Affairs

In 2001 the Texas legislature created the Office of Rural Community Affairs (ORCA) (H.B. 7) to provide research, strategic thinking and policy guidance on a long-term, institutionalized basis. The Office was created because of the perception that many rural programs would be more efficient with better coordination and with leadership to establish strategic direction based on sound research.

Texas' large non-entitlement Community Development Block Grant (CDBG) program and a number of rural health programs that were administered by the state Center for Rural Health Initiatives were combined in ORCA. Additionally, ORCA was given new duties to:

- develop a rural policy for the state
- work with other agencies and officials to improve the results and effectiveness of existing programs
- improve the leadership capacity of rural community leaders
- monitor developments and compile an annual report describing and evaluating the condition of rural communities
- perform research to determine the most beneficial and cost-effective ways to improve the welfare of rural communities;

In addition to the funding already provided for the existing programs, general revenue funds of \$500,000 per year were provided to support the "new" functions relating to policy, research, coordination, etc.

Loan Pool for Rural Healthcare Providers

In 2005 Nevada passed legislation (A.B. 103) that makes an appropriation to the Department of Administration for allocation to Nevada Rural Hospital Partners to create a pool for loans for rural health care providers. The bill sets forth reporting and audit requirements. For the program "rural" means any area in a county whose population is less than 100,000 and portions of other counties that are designated as such by the Nevada Office of Rural Health of the University of Nevada School of Medicine.

The bill makes a \$1,000,000 appropriation from the state general fund.

Emergency Medical Services

With passage of S.B. 2690 (2004) the State of Hawaii recognized the vital need to provide adequate emergency medical care to residents of rural areas, particularly on the neighbor islands. S.B. 2690 finds that rapid response of emergency medical services is critical for positive patient outcomes and that current user fees for emergency medical services are not adequate.

S.B. 2690 establishes within the state treasury a special fund to be known as the emergency medical services special fund. The bill increases the state vehicle and motor vehicle registration fee from \$20 to \$25 and directs the \$5 increase to the emergency medical services special fund. The state appropriated \$2,205,000 out of the general revenues for fiscal year 2004-2005, to be deposited into the emergency medical services special fund.

Regional Development Districts

Nevada's S.B. 328 (2003) authorizes the establishment of regional development districts to work with and on behalf of governmental units to develop plans or implement programs to address economic, social, physical and governmental concerns of each region of the state.

The bill requires a regional development district to serve as a regional resource center and provide planning, community and economic development, and technical assistance to local governments that are members of the district. It authorizes a district to provide assistance to industrial development organizations, tourism promotion organizations, community development groups and similar organizations.

Any combination of counties and cities representing a majority of the population of the region for which

a district is proposed may petition the Governor by formal resolution setting forth their desire to establish and the need for the establishment of a regional development district. The bill provides that the proposed district must consist of two or more contiguous counties and membership in a district is voluntary.

Each county and city within the development region must pay membership dues. The bill requires the Governor to designate a state agency to be responsible for making grants to regional development districts. The bill specifies the manner in which financial assistance provided from the State General Fund must be distributed.

Small Business Investment Tax Credits

Arizona's S.B. 1335 (2005) establishes a state income tax credit for individuals investing in a qualified small business. The program is overseen by the Department of Commerce.

The credit, apportioned over a three-year period, is equal to 35% of a person's equity investment in a qualified small business engaged in bioscience activities or located in a rural county; otherwise the credit is 30% of the investment. Among the requirements for this credit, investments must be certified by the Arizona Department of Commerce, investors must invest at least \$25,000 but no more than \$250,000 in any calendar year, the recipient of the investment may not have assets worth over \$2 million (excluding qualified investments) and may not receive an aggregate of more than \$2 million in qualified investments for all taxable years.

The program's fiscal impact to the General Fund is \$20 million total for taxable years beginning January, 2007, through December, 2014.

Large Projects, Programs and Initiatives

(Generally costing more than \$10 million per year)

Ethanol Production Incentives

In the early 1990's Nebraska established a system of incentives to promote production of ethanol. The system provides ethanol producers with transferable, non-refundable fuel tax credit coupons. The coupons are sold (at a small discount from face value) to fuel users, who then use the coupons to satisfy fuel tax obligations. This provides a subsidy from the state's fuel tax revenues to ethanol producers, but it also creates a deficiency in the state's highway trust fund. In recent years additional ethanol plants and production have resulted in the need to expand the financing from prior levels. L.B. 90 (2005) provides for the expanded financing.

The additional funds for the ethanol incentive program come from two sources. The excise tax (or "check-off") is increased from three-quarters to seven-eighths cents per bushel for corn and per cwt for grain sorghum. This measure will yield an estimated \$8.75 million per year in total check-off funding, a \$1.45 million increase over the prior check-off level.

In addition, there has been a transfer of \$1.5 million per year from the general revenue fund. This amount is increased to \$4 million per year for the next two years, then to \$5.5 million for one year, and finally to \$2.5 million per year for the next three years.

Farmland Preservation

The Pennsylvania Agricultural Conservation Easement Purchase Program was developed in 1988 to help slow the loss of prime farmland to non-agricultural uses. The program enables state, county and local governments to purchase conservation easements (sometimes called development rights) from owners of quality farmland. The first easements were purchased in 1989. Counties participating in the program have appointed agricultural land preservation boards with a state board created to oversee this program. The state board is responsible for distribution of state funds, approval and monitoring of county programs and specific easement purchases.

Since 1989 conservation easements totaling \$685 million have been purchased to preserve 2,746 farms totaling 314,719 acres. Under the program, each participating county determines the amount it will spend on easement purchases. The state makes a grant to each county, then provides a match for any county funds used. The county grants and matching funds are formula-driven.

The state finances its share of the Farmland Preservation program through a number of funding mecha-

nisms, and these have changed from time to time during the life of the program. The state program has generally been in the range of \$20-\$50 million in recent years, but thanks to a large infusion from a recent bond issue, it is expected to have between \$80 and \$100 million available for 2006.

The principal method of finance has been a dedication of \$20.485 million per year from the state's cigarette tax. From 1999-2004, the program had an infusion of \$100 million from a voter-approved bond issue known as Growing Greener I. In 2005 a portion of the state's landfill tipping fee was transferred to the program, expected to generate \$8-13 million per year. And beginning in 2006, a second bond issue, Growing Greener II, will provide \$80 million to be spread over two or more years.

Rural Economic Infrastructure Fund

The North Carolina Rural Economic Development Center was established in 1987, to lead the state's efforts to restore economic vitality in the state's 85 rural counties. The center was created through the contributions of private foundations and corporations in 1986, then received its first appropriation from the North Carolina General Assembly in the summer of 1987. Since that time, the General Assembly has been a critical partner, providing partial funding for Rural Center operations and support for a range of rural development programs, including rural water and sewer development, business finance programs and minority community development programs. With legislative funds as its base, the Rural Center has been able to leverage additional funds from state and national foundations, the corporate sector and federal agencies.

A new milestone was reached in 2004, when the legislature appropriated to the Rural Center \$20 million from general revenue for establishment of the North Carolina Economic Infrastructure Fund, designed to stimulate business growth and job creation in rural and low-wealth communities. At the end of the year, the Rural Center had made grant awards for over 90 water and sewer, technology, building reuse and economic innovation projects that will create or expand nearly 250 businesses and create or save more than 10,000 jobs. Based on the success of the fund in the first year, the General Assembly made the appropriation recurring in the 2005 legislative session.

In addition to continuing the programs begun in 2004, the Rural Center is using the fund to launch a \$10.5 million Small Towns Initiative, whose purpose

is to bring greater prosperity and improved quality of life to North Carolina's small towns, especially those experiencing hardship posed by business closings and layoffs, devastation from natural disasters or persistent poverty.

Office of Rural Affairs

In 2005 the Indiana general assembly, in cooperation with the governor's office, passed H.B. 1008 reorganizing a number of existing state offices and creating an Office of Rural Affairs (ORA) and a Department of Agriculture. Lt. Governor Becky Skillman serves as the Secretary of Agriculture and Rural Development.

The ORA consists of the following programs:

- Community development block grant program (CDBG)
- High-Speed communications
- Indiana Rural Development Council
- Indiana Main Street program
- Leadership development
- Regional partnering
- Grant services

ORA participates in strategic partnerships on rural health and grants management (assistance).

In addition to administering these programs the ORA is leading a statewide effort involving all rural stakeholders to develop a strategic initiative to improve the economic competitiveness and quality of life in all of Indiana's rural regions. ORA will adapt its functions and role in accordance with the state plan.

While the ORA is a large rural affairs office with broad functionality, it was created without additional state financial resources by combining existing programs, including their budgets and personnel. (The Department of Agriculture was also created by combining many existing programs, but our research on it is incomplete at this time.)

Keystone Innovation Zones (KIZ)

KIZs are designated zones in communities that host institutions of higher education – colleges, universities, and associate degree technical schools. While not limited to rural areas, in 2005, forty-one of Pennsylvania's 181 public and private colleges and universities were located in rural counties. These zones are designed to foster innovation and create entrepreneurial opportunities by creating partnerships among educational institutions, private businesses, business support organizations, commercial lending institutions, venture capital networks, and foundations (KIZ partners).

The Commonwealth supports KIZs through operating grants that can be used for Zone coordination, strategic planning, personnel costs, hiring of consultants and administration. These grants can be up to \$250,000 in the first year, declining each year for up to three years. They require a 50-50 cash match.

In 2006, companies located in KIZs that have been in operation less than 8 years and fall under the zone's industry sector focus (life science, information technology, nanotechnology etc.) are eligible to apply for credits against certain state business taxes. Tax credits available for all businesses in all zones is \$25 million per year.

Finally, grants may be provided to institutions of higher education to facilitate technology transfer, including such things as patent filings, technology licensing, intellectual property and royalty agreements. The initial grant can be up to \$250,000, and all grants awarded to all applicants may not exceed \$10 million. Grants must be matched dollar-for-dollar with non-state funds.

The KIZ program was one of several created under Governor Rendell's economic stimulus package, and it began operations in 2004. Funding for the program comes from state general funds appropriated to the Ben Franklin Technology Development Authority, the state's principal technology promotion office, as well as the tax credits mentioned above.

Rural Renewable Electric Cooperatives

Colorado's S.B. 04-168 (2004) establishes that it is the policy of the state of Colorado to encourage local ownership of renewable energy generation facilities to improve the financial stability of rural communities. The bill authorizes the organization of renewable energy cooperatives to:

- promote electric energy efficiency technologies to its members;
- generate electricity from renewable resources and technologies; and
- transmit and sell the electricity at wholesale.

The bill authorizes renewable energy cooperatives to generate electricity from renewable resources or technologies and transmit and sell electricity at wholesale. It prohibits a renewable energy cooperative from selling electricity at retail or having a certificated territory in the state except as allowed for its own service or pursuant to public utility law or other legal authority. The bill requires electric utilities to interconnect with renewable energy cooperatives.

The bill provides authority to issue revenue bonds in amounts sufficient to pay the following described costs of construction, upgrading, and acquisition,

including any required interest, the costs of bond issuance, and any required reserves on the bonds:

- Construction of renewable energy generation facilities
- Construction or upgrading of electric transmission lines
- Acquisition of right-of-way generation and transmission
- Construction or upgrading electric distribution lines to connect renewable resources or technologies to transmission lines

The bill requires revenue bonds, and interest thereon to be payable from revenues derived from use of the renewable energy generation facilities or electric transmission lines constructed, upgraded, or acquired through the use of bond proceeds. The bill prohibits revenue bonds, including refunding revenue bonds, from constituting an indebtedness of the state. Revenue bonds are exempt from all state, county, and municipal taxation in the state, except Colorado estate taxes.

Rural Infrastructure Fund

In the 2003 session, the Mississippi Legislature approved H.B. 1335 which established the Mississippi Rural Impact Fund. The Fund provides assistance in the form of loans and grants to rural communities and loan guarantees on behalf of rural businesses to assist them in completing projects. Among the projects allowed are construction, rehabilitation, or repair of buildings; sewer systems and transportation directly affecting the site of proposed rural businesses; and sewer facilities, acquisition and development of property for new or expanded businesses in rural areas. The Fund is administered by the Mississippi Development Authority.

The Fund was created through the issuance of \$10 million in state bonds in 2003. A second issuance for \$5 million was approved in 2004. To date the program has approved 58 projects valued at an estimated \$11 million. The majority of these approvals have been grants. Loan revenues are returned to the Fund as capital.

One Georgia - Georgia

The Georgia General Assembly established the One Georgia Authority during the 1999 session through H.B. 1313. One Georgia is an instrumentality of the state attached to the Department of Community Affairs (until 2002, the Department of Industry, Trade and Tourism). The Authority offers a broad array of services to rural communities to assist them with their economic development. These include:

- The Economic Development, Growth and Expansion Fund for communities to use when competing for business relocations
- The Equity Fund to provide financing to communities for infrastructure related to economic development
- The E-911 Fund to help counties throughout the state establish 911 emergency telephone services
- The Entrepreneur and Small Business Development Loan Guarantee Program which extends the availability of conventional credit to individuals and businesses in at-risk counties
- The Georgia Grown Business Loans -- shared-risk loans through accredited Georgia financial institutions ranging from \$35,000 to \$250,000 at competitive interest rates to qualified borrowers located in one of Georgia's 112 designated rural counties

Funding for the One Georgia Authority is from one-third of the state's Master Tobacco Settlement, which varies from year to year. The amounts for the past two fiscal years has been approximately \$47 million. The program receives no other funding from the state. While most of the Authority's activities operate as grants, the Equity Fund also has a revolving loan component, with the revenues from loans reverting to the One Georgia Authority.

Volunteer Fire Departments

In Texas fund-raisers and donations have long been a primary source of funds for volunteer fire departments - they generally receive less than \$5,000 per year from county government. Although many of the 1,800 fire departments in the state operate with little or no reserve personnel funds, they respond to over 90 percent of the state's wild land fires. In 2001, H.B. 2604 created a new stream of revenue to assist volunteer fire departments in paying for equipment and training personnel.

The Rural Volunteer Fire Department Assistance Program is administered by the Texas Forest Service of The Texas A&M University System.

The bill requires the comptroller of public accounts to assess all insurers in an amount that totals \$15 million for each 12-month period. Each insurer is assessed in proportion to its net direct premiums in the state. The insurer is authorized to recover an assessment either by reflecting it as an expense in a required rate filing or (with prior notice) by charging policy holders. The program expires in 2011.

Another measure adopted in 2001, HB 3667, imposed a two percent tax on the sale of fireworks to help rural volunteer fire departments to pay for work-

ers' compensation and accidental death and disability insurance.

“Virginia Works”

The Virginia Works initiative of 2005 is a set of complementary approaches to rural economic development to help rural Virginia's existing industries, promote the creation of new industry and strengthen communities hardest hit by changing economies. The package of measures is extensive, including the following:

- For existing businesses, Virginia Works will provide two grants to regional partnerships among the business community, local community colleges and economic development agencies that successfully identify better ways to respond to business realities through more responsive workforce development activities.
- The Governor, with the approval of a board of executive and legislative appointees, may provide up to \$5 million to assist a major regional employer in extraordinary circumstances or to attract economic development prospects that would have a major impact on distressed communities.
- New businesses benefit from investments in tourism, including a 350-mile rails-to-trails network, and an initiative to help Virginia artisans through the establishment of two retail centers in western Virginia and an extensive support network for regional artists.
- Existing advanced manufacturing companies enjoy increased support, including the extension of export assistance currently available only to larger businesses.
- The state is investing in research and development of high-value specialty agricultural production.
- Rural Virginia communities will have increased access to investment capital through a new community development bank serving borrowers who do not typically qualify for conventional credit.

The program's investments exceed \$11 million in new or reassigned funds. Funding is from general tax revenue. Among the largest allocations in the program are \$3.1 for the creation of the artisan center, \$1.5 million for two regional consortium grants, and \$2 million for brownfields redevelopment. Much of the funding for this program represents one-time expenditures for construction or infrastructure, with reduced sums needed for ongoing support of the program.

Broadband Access

The mission of the e-NC Authority is to provide rural North Carolinians with access to affordable, high speed Internet service. Since its creation in 2000, the authority has helped expand Internet service in rural areas – more than 75 percent of rural households now have high-speed access; developed business and technology centers in the most economically distressed areas of the state; invested in public access sites and digital literacy programs; created an e-communities effort to galvanize local support for Internet use and access; sponsored a “Leg Up” program to improve citizen access to government services; and convened forums focused on advanced technologies and public policy.

Since 2001 funding for the programs of the authority has come from the following sources:

- \$30 million from technology think-tank MCNC (formerly the Microelectronics Center of North Carolina).
- A \$700,000 multi-year grant from the U.S. Department of Commerce Technology Opportunities Program for e-NC's local e-government program.
- \$200,000 from the Appalachian Regional Commission for connectivity projects in Western North Carolina.
- \$2 million from the Golden LEAF Foundation for the APEC Eastern North Carolina Technology Initiative. This funding pays for connectivity to the schools.
- \$30,000 from the Z. Smith Reynolds Foundation for a cross border study, identifying impediments to economic development specific to counties that border other states.
- In 2004 e-NC received its first state funds, \$1,992,500 for technology purposes, including establishment of Business and Technology Telecenters.
- \$50,000 from Microsoft Corporation as part of its Unlimited Potential program, for funding for e-NC's Business and Technology Telecenter program.
- \$150,000 from the Golden LEAF Foundation for the TEE-OFF project, highlighting technology in entrepreneurship training.
- \$500,000 a year, for two years, from the North Carolina General Assembly for general support.
- \$100,000 from the General Assembly for completion of a study on regional education networks across the state, as part of the Lt. Governor's BETA program.
- From 2000 to 2006, e-NC has received cash or in-kind contributions from more than 80 organizations across the state and nation.

Job Opportunity Building Zones (JOBZ) - Minnesota

The JOBZ Program was established by the Minnesota Legislature and began operating in January 2004. The program provides very generous tax benefits to spur job creation and capital investment in rural areas deemed to be economically disadvantaged. In order to participate, counties must work together to establish multi-county 'zones'. Within the zones 'subzones' are the areas targeted for new job creation and it is within the subzones that tax benefits apply.

The subzones are administered by local economic developers. A business seeking tax benefits must sign an agreement that clearly spells out the number of new jobs being created, the average wage of the new jobs, and the capital investment. The agreement must be approved by the local governing authority; typically the city council and finally approved by the state.

The tax benefits are far-ranging and include *exemptions* for up to 12 years from:

- Property taxes on physical structures (not land)
- Sales tax on those goods and inputs used in the zone
- Motor vehicle sales taxes
- Corporate income tax for income created in the zone
- An additional tax credit for high-wage jobs in the zone

By the end of 2005 over 200 business subsidy agreements are expected to be signed, almost 3000 new jobs created, and \$200 million in capital committed. While a small number of agreements contemplate hundreds of jobs, the majority are for 5 or fewer jobs.

Costs of the program are in the form of tax credits, and accrue slowly as businesses start up or expand. While such costs will be substantial (and much of it will be borne by local governments) they have yet to be calculated by the Department of Revenue.

A Note on Methods

The inventory of projects was compiled by a variety of methods. The database of rural legislation maintained by NCSL¹ was searched for rural bills enacted in calendar years 2003, 2004 and 2005. In addition, several experts and practitioners in rural policy were asked about initiatives undertaken by state governments in the past 3-5 years. Some "older" projects were also included.

The reader should be aware of a number of caveats.

(1) The inventory is neither exhaustive nor statistically representative of state rural projects. It is eclectic, with projects selected to provide variation in size of the project (measured by cost), subject matter or sector of the project (e.g., agriculture, health care, community development, energy, business development, etc.), and geography. We attempted to include large, medium and small projects across a number of subject areas and from states all across the nation. We hoped, in this way, to capture a variety of financing methods.

(2) The inventory is not intended to be a list of great projects or even of "best practices." The principal goal was to see *how projects are financed*. A secondary goal was include projects that appeared to be innovative, unusual or interesting, but no attempt was made to evaluate the quality of the project or the means of financing it. That would have gone far beyond the capacities of our current project. Thus, this inventory does not constitute a recommendation of the projects included, but rather, a way to see how states are financing the projects and programs they choose to institute.

(3) This paper reports on work in progress. The research was compiled in a very short period of time (less than 30 days) by several colleagues working informally. Information was gathered from the legislative measures themselves, agency and other websites, and calls to legislative, budget or agency staff familiar with the bills and programs. However, our knowledge is, for the most part, summary only. While we have strived to present accurate information, the likelihood of errors and omissions remains.

We hope to refine and deepen this inventory as well as our understanding of the individual projects so that we may produce a true best practices document in the near future.

¹ The NCSL database is Internet accessible at: <http://www.ncsl.org/programs/econ/ruraldev.cfm>