

**Rural Virginia Prosperity Commission**

# **Menu of Recommendations**

**August 28, 2001**

**Prepared by Staff**

## PREFACE

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 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 create institutions to 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 the 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 suffers, and even more youth leave. Gloom breeds gloom in the people left behind, and some communities die. Because Virginia shares a commonwealth, the drain of communities unable to pay their own way becomes a drain on the state budget and an impediment to solving problems in other parts of the state.

The recommendations the Commission offers are a package. No one of the recommendations 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 all the people of the Commonwealth.

The recommendations address five 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 and little collateral. Virginia has such a program already in place, but it needs to be expanded to reach rural areas (Exhibit A).
2. **Adult Education and Worker Training:** Rural Virginia suffers from having too many adults without high school diplomas and with inadequate opportunities for customized worker training and retraining. The community college system must be made partners in a major effort to upgrade the human capital in rural Virginia (Exhibit B).

3. **Digital Telecommunications Infrastructure:** For understandable economic reasons, the private sector has been slow to provide high speed digital telecommunications access to much of rural Virginia. Returns on investment are much higher if 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 telecommunications opportunities (Exhibit C).
4. **Tiered Tax 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 tax incentive program is essential for communities in rural Virginia to compete successfully with places in neighboring states (Exhibit D).
5. **Long-Term Institutional Support:** Local grassroots leadership in rural Virginia must be enhanced and nourished. The same level of technical support must be provided for rural economic development that has historically been provided to farmers by the Extension Service. Expertise available in the higher educational institutions of the Commonwealth must be tapped and made accessible to rural leaders. A focal point for rural concerns must be established through new public/private sector partners in the form of a Center for Rural Virginia (Exhibit E).

Recommendations for three other areas have been proposed: infrastructure (Exhibit F), K-12 education (Exhibit G), and primary industries (Exhibit H). They have not been detailed in this preface 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 Menu of Recommendations. 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 these needs. These proposals are based on the premise that rural prosperity must be achieved from the grassroots. Even if it were possible to define prosperity for all communities, that prosperity cannot be achieved without grassroots efforts. Each community must define for itself what prosperity means and take positive steps to achieve its goals. The proposals offered are intended to empower community leaders to achieve rural prosperity in their own ways.

# **Overall Strategy**

# RURAL PROSPERITY FROM THE GRASSROOTS

The Staff recommends that the Rural Virginia Prosperity Commission adopt 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;
  - ✍ to expand opportunities for community cultural and arts programs that enhance the quality of life in rural areas and small towns.

The Staff will propose 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.

Prepared by Jim Hite

# **Exhibit A**

## **Capital Access**

# Capital Access Recommendations

**Basic Premise:** A well-recognized 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 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.

## Recommendations

1. Appropriate an additional \$2 million in fiscal 2002 to the Virginia Capital Access Program which, with a 4.0 % average state deposit in the program's reserve fund, would leverage as much as \$50 million in loans per year. Appropriate an additional \$2.0 million in each of the fiscal years 2003 and 2004 to boost the Capital Access program to a level that ensures needs in rural Virginia can be met. Appropriations in years beyond fiscal year 2004 should be **as needed** to maintain at least \$75 million in lending capacity per year and to ensure that loan capacity is not the limiting factor in rural community economic development.
2. Seek legislation to allow the Virginia Small Business Financing Authority to double the combined borrower/lender contribution in the state's contribution to the reserve program if the loan requests are for small business activities in Tier 1, 2, or 3 jurisdictions. An extended "match" capacity has already been given to the Authority for "technical businesses" by the 2001 legislature. This expanded capacity to match deposits is thus related to the Tier Program for economic development in Virginia's economically depressed rural communities and will provide help where it is most needed and is likely to have the biggest impact.
3. Add \$250,000 to the annual base budget of the Virginia Small Business Financing Authority in the Virginia Business Assistance Program and commit this added budget primarily to personnel and program needs to facilitate the ability of the Virginia Capital Access Program to extend loans and boost business and economic activity in rural Virginia.

## Costs and Benefits: Virginia Capital Access Program

*The Virginia Capital Access Program facilitates the extension of bank loans to small businesses that have often been denied credit. The small business with an “almost bankable” loan request may have a good new idea or an active and ongoing business, but a lack of collateral denies credit. This situation occurs often when computers, software, etc. do not provide the traditional collateral to back a loan request.*

In the *Capital Access Program*, the borrower pays a negotiated premium above the going market rate. The premium allows and encourages the bank to extend the loan. Instead of “prime + 1”, for example, the *Capital Access* loan may be “prime + 4” which includes a negotiated 3% enrollment fee above the market rate being extended to other firms with better collateral. The state matches the 3% with a deposit into a reserve fund against risk that is held in the participating bank. The loan is then extended through normal banking procedures. A one-page form is all the bank has to complete to be involved.

If the state contribution is 3%, a \$1 million state deposit would leverage up to \$33.3 million in loans ( $\$1.0 \text{ million} \div .03 = \$33.3 \text{ million}$ ). If the state doubles the borrower’s 3% deposit (see footnote 1 below), the state deposits 6% and the leveraged loan amount from \$1 million in state deposits will then be \$16.65 million. The table develops the potential to generate new tax revenues far in excess of the state deposits. In 2003, state deposits of \$2 million allow \$25 million in loans and generate \$62.5 million in new tax revenues. The calculations use a ratio of \$2.50 in new tax revenue per \$1 in new loans (see footnote 2).

Category	Fiscal Year				
	2003	2004	2005	2006	2007
	(millions of dollars)				
State Deposit	2	2	2	2	2
Loans <sup>1</sup>	25	30	30	30	30
Leverage	12:5	15:1	15:1	15:1	15:1
Tax Revenue <sup>2</sup>	50	60	60	60	60

<sup>1</sup>The state doubles the reserve fund combined borrower/bank contribution in two situations: (1) when the bank involved is in their first year with the Capital Access program (provided for in existing legislation), and (2) when the bank is year 2 and later with the Capital Access program but the loan request is in Tier 1, Tier 2, or Tier 3 economically stressed jurisdictions. The second scenario will require new legislation, but the Commission is considering asking for legislative approval to encourage loans in these economically stressed jurisdictions. Here, the leveraging of state deposits is set at a conservative 12.5 to 1 in 2003, which assumes an average 4% borrower/banker contribution and an average 8% by the state to allow for “double matching” in fiscal 2003. It is set at 15 to 1 in 2004 and later, reflecting some decrease in the “first year” double match for new banks and an average 6.67% deposit by the state.

<sup>2</sup>Across a 1988-1996 study period, Michigan generated an estimated \$4.71 in tax revenue (state income taxes, sales taxes, local property taxes) per \$1 in loans with annual average ending of \$31.87 million. Michigan’s income tax is a flat rate 4.2%, Virginia’s is from 2.0% to 5.75% for 4 brackets. For married taxpayers, Michigan’s personal exemption is \$5,000, Virginia’s is \$1,600. Michigan’s sales tax is 6.0%, Virginia’s is 3.5% plus local assessments for a total of 4.5%. Both income and sales taxes would be expected to be higher in Michigan. The tax revenues for Virginia in fiscal years 2003-2007 are estimated based on a conservative \$2.0 in new tax revenue per \$1 in new *Capital Access* loans.

Reference: Roger E. Hamlin, *The Capital Access Program: An Evaluation of Economic Benefit*, Michigan State University for the Michigan Jobs commission, Michigan Strategic Fund, April 1998, pp. 53.

An alternative approach to estimate revenue is to look at tax revenue per job created. In Michigan, average lending of about \$35 million per year created 76,000 jobs across 9 years or 8, 444 jobs per year. If Virginia experiences 5,000 jobs in the first year and 8,000 per year in the later years at \$11 per hour, annual wages are about \$22,800. Since we find that at least 7.4 percent of wages/salaries are paid to the state in income and sales taxes, the state revenue is \$1,687 per job or \$8.435 million in year 1 and \$13.496 million in the later years when 8,000 jobs are being created. Estimates of tax revenues using this rather conservative approach would then be as follows for fiscal years 2003 through 2007 and into later years:

<b>Estimated tax revenue</b>	
<b>Fiscal year</b>	<b>\$ million</b>
2003	8.435
2004	13.496
2005	13.496
2006	13.496
2007	13.496

## **Rationale for Capital Access in Rural Virginia Communities**

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% of all jobs are in firms with fewer than 20 employees. In 1998, these smaller firms accounted for 86% of the jobs throughout Virginia's diverse rural and urban economy (Bureau of Census County Business Patterns, NAIC 1998 at [http://tier2census.gov/cbp\\_naics/index.html](http://tier2census.gov/cbp_naics/index.html)).

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.

Research indicates that 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 one program, the Michigan Capital Access Program (MCAP), that 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 in Michigan 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 Michigan State University (The Capital Access Program, Roger E. Hamlin, Michigan State University, 1998). The study indicated that the program has had significant economic results through 1998, with over 7,000 loans extending \$300 million in total loans to borrowers and providing economic growth that has created 76,000 new jobs. The expanded business activity associated with the program has resulted in increased tax revenues to the state and localities of over \$150 million per year with average loans per year around \$35 million. The study reported that 88% 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.

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% 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% and the Virginia Small Business Financing Authority (VSBFA) would then match that 7% contribution, thus creating a total deposit into the reserve/contingency fund of 14% of the enrolled loan amount. If the business is a technology company or business, the VSBFA operating policy (from General Assembly action in the 2001 session) allows it to double the borrower/bank combined contribution to the reserve fund, resulting in an overall 21% deposit 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 portfolio of loans.

The Virginia Capital Access Program (VCAP) has been in operation less than three years as a state supported program. The program operated on a small scale initially, but extended \$3,128,366 in loans in 72 projects, creating 79 jobs in fiscal year 2000, based on website information available at

[www.dba.state.va.us/financing/activityapproved9sp900.asp](http://www.dba.state.va.us/financing/activityapproved9sp900.asp). For the first 10 months of the current fiscal year, VSBFA officials report 93 projects with over \$8.6 million in loans and 183 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 sections 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 match required for a reserve program loan were 4.0%, then a \$2 million authorization from the state would leverage up to \$50 million in loans. A \$50 million loan availability would service the needs of 1,000 small business borrowers of \$50,000 per loan. VCAP loans could 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 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 employ additional regional representatives to 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, loan capacity approaching \$100 million on average per year would be maintained. If fully utilized, these funds could leverage over \$300 million in new loans to the small business community in rural parts of the state by the end of the first three years when many loans would be paid off and the capital fund is recycled to new borrowers (or new loans to growing business firms that were boosted by earlier loans).

Based on the Michigan State University study, we believe the benefits to rural Virginia from expansion of the VCAP would be significant. The program already has legislative approval to double the state's contribution when certain conditions are met. If the capacity to extend this same double-match stimulus were extended (via the proposed Tier Assistance program) to the 46 rural counties being subsidized by other more affluent sectors, it would be a major boost to new and expanded economic activity in those counties. The potential is enhanced, of course, by the presence of any other Rural Virginia Prosperity Commission program such as workforce enhancement, access to improved telecommunications capacity, etc. in Virginia's rural communities. 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 would be achieved by expansion of this existing program. 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.

Prepared by Mickey Moore and Wayne Purcell

# **Exhibit B**

## **Adult Education**

### **Workforce Training**

# Adult Education and Workforce Development and Training

**Basic Premise:** Workforce development is a major issue in rural Virginia where a significant number of employees lack either a high school diploma or GED and have low literacy skills. In addition, new immigrants who lack basic English skills are settling in many rural areas. The Virginia Department of Education's proposed Adult Education Division would help address the low educational achievement issue and the Virginia Community College System (VCCS) is positioned to address both educational achievement issues and workforce training. The following proposed actions by the Rural Virginia Prosperity Commission would help existing state agencies and the educational system deal with these essential issues.

## Recommendations

1. Support the proposed Virginia Tiered Tax 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 Tax 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 program of study.
3. Establish a study commission to align funding with today's dual mission of the Virginia Community College System (VCCS). The Commission should be made up of VCCS management, business leaders, and economic development officials to conduct a comprehensive study of the VCCS funding formula with the goal of developing a VCCS funding structure that adequately supports both the workforce and academic missions of the VCCS. Specific issues the study commission needs to address are
  - ✍ Changing the way instructional hours are subsidized for workforce training. For example, deliver what is currently considered non-credit training in 4-hour increments called "Workforce Credits," that is, each 4 hours of instruction will be counted as one Workforce Credit and would be subsidized at the same rate as academic credit.
  - ✍ Removing the unintended bias against low-growth rural communities in VCCS funding formula by using the service region's growth as the benchmark.

**Estimated cost of study commission: \$25,000.**

## Rationale for Adjusting Workforce Training Funding

The role of the Community College has changed. When originally created in 1968, the community college primarily educated individual students for either an Associate degree after two years of study or for a Bachelor degree at a four-year higher education institution. The originating legislation (Code of Virginia, Section 23-214a) states the mission as to “offer instruction in ...freshman and sophomore courses in arts and sciences acceptable for transfer in baccalaureate degree programs.” Courses were offered in traditional academic subjects or well-developed technical fields and neither curricula nor facilities changed much from year to year.

Courses were taught to large numbers of students in the traditional lecture format and on a schedule that suited the 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. The college’s world revolves around delivering credit courses that generated a reliable funding stream.

Originally, non-credit courses were primarily avocational, or “hobby” courses such as sewing and dog grooming. Funding for such courses was considered unworthy of subsidy by the state.

Today’s community colleges, however, labor under an expanded training and educational role that continues its traditional academic work but includes technical skill training for local business and its workforce. In 1998 the General Assembly stated that the Virginia Community College System (VCCS) would be the official workforce-training agency in the Commonwealth.

Workforce skill training requires a different delivery method by the college because the business customer is much more difficult to satisfy than individual students pursuing academic study.

- ✍ Businesses need skills training in non-traditional and not widely known topics.
- ✍ Businesses 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 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 the serious business related, non-credit education and training needed by businesses and industry that deserves state subsidy from the more avocational non-credit courses.

Since credit courses are heavily subsidized, most colleges go to great lengths to qualify their non-credit workforce training services for credit, whether it makes sense for the customer needs or not. Thus the funding formula sometimes drives programmatic decisions to the detriment of the customer’s needs.

Community colleges are funded based on a measure of credit enrollment called “Full-Time Equivalent” student (FTE) and 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 funds via the funding formula. *Note, these student measures only apply to students enrolled in credit courses.*

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 student hours to generate one FTE.

VCCS is funded annually at the rate of approximately \$4,800 per FTE. The student pays approximately \$40 per credit hour or about \$1,200 per year. The total annual revenue to the college generated by one FTE is approximately \$6,000 per year. The *minimum* length of a credit course is 16 classroom hours. Needless to say, this process does not meet the needs for rapid response, targeted short courses desired by many business customers.

Credit courses must meet certain internal criteria set by the VCCS and their accrediting organizations, including instructional credentials. To develop a new credit course requires significant time and effort through the SCHEV approval process.

A second area of concern is the present formula's unintentional bias against low-growth rural areas in the growth component of the VCCS funding formula. Arguably, the present VCCS funding formula is biased toward colleges located in urban areas and against rural community colleges. A section of the credit funding formula requires that for a college to receive an *increase* in funding year to year, the three-year average enrollment must grow at a rate *above* the average growth rate for all community colleges statewide. Enrollment growth is predominately a factor of an area's population growth and demographics; factors totally beyond the control of the local community college. Yet under the formula, the community college's funding stream cannot grow unless its enrollment grows at a rate greater than the state average. Many rural colleges will never receive the growth portion to increase funding since the populations they serve are stagnant or declining.

The 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 college 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.

Ironically, large, urban community colleges with high demand for non-credit education and training have little trouble selling high cost, non-credit courses. But rural colleges often have trouble selling them 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.

A number of divisions have been established within the VCCS whose purpose is to address only workforce training issues. The present funding criteria does not adequately fit the needs of these divisions since funding is based on academic criteria, not non-academic training. In addition to the problem explained above by the FTE-centered formula, schools are measured on the number of full-time faculty employed. Workforce training divisions have few, if any, full time faculty, since workforce training is usually done by adjunct faculty from industry. They have trouble paying overhead costs for their facilities, since overhead is reimbursed based on the number of FTE's a facility generates. If a building is used solely for workforce training, it generates few FTE's since most instruction is non-credit. It is almost impossible to run a workforce development division solely on non-credit training in a rural area under the present VCCS funding formula.

# **Exhibit C**

## **Digital Telecommunication Infrastructure**

# Rural Digital Infrastructure Needs

**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 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. Create a non-profit, 501(c)3 Foundation of public and private organizations to stimulate development of high bandwidth networks in rural Virginia. The Foundation, Virginia Cooperative of Rural Networks (V-CORN), will bring together interests from communities, education, health care, business and industry, and telecommunications providers to evaluate and develop infrastructure to extend advanced telecommunications to rural Virginia. V-CORN will perform the following activities in fulfillment of this mission:
  - 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;
  - c. Encourage private development according to V-CORN's strategic plans, 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 Rural Virginia Prosperity Commission will initiate V-CORN.

2. 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 Virginia Capital Access program, Virginia Resource Authority, Advanced Communications Assistance Fund, and others.
3. In areas not sufficiently served by the private sector (at minimum established data rates), the General Assembly should permit localities to build and operate their own telecommunications data services, applying S.C.C certification rules as approved by the Auditor of Public Accounts.
4. Provide state tax incentives when a technology business or industry relocates to a rural Technology Zone as designated by the local city, county, or town. Also, provide state tax credits for infrastructure investments in rural areas, when investments are made to bring an underserved area up to service level goals set by V-CORN.

## **Rationale for Rural Digital Economy Recommendations**

The phrase “Digital Dominion” should describe Virginia as the state with the best infrastructure and digital literacy of any state in the nation. Virginia already has the most Internet traffic. Virginia has also developed programs between the state and private telecommunications industry to provide unique network services through Network Virginia (public use) and Virginia Link (private use). Virginia has a head start. 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 that the rural Commonwealth will be 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 business reasons, local users are prevented from tapping into high-speed fiber that runs literally a few feet from their business. 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 private Local Exchange Carriers, both Incumbent Local Exchange Carriers (ILECs) and Competitive Local Exchange Carriers (CLECs), and cable companies. Some areas have adequate service to meet today’s business needs, but many areas do not. Few rural areas have easily available, affordable networks of sufficient capacity needed to attract the businesses that are heavy users of digital communications services. And development of advanced infrastructure is not keeping pace in rural areas to meet desired future business needs such as video conferencing, tele-manufacturing, data centers, and web hosting.

Presently, demand in most rural areas 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 in rural areas and as existing businesses grow in 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.

Under the auspices of the Rural Virginia Prosperity Commission, a non-profit infrastructure Foundation of public and private organizations and private citizens should be created. Foundation members would consist of any organization that would like to participate and that could provide assets, along with business and community leaders. Expected members would be telecommunications companies and associations; cable companies and associations; Internet Service Providers (ISPs); satellite, electrical, and other companies; and educational, health care, local government, and other public organizations. The Foundation would have as its goal to plan and facilitate implementation of telecommunications infrastructure that would provide the region with a competitive advantage in the telecommunications arena vis-à-vis other rural areas in the nation.

Today, considerable privately owned fiber optic cable 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. The Foundation would be a facilitating entity to develop accurate maps of existing infrastructure to develop and facilitate plans to close the gaps in existing fiber backbones so that rural areas will have access to advanced networks.

The Foundation, as a non-profit, would implement and provide services to rural areas in those areas where private providers are unable to economically provide minimum goal service levels. (Suggested minimum business access goals are 256k for counties, 512k for towns and 1.5m for cities, in place by January 1, 2005.) The Foundation would be encouraged to sell its infrastructure and services to any qualified private provider who wishes to purchase it at market rates, at any time.

The Commonwealth would share in the work of the Foundation by creating tax credits for its investors. Members would be eligible for tax credits for both investments of capital and operating expenses. In-kind contributions would also be eligible for tax credits. For example, a member who donates the time of a skilled employee to the work of the Foundation would be eligible for a tax credit. Incentives would accrue on a sliding scale where greater investments will yield a higher rate of tax credit.

The Foundation's work would 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 proposed 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. Availability of a skilled workforce is equally important as advanced networks in building rural economies. The Center for Rural Virginia would develop and implement plans to train rural workers and students in 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. A myriad of problems and conflicting interests are involved in providing high-speed services. 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.

Prepared by Jerry Franklin

# **Exhibit D**

## **Tiered Tax Incentives for Investments in Lagging Rural Areas**

# Tiered Tax Incentives

**Basic Premise:** Inherent economic disadvantages exist in being rural. Those disadvantages have become increasingly serious in the modern economy as economies of scale have become decisive in many industries. Unless rural areas are especially fortunate in being endowed with rare and especially valuable natural resources, most have shown themselves unable to overcome those disadvantages. Our neighboring states of Georgia, North Carolina, and South Carolina have attempted to offset some of those disadvantages by providing special tax incentives for economically distressed areas. These states are direct competitors with rural communities in Virginia for economic development investments, and it is unlikely that many rural places in Virginia can achieve economic success unless the Commonwealth enacts measures that allow them to meet that competition.

## 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 so long as the job still exists and is filled.
2. To qualify for jobs tax credit, the wages paid must be equal to or greater than the average wage for comparable NAICS code establishments in the PDC. The PDC staff calculates these wages each year.
3. The maximum credit for expenditures on tuition at community colleges may not exceed the actual outlays by the employer.
4. 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.

### *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/Apprenticeship \$2,500 tax credit per employee who obtains GED; \$2,000 tax credit per employee who successfully completes a state approved apprenticeship program.

### *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: \$3,000 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/Apprenticeship \$2,500 tax credit per employee who obtains GED; \$2,000 tax credit per employee who successfully completes a state approved apprenticeship program

***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: \$3,000 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/Apprenticeship \$2,500 tax credit per employee who obtains GED; \$2,000 tax credit per employee who successfully completes a state approved apprenticeship program.

## Rationale for a Tiered Tax Incentive Program

1. A tiered tax incentive program focuses upon firms that create the bulk of the jobs in rural areas. Some 90 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. 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 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.
- ✍ 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.

## 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 63 localities in the three tiers have a combined population of about 1.8 million or about 26 percent of the population of Virginia. Tier 1 contains 223,000 people; Tier 2 contains 1,025,000 people; Tier 3 contains 619,000 people.

- ✍ **Job Credits:** About 794,000 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 (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
- ✍ **Apprenticeship Program:** National data indicate that people completing apprenticeship programs typically double their hourly wages to an average wage across a variety of skills slightly in excess of \$16 per hour. On that basis, we estimate that an average apprenticeship program will increase income by \$16,000 per year. Applying a multiplier of 1.3 to the increase in direct income, each person who completes an apprenticeship program would add an average of \$20,800 annually to personal income in the Commonwealth. To repay the initial \$2,500 tax credit in five years at 5 percent, state revenues would need to increase by \$577 annually. If tax collections are the same percentage of the increased personal income resulting from the apprenticeship program that are now being collected from other sources of growth in personal income, the growth in personal income would produce \$1,539 more in additional tax revenues for each graduate apprentice. Hence, the initial tax credit would be repaid with 5 percent interest in less than five years.

## How to Interpret the Cost Estimates

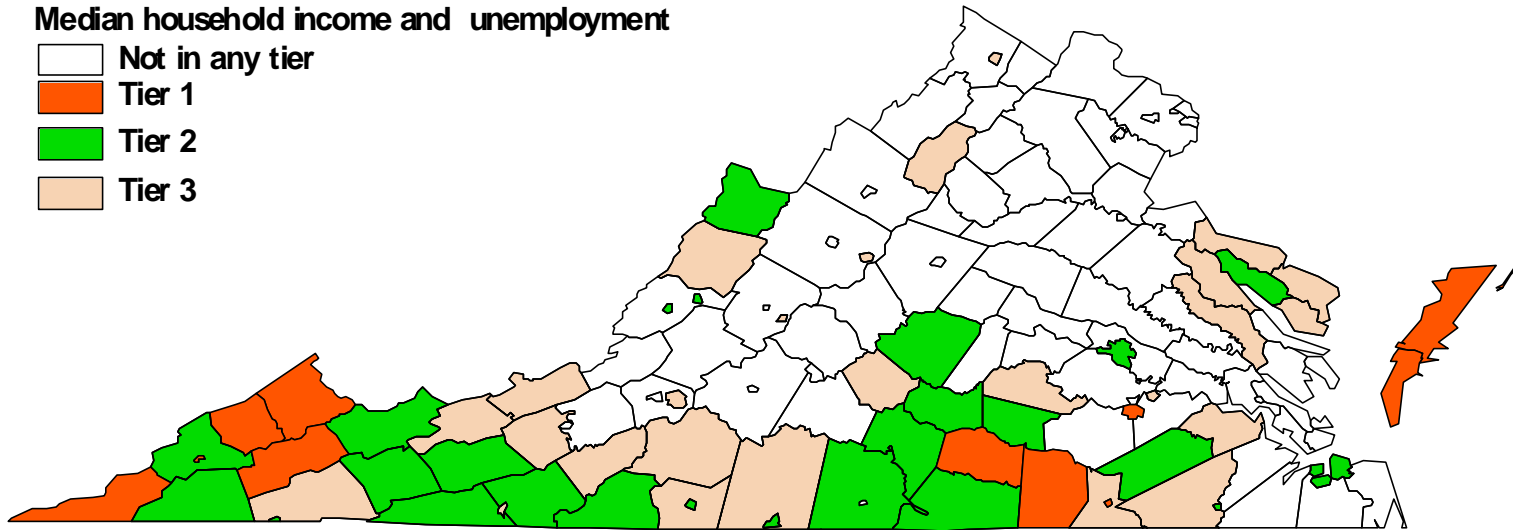
You should interpret the cost estimates below first as effects on state revenues. Costs are revenues lost as a result of the tax credits. All costs are based on the assumption that the program will achieve the targets laid out above. These assumptions can be changed. Staff has prepared a spread sheet 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 tax 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 tax 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

**Median household income and unemployment**

- Not in any tier
- Tier 1
- Tier 2
- Tier 3



**Median household income and unemployment**

	<b>Median household income</b>	<b>Unemployment</b>
	-----%-----	
Tier 1	up to 65	140 or greater
Tier 2	66-75	120 - 139
Tier 3	76-85	100 - 119

Locality	Tier	Locality	Tier	Locality	Tier
Accomack	1	Giles	3	Goochland	0
Brunswick	1	Greensville	3	Greene	0
Buchanan	1	Henry	3	<i>Hampton</i>	0
Dickenson	1	<i>Hopewell</i>	3	Hanover	0
<i>Emporia</i>	1	King and Queen	3	<i>Harrisonburg</i>	0
Lee	1	Lancaster	3	Henrico	0
Lunenburg	1	Northumberland	3	Isle of Wight	0
Northampton	1	Page	3	James City	0
<i>Norton</i>	1	Pittsylvania	3	King George	0
<i>Petersburg</i>	1	Pulaski	3	King William	0
<u>Russell</u>	<u>1</u>	<i>Roanoke City</i>	3	<i>Lexington</i>	0
<i>Bristol</i>	2	Southampton	3	Loudoun	0
Buckingham	2	Surry	3	Louisa	0
Carroll	2	Washington	3	<i>Lynchburg</i>	0
Charlotte	2	<i>Waynesboro</i>	3	Madison	0
<i>Clifton Forge</i>	2	Westmoreland	3	<i>Manassas City</i>	0
<i>Covington</i>	2	<u>Winchester</u>	<u>3</u>	<i>Manassas Park City</i>	0
<i>Danville</i>	2	Albemarle	0	Mathews	0
<i>Franklin City</i>	2	<i>Alexandria</i>	0	Middlesex	0
Grayson	2	Alleghany	0	Montgomery	0
Halifax	2	Amherst	0	Nelson	0
Highland	2	<i>Arlington</i>	0	New Kent	0
<i>Martinsville</i>	2	Augusta	0	<i>Newport News</i>	0
Mecklenburg	2	Bedford	0	Orange	0
<i>Norfolk</i>	2	<i>Bedford City</i>	0	<i>Poquoson City</i>	0
Nottoway	2	Botetourt	0	Powhatan	0
Patrick	2	Campbell	0	Prince George	0
<i>Portsmouth</i>	2	Caroline	0	Prince William	0
Prince Edward	2	Charles City	0	<i>Radford</i>	0
Richmond	2	<i>Charlottesville</i>	0	Rappahannock	0
<i>Richmond City</i>	2	Chesapeake	0	Roanoke	0
Scott	2	Chesterfield	0	Rockbridge	0
Smyth	2	Clarke	0	Rockingham	0
Sussex	2	<i>Colonial Heights</i>	0	<i>Salem</i>	0
Tazewell	2	Craig	0	Shenandoah	0
Wise	2	Culpeper	0	Spotsylvania	0
<u>Wythe</u>	<u>2</u>	Cumberland	0	Stafford	0
Amelia	3	Dinwiddie	0	<i>Staunton</i>	0
Appomattox	3	Fairfax	0	<i>Suffolk</i>	0
Bath	3	<i>Fairfax City</i>	0	<i>Virginia Beach</i>	0
Bland	3	<i>Falls Church</i>	0	Warren	0
<i>Buena Vista</i>	3	Fauquier	0	<i>Williamsburg</i>	0
Essex	3	Fluvanna	0	<u>York</u>	<u>0</u>
Floyd	3	Frederick	0		
Franklin	3	<i>Fredericksburg</i>	0		
<i>Galax</i>	3	Gloucester	0		

# **Exhibit E**

## **Long-Term Institutional Support**

# Rural Development Institutions for Virginia

**Basic Premise:** Leaders in local communities must take the lead in defining what prosperity means for their communities, helping formulate coherent and clear strategies for achieving that vision of prosperity, and 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 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 an advocate for their interests in the formulation of Commonwealth policies.

**Role of Actors:** Functions required 1) Leadership training, 2) Technical assistance, 3) Rural policy analysis, 4) Constituency building, 5) Policy development, and 6) Advocacy.

## Recommendations

1. a. Create a Center for Rural Virginia as a qualified 501(c)3 non-profit organization with a program portfolio that includes advocacy, constituency development, input to research and policy analysis agendas, policy development, collaboration with the Program for Rural Community Development and that generally acts as a catalyst for rural development in Virginia
  - b. A university-based Program for Rural Community Development as outreach and technical assistance to rural communities from appropriate units of the Commonwealth's research universities.<sup>1</sup> The program will comprise field professionals with appropriate development backgrounds supported by university faculty members in disciplines germane to the problems of rural Virginia communities.
  - c. A Rural Policy Analysis Unit within a research university of the Commonwealth.
2. Create a Center for Rural Virginia as proposed in 1a. Instead of simultaneously creating the additional institutions in 1b and 1c, establish them in a later year or years on a prearranged schedule.

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<sup>1</sup> Universities with Ph.D. programs in several of the subject matter areas that are most likely to be called upon to address problems of the communities. Subject areas include Economics, Applied Economics, Planning, Public Finance, Community Development, Information Technology, Civil Engineering and other areas appropriate to community level educational program needs.

# Center for Rural Virginia

## Rationale for a Center for Rural Virginia

To continue the work started by the RVPC, an organization is needed to build a coherent rural constituency, and to serve as an advocate for rural people and places. Because of the advocacy function with respect to 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.

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. With the support of its constituency, the Center should become a voice advocating for rural communities and people in Virginia.
3. The Center should maintain relationships with university-based research and policy analysis groups to assure that the Center's views on the most pressing research and policy issues are known and being addressed and to assure that the Center's positions are supported by sound research and policy analysis.
4. 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 Rural Community Development Program.
5. The Center should collaborate with the Rural Community Development Program to assure that the work of the two institutions is in concert.
6. 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 catalyst for the development of rural Virginia.

## Structure and Governance of a Center for Rural Virginia

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 5 years, state funding should be reduced by 1/5 each year over the ensuing 5 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 17 members with the following representation:

Private for Profit Representatives	3	State Government Agencies Representatives	1
Private Non-Profit Representatives	2	Federal Government Representatives	1
Local/Regional Government Representatives	4	At-large Members (to provide regional representation if not otherwise achieved)	2
State Senate Representatives	2		
State House of Delegates Representatives	2		

Board members will serve for three years in staggered terms with a normal turn over of no more than five members per year. No member may serve more than two terms consecutively. Members of the Board of Directors may designate a substitute to attend a meeting on his/her behalf but may not assign voting authority to that person or anyone else. Absence from three meetings in a row will be considered an implied resignation from the Board and the member may be replaced. The Board shall have over-all policy authority for the Center but must not interfere with day-to-day management of its program, which

is the responsibility of the Executive Director. The Board of Directors shall meet at least twice per year or more frequently on the advice or request of the Executive Director. The leaders of the Rural Community Development Program and the Rural Policy Analysis Unit shall be ex-officio members of the Board of Directors of the Center.

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 Program of the Center for Rural Virginia**

The initial program 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 subjects:

- ✍ 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 which 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
- ✍ Legalization, production and marketing of industrial hemp
- ✍ 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 provides 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.

# **Rural Community Development Program**

## **Rationale for a Rural Community Development Program**

Rural communities need to broaden their leadership potential. Circumstances in some rural communities have been overwhelmingly grim for so long that residents have little energy left after eking out a living to spend on improving their lives, let alone their communities. In the face of these circumstances, the real possibility is that policy actions or programs that do not directly intervene in the community will have little or no effect. Technical assistance, leadership development, incentive programs, and even some new infrastructure will go under utilized for the lack of initiatives at the community level. It is impossible to predict which communities will never pull themselves up and in which ones something (or someone) will happen that will turn the community around. To be effective, long-term development must come from within the community.

The Rural Community Development Program seeks to establish the capacity to facilitate progressive change in rural communities, consistent with the long-range goals of the community to head off the decline that is inevitable without outside assistance. The program described here is patterned on the model employed by Carroll County with Virginia Tech. For the community development professional in Carroll County, the association with the university gives him access to and claims on university resources. The role as a university employee reinforces the position that he is a community educator and, therefore, outside of the political machinations of the county. The university contacts have helped Mr. Larowe find resources all across the country that have provided funds or training or ideas useful to Carroll County.

In an institutionalized program of this kind in Virginia, some level of funded, university-based support is essential to assure that key subject areas of importance to rural communities are represented in the university research agenda and made available to support field staff.

## **Structure and Activities of a Rural Community Development Program**

Initial funding for the Rural Community Development Program as described is believed to be necessary to attain the minimum critical mass necessary to constitute a viable program. The initial program would fund 15 professionals for field assignments and 5 faculty FTE's to join existing faculty at major research universities of the Commonwealth with the capacity to support such activity. The program will be administered by the university involved with an oversight advisory board that includes the Executive Director of the Center for Rural Virginia, a representative of the Virginia Association of Counties, the Virginia Municipal League, the Farm Bureau of Virginia, and other appropriate organizations, not to exceed nine members in total.

The field staff will be assigned to rural counties that request the assignment of such an individual, with priority given first to Tier I communities and then to Tier II communities as defined under the Tier Incentive recommendations of the RVPC. These field staff members will have a Master's degree in business or public administration, natural resource management, economics, sociology, community and regional planning, or other appropriate subject matter or experience pertinent to the character of the perceived problems of the community of assignment. Presence of such an individual in a county requires the sanction of either the county board of supervisors or the county school board. The said board and the research university or universities involved shall enter into an agreement regarding the work of the individual in the county. Field assignments should be fully funded by the state for only three years after which time in order to continue the services, the county must reduce the state obligation by 25% annually until state funding constitutes only 25% of the total cost of the position.

Campus faculty FTEs shall be expended in no less than 50 % assignments such that there is at least a major portion of the year in which the faculty member will be committed full time to work in support of this program. Among the subject areas recommended, but not limited to, for faculty support are the following:

- ✍ Economic development
- ✍ Community economics/regional economics/economic development
- ✍ Public finance/public administration
- ✍ Community planning and design
- ✍ Telecommunications/digital communications/information technology and engineering
- ✍ Civil engineering with specific reference to community infrastructure and utilities
- ✍ Health care and health services delivery
- ✍ K-12 school administration and reform
- ✍ Leadership development/community visioning/community development
- ✍ Land-use planning
- ✍ Small business management/entrepreneurship development
- ✍ Benefit-cost analysis of public investments
- ✍ Transportation planning
- ✍ Business incubators
- ✍ New/expanded economic opportunities in agriculture/forestry
- ✍ High-value crop and livestock alternatives

Campus faculty assigned to the Rural Community Development Program will be expected to help fund their own scholarship from grant and contract activity with the caveat that such external funding should enhance rather than distract them from meeting the obligations to the program. Faculty members accepting these assignments will be required to develop programs that support the activities of the field staff as well as develop technical assistance programs to be made available to communities throughout the Commonwealth whether or not a program field staff member is present. Grants obtained by the efforts of field staff will accrue to the budgets of the community in which they are working and would thus help achieve the goals of the program but would not directly reduce the state costs of the program.

# **Rural Policy Analysis Unit**

## **Rationale for Rural Policy Analysis Unit**

Without the capacity to carry out research and analysis on the problems of rural Virginia, the reasoned critique of proposed or existing policy will be difficult, if not impossible. A research and rural policy analysis unit should be developed within the auspices of a major research university in the state. As with faculty in support of the Rural Community Development Program, the Rural Policy Analysis Unit will be expected to seek external funding to support the program so long as that funding enhances its ability to meet the obligations to the Center for Rural Virginia and are not a distraction to that obligation. The primary focus of the Unit should be research and analysis of administrative policy initiatives and/or proposed legislation that would significantly influence the economic well-being and quality of life in rural communities. Results of such research and analysis should be provided to the Center for Rural Virginia, the Program for Rural Community Development, and other organized groups in the state with an interest in rural Virginia.

## **Guidance of the Rural Policy Analysis Unit**

Overall guidance and program policy for the Unit should be provided by a Board with representation, at a minimum, from the staff of the Center for Rural Virginia, a representative from the Program for Rural Community Development, an administrator from the research university that hosts and supports the Unit, plus representation from organizations interested in rural communities and rural Virginia. Representatives from the Center for Rural Virginia, the Program for Rural Community Development, and the primary research university involved should provide for the building of an advisory board with guidance and counsel from the initial Center for Rural Virginia Board.

Prepared by George McDowell

# **Exhibit F**

## **Infrastructure**

# Rural Infrastructure

**Basic Premise:** Physical infrastructure in the form of roads, bridges, airports, school buildings, jails, and water and waste water treatment plants and distribution lines are well understood to be prerequisites for economic development. Having such infrastructure does not assure economic prosperity, but lack of it does assure that economic development will not occur. Providing, maintaining, and replacing (as it wears out) such infrastructure in rural, sparsely populated places is expensive. And troublesome questions arise about who should pay the bills. In the past, federal assistance for capital outlays for water and waste has created an inefficient and perhaps financially unsustainable configuration in many rural areas. The goal should be to establish incentives for providing the required physical infrastructure in ways that meet legitimate needs at the lowest costs.

## Recommendations

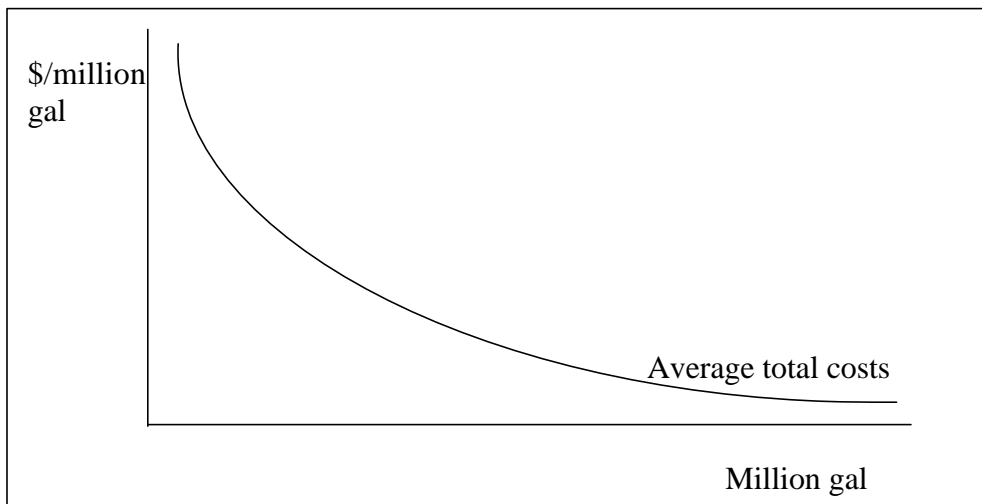
1. Reserve grants for design of systems and for situations where an optimally designed plant for the particular rural area still results in costs that are higher than can be recovered from user fees, given the income and economic capabilities of the area served.
2. Encourage regionalization of infrastructure 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. Allow the shift of funds from the waste water fund to the water supply fund.
4. Move with all deliberate speed to complete the four-laneing of US 58 from Virginia Beach to Cumberland Gap, the construction of the Coalfields Expressway, up-grading of US 29, and up-grading of I-81, development of I-73.

## Rationale for Rural Infrastructure

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

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.



### Implications for Rural Areas

Rural areas with low population densities have inherit 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.

Optimal policy for infrastructure provision requires taking advantage of economies of scale. That means two things: 1) the Commonwealth does those things that are so large in scale that local governments or regional consortiums are unable to do what needs to be done in an efficient way, and 2) in rural areas is to encourage regionalization in provision of jails and water and wastewater systems. . 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 G**

## **K – 12 Education**

## 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, the Rural Policy Unit, and the Rural Community Development Program, all recommended by the Commission, should each have a component to 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, the Rural Community Development program and the Rural Policy Analysis unit 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 public rural 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 a vital resource in local rural development, and enabling such research results and profiles of exemplary practices to be incorporated into the preparatory programs of both those who are public education practitioners and community and economic development specialists.
- ✍ Working with educational interest groups in the state the Center should work to find way 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.

## **Rationale for K-12 Education**

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 state-wide 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 the capacity of communities to pay for schools is examined and the comparisons are made based on the monies people have after they have accounted for survival living with costs adjusted for where people live, 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 Lee 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 than 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.

Prepared by George McDowell

# **Exhibit H**

## **Primary Industries:**

**Agriculture**

**Coal**

**Fisheries**

**Forestry**

## 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 or Secretary of Agriculture, Forestry, and Rural Affairs or Secretary of Rural Affairs or 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 an expanding of 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.
    - ✎ Budget requests for state voluntary cost-share programs, which help farmers pay for conservation and environmental practices that provide a public good.
  - d. 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.
    - ✎ Legislation, research, and market development of fiber crops in Virginia.
  - e. Instituting the program of workforce retraining recommended by the Rural Virginia Prosperity Commission so that skilled, potential employees will be available in rural communities.
  - 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.
  - j. Federal legislation permitting sale of state-inspected meat products in interstate commerce.

## Rationale for Primary Industries

### Agriculture

Much of the acreage in Virginia is in traditional commodity products. Clear signs 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 and 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 be pushed down and 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 agribusiness's contribution 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% and in the low producing counties was nearly 8% 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% of gross receipts. The license tax is to improve roads used in transportation of coal and coal workers and cannot exceed another 1% of gross receipts.

In 1995, legislation established the Virginia Coalfield Employment Enhancement Tax Credit. Apparently, the state recovers about 50% 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 the 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% of the commercial timberland. The forest industry owns 10 percent; 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.

Prepared by Wayne Purcell and Karen Mundy