



Texas Center for Policy Studies

**RURAL ECONOMIC STRATEGIES AND THE STATE
DEVELOPMENT BUDGET:
ISSUES AND POLICY OPTIONS FOR THE "NEW TEXAS"**

MARCH 1992

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Dedication

This report is dedicated to the memory of our colleague John Vlcek. John's love of life and his kind spirit were surpassed only by his hard work and his desire to find creative ways of sustaining rural community life.

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A Note About the Author

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TABLE OF CONTENTS

	EXECUTIVE SUMMARY	i - xi
1.0	INTRODUCTION	1
	1.1 Background	1
	1.2 Purpose and Method	3
2.0	THE RURAL DEVELOPMENT DEBATE IN TEXAS: VIEWS FROM THE CAPITAL	5
	2.1 Focus on Small Businesses	5
	2.2 Agricultural Diversification and Technology	5
	2.3 Recent Planning Efforts	6
	2.4 Conclusions	8
3.0	INSTITUTIONS, STRATEGIES AND THE RURAL DEVELOPMENT "BUDGET"	9
	3.1 Small Farmers and Independent Oilfield Businesses	10
	3.2 Commodity Production Efficiencies	11
	3.3 Industrial Recruitment	12
	3.4 Economic Participation by Low-Income and Minority Populations	15
	3.5 Specialized Goods and Services	15
	3.6 Natural Resources and Environmental Health	16
	3.7 Conclusions	17
4.0	CURRENT PROGRAM ISSUES	19
	4.1 Introduction	19
	4.2 Office of the Governor	19
	4.3 Public Facility Expenditures	20
	4.4 Texas Department of Agriculture	21
	4.5 Texas Department of Commerce	24
	4.5.1 Rural Development Office	25
	4.5.2 Texas Marketplace	25
	4.5.3 Finance	27
	4.5.4 Industrial Development	28
	4.5.5 Other Issues	29
	4.6 Texas A&M University System	30
	4.7 General Land Office	31
	4.8 Texas Comptroller of Public Accounts	32
	4.9 Texas Department of Housing and Community Affairs	33
	4.10 Texas Higher Education Coordinating Board	34
	4.11 Texas/Federal Rural Development Council	36
	4.12 Economic Development Sales Tax	36
	4.13 Conclusions	37
5.0	THE RURAL DEVELOPMENT DEBATE IN TEXAS: CASE STUDIES	39
	5.1 Courting Waste Disposal Sites as "Economic Development"	39

5.2	Sweetwater: People for Progress Business Incubator	44
5.3	Mineola: Main Street Project	46
5.4	San Juan: Valley Farmers Cooperative	47
6.0:	RECOMMENDATIONS	49
6.1	Overview	49
6.2	New Framework for Rural Development Policy	49
6.3	Recommendations for 1992 - 1993 Actions to Improve Rural Development Policy in Texas	51
6.3.1	State Policy Recommendations for 1992-93	51
6.3.2	Specific Program Recommendations	55
	1. Texas Department of Agriculture	55
	2. Texas Department of Commerce	55
	3. Texas A&M System	57
	4. General Land Office	57
	5. Texas Comptroller's Office	57
	6. Texas Department of Housing and Community Affairs	58
	7. Texas Higher Education Coordinating Board	58

APPENDICES

EXECUTIVE SUMMARY

This report compiles some of the issues and options that should be considered in review of Texas rural development programs. The comments contained in this report are collected from over 50 interviews with rural development administrators and practitioners in Texas.

Three general questions are addressed:

1. How useful are state programs in helping rural communities evaluate and

structure development projects appropriate to local needs?

2. Can Texas rural development programs more effectively create employment in currently stagnant regions and for low-skill populations?

3. Can state programs be administered to support local environmental investment and reduce environmental conflict?

Recommendations

With the decline of traditional, federally-dominated, rural programs, a new rural development system is emerging in Texas. It is more fragmented, in general less well-funded, and involves a broader range of agencies and statewide elected officials than the older system. A comparable downward shift is occurring from state to local government in taxing authority and policy direction over development policy. The new system relies on an array of new relationships between state agencies, local governments and community organizations.

Interviews conducted during the project suggest that this multi-level system has the potential to be both creative and responsive. For the system to work effectively, however, the state of Texas must acknowledge the changes that have occurred in the rural economy and the traditional channels for promoting rural economic development. The state must systematically re-evaluate and redesign rural programs based on a new framework reflective of changed conditions.

This new framework should emphasize the state's role as a coordinated, flexible

instrument that strategically supports rural innovation at the local level. The Texas Department of Commerce and other agencies have taken steps in this direction, but a stronger, statewide mandate and a broader structure needs to be created to build momentum behind this new direction.

Strong leadership from the Governor will be critical to increasing the effectiveness of Texas' rural development programs in the next few years. The Governor, in cooperation with other state and local elected officials, must lead the effort to establish the new framework and to restructure state-level rural economic development programs.

The Recommendations of the report are divided into three categories:

* Recommendations for a new state rural development policy framework;

* State policy recommendations for 1992-1993; and

* Specific program recommendations for 1992-1993.

New Framework for Texas Rural Development Policy

Based on the interviews and information gathered during this project, there are at least nine key elements of a new framework for rural economic development policy in Texas. These elements are discussed below.

1. Define Shared Rural Development Goals and Create Mechanisms for Coordination and Accountability Between Agencies

The results of this study indicate a serious lack of coordination of rural development efforts among the numerous state agencies with such responsibilities or programs. The Governor's office can and should take the lead in the effort to evaluate goals of these various agency programs and help develop a coordinated coherent set of goals to guide the programs in the future. All relevant agencies, local elected officials, community organizations and others should be included in this evaluation and goal-setting process.

2. Broaden the Constituency for Rural Development Policy in Texas

Two conclusions regarding the constituency for rural development policy emerged from this study. First, many interests are excluded from current policy development and implementation efforts. This can result in controversy over development strategies (such as courting waste disposal companies) and polarization of rural communities. Second, the constituency must be strengthened to expand support for funding of rural development programs.

The constituency for rural development programs can be broadened by incorporating minority and environmental constituencies into policy and project development at all levels. Other constituencies such as existing small businesses and new industries should also be incorporated into state rural development programs.

3. Build Economic Development Capacity in Small Cities and Local Governments

This investigation has shown that small cities and other levels of local government will be key players in the design and implementation of rural economic development policy in Texas over the next decade. However, the research also suggests that most rural local governments do not have adequate resources to systematically evaluate development proposals and programs.

The state should aid small cities and other units of local government to act as "public corporations" with more aggressive strategic planning, environmental evaluation, growth bargaining, enterprise investment and resource development programs. At the same time, the state should work with local governments to reduce the drain of development resources as a result of unnecessary competition for industrial or public facility site locations.

4. Support Grassroots and Institutional Innovation

Another finding of this project is that there is widespread program experimentation going on among various types of community organizations and regional institutions in rural Texas, ranging from community colleges and Texas A&M research stations to marketing cooperatives of Hispanic and African American farmers.

State policy should focus on how best to support and reward initiatives that show promise for direct economic development benefits. Moreover, it should ensure that successful rural development models can be disseminated quickly and implemented in other areas of the state. This requires a new orientation to state grantmaking and rural technical assistance programs.

5. Focus Resources on Practical Assistance to Competitive Industries

Recognizing the limited resources available for rural development, the state must design programs that are as responsive as possible to the needs of industries that show potential for long-term benefit to rural communities. This requires a higher level of flexibility in the structure of state programs, but the trade-off will be more effective use of state resources.

All state programs that aid in development and recruitment of industries to rural areas should be evaluated according to at least three tests: (1) Are they designed to create new industrial sectors in rural Texas that can be competitive in national and world markets? (2) How practical is the assistance they provide?; and (3) Do the programs provide for a thorough analysis of the sustainability and environmental impact of industries being examined?

6. Develop Programs for Economically-Distressed and Minority Communities

A priority should be placed on programs that can be utilized by rural Mexican American, African American and other minority communities, and communities experiencing high levels of economic distress as a result of severe economic dislocations or structural decline.

At present, no active economic development programs in Texas state government are specifically designed to be available in minority and economically-distressed communities. Statutory authority for such programs was introduced during the 72nd Legislature through Senate Bill 1070, and during the 71st Legislature through revisions to the Agricultural Code. Aggressive steps should be taken to organize programs under these authorities.

7. Support Growth of Producer and Marketer Networks and Development Organizations

State rural development policy should also focus on supporting the creation of new rural economic networks and organizations. In many cases, the presence of a network will help organize growth of emerging industries. These might be as "grassroots" as a local farmer's market association that advertises, offers insurance, and sets product standards for truck farmers that put up booths on Saturday morning in a parking lot. New agricultural commodity associations and "flexible manufacturing networks" bringing together producers and suppliers in specific industrial segments are other examples.

The state's role in assisting these networks and organizations should be better defined. This can occur in at least two ways. First, grantmaking policy can be structured to ensure that the state provides an appropriate level of financial support to such entities. Second, agency priorities can be placed on specialized initiatives such as the Small Business Incubator program at TDOC and the Direct Marketing Program at TDA which aids farmer's markets and other marketing associations and cooperatives.

8. Establish New Forums and Channels to Broaden and Improve Information Exchange About Rural Economic Development

The state of Texas should expand its role as a convener, meeting facilitator and organizer of other information channels for rural community and industry leaders who are grappling with similar problems. This is important because of two conclusions of this study. First, many rural officials and development interests do not have significant contact with state programs that could assist their efforts. Second, there are few opportunities for communication among community leaders and entrepreneurs who are undertaking or are interested in policy or business innovations.

Examples of such forums include the EcoFair, Black Farmers Conference, and the Community College Innovation workshops established by the Texas Department of Agriculture. These and other information channels are necessary for exchanging

experiences, identifying and encouraging rural leaders and innovators, providing a means by which rural leaders can bring their concerns directly to appropriate state officials and staff, and exploring various rural development options.

2. Create New Sources of Finance for Rural Businesses

Texas has put in place many of the statutory tools required for financing sound rural businesses and industries. The 70th and 71st legislatures established a network of programs including administrative funds for rural intermediary organizations, linked deposit authority, and mezzanine financing for

agricultural businesses.¹ Insofar as they have been implemented, these programs are successful. Through SB 970, the 72nd regular legislative session also reorganized the programs at TDOC to provide greater flexibility.

The state should fully implement these flexible financing programs and responsible agencies should push for full funding levels as a priority. Efforts to develop other innovative, flexible financing mechanisms should be stepped up.

¹See § 4.4, *supra*.

State Policy Recommendations for 1992-1993

Recommendation 1: Governor's Rural Development Council

The Governor's Office could create a Rural Development Council by Executive Order. The Council should be given the task of producing a coordinated policy statement by the end of 1993, setting out rural development priorities and identifying conflicts between those priorities and current program directions.

The Council's schedule of work should be coordinated with the agency strategic planning process occurring during 1992, mandated under House Bill 2009, 72nd Legislature. This legislation establishes a procedure by which the Governor's Office and the Legislative Budget Board will evaluate and, where appropriate, redefine, goals, mission statements and program performance measures submitted by agencies in all areas of state government.

The Rural Development Council should advise the Governor's Office and the Legislative Budget Board in establishing new measures and evaluating the performance of rural development programs in Texas. In addition, the Rural Development Council should prepare and submit recommendations to the Sunset Commission, Legislature, and other state or federal entities where appropriate.

The Council should include representation from each state agency and university with rural economic development responsibilities. The Council should also include participation from representatives of local governmental and non-governmental organizations involved in rural economic development, minorities involved in rural economic development, and representatives of grassroots citizen groups who have encountered problems with siting of hazardous waste facilities in economically-depressed rural areas.

Appropriate state legislators should also be invited to participate in the Council, either as members or as observers. The Council could establish subcommittees to deal with particular areas of policy coordination and goal formulation.

Recommendation 2: Agency Outreach

The agencies with major rural economic development responsibilities should undertake outreach efforts to broaden knowledge of their rural development programs and seek out the views of those who have not traditionally been heavily involved in state level rural development policy formulation. For example, the Texas Department of Commerce should make a major effort to hold discussions with

minorities involved in rural economic development at the local level and with grassroots citizens groups who have opposed siting of hazardous waste or other polluting facilities in their communities.

Recommendation 3: Constituency Development

Statewide non-profit organizations should work to cultivate and focus policy engagement by new rural development constituencies, with priority given to involving groups that participate in the local rural development process but are not full partners in the state rural policy debate. Such groups include minority development organizations, community colleges, local governments, grassroots environmental groups and young industries.

TCPS recommends that a cooperative outreach initiative be developed among organizations representing these constituencies. This could include, for example, Texas Rural Communities, Community Resources, Inc., the Texas Center for Policy Studies, the Texas Farmer's Union and the Texas Development Institute.

The initiative could be organized around a series of constituent workshops in different regions of the state to discuss topics in state rural development policy. These workshops would provide a forum for reviewing issues with state programs, and developing recommendations to make programs work more effectively for currently under-served constituents. The workshops would be structured to produce specific proposals for consideration by state agencies, the Governor and the 73rd Legislature. Workshops would be supplemented by an on-going research effort to bring a variety of policy models and options into discussion.

If appropriate, funding should be sought for support of a rural development network as an on-going forum. This would function as a continuing channel to bring minority, environmental, small city, community college and other views into the state rural development debate, and for sharing experiences.

Recommendation 4: Capacity-Building for Local Governments

The half-cent Economic Development Sales Tax offers a sustained new source of development funding. It has the power to concentrate the attention of state agencies and local governments on the purpose and design of rural development programs. With the Sales Tax, Texas has the opportunity to re-focus Texas rural development priorities and responsibilities.

However, a much higher level of training and consultation needs to be made available to rural communities -- both with regard to the sales tax as well as other economic development initiatives. Moreover, state statutes related to local economic development need to be reevaluated to examine their effectiveness and the opportunities they provide for participation by diverse segments of an affected community in economic development decisions.

TCPS has identified three options by which the state could provide such assistance. These options are not mutually exclusive, and all could be undertaken simultaneously if resources permit.

Option 1: Organize and train a team of state agency personnel that would provide consultation to rural communities in a broad range of development topics. This team should include representatives from TDA, GLO, TDOC, the Comptrollers' Office, and Texas A&M. It should be coordinated by a single agency, probably TDOC.

Models for this kind of consultation are now widely available, including programs that have already been organized in Fisher County, Texas and other parts of the state; the work of the Corporation for Enterprise Development in Mississippi; and the community training programs organized by the Missouri Extension Service.

This consultation program should be designed to provide specific opportunities for follow-up through additional state services and programs. Consultation should emphasize inclusion of a diverse

group of community participants in formulating local economic development priorities. It should also enable communities to evaluate the local natural resource base and the effects of alternative development options on maintaining or improving local environmental quality.

Option 2: Texas statutes structuring local government economic development authorities need to be reexamined. At least five major issues should be addressed:

1. Is the state providing enough flexibility to enable local governments to use the most effective tools?
2. Does the state sufficiently monitor the use of these authorities -- specifically their costs and benefits?
3. Do the statutes adequately provide for public participation in decision-making?
4. Do the statutes provide safeguards against economic development projects that may cause environmental degradation?
5. Are there adequate accountability provisions for local economic development corporations?

The review should examine at least the statutes dealing with tax abatements, tax increment financing, enterprise zones, economic development sales tax, and industrial development corporations. This review could be conducted by the State Auditor or Comptroller's Office. The Governor's Office could begin the process by requesting the review.

This project should achieve three outcomes: (1) a statewide sampling of the use among rural communities of the economic development authority provided under current statutes; (2) recommendations for revisions to the statutes based on the audit; and (3) a technical assistance package for rural communities that could help them identify the costs and benefits of using the various authorities, and target the use of these authorities most effectively.

Option 3: Sustainable development is the most critical area of training required by rural local governments in Texas. Many of these governments are evaluating significant development proposals, often with the potential for adverse environmental consequences. In addition, many rural communities face worsening problems resulting from production practices in agriculture, oil and gas, or the lumber industry. Frequently, these issues are highly divisive in rural areas.

State programs offer few tools to help rural communities evaluate development proposals for their environmental impact. (See case studies in Section 5.1 above). In general, small cities do not have the staff capability to evaluate development proposals from an environmental perspective.

Resources should be made available to help rural communities cover the costs of contracting with non-profit organizations or consulting firms that have the technical expertise to evaluate major development proposals. This effort could be organized as a competitive grant pool, possibly administered by the Governor's office, with funding sought from state appropriations, foundation contributions and other sources. At the same time, organizations should be identified that as much as possible can provide cost-effective and unbiased services in technical evaluation of development proposals.

The grant pool could also be used to fund the costs of technical assistance teams that could consult with rural communities or regions on environmental issues such as reduction of pesticide or water use.

Recommendation 5: Discretionary Grant Programs

Discretionary grants represent one of the most important opportunities for policy innovation within the Texas rural development system. A significant amount of discretionary funds are expended each year on rural projects or rural-based industries, and the impacts of

most of these grants have not been subject to independent evaluation.

The following grant programs should be examined to identify how they affect rural areas and what opportunities exist for coordination:

1. Texas Agricultural Diversification Grant Program
2. Advanced Technology Research Program
3. Carl D. Perkins Vocational Education Act Grants
4. Community Development Block Grant (Small Cities)

TCPS has identified 3 options by which these grant programs could be evaluated or coordinated more effectively. In addition, a program expansion is proposed as Option 4.

Option (1): Chairpersons of the oversight boards for each grant program could serve on a subcommittee of the Governor's Rural Development Council, discussed above, to develop coordinated policy and grantmaking procedures related to rural economic development. This committee would hear testimony from a variety of rural constituents about how to target grant programs most effectively. A coordinated proposal would be developed out of these hearings and submitted back to the respective oversight boards for their approval.

Option (2): The State Auditor or Comptroller's Office could undertake a review of grant programs using criteria such as short- and long-term economic benefits to small cities and rural areas; environmental effects; benefits to minority communities; and possible impediments for minority communities or other rural residents to participate in grant awards.

Option (3): A legislative committee should undertake an interim study of rural-related grant programs. This would include evaluation of the needs and opportunities for coordination and consideration of additional statutory language to target grant

awards more effectively in rural areas. The Senate Economic Development Committee, for example, has the authority to undertake an interim study that could encompass evaluation of state grantmaking.

Option (4): The Legislature should establish a grant program enabling small seed grants to be awarded to community groups for demonstrations of innovative rural development projects, and for building organizational capacity. Design of this legislation could be based on existing seed grant programs in Indiana, Minnesota and other states.

Recommendation 6: Finance Programs

There are also a number of financing programs in Texas which could be made available in rural areas. No overall examination has been conducted of these programs to determine opportunities for collaboration between agencies and with other non-profit rural funding organizations.

Approximately \$50 million in general obligation bonding authority have been left unused for over two years in the Microenterprise Fund, Product Development Fund and Incubator Fund. These funds might be better utilized through a cooperative initiative between programs.

TCPS proposes the following steps to make capital more accessible in rural Texas.

Option (1): Representatives of the boards of the major financing programs should sit on a subcommittee as organized by the Governor's Rural Development Council. This would include at least board representatives from the Texas Agricultural Finance Authority, Texas Agricultural Diversification Board, Texas Department of Commerce and Texas Rural Communities.

This subcommittee could evaluate all rural finance programs and propose administrative and statutory changes enabling the programs to provide additional financial assistance to rural enterprises. In addition, this committee should examine state banking regulations to ensure that

rural banks are provided the greatest possible opportunity to finance local businesses.

Option (2): Rural Microenterprise and Linked Deposit Programs should be

provided appropriations in the 73rd Legislature to significantly expand rural credit availability through small direct loans and interest rate reductions on bank financing.

Specific Program Recommendations for 1992-1993

1. Texas Department of Agriculture

Recommendation: The primary recommendation emerging from project interviews concerns the Rural Microenterprise Program. This program has \$5 million in unused general obligation bonding authority. According to the interviews, there is significant demand for the program, and at least five rural organizations have designed programs to utilize microenterprise funds. Microenterprise finance is the best-developed model in Texas to generate economic activity in communities without access to conventional capital sources. Participants recommended that strong efforts be undertaken to fully implement this program.

2. Texas Department of Commerce

Rural Development Office

Recommendation: Participants in this project judged the resources available to the Rural Development Office (3 FTEs) to be inadequate for its mission and for the level of needs among rural communities.

Recommendation: Many of the project interviews indicated that the Rural Development Office should have a higher profile within TDOC. Organizationally, it should be located near the Executive Director and should have a stronger ability to influence resource and staff allocation within other programs.

Texas Marketplace

Recommendation: It was suggested in interviews that a strict system of performance review and accountability should be established to ensure that SBDCs meet state policy goals, including service to non-metropolitan areas and distressed communities. It was also suggested that the performance reviews should be extended to the entire SBDC general revenue appropriation of approximately \$2 million². It was also recommended that SBDC funds be administered directly by TDOC, and be distributed to regional centers through interagency agreement.

Recommendation: Interviewees also recommended that TDOC should quickly extend the "Texas Marketplace" to low-income and minority organizations. This would link the agency to an important new constituency for TDOC services.

Finance

Recommendation: TDOC has been taking steps to establish more innovative and flexible uses of rural financing mechanisms. These efforts should be pursued aggressively with the support of the Legislature, and should be tied to projects demonstrating sectoral opportunities in rural industries, use of local financial "intermediaries" such as community-based loan funds, and partnership with Economic Development Sales Tax projects.

²SBDC Appropriations in FY 1992 include the following: Lamar University - \$130,167; University of Houston - \$1,265,712; University of Texas at San Antonio - \$184,240; Dallas Community College - \$200,000; and Texas Tech University - \$157,476.

Industrial Recruitment

Recommendation: Some interviewees commented that special efforts are required to target industrial development to specific groups -- for example, emphasizing smaller and minority firms in the recruitment process. One local official suggested that TDOC should establish an industrial development initiative specifically for small cities and minority business organizations. This would help TDOC become more knowledgeable about rural industrial needs and create a stronger network among rural local governments and minority constituencies.

Recommendation: Some observers feel that TDOC should concentrate more attention to sectoral strategies. In a sectoral approach, TDOC staff would be trained to become experts in particular industries. They would act as sectoral advocates by working with industry groups to examine needs and identify how best to meet them through state programs or policies.

Recommendation: TDOC should undertake, as a part of overall local development planning, to assist communities in designing recruitment efforts tied to their particular local strengths. Moreover, it was recommended that TDOC should more actively help communities negotiate with companies that are proposing to locate a facility in their area.

Other TDOC Issues

Recommendation: TDOC should dedicate more effort to designing services appropriate for economically-distressed rural communities and regions. As discussed previously, many non-metropolitan areas in Texas are in danger of becoming a drag on the state's economy. Specialized initiatives need to be undertaken to make agency programs available to broader constituencies and distressed populations.

Recommendation: Project interviews also suggest that more effort is needed to identify industries appropriate to non-metropolitan areas. This is a research process that should be based on continuing relationships and organized discussion within rural industries and communities. In many communities, these industries may be focussed on self-employment and home-based businesses. In other communities, they may be value-added industries such as specialty food processing plants or small wood products manufacturers.

Recommendation: Interviewees also recommended that TDOC establish rural demonstration projects. These types of projects would use all available resources--finance, JTPA, recruitment, technology, SBDCs, and policy initiatives in the Legislature. They would be chosen for appropriateness to the workforce, entrepreneurial skills, capital availability, and infrastructure available in small communities. The demonstration approach would provide TDOC a programmatic structure to target scarce resources on special projects in the major rural regions of the state, in key industries, and in minority and distressed communities.

3. Texas A&M System

Recommendation: Two state administrators made similar recommendations for the Texas Agricultural Extension Service. They suggested the state should mandate a broader role for extension agents in rural development programs, and upgrade the training of extension agents in rural development practices.

Recommendation: The Texas Engineering Extension Service could also play a broader role in assisting with the engineering of rural manufacturing facilities. A number of states across the country have established programs designed to improve the competitiveness of manufacturing industries by expanding

engineering extension programs.³ Texas appears to have an effective program which could be of greater benefit if expanded.

4. General Land Office

Recommendation: Interviewees recommended that GLO's Rural Development Program be strengthened through definition of a specific legislative mandate and through additional legislative appropriation or budgeting of broader resources for the program within GLO. This program should be supported at a level to provide substantial services for sustainable community planning and development of environmental service industries in Texas.

5. Texas Comptroller's Office

Recommendation: Rural local governments are now faced with significantly expanded responsibilities for financial evaluation and management of economic development projects. The interviewees indicated that the Economic and Local Assistance Division should be strengthened to be available for more intensive and frequent consultation with local governments on financial aspects of the operation of local economic development programs. Moreover, it was suggested that the Division establish a formal program to monitor use of public monies in rural economic development projects, and that the Comptroller report to the Legislature on program effectiveness.

Recommendation: Cooperative efforts among agencies could greatly improve the availability of information about the rural economic climate, project models, availability of state programs and emerging industry opportunities. Interview results indicated that a lead agency should be

identified--and specific staff resources dedicated--to developing a cooperative information approach and a unified rural database or computer network shared among rural organizations and agencies throughout the state. Funding would be required to regularly update this database or network and ensure access to a range of organizations, including those with limited budgets. Legislative appropriations or philanthropic funds should be sought to support this effort.

Recommendation: Future performance reviews could provide a valuable mechanism for evaluating the effectiveness of rural programs. Reviews of all major rural development programs should be conducted, with solicitation of input from affected groups.

6. Texas Department of Housing and Community Affairs

Recommendation: The regional review process for CDBG grants should be re-evaluated. At a minimum, the application process should be opened to broader community participation, or even a genuinely competitive process at the regional level, and representatives from low and moderate income communities should be appointed to the regional committees.

Recommendation: One rural development advocate suggested that the Planning/Capacity Building Program be restructured to award high points for planning processes that are undertaken by members of the community themselves (rather than primarily by consultants). Moreover, strategic economic planning is in significant demand all across the state. The Planning/Capacity Building Program should be broadened to fund strategic plans or the design of local development programs such as microenterprise pools.

Recommendation: The Governor's Special Assistance Fund points toward an innovative use for CDBG in economic development projects. Other innovative options should also be developed for the

³U.S. Congress, Office of Technology Assessment, Making Things Better: Competing in Manufacturing OTA-ITE-443, Washington, DC: U.S. Government Printing Office (February 1990).

CDBG program. In some states, for example, CDBG monies are used for sustainable agriculture demonstration projects.

7. Texas Higher Education Coordinating Board

Recommendation: Creation of a "seed" fund was recommended to cover costs associated with introducing new rural coursework into the community college curricula. These courses could cover such topics as development of microenterprises, organic vegetable production or management of home-based businesses. They could be based on available models such as developed at Kirkwood Community College in Iowa. Use of Carl D. Perkins Act grant funds could be evaluated to support such a "seed" fund.

Recommendation: A few interviewees suggested that rural-related research

programs need to be linked as closely as possible to specific economic opportunities. They recommended that research policy in Texas be evaluated to determine how efficiently state funds are utilized, and how effectively researchers communicate with and transfer research products to small manufacturers, innovative agricultural producers, and other industries contributing to rural diversification.

Recommendation: With a legislative mandate, the Coordinating Board could play a useful role to organize discussions on rural research policy between universities, community colleges, and a broad range of rural constituents, including industries and representatives of minority and limited-resource communities. This coordination should be designed to lead to policy recommendations for tying research more closely to the rural economic development process.

1.0 INTRODUCTION

1.1 Background

For more than a century, non-metropolitan Texas has been a generator of great wealth. Industries have moved into the state in successive waves: cattle, cotton, lumber, grains, vegetables and fruit; sulphur and natural gas; petrochemicals, feedlots and food and fiber processors; branch plants, distribution businesses and specialty manufacturers. Urban Texas has flourished by trading in the state's rural products.

This evolution has been driven by a stream of market innovations and new technologies. State government, also, has influenced rural economic transformations through investment in agricultural research, the organization of oil production, and a variety of other policy tools.

Rural Texas is now at another watershed. Many of the state's rural regions are facing deep problems associated with natural resource depletion, high levels of competition in the marketplace for rural products and declining capacity in rural institutions.

Most importantly, the primary rural industries, agriculture and oil, experienced major crises during the 1980s, and continue to show weakness. Unlike metropolitan Texas, most rural areas did not succeed in diversifying their economic base during the 1980s.¹ The economic stagnation and eroding competitiveness of rural areas is reflected in three key issues.

¹See Fisher, Dennis U., Status of Rural Texas (Texas Agricultural Extension Service, Texas A&M University, College Station). Unpublished manuscript.

See also, Proceedings: Texas Rural Development Policy Workshop, November 13-15, 1989, Published by the Agriculture and Food Policy Center, Texas Agricultural Extension Service, Texas A&M University (February, 1991).

First, the future of small towns -- as centers of commerce, public institutions and social community -- is threatened. If current demographic and economic trends continue, a number of communities that lie outside the urbanizing corridors may not survive as providers of vital services.²

Second, the human face of the depressed rural economy is low wages, unemployment and limited economic prospects. Significantly, the rural counties with the fastest population growth are also the poorest counties with the lowest education levels.³

Third, rural communities are coming under intense pressure related to environmental problems. In part, this is a result of federal and state law requiring substantial environmental investments. At the same time, small cities are being asked to host projects such as hazardous waste dumps that have potential negative impacts. The combination of such pressures with the general weakness in rural economies is straining the technical and financial resources of local governments and rural businesses (see Section 5.0).

These issues, and other aspects of the economic transformation in rural Texas, pose a

²Between 1980 and 1985, net outmigration occurred in 40% of rural Texas counties not adjacent to metropolitan areas. The institutional structure of small towns is also facing threats, including a high rate of hospital closure and fiscal stress which undermines the ability of taxing jurisdictions to provide public services.

See Texas Comptroller of Public Accounts, Fiscal Notes, Issues 91:4 and 91:10.

See also, Fisher, Dennis U., Status of Rural Texas, supra.

³Overall, rural Texans have substantially lower wage levels than urban dwellers (\$15,060 versus \$12,627 in 1990). Educational attainments are also lower -- in 1990, 66% of urban residents had completed high school, in comparison to 50% of rural residents. Five rural Texas counties are defined as among the poorest in the nation. See Dennis U. Fisher, supra.

series of questions for state government. How should the state help rural communities with stagnant economies or with problems of environmental sustainability? How effective are state programs in aiding small towns and community-based organizations? Can existing state development investments be made more productive? Such questions are structuring much of the current rural policy debate in Texas.

State Rural Policy

In general, Texas rural development policy could be described as a "wedding cake," with layers of institutions laid down by the state legislature over more than a century of policy formation. The key institutions include agricultural commodity programs, industrial recruitment authorities, and others. Most of these institutions were created with idealistic and comprehensive goals, many as a result of rural social movements. For the most part, they are aggressively supported by their constituents.

As the oil and agriculture industries faltered during the mid-1980s, the state adopted a new generation of economic development programs designed to reach different constituencies and industries. The more recent programs utilized tools ranging from historical revitalization of small town shopping districts to investment in technology research.

This new generation of programs focused on high-value products and specialty markets. Five industries were emphasized: diversification of agricultural production, value-added processing of food and fiber commodities, manufacturing of high-technology products, specialty retail trade and environmental services and green products.

The new programs also represented an experiment with non-traditional state agency roles. The Texas Department of Agriculture, in particular, recast itself during this period with substantially new policy objectives, including natural resource protection, environmental health and the promotion of alternative

marketing relationships and agricultural products.

Altogether, these traditional and "new" development programs represent a substantial investment of state and local funds (see Section 4.0). They make up a complex state industrial policy that is closely tied to development efforts by cities, agricultural commodity groups and many other public and private organizations. Overall, this policy exerts a strong influence on the life and death of many rural towns and industries (see Section 4.0).

Most of the state investment in rural areas has not been subject to in-depth legislative review or independent evaluation, however. Program measures are not well-defined in the context of state goals for economic development in rural areas. Articulation between programs has not been a priority of state policy (see Section 4.0).

In sum, Texas now has a large number of economic development programs which affect rural areas, but which are balkanized between and within agencies, and may not be directed to emerging rural needs or state priorities. During a period of tight state budgets -- and crisis in many of the state's rural regions -- it becomes important that the state development system be reassessed to ensure that it operates as effectively as possible.

In 1991, with the election of Governor Ann Richards and other statewide officials, a political opportunity has emerged to reevaluate Texas rural programs. The Governor's blueprint for the "New Texas" -- including leaner and more accountable state agencies and stronger environmental protection -- points to criteria for further review of the rural development system in Texas.⁴

⁴Blueprint for the New Texas, Governor Ann Richards (February 1991).

See also, Texas Comptroller of Public Accounts, Breaking the Mold: New Ways to Govern Texas (July 1991).

1.2 Purpose and Method

This report compiles some of the issues and options that should be considered in review of Texas rural development programs. The comments contained in this report are collected from over 50 interviews with rural development administrators and practitioners in Texas.⁵

Three general questions are addressed: (1) How useful are state programs in helping rural communities evaluate and structure development projects appropriate to local needs? (2) Can Texas rural development programs more effectively create employment in currently stagnant regions and for low-skill populations? (3) Can state programs be administered to support local environmental investment and reduce environmental conflict?

During the course of researching this project, it became clear that Texas is not acting alone in its efforts to redefine rural policy. A number of other states are also facing the decline or stagnation of non-metropolitan areas. Several states have undertaken broad-ranging policy reviews.⁶

⁵Policy comments and recommendations in this paper are derived from interviews with state officials and participants in rural development programs in three regions of the state: the Rio Grande Valley; Central East Texas; and West Texas.

Administrators of most significant state-level rural development programs and relevant legislative committee staff were interviewed. Other state and local personnel were selected for interviews based on their knowledge of rural policy or issues. The three regions were chosen to be illustrative of the range of social and economic environments in the state.

The interviews were open-ended discussions designed to identify significant experiences and issues regarding management of state programs and policy. Examples of interview questions are provided in Appendix 1.

⁶See, for example, Sears, David, et. al., Gearing Up for Success: How Can a State Organize Itself to Stimulate Rural Economic Development, Unpublished Manuscript. United States Department of Agriculture (January 1992).

Eisinger, Peter K., The Rise of the Entrepreneurial State (Madison: The University of Wisconsin Press, 1988).

State policy discussions have been stimulated by passage of federal rural development legislation in 1990 and the organization of the President's Initiative on Rural Development.⁷ It is still too early to evaluate how deeply these new planning initiatives will imprint themselves in state programs.⁸

Six broad policy and management themes emerged from the interviews conducted through this project. These are also reflected in the experience of other rural states.

1. Decentralization -- The most persistent theme concerns the shift in rural development programs from a centralized system -- dominated by federal resource commodity subsidies -- to a decentralized system, with a more diverse array of rural industries and a more equal policy relationship among federal, state and local organizations. The federal government still provides an enormous investment in rural Texas, but it no longer takes the lead in most policy areas. This shift is creating a number of stresses in the structure of rural policy in Texas.

Jobs for the Future, Pioneers of Progress: Policy Entrepreneurs and Community Development (April 1991).

National Congress for Community Economic Development, States and Communities: The Challenge for Economic Action (April 1987).

The Corporation for Enterprise Development, Building a Globally Competitive Economy: Final Report to the Economic Progress Subcommittee (November 1989).

This section also relies on personal conversations with Rick Carlisle and Bill Schweke of the Corporation for Enterprise Development, and DeWitt John of the Aspen Institute.

⁷See, Putting the Pieces Together: Annual Rural Development Strategy Report, United States Department of Agriculture (August 1991).

⁸See, for example, "State and Federal Policy Initiatives in Rural Development," by Thomas Unruh, in Rural Community Development in the Midwest, edited by Norman Walzer (Praeger Publishers, New York, 1991).

2. Problems of Agency Reorganization -- Along with changes in the rural economy, a surprising number of interviewees recommended major modifications in rural development priorities. The Texas Department of Agriculture underwent such a reorganization during the mid-1980s. Agency reorganizations often encounter roadblocks, however, including difficulties in retraining staff and resistance by traditional program constituents.

3. Governmental Roles -- The shift downward in rural policy responsibility raises questions about which level of government is the most appropriate administrator of which programs. Industrial development policy, for example, may be more effective on the state or Council of Government level. Loan programs, on the other hand, may be more suited for the small city or multi-county level.

4. Public Participation and Decisionmaking -- Traditionally, rural Texans have not been active participants in public review of programs such as the Community Development Block Grant. They are now becoming more active in environmental assessments. In a more flexible and decentralized rural development system, it may be possible to engage a broader group of constituents in

decisionmaking. To be effective, this requires an extensive effort to train rural leaders and build local organizations that can help guide development decisions.

5. Performance Assessment -- This occurs biannually, with the quantitative measures used in the budgeting process; and occasionally through program audits undertaken, for example, by the Comptroller's Office. More rarely, development programs are assessed by organizations or users outside state government. Stronger critical review is important to improving the rural development system. Evaluations of development programs face technical and political land mines, however. Measures of performance are notoriously difficult to define for development programs. Moreover, agencies generally resist such assessment.

6. Opportunities for Coordination -- Coordination has been termed an "unnatural act between nonconsenting adults."⁹ This is particularly the case under the Texas Constitution with its weak Governor and fragmentation of executive powers. On the other hand, the Governor has substantial authority through her "bully pulpit," and agencies certainly respond to legislative direction. The basic issue here is political - is there a constituency for harnessing rural development programs to stronger state economic goals?

⁹Doug Ross as quoted by Sears, David et. al., Gearing Up for Success: How Can a State Organize Itself to Stimulate Rural Economic Development.

2.0 THE RURAL DEVELOPMENT DEBATE IN TEXAS: VIEWS FROM THE CAPITAL

During the 1980s, a new generation of rural policy tools emerged in Texas. Based on the work of a number of commission, task forces and agency planning initiatives, the introduction of these new tools reflect a continuing search for alternatives to traditional commodity production and industrial recruitment programs. This section of the report examines how these new tools unfolded over the last decade.

For the purposes of this study, three phases of policy direction are significant: (1) discussion about the role of small business during the early part of the decade; (2) increasing focus on technology and agricultural industries, leading to the passage of an integrated legislative program in 1987; and (3) attempts to formulate broader economic development strategies through state level strategic plans.

2.1 Focus on Small Businesses

During the early 1980s, small businesses were "rediscovered" in Texas economic development policy discussion. Although the Texas Legislature passed the Small Business Assistance Act in 1975, small business owners continued to feel frustrated with the level of state services, particularly as provided by the Texas Industrial Commission (TIC). As one report commented, "The Task Force finds that a perception problem exists concerning the Texas Industrial Commission and its role in small business development...The Task Force finds that in order to overcome this perception problem, the TIC should be given the resources to serve the small business community in a more active and efficient way."¹⁰ The same kinds of comments would be made a decade later about the Texas

¹⁰Governor's Task Force on Small Business: Report and Recommendations (September 1982).

Department of Commerce--the agency which succeeded TIC.

A number of proposals related to small business were put forward. The Governor's Advisory Committee on Small Business recommended in 1981 that the state sponsor a Small Business Investment Fund to provide capital and take equity positions in business expansions or start-ups.¹¹ In 1982, the Governor's Task Force on Small Business recommended that the Legislature create a franchise tax credit program designed to capitalize small businesses.¹² While most of these proposals were not enacted during the early 1980s, they led directly to later legislation designed to assist small businesses.

2.2 Agricultural Diversification and Technology

During the mid-1980s under Governor Mark White, a new policy focus emerged: technology-intensive industries. The report of the Texas 2000 Commission gave prominence to such industries and recommended that the state act aggressively to support their expansion. The oil industry was showing weakness, and technology policy attracted great interest.¹³

Simultaneously, the Texas Department of Agriculture (TDA) demonstrated that demand for specialty agricultural products, marketed outside traditional channels, was also

¹¹Texas Small Business in Action: A Report on the Texas State Conference on Small Business (January 1981).

¹²Governor's Task Force on Small Business: Report and Recommendations, *supra*.

¹³Muller, Brian, "Science and Technology Policy" in Measuring the Information Society, edited by Frederick Williams, (Newbury CA: Sage Publications, Inc., 1988).

growing rapidly. Economic Growth Through Agricultural Development: A Blueprint for Action, published by TDA in 1986, was the economic development manifesto of the Texas Department of Agriculture under Commissioner Jim Hightower. It described opportunity in industries ranging from wine and pinto beans to the ethnic food market and textile mills.¹⁴

The report identified, for example, that Texas imported over 100 million pounds of pinto beans annually, but produced no beans in the state. With the help of TDA staff, about 200 acres were planted in the 1986 season.

The "Blueprint" identified growth potential in two broad areas: crop diversification and value-added processing of Texas agricultural products. The "Blueprint" argued that these sectors should be promoted aggressively as a part of state rural development strategy, and it laid out a series of incentive programs to aid these sectors. These incentive programs combined agricultural industrial strategy with distributional benefits to small businesses and minority communities.

In 1987, the 70th Legislative Session featured economic development policy. A major legislative package dealing with both technology and specialized agricultural industries was passed. Additional bills were passed to support university research related to economic diversification and to reorganize the Texas Economic Development Commission into a new Texas Department of Commerce.

The initiatives from the 70th session represent an important part of the structure of current state-level rural development programs available to most small communities.

2.3 Recent Planning Efforts

The 70th Legislature mandated a strategic planning process as the cornerstone of its new initiative. This process was intended to identify state goals for economic development

¹⁴Texas Department of Agriculture, Economic Growth Through Agricultural Development: A Blueprint for Action (1986).

based on a series of hearings around the state. The Plan was submitted to the 71st Legislature in January of 1989.¹⁵

The Plan made a variety of broad recommendations including tort reform, overhaul of the workers' compensation system, and trucking deregulation. These recommendations to reform the state's "economic environment" were promoted aggressively by certain industries and received much attention from the 71st Legislature.

Rural areas were mentioned in the Plan, but only as an aside: "Implementation of this statewide economic plan must recognize the special needs of these (rural) communities, and employ imaginative solutions which tap these areas' full potential."

The Plan was widely criticized for not providing specific program recommendations and for not devoting more attention to rural areas and other types of special needs in the state. In addition, the Texas Department of Commerce and other agencies were later criticized by the state auditor for not following the general recommendations of the Plan.¹⁶

Republican Governor Clements and state legislators from his party also attempted to establish agricultural and rural initiatives. The Governor created a Task Force on Agricultural Development, comprised of 26 agricultural industry leaders statewide. This Task Force submitted its report in December of 1988.¹⁷

The Task Force also promoted a policy of reduced regulation, tort reform, and overhaul of workers' compensation. In addition, it recommended strengthening

¹⁵Strategic Economic Policy Commission, A Strategic Economic Plan for the State of Texas (January 1989).

¹⁶Office of the State Auditor, Economic Development: Is Texas Managing Implementation of its Strategic Plan? SAO Report Number 0-091 (August 1990).

¹⁷Governor's Task Force on Agricultural Development, Texas Five Point Plan for Agricultural Development (1988).

agricultural development programs at the Texas Department of Commerce.

As with the Strategic Policy Commission, the political focus of the Task Force appears to have been on broad "economic environment" issues. Specific program recommendations were not pursued, with a number of minor exceptions.

The 71st Legislature established the Rural Economic Development Commission through House Bill 438. The purpose of the Commission was to "conduct studies and make findings and recommendations regarding the revitalization of rural areas and the expansion of agribusiness in the state."¹⁸

The Commission was staffed by the Texas Department of Commerce and the Texas Agricultural Extension Service. It published a series of proposals in 1990 regarding coordination of rural initiatives and creation or expansion of specific programs. Commission staff used review committees drawn from a variety of federal, state and non-profit development organizations. According to interviews with state program administrators, the Commission recommendations were technically stronger than those presented in previous plans.

Four of the proposals developed by the Commission were introduced by state senator Steve Carriker during the 1991 session of the Texas legislature as SB 373. This legislation would have mandated: (1) creation of the Office of Rural Affairs in the Governor's Office, to act as an advocate in state government on behalf of rural Texas; (2) establishment of a rural training consortium within the Office to coordinate educational programs such as entrepreneurial training classes in community colleges; (3) development of an information clearinghouse to assist rural businesses and communities in obtaining access to state and federal programs; and (4) expansion of the Texas Linked Deposit Program.

¹⁸Rural Economic Development Commission. Briefing book prepared by the Texas Department of Commerce (January 1990).

This bill did not pass during the 72nd Legislature. However, interviewees pointed to SB 373 as the starting point for discussions about rural economic development policy under the new gubernatorial administration of Democrat Ann Richards.

The Greenprint for Agricultural Development was published in the fall of 1990 by the Texas Department of Agriculture, as a follow-up to the Blueprint of 1986. Its primary purpose was to evaluate and document growth of another new rural industry--environmental products and services. The "Greenprint" evaluated growth of such businesses, ranging from cotton insulation to organic fertilizers. It also presented recommendations for sustainable community development. This report was intended to be the major TDA initiative for the 1990s.¹⁹

Throughout the late 1980s, TDA was heavily criticized by certain agricultural industry groups such as the Farm Bureau. These criticisms included the following: (1) TDA was not sufficiently responsive to mainstream commodity producers; (2) many of the specialty industries promoted by TDA were not economically viable; and (3) growth in rural manufacturing will come from large enterprises, not small businesses as promoted by TDA.

Hightower's defeat in 1990 is attributed by most political observers to the well-organized campaign of his opponent. Generally, it is not discussed by participants in this project as a referendum on TDA's development programs. Nonetheless, the changing of the guard at TDA substantially shifts the emphasis in state rural development policy. The effects of this shift cannot be fully identified yet, but some initial observations as to the direction of program emphasis were possible. (See Section 4.4).

¹⁹Texas Department of Agriculture, Texas Agriculture: Growing a Sustainable Economy (September 1990).

2.4 Conclusions

Overall, rural programs created during the 1980s experienced some important successes. In particular, a better definition of state policy was put forth for four new industries: diversified agricultural production, food and fiber processing, technology and environmental services.

However, the programs generally failed to extend substantial assistance to rural areas. Only a minor portion of the rural development budget, described in the next two sections, is available for discretionary use in rural communities to help build economic capacity and address critical issues of sustainable growth.

3.0 INSTITUTIONS, STRATEGIES AND THE RURAL DEVELOPMENT "BUDGET"

This section of the report outlines the major strategies used by the state of Texas to shape non-metropolitan economic development. The purpose of all these various strategies is to help promote or organize rural-based industries. Through the legislative appropriation process, the state invests millions of dollars each year in various programs with rural development impacts, directed through a variety of institutions. In many ways, the priorities expressed through the appropriations process are reflective of a "de facto" rural development policy even though, as discussed below, there are important conflicts between the various priorities.

During the course of interviews for this project, it became clear that rural development policy in Texas means radically different things to different people. Practitioners in the various areas of rural development speak different technical languages, describe different economic needs, and refer for program support and policy direction to different state agencies.

For example, Chamber of Commerce staff are often knowledgeable about industrial recruitment programs at the Texas Department of Commerce, but not about the recycling, small business incubators, or business finance programs in the same agency that are also designed to benefit small communities.

According to this research, more sophisticated practitioners were conversant in several areas of rural development policy. Many others, however, could talk only about the purposes and structure of a narrow set of programs to which they were closely tied.

Thus, the first stage of this project was to identify the broad driving forces for Texas rural development policy, as expressed both through interviews and in the structure of state legislation. These are the policy systems and paradigms that define how the major

institutions and constituency groups understand the purposes and tools of Texas rural development.

This somewhat ad hoc framework has been developed over almost a century of rural policy in Texas. Implicitly, it is the state's "rural development plan". At least in recent years, it has been redefined only marginally in the biennial appropriations process. No comprehensive evaluation of rural development programs has occurred since the early 1970s.

Six different broad definitions of the purposes of rural development emerged from this research:

(1) Supporting Small Farmers and Independent Oilfield Businesses -- creation of populist, regulatory institutions supporting small resource businesses in their relationships to financial institutions, transportation companies, and other economic segments;

(2) Developing Commodity Production Efficiencies -- organization of natural resource industries into high-volume production and marketing systems;

(3) Attracting Out-of-State Industries -- recruitment of wage-competitive manufacturing plants and distribution businesses;

(4) Encouraging Participation by Low-Income and Minority Populations -- support for economic growth targeted to benefit minority and low-income communities;

(5) Promoting Entrepreneurship and Market-Oriented Industries -- support for market-oriented manufacturing and urban service businesses, including agriculture, technology and tourism; and,

(6) Protecting Natural Resources and Environmental Health -- consideration of the short- and long-term human health impacts of various development strategies and promoting environmental services businesses.

3.1 Small Farmers and Independent Oilfield Businesses

One of the most important state rural development tools over the last century has been the distributive and regulatory policies designed to broaden economic opportunity and protect small farmers and resource businesses against unfair practices.

These policies have their source in a deep current of Texas rural politics -- Populism. Populism spread throughout the American South and West during the 1870s and 1880s beginning with the organization of the Texas Farmer's Alliance near Lampasas, Texas. The Alliance was a group of small and medium-scale farmers whose purpose was to establish a countervailing power against economic monopolies, particularly railroads, banks and agricultural middlemen.

Two major agencies have administered these policies in Texas: the Texas Railroad Commission and the Texas Department of Agriculture. Significantly, both agencies are governed by state-wide elected officials.

The Texas Railroad Commission was created in 1890 by Governor Jim Hogg as a result of demands by the Texas Farmers Alliance to regulate commodity transportation. The Railroad Commission influenced patterns of growth in rural Texas through its powers to organize resource and transportation industries.

Among other regulatory activities, the Railroad Commission adopted policies which allocated oil and gas production to encourage drilling on small landholdings and protect the independent oilman. The result was, "... hundreds of thousands of economically unnecessary wells ... and the nurturing of a state infrastructure of drillers, work-over services, pipelines and all the other industrial

paraphernalia of the oil fields. Another result was a dispersal of drilling, so that even in the 1970s, approximately 650,000 Texans received royalty checks." ²⁰

Oilfield revenues and service industries were a mainstay of small Texas towns through the 1970s. This dispersed industrial structure has been critical to agriculture as well, enabling farmers and ranchers who were getting royalties to weather the ups and downs of the agriculture commodity cycle. Thus, regulatory policy in the Railroad Commission has been important to distributing and stabilizing rural economic growth.

Over time, the Railroad Commission has also accumulated other responsibilities including well-plugging and regulation of surface mining and reclamation. The primary areas of policy activity for the Commission currently relate oil and gas production, the environment and transportation. With the decline in oil production, the Commission may play a less important role in development of rural industries.

The Texas Department of Agriculture is still one of the central institutions in Texas rural development policy. Traditionally, TDA was a regulatory agency which monitored activities such as grain warehousing, seed production and use of weights and measures. These regulations were designed to protect smaller farmers against illegitimate practices by agribusinesses and middle-men.

TDA later acquired consumer protection authorities and powers to organize agricultural industries through institutions such as commodity associations and loan pools. Through the early 1980s, economic development efforts continued to be a minor part of TDA programs, however.

Commissioner Jim Hightower was elected in 1982. Hightower ran on a platform which emphasized economic development through expanded agricultural marketing

²⁰Prindle, David F., Petroleum Politics and the Texas Railroad Commission. Austin: University of Texas Press (1981).

opportunities. These opportunities included creation of farmers' markets enabling producers to sell directly to consumers and development of new channels for export of Texas agricultural commodities from producers to the foreign wholesale market.

The purpose of these proposals was to bring producers closer to the marketplace so they could receive a larger value-added share of the consumer's food dollar. This was explicitly a populist program --to give small and medium-size farmers greater economic independence and to reorganize agriculture market structures so the retail value of agricultural products was distributed more widely.

Although marketing projects became a highly visible part of the TDA program under Hightower, and evolved considerably beyond the direct marketing approach, regulatory programs continued to be an important arena of TDA policy.

Pesticide and farmworker safety regulations were intensely controversial. Agricultural groups such as the Texas Farm Bureau, along with the chemical industry, argued that these regulations were infeasible and added unnecessary costs to agricultural production.

With the possible exception of environmental policy, however, most state regulatory structures are not currently used as an active policy tool to stimulate and shape rural economic growth in Texas.²¹

3.2 Commodity Production Efficiencies

The second institutional base for rural development in Texas is designed to increase efficiency of resource commodity production. This area of state programs includes extension

²¹According to research conducted through this project, rural advocates are considering possible reforms of Texas state banking policy to stimulate rural community investment. Such proposals have not yet been introduced through the legislature.

programs at various universities and state sales tax exemptions for specific agricultural activities.²² The major research and extension programs are:

1. Texas Agricultural Extension Service (FY 1992 Appropriations: \$47 million) ;
2. Texas Agricultural Experiment Station (FY 1992 Appropriations: \$49 million);
3. Texas Forest Service (FY 1992 Appropriations: \$12 million); and
4. Special research programs at various institutions (FY 1992 Appropriations: \$8.6 million).²³

A related off-budget item are state sales taxes lost through exemptions, representing \$284 million in annual tax benefits offered for specific types of agricultural activities.²⁴

The research and extension programs are not subject to the requirements of the Texas

²²State law also provides for an exemption from local property taxes for land used in agricultural production.

²³This compilation covers only major items listed in the Appropriations bill and needs to be developed in more depth. It includes the Texas Food and Fiber Commission -- \$1,449,272; Center for Applied Studies in Forestry, Stephen F. Austin University -- \$500,000; Texas A&I Citrus Center -- \$613,974; The Aquaculture and Mariculture Program at Corpus Christi State University -- \$75,000; The Institute of Biosciences and Technology at Texas A&M University -- \$3,750,000; and the following programs at Texas Tech University: Research in Rangeland Management -- \$1,061,080; Research in Wool, Mohair and Cotton -- \$590,455; Research in Water, Water Conservation and Reuse -- \$171,264; Efficient Beef Production Research -- \$135,761; and Wine Marketing and Enology -- \$266,878.

²⁴These include sales tax exemption for seed -- \$11 million; livestock -- \$92 million; horses, mules and work animals -- \$6 million; farm supplies -- \$43 million; feed -- \$89 million; and agriculture machinery and equipment -- \$43 million. Based on 1993 projection in Texas Revenue Alternatives: A National Survey on Alternatives and Comparisons, Texas Comptroller of Public Accounts (April 1991); and on personal conversations with staff of the Texas Comptroller of Public Accounts.

Sunset Act, have only rarely been evaluated by the state auditor, and have not been examined in depth through performance reviews by the Legislative Budget Board or the Comptroller's Office.²⁵

With the decline in the oil and gas industry and reduced employment in agriculture, some of the institutions in this system are perceived over the long term to be in political danger. As one state administrator commented, "The extension service knows the lions are at the door. This could make them receptive to a change in policies."

Most important, the sharp decline in the number of family farmers has tended over time to concentrate the benefits of agriculture-related incentives in fewer producers. At the same time, the core constituency for agricultural research and extension services is dwindling, at least as a percentage of Texas voters.

Still, the supporters of this system--ranging from commodity organizations to 4H participants--are considered to be politically well-organized and effective in the legislative process. During the 72nd Legislature, for example, constituents were mustered to fight off what was perceived as an attack on the Extension Service. One legislative aide commented that his office received several hundred constituent calls on the issue over a period of three or four days.

The Texas A&M System has actively begun to seek new mandates by developing programs for technology-intensive growth industries such as biotechnology. However, these industries are likely to agglomerate in urban areas and around major research institutions unless specific policies are created which encourage them to disperse in non-metropolitan and slow-growth areas of the state.

Some agricultural research and extension programs across the state focus on emerging food and fiber industries, including

²⁵Personal conversations with staff at the Legislative Budget Board and the Texas Higher Education Coordinating Board.

research conducted on Texas apple production at Uvalde, the wine and enology program at Texas Tech, and cashmere research at Prairie View A&M. Sustainable agricultural practices have been examined at Texas A&I University. Such activities represent a relatively small proportion of overall investment in the system, however.

In sum, this structure of state sales tax expenditure, research and extension is projected to provide a total of about \$400 million in annual state incentives to agricultural industries. These incentives comprise a state industrial policy which is still the major pillar of the Texas non-metropolitan economy (as well as agricultural service centers such as Amarillo). This development system is organized around heavily-subsidized mass commodity production, which provides relatively little employment.

A number of issues were raised about the research and extension services and sales tax exemptions during project interviews. Major concerns included the potential for adverse environmental effects of the chemically- and energy-intensive agricultural methods often promoted by the extension activities and the inequities in distribution of benefits among the rural Texas population. Some interviewees also questioned whether the system represents an effective use of limited state economic development resources.

3.3 Industrial Recruitment

During the 1950s, a third institutional base for rural development was established in Texas, the industrial recruitment system. The purpose of industrial recruitment is to provide information and incentives that help attract industries to locate in a specific community. The state recruitment system in Texas includes:

1. Business development programs at the Texas Department of Commerce including the Enterprise Zone program;²⁶

²⁶The 72nd Legislature, through SB 41 (2nd called session) reauthorized the Enterprise Zone Program at a level of 10,000 jobs.

2. Community development training offered through the Texas Engineering Extension Service at Texas A&M University;
3. Targeted food and fiber recruitment undertaken by the Texas Department of Agriculture;
4. Powers provided to local governments through state law including the Tax Increment Financing Act, the Property Redevelopment and Tax Abatement Act and the Industrial Development Act;²⁷
5. State administration of Community Development Block Grant and Job Training Partnership Act funds; and
6. Specialized recruitment efforts for large industries undertaken by statewide political leadership.

At a regional and local level, recruitment efforts tend to be organized by electric utilities and local chambers of commerce or industrial foundations. More recently, the Texas Department of Commerce has begun focussing its incentives on industry retention. For example, a major effort has been undertaken to provide tax benefits and other incentives to retain the General Motors plant in Arlington and the Trane plant in Tyler.

State personnel expenditures for rural business recruitment are small. Another state "expenditure" is the Enterprise Zone Program. As reauthorized by the 1991 Legislature, the expansion is projected to cost \$12.5 million in lost sales and franchise taxes during 1995.²⁸ More than one-half of the current Enterprise Zones are in rural areas.

The primary costs associated with tax abatements for industrial recruitment occur as lost revenue from local property taxes. These losses appear to have more than doubled between 1990 and 1991, from \$2.8 billion to

\$5.7 billion statewide. The state authorizes and structures these losses through the tax code.²⁹

The industrial recruitment system in rural communities developed as a response to the problem of surplus labor resulting from the increasing productivity in Texas agriculture. Agricultural investment was generating wealth but not jobs. Ironically, agricultural labor requirements, while shrinking, continued to be predominantly low-skill and low-wage. The need for employment became an issue not only within the traditional farm labor communities but among farm families themselves.

A product of this environment, the industrial recruitment ideology provided a means of absorbing elements of the low-skill and supplemental labor force, while at the same time offering development opportunities to local entrepreneurs. Utilities also favored recruitment strategies because they helped expand a customer base of large electricity users.

It is arguable that industrial recruitment was effective within the policy context of the 1950s and 1960s. During this period, northern firms were seeking opportunities for relocation in Texas. Branch plants brought jobs and revenues into the economies of many small towns in Texas. Recruited firms often played a useful secondary role in a strong resource commodity economy.

Currently, the recruitment strategy is under intense criticism by a cross-section of the Texas economic development community. The volume of this criticism appears to have increased dramatically over the last few years. The following issues were raised in interviews: (1) tax abatements result in a declining capacity to support public services and the quality of life in small towns; (2) the recruitment strategy perpetuates a marginal labor pool because recruited firms tend to be in low-skill industrial sectors; (3) over the long run, Texas cannot

²⁷In 1989, the legislature limited tax abatement terms to 10 years.

²⁸See Fiscal Note to SB 41, 72nd Legislature, 2nd Called Session.

²⁹Based on property tax board statistics compiled by Catherine Clark, director of the Texas Center for Educational Research. This statistic may be flawed because of discrepancies in local reporting. However, it provides an indication of the magnitude of revenue lost.

compete in cost with off-shore labor markets, and recruited firms will continue to migrate out of state;³⁰ (4) the recruitment strategy tends to isolate rural communities from the profits of entrepreneurship or technological advance;³¹ and (5) the lack of public participation in and information about recruitment efforts can result in divided communities when local economic development leaders decide to recruit polluting industries or waste disposal firms.³²

Interviewees also commented that virtually the same recruitment incentives are available to all communities. In one recent West Texas competition, for example, incentives from a number of small cities were compared by a Council of Government and "the differences were minuscule -- literally a matter of pennies." The intensity of competition can raise the costs for all small cities.

Many of the local officials interviewed through this project are pursuing recruitment strategies, however, even as they speak critically of them. This was explained in two ways. First, recruitment is politically attractive. It enables elected officials (and chamber of commerce staff) to claim credit for the creation of specific jobs.

³⁰Rural areas that focussed on wage-competitive recruitment strategies during the 1960s are now facing the effects of continuing industrial migration. A recent article about an area in North Carolina, for example, suggests that manufacturing plants recruited as recently as the 1970s are now moving out of the state (and in many cases out of the country). The jobs are being replaced but by lower-wage service employment. These manufacturing plants were primary employers among minority communities. Cohen, Andrew, "The Downside of Development," *The Nation* (Nov. 4, 1991), p. 544.

³¹Another observer suggested that recruitment incentives distort the tax structure. They result in a relatively uniform statewide tax reduction for certain types of industries. The costs of this tax reduction are borne by local unit of government. More equitable and targeted tax incentives to these industries could be provided on the state or federal level.

³²See Section 4.6.3 for a discussion of TDOC's industrial recruitment programs and Section 5 for case studies involving recruitment of waste disposal firms.

Second, the policy option of supporting "home-grown" industries is perceived to be time-consuming and largely unproven. At the same time, recruitment is considered to be "do-able." It is within the grasp of small cities and rural development bureaucrats because outside firms bring in their own technical knowledge, market relationships and capital.

Moreover, recruitment of specialized, linked industries may be an effective strategy in some Texas cities. In Gatesville, Texas, for example, small metal fabrication and technology firms were recruited through the supplier networks of a long-established manufacturer in the community.

As one state official commented, "Industrial start-up or expansion capital is simply unavailable in rural Texas. We must look for outside partners." Another observer said, "Recruitment battles are inevitable. It's like game theory. Local governments will always be competing ... for the limited supply of new industries."

Three questions about rural recruitment strategy emerged in project interviews. First, state policy actively promotes recruitment through programs such as the Enterprise Zone legislation and the Economic Development Sales Tax.³³ These programs result in substantial losses of tax revenues or, in the case of the Economic Development sales tax, an addition to the state's already high, regressive sales tax burden. Some interviewees questioned whether the state should be supporting recruitment competition at its present high level.

Second, interviewees questioned whether recruitment is an effective use of state economic development resources. And, third, some wondered whether recruitment incentives could be targeted more effectively to industries that build workforce skills and longer-term capacity in the local economy.

³³See Section 4.12 for a description of this tax and its use by industrial development corporations.

3.4 Economic Participation by Low-Income and Minority Populations

A fourth area of rural development policy in Texas is programs specifically designed to be available for low-income and minority populations. Traditionally a "stepchild" of state rural policy-- never well-established in institutions or appropriation patterns--this area is increasingly important because of changing demographics and statistical trends suggesting that rural Texas could become an enclave of poorly-educated and economically-isolated populations.³⁴

President Johnson's War on Poverty introduced a new set of economic institutions into rural Texas to promote economic participation by these groups. Community Development Corporations, Community Action Agencies, Farmworker training programs, low-income housing programs, and minority small business investment corporations were all introduced in the late 1960s.

Many of these institutions were controversial in Texas. By the early 1980s, much of this generation of federal intermediary organization in rural Texas had been defunded and dissolved. Development institutions that remain include non-metropolitan Community Action Agencies such as People for Progress in Sweetwater, Texas³⁵ and minority business procurement programs such as the one administered by the Texas Comptroller's Office and the Texas Department of Commerce.

According to interviews conducted through this project, the War on Poverty organizations have had an important, on-going influence on rural development policy in the state, supporting and training a generation of rural minority leaders. Many of these leaders have continued into rural elective office or as

³⁴Fisher, Dennis, *supra*. According to recent census data, communities of color currently make up more than 45 percent of the combined populations of the state's 10 largest counties. These communities may be the new majority in the state in the near future.

³⁵See Section 5, Case Studies.

staff in rural economic development organizations.

State-administered Community Development Block Grant and Job Training Partnership Act programs are also intended to serve low-income and minority communities. These programs were criticized during interviews, however, for poor policy direction provided by the state during Governor Clements' administration. Community development advocates expressed skepticism about whether the programs have effectively served low and moderate-income populations.

There was broad agreement in interviews that obstacles to economic participation by distressed and minority communities are among the central rural development issues in Texas. Only a tiny portion of state development resources are currently dedicated for these populations. Little work has been done to build organizations and expertise within these communities, and networks among them. According to many project interviews, these communities need to be brought to the top of the rural development agenda in the state.

3.5 Specialized Goods and Services

In the early 1980s, another generation of rural development programs began to appear in Texas. These programs focussed on three economic sectors:

(1) Specialized Agricultural Industries -- including programs developed at TDA to encourage diversified agricultural production and value-added processing of agricultural commodities, utilizing new economic institutions such as cooperatives and farmers markets;

(2) Specialized Technology Industries -- including programs organized at the Texas Department of Commerce, Texas Engineering Extension Service, and other agencies to encourage small technology-based businesses such as electronics; and

(3) Small City Retail Enterprises -- including the Main Street program designed to revitalize the centers of small cities through historic preservation and marketing.

Overall, these programs are funded at low levels with relatively few staff members. Two of these programs have received significant funds, however. First, largely as a result of efforts by the Texas Department of Agriculture, state constitutional amendments were authorized providing \$75 million in general obligation bonding authority for agriculture and technology projects. Second, \$65 million in grants are funded through general revenues each biennium and administered by the Texas Higher Education Coordinating Board. These grants are awarded for technology research with potential economic benefits.

In the late 1980s, statewide non-profit organizations such as Texas Rural Communities, Community Resources, Inc. and the Texas Development Institute also began to influence rural development policy in Texas. Many of the services provided by these organizations are closely tied to this fifth generation of rural development policy in state agencies, the major elements of which include:

(1) emphasis on small businesses operating within specialized growth industries, including diversified agriculture, tourism, certain retail sectors, environmental services, biotechnology and medical technology;

(2) focus on sophisticated marketing of rural products and services -- such as use of history to promote main street businesses or the carefully-produced trade fairs and advertising campaigns through the "Taste-of-Texas" program at TDA to promote value-added agricultural products; and

(3) use of targeted development tools -- such as narrowly-defined financial instruments including "mezzanine" loans,

"microenterprise" finance, and secondary bond issuance.³⁶

The Texas Department of Agriculture played an important role to shape this generation of economic development programs in Texas. For example, it designed the legislation and provided funding for the first generation of state-supported business incubators and microenterprise funds in Texas. It also provided broad public recognition to a number of industries including leather processing and textiles. These organizations and industries are now generally recognized as key to the state's development agenda.

As a result of these innovations, rural areas in Texas may have done better in this "wave" of development programs than other states.³⁷ As in other states, however, technology-related programs dominated the Texas development agenda during the 1980s.

Three criticisms of the "1980s" programs were made in interviews. First, only relatively sophisticated entrepreneurs and rural leaders, with good channels of access to state government, could make use of many of these programs. Second, the programs have not been evaluated sufficiently to know if they really work. Third, the programs address narrow development needs and relatively small market segments. According to this argument, the programs are so narrowly-defined that they cannot have a major effect on rural economies, let alone replace the losses in rural raw commodity industries.

3.6 Natural Resources and Environmental Health

Environmental consciousness has been slow to develop in Texas, due in part to a lingering "frontier" mentality, which holds that

³⁶See Section 4.5 for a more detailed description of these financing mechanisms.

³⁷Strange, Marty, et al., Half a Glass of Water: State Economic Development Policies and the Small Agricultural Communities of the Middle Border, Center for Rural Affairs Special Report, Walthill, Nebraska (February 1990).

natural resources are there to be exploited. In recent years, however, environmental protection has become a much higher priority as Texas repeatedly tops national rankings in emissions of air toxics and hazardous waste generation. In addition, many rural areas have had to face unwanted hazardous or municipal waste dumps and farmers and ranchers are finding valuable land contaminated by oil and gas and uranium industry wastes.³⁸

Environmental concerns received a high profile in the 1990 campaigns of Governor Richards and other state leaders such as Lt. Gov. Bob Bullock and Land Commissioner Garry Mauro. A few rural west Texas legislators such as State Senators Steve Carriker and Temple Dickson have become leaders in strengthening the state environmental statutes, motivated in part by concern from their constituents facing potential new commercial waste facilities. These state leaders will also be important to the formulation of rural economic development policy. Their awareness of environmental concerns should increase the potential for integrating environmental and economic development policies at the state level.

One of the best examples of how environmental concerns are beginning to influence rural development policy is the 1990 "GreenPrint" report by the Texas Department of Agriculture.³⁹ This report laid out a number of environmentally-sound options for development of Texas agriculture and use of agricultural products to help alleviate current environmental problems (e.g. soy bean inks, non-toxic cotton insulation, kenaf as a substitute for wood pulp in newsprint.)

A more recent example of the integration of environmental and economic development policies is the concern that has been raised regarding pollution problems in the Texas:Mexico border area which have resulted from a boom in trade between the U.S. and its southern neighbor. Many officials at the state

and local level are now routinely discussing the relationships between increased trade and environmental problems.

Another example is the efforts of Land Commissioner Garry Mauro and the Texas Railroad Commission to aggressively promote the development and marketing of Texas natural gas as a clean-fuel alternative.

Nevertheless, Texas has long way to go in bringing about more sustainable economic development policies. Part of the responsibility lies with the environmental organizations, both state-wide and grassroots groups. They must develop a better understanding of how the state and local economic development programs function and how and where environmental and public health concerns can be incorporated effectively. They must also begin to respond more frequently with affirmative alternatives to the "jobs v. the environment" dilemmas perceived by many economic development professionals.

3.7 Conclusions

The foregoing six paradigms dominate debate in Texas about rural development policy. These systems are competitive, both for state funds as well as in their deeper philosophies about how economic development should occur. As a result, many of the interviewees perceive state development policy to be conflict-ridden and fragmented.

These systems operate more or less in balance, however, and together represent the implicit Texas rural development policy. This policy is not described in any state document as a specific set of goals and objectives. The state appropriations bill comes closest to expressing it. Nonetheless, this policy represents an evolving compromise among Texas political leadership about how state government should aid rural economies.

It is beyond the scope of this report to detail the effects of this "policy" on the spatial and social distribution of growth or decline across non-metropolitan Texas. Nonetheless, the magnitude of the subsidies and the size of

³⁸See, in general, Toxic Texas," Texas Observer, Vol. 83 (May 17, 1991).

³⁹TDA, Texas Agriculture: Growing a Sustainable Economy--A GreenPrint for Action (1990).

the rural development regulatory structure suggest that it exerts strong influence on the patterns of rural economic change.

Considering the extent of these incentives, state rural development activities do not appear to be widely popular. The state role was criticized intensively by local officials and rural development practitioners contacted through this project. Overall, state government was not perceived (even by many state administrators) to be responsive to emerging needs in rural areas.

In part, this reflects the fact that the leadership "compromise" about rural policy overlays continuing, deeper conflicts about rural development philosophies. The intensity of debates about development philosophies indicate that many rural development constituencies are deeply polarized over issues such as appropriate pesticide use, dedication of state resources to emerging industries, and inclusion of minority communities in development decisions.

Moreover, most of the state rural development systems were created in a starkly different economic climate, at a time when mass resource production industries were the dominate source of direct employment in most non-metropolitan counties. With the evolution of rural economies during the 1970s and 1980s towards market-oriented production and service

industries, the available state incentives may no longer directly benefit rural communities in a way which they observe and can understand.

In 1990, the statewide political leadership changed, and new appointees have been placed in many of the key agency positions with responsibility over rural development. This change provides a window of opportunity to reevaluate the traditional rural policy and to begin to deal expressly with the conflicts between the current predominant paradigms.

As one rural government official exclaimed in an interview, "Development programs are paralyzed. The bureaucrats make rules but no one makes real decisions. When they have funding, they sit on it -- they cannot even figure out how to use it ... The state creates complicated rules that distort how communities can use programs. You can't tell me that program needs are the same in Lufkin as they are in El Paso ... Someone should be willing to make decisions so that people can really use programs at the local level."

This is the challenge to the Texas Legislature and state political leadership -- to take risks and make decisions about state rural development programs so that "people can really use" them

4.0 CURRENT PROGRAM ISSUES

4.1 Introduction

In this section of the study, key policies and parameters are described for the major rural development programs at state agencies, as they affect the ability of the programs to benefit non-metropolitan areas. The relatively new Economic Development Sales Tax is discussed in Section 4.12. In addition, this section summarizes issues raised by project participants regarding the design and management of state rural programs.

Interviews were guided by the following nine general program evaluation criteria, none of which was given more weight than others in the questioning:

1. Overall allocation of resources to rural areas;
2. Level of innovation in new development services;
3. Effectiveness of services to prospective "growth" industries;
4. Effectiveness of services to minority, low wage-earner and distressed communities;
5. Efforts to expand services to a broader group of rural constituents;
6. Strength of industry research and depth of communication with industry groups;
7. Depth of development assistance provided to rural local governments, community-based development organizations or financial intermediaries;
8. Effort to incorporate environmental assessment and sustainable development approaches into program planning; and

9. Strength of joint initiatives and coordination of program missions with other state agencies.

Obviously, all of these criteria do not apply to all programs and not all interviewees were questioned about each program. In general, however, these criteria were intended to identify how deeply programs reach into rural areas, support entrepreneurship and industrial innovation, and address other state policy goals such as environmental protection.

Most of the following sections also contain recommendations that evolved directly from the interview discussions. These recommendations are also listed in Section 6.4.

4.2 Office of the Governor

The Governor's policy staff plays a key role to coordinate policy discussion among rural agencies and act as an ombudsman for development projects.

Governor Richards took active positions on agriculture and rural development policy during the gubernatorial campaign. Her positions included support for diversified agriculture, value-added food and fiber processing, and a rural health care initiative. The Governor was also strongly critical of the administration of the Texas Department of Commerce under the board appointed by Governor Clements.

These positions carried over after the election into an aggressive posture regarding the Texas Department of Commerce and a variety of rural development policy and project activities within the Governor's Policy Council, including:

- (1) organization of an informal group of legislative staff and practitioners to evaluate needs and options for rural development policy;

(2) participation in the Federal/State Rural Development Council;

(3) organization of a task force of bankers, community development practitioners and others to evaluate creation of new capital sources (both urban and rural);

(4) evaluation and coordination of rural legislation, including the proposed Office of Rural Affairs (Senate Bill 373) to be located in the Governor's Office;

(5) assistance in issuing bonds through the Texas Agricultural Finance Authority at the Texas Department of Agriculture; and,

(6) assistance for a broad range of development projects from vegetable processing facilities in the Valley to fiber and textile manufacturing in the Rolling Plains.

The activities of this Office have narrowed as the Governor's appointees exerted authority over agencies such as the Texas Department of Commerce. Many of the rural programmatic activities of the Policy Council have devolved to state agencies. Moreover, as a result of the defeat of Senate Bill 373, the Governor was not provided a legislative mandate or appropriation to establish a rural development office.

Recommendation: Although no legislative mandate was provided, the Governor has power through Executive Order to create a Rural Development Task Force or Council. A number of other states, including Nebraska, North Carolina, North Dakota and Wisconsin, have established such bodies to review and coordinate rural development activities among the different agencies. Project interviewees recommended creation of such a Council to address the problems of fragmentation in state policy and to help organize collaborative agency programs.

4.3 Public Facility Expenditures

The most common development program among local officials interviewed through this project is the capture of contracts for federal, state, or private prisons and detention facilities. With the current prison expansion, Texas will have one of the largest prison populations of any state. State statute and administrative practice gives local government an important role in developing detention facilities.

The Texas Department of Criminal Justice (TDCJ) will build at least 10 prisons this year. About 120 Texas towns have contacted TDCJ about being the host site for one of the new facilities. In the latest round of bidding, 72 local governments submitted proposals for a prison site. All of the applications were from rural areas; no metropolitan government has requested a facility.

TDCJ requires the cities to provide 300 acres of land, adequate and affordable utilities including wastewater treatment, accessible roadways, schools and medical facilities. In addition, the prison must be located within 100 miles of a 100,000 population city. A few communities have even helped finance private prisons in their area before a contract to send prisoners to the facility was finalized. Pecos County, for example, ended up with empty new prison facilities.

For successful bidders, obtaining a detention facility can be a windfall. It is equivalent to the ideal branch plant -- stabilizing the community's economy while providing jobs for relatively low-skill labor. Moreover, local governments are now requiring contractually that some specified percent of the labor be hired locally.

Entry into the bidding game is costly, however. Beeville, Texas for example, is expecting to spend as much as \$3.1 million to extend its utility lines and improve its wastewater treatment plant. In many cases, communities must also hire a lobbyist and expend political chits to supplement their project contributions.

The process of bidding on correctional facilities also contains significant opportunity costs. The economic development resources of the community (time of city staff and local leadership, surplus property, infrastructure) are bound up in a technically and politically complicated proposal process that tends to be of long duration. If the proposal does not succeed, the community may be discouraged from further efforts.

Moreover, the local resources dedicated to attracting the correctional facility are effectively equivalent to local tax supporting the statewide correctional system. In Beeville, for example, this tax could equal as much as four percent of the total costs of locating the prison in the area. Communities with existing large prisons, such as Huntsville in East Texas, have also encountered other costs such as supporting low-income inmate families who have moved into the area. Rural communities have often been willing to incur these costs, however, because of their generally poor economic prospects and the potential economic benefits a prison might bring.

From a statewide perspective, however, dependence on correctional facilities could damage the competitiveness of rural areas. It could tend to withdraw rural communities from the market economy -- and the necessity to be entrepreneurial, upgrade workforce skills, and build market relationships. The state has encouraged a high level of competition among rural communities for prison sites. Unfortunately, this competitive process attracted the primary attention of the economic development community in many small cities across the state, and it may have inhibited local planning around broader development alternatives. Overall, prison facilities may or may not be the best long-term investment of a community's development resources. They represent a quick source of low-skill jobs but they also may have significant negative impacts.

Other state budget items are also commonly used by rural communities as an economic development program. Generally, this approach also depends on using elected officials to advocate for the project within the political system. Out of the \$25.9 billion in

total FY 1992 state expenditures, approximately \$11.0 billion goes to the five most populated counties in the state (Harris, Travis, Dallas, Bexar, and Tarrant), for an average \$1,764 per capita. Loving County, with a population of 91, receives only \$93,713 in state expenditures, or an average of \$1,029.81 per capita.

This expenditure pattern is an important determinant of the viability of rural communities across the state. The Texas Department of Transportation, for example, recently proposed down-sizing six rural district offices to meet legislative requirements that the Department streamline its operations. The Department scored all 24 of its District offices according to criteria which centered on community size and availability of higher education. This criteria tended to yield high scores to urban offices and low scores to rural areas.

The effects of downsizing the district offices could be severe for the six rural communities on DOT's list. Yoakum, Texas, for example, is a community of 6,000 where the Texas Department of Transportation employs 140 workers. Losing the \$4 million DOT payroll would have a serious impact on the local economy.

After negative publicity, the Department of Transportation agreed to delay final decisions on downsizing their rural offices. At present writing, the issue is still undecided. However, it reveals the dangers for rural communities in becoming dependent on the state. While the state has been viewed as one of the most dependable employers in rural Texas, its dependent communities are highly vulnerable to policy shifts, governmental fiscal crises, or departmental reorganizations.

4.4 Texas Department of Agriculture

The state agency which created the most comprehensive development services around rural specialty industries is the Texas Department of Agriculture. After the election of Commissioner Jim Hightower, TDA began

promoting traditional populist institutions such as cooperatives as a means of broadening economic opportunity for family farmers. In the process, TDA discovered an array of new growth markets and technologies.

A strategy of harnessing these markets to populist goals became the core of the TDA program. TDA was nationally recognized for its innovative use of agricultural development tools, particularly in service to small enterprises and low-income and minority communities.

Although Hightower's opponent in 1990 was strongly critical of the development vision espoused by TDA, the structure and public purpose of the TDA development programs have remained largely intact under Commissioner Perry. A large number of staff have left the agency, however, and TDA's budget was cut 12 percent during the 72nd Legislature. According to interviews, this has damaged the effectiveness of some TDA programs.

A strong constituency for TDA development programs was established while Hightower was Commissioner. For example, the organic certification program, which was intensively criticized by the chemical industry and others, has been continued. This program is highly popular, and appears to be expanding into areas of "mainstream" agriculture such as cotton production.

Four TDA program areas are relevant to this report: Agricultural Development, Finance, Direct Marketing and International and Promotional Marketing.

Agricultural Development

The Agricultural Development program provided research, consultation and proposal packaging services to food and fiber businesses and new crop enterprises. According to program documents, Agricultural Development assisted over 100 enterprises between 1982 and 1990, of which 58 new manufacturing businesses were capitalized and started-up operations. By 1990, these plants were generating \$100 million in annual sales and employed 2,300 workers.

Agricultural Development also helped organize industries such as wineries, exotic livestock farms, ostrich ranches and fish farms. For example, it helped the Sea Atlantic fish farm in Katy, Texas market a variety of fish called tilapia to 24 grocery stores in Houston. This assistance aided the company to expand from 120,000 pounds of production in 1987 to 250,000 pounds in 1991.

Finance

The Finance program provides loans to agricultural entrepreneurs and grants to support non-profit organizations promoting industry innovations. This program was designed through a series of workshops held around the state during 1986 on agricultural capital needs.

Legislation was introduced in 1987 to address the following capitalization problems: (1) high interest rates; (2) lack of second-stage financing for businesses that had already commercialized a product; (3) lack of commercial financing in rural low-income communities; and (4) poor grant support for rural non-profit organizations undertaking economic development initiatives.

The legislative package was passed in pieces during 1987 and 1989. In addition, two constitutional amendments were approved by Texas voters in the 1987 and 1989 elections to implement this legislation: the constitutional principle that the state could make loans and grants to private businesses; and \$25 million in general obligation bonds to fund the programs. Several programs were created through this legislation.

The **Linked Deposit Program** provides incentives through state Treasury deposits enabling lenders to make low-interest loans to innovative agricultural businesses. Through 1990, the program had authorized \$4.4 million in linked deposit loans for more than 38 projects including meat processors, a "fideo" pasta manufacturer and ostrich and exotic deer farms.

The **Texas Agricultural Finance Authority** provides "mezzanine" capital to young enterprises in the process of second-stage expansion to broader commercial

markets. TAFE utilized an innovative commercial paper financing structure, and has currently loaned the majority of its \$25 million state bond authorization. Funded projects include a leather tannery, cotton processing plant, and specialty meat products company.

The Texas Agricultural Diversification Program provides grants to educational and community development organizations for commercializing new agricultural products and demonstrating sustainable farming techniques. The program focuses on providing direct entrepreneurial opportunity for farmers and ranchers and in low-income and minority communities.

Over three years, 48 grant awards were made, totalling \$600,000. This included support for agricultural business incubators and local revolving loan funds, and aid to industries as diverse as dwarf apples, alligators, quail, fig orchards, and Spanish goats.

The Rural Microenterprise Fund was designed to assist in setting up local revolving loan pools to finance very small businesses in low-income and minority communities. Loans can be made to retail and service businesses as well as agricultural enterprises. Local pools were structured around partial funding by the state and partial funding from other local sources such as private foundations and the Economic Development Sales Tax. This program was in its pilot phase at the time Hightower lost the election, and has not yet been fully implemented.

The Finance program also helped in foundation fundraising and organized educational programs on behalf of community organizations. For example, in cooperation with the Texas Higher Education Coordinating Board, it sponsored a series of eight regional and statewide conferences to help community colleges establish agricultural diversification programs.

Direct Marketing

The purpose of the Direct Marketing program under Commissioner Hightower was to develop suppliers that could satisfy market

demand for fresh, high quality and specialty produce. This market has been expanding rapidly in Texas over the last decade. Direct Marketing emphasized creation of cooperatives and associations through which low-income, minority and limited-resource farmers could channel their produce directly into the marketplace.

According to TDA documents, by 1989 the Direct Marketing program had helped organize about 100 farmer's markets with 3700 participating farmers, each averaging over \$8500 annually in sales. This became an important source of supplemental income for many small farmers across the state.

In addition, the Direct Marketing program developed direct wholesaling links by helping create 22 marketing cooperatives with 350 farmer-members. Participating farmers earned an average of \$49,000 annually through cooperative marketing efforts. For example, the program helped organize the Valley Farmers Cooperative in San Juan which markets peppers and other crops to Pace foods in Texas, and Pathmark stores in New Jersey.⁴⁰

Finally, the Direct Marketing program established educational programs bringing together different networks in the agricultural community. These included two yearly conferences, the Direct Marketing Conference and the Black Farmers Conference, and the Agricultural Institute which trained cooperative members.

International and Market Promotion Programs

These programs promote Texas agricultural products in domestic and overseas markets through trade shows, seminars, computerized trade leads and directories, logistical support to foreign buyers, promotion of the "Taste-of-Texas" and "Texas Grown" logos, placement of news stories, and other tools. TDA materials indicate that over \$100 million in international sales were assisted by TDA during 1989 alone. By 1989, about 706

⁴⁰See § 5.4 for more detail on the San Juan Coop.

companies were enrolled in the "Taste-of-Texas" program, and about 833 companies in the "Texas Grown" program.

Three international technology and market exchange programs were also created under Commissioner Hightower: Texas-Israeli Exchange (TIE); Mexico-Texas Exchange and Texas-Egypt Exchange. The TIE exchange, for example, operates a full-time demonstration farm in Laredo, in cooperation with Laredo Junior College, that produces a variety of specialty products developed in Israel using arid land technologies such as drip irrigation systems. Groups of farmers from around Texas were trained at the demonstration farm.

A new initiative under Commissioner Perry is the Young Farmers Endowment Program. This was passed by the 72nd Legislature as HB 1826. Chairman Patterson of the House Agriculture and Livestock Committee was the sponsor. It provides loans of up to \$50,000 for beginning farmers, not to include the costs of land purchase. Only limited appropriations were available for the program, however.

Recommendation: The Rural Microenterprise Program. This program has \$5 million in unused general obligation bonding authority. According to the interviews, there is significant demand for the program, and at least five rural organizations have designed programs to utilize microenterprise funds. Microenterprise finance is the best-developed model in Texas to generate economic activity in communities without access to conventional capital sources. Participants recommended that strong efforts be undertaken to fully implement this program.

4.5 Texas Department of Commerce

The Texas Department of Commerce and its predecessor agency, the Texas Economic Development Commission, have been struggling for almost a decade to define a continuing agency purpose and appropriate

services. Over this period, the Department has been buffeted by management problems, political shifts and reorganizations, all of which are widely considered to have undermined its effectiveness.

The Department was criticized by some interviewees for focussing on big industrial projects and not effectively serving small cities, rural areas, distressed communities, and minority populations. TDOC has been working to address these problems under the current administration.

TDOC has been through three institutional manifestations: (1) an original focus on industrial recruitment; (2) the adoption of an expanded mandate under Governor Mark White including new emphasis on technology policy, small business, and export promotion; and (3) a drive during the Governor Clements administration to consolidate all state economic development programs including tourism and the Job Training Partnership Act.

Thus, TDOC internally is an overlay of several generations of economic development policy. The problems of combining these within a small state general revenue budget (approximately \$8 million in FY 1992) appear to have created pervasive management problems and uncertainty about policy goals.

During the gubernatorial campaign during the summer and fall of 1990, and the legislative session during the spring of 1991, the Texas Department of Commerce came under intense criticism for poor management and inappropriate use of funds. The Texas Comptroller's Office produced a report in May of 1991 which detailed twelve areas of irregular administrative practices.⁴¹

TDOC also initiated its own internal program audit during the spring of 1991. This audit was based on small group meetings with constituents, termed "allies", who assessed the effectiveness of current TDOC programs and provided recommendations for reorganization.

⁴¹Texas Comptroller of Public Accounts, Special Audit Report of Selected Activities at the Texas Department of Commerce (1991).

According to TDOC staff, the "allies" brought into these constituent meetings were drawn primarily from industrial development organizations and chambers of commerce across the state.

In part as a result of these criticisms, the Executive Director and several board members of TDOC resigned. During the summer and fall of 1991, a new acting Executive Director was appointed and the agency's statute rewritten to provide the Executive Director greater independence from the Board.

Since mid-1991 when Cathy Bonner was appointed acting Executive Director, the administrative energy of the new leadership at TDOC has been directed in five major areas: (1) salvaging the agency's budget in the legislative appropriations process during the summer of 1991; (2) an internal process of improving overall management efficiencies and public contact, called Total Quality Management; (3) reorganization of specific programs, particularly JTPA, that were targeted during the legislature as having significant management problems; (4) overall program redesign based in part on the internal audit conducted during the spring of 1991; and (5) preparation for review of the agency by the Texas Sunset Commission, occurring during winter and spring of 1992.

TDOC has established two new initiatives that bear importantly on rural areas: the Rural Development Office and the Texas Marketplace. Two older program areas are also important to rural Texas: the Finance Program and the Industrial Development Effort. The tourism and workforce development programs are not examined in this report.

4.5.1 Rural Development Office

The Rural Development Office was created in the fall of 1991 with a staff of two in addition to a program director. The Office began as an outgrowth of the Community Initiatives Program under the previous administration, which provided strategic and industrial training to small cities.

The creation of this Office at TDOC was interpreted in several interviews to be the result of the effort during the 72nd Legislature to create a rural development staff within the Governor's Office. The legislative debate brought attention to rural issues and created pressures within the political system for a stronger rural development focus. In addition, an early draft of the TDOC Omnibus Bill, SB 1070 by Senator Dickson, had mandated the creation of a Rural Development Office.

The first project of the Rural Development Office was conducting an internal evaluation to define its programmatic mission and relationship to constituents. This process included meetings with investor-owned utilities, rural electric cooperatives, and personnel in other state agencies. These meetings were similar to the "ally" group evaluation process conducted in the spring of 1991. However, they covered a broader range of programmatic options.

According to program staff, these meetings resulted in the definition of two goals for the rural development office. First, it should act as the initial point of contact among state agencies for assistance requests from small cities. The office would conduct an initial community assessment and connect the cities to technical assistance sources either in TDOC or other agencies. Second, TDOC should be a convener of other agencies to help develop joint policy and ensure that services are not redundant.

Currently, the Office has prepared its Community Assessment questionnaire and has begun compiling technical assistance materials to be available to small cities. The Office has already begun to field numerous calls for planning assistance.⁴²

In general, legislative staff, rural advocates, and local officials interviewed through this project were strongly supportive of the concept of the Office. It is seen as important that a single entity be made responsible for understanding what rural

⁴²Texas Department of Commerce, Economic Development Base Analysis (December 1991).

development resources are available within the state and for maintaining a rural development network among state agencies.

Recommendation: Participants in this project the resources available to the Rural Development Office. (3 FTEs) to be inadequate for its mission and for the level of needs among rural communities.

Recommendation: Many of the project interviews indicated that the Rural Development Office should have a higher profile within TDOC. Organizationally, it should be located near the Executive Director and should have a stronger ability to influence resource and staff allocation within other programs.

4.5.2 Texas Marketplace

A second new TDOC initiative affecting rural areas is the "Texas Marketplace." This initiative begins to decentralize TDOC's business consulting services, with the intention of making them more sensitive and responsive to local economic trends and business communities.

This concept of "decentralization" is important because of the fragmentary and shifting nature of much of the emerging specialty services economy in rural Texas. It is difficult for a state agency without field offices to remain in touch with this level of industrial change.

TDOC is making funds available to Small Business Development Centers (SBDCs) to carry out the "Texas Marketplace." SBDCs are business assistance organizations housed primarily at state universities, and funded jointly by the federal Small Business Administration and by state line-item appropriations. These centers provide technical assistance through a series of satellite centers and circuit-rider programs.

TDOC funding is designed to help SBDCs become coordinated with TDOC programs and, in effect, act as program "retailers." TDOC will supplement these funds

with additional assistance including a computerized bulletin board through which SBDCs can access TDOC trade leads and a manufacturing supplier matching system.

"Texas Marketplace" represents a new administrative concept for TDOC. It gives the agency a direct presence in the field through four regional centers and a number of satellite programs, and links TDOC to a network of four-year, post-secondary educational institutions. This network may be expanded later to other institutions such as incubators. In addition, it gives TDOC a new channel for market information and, in theory, policy influence over another element of the economic development bureaucracy in Texas.

On the other hand, issues were raised during project interviews about the concept of the "Texas Marketplace." Most important, there were questions about the use of SBDCs as a major "retailer" of TDOC programs to small business. SBDCs were criticized strongly in several of the project interviews for not providing effective services to rural areas and limited-resource or minority businesses.

Recommendation: It was suggested in interviews that a strict system of performance review and accountability should be established to ensure that SBDCs meet state policy goals, including service to non-metropolitan areas and distressed communities. It was also suggested that the performance reviews should be extended to the entire SBDC general revenue appropriation of approximately \$2 million.⁴³ It was also recommended that SBDC funds be administered directly by TDOC, and be distributed to regional centers through interagency agreement.

Recommendation: Interviewees also recommended that TDOC should quickly extend the "Texas Marketplace" to low-income and minority organizations. This

⁴³SBDC Appropriations in FY 1992 include the following: Lamar University - \$130,167; University of Houston - \$1,265,712; University of Texas at San Antonio - \$184,240; Dallas Community College - \$200,000; and Texas Tech University - \$157,476.

would link the agency to an important new constituency for TDOC services.

4.5.3 Finance

TDOC administers several finance programs that are active in rural areas. Most important among these are (1) the **Texas Capital Fund** and (2) the **Rural Economic Development Loan Fund**. In addition, the **Product Development Fund** and the **Small Business Incubator Fund** have potential to be influential financial sources for rural development in Texas.⁴⁴

About \$9 million is loaned each year to business development projects in non-entitlement cities (under 50,000) out of the Texas Capital Fund. The Community Development Block Grant provides resources for the Fund and loans must meet federal HUD requirements for benefit to low- and moderate-income populations.⁴⁵

During the previous TDOC administration, Texas Capital Fund applications were required to meet stringent credit guidelines not unlike those of commercial lenders, and the program experienced difficulty through mid-1991 in expending available funds. This problem appears to have been rectified by the current management of the agency.

Texas Capital Fund loans and infrastructure grants have been used primarily for industrial projects, although there are some well-publicized exceptions such as financing a racetrack in Brady, Texas. The program has experienced few defaults.

A review of Texas Capital Fund awards indicates a high proportion of funds during 1986 through 1990 expended on local government investment in private prisons. A total of \$4,049,680 was expended on nine

⁴⁴Texas Department of Commerce, Summary of Financial Incentives (December 1991).

⁴⁵Texas Department of Commerce, Texas Community Development Program: 1991 Final Statement (May 1991).

prisons during this period.⁴⁶ A moratorium was later placed on these expenditures.

In addition, a relatively large proportion of funds have been used to support major corporations and institutions. Examples include \$500,000 to Tyson Foods in Center (1990) and \$500,000 to Associated Milk Producers, Inc. in Winnsboro (1990).

Strictly speaking, Texas Capital Fund loans operate as grants from TDOC to local governments. The loans are administered by the local government as a revolving fund, and proceeds revert to the local government. Although the local revolving fund must be operated continuously according to CDBG guidelines, this is an important source of partially-discretionary, locally-controlled capital for rural communities.

According to program staff, an expansion of the Texas Capital Fund is currently being proposed to finance small business incubators. This could be an important step enabling the Fund to link with local resources such as the Economic Development Sales Tax.

The **Rural Economic Development Loan Fund** has been another source of capital for rural Texas. REDLF loans are administered directly by TDOC through a \$3 million revolving fund, funded through state general revenue appropriations. Under current REDLF rules, as established by SB 1070 during the last legislature, loans can be made directly or as guarantees, and can be used for most types of rural businesses. Previously, the REDLF was limited to loan guarantees for industrial projects. In addition, the new Small and Minority Business Program could provide an important avenue for reaching into rural

⁴⁶Texas Detention Management in Newton (1990 - \$500,000); Pricor, Inc. in Cotulla (1989 - \$322,374); Pricor, Inc. in Diboll (1989 - \$500,000); Pricor, Inc. in Fort Stockton (1989 - \$331,600); Pricor, Inc. in Marlin (1989 - \$493,000); Pricor, Inc. in San Saba (\$496,055); Wackenhut Services, Inc. in Bridgeport (1987 - \$437,651); Corrections Corporation of America Prison in Venus (1987 - \$500,000); and Corrections Corporation of America Prison in Cleveland (1986 - \$469,000).

communities. (See Section 4.9, Texas Department of Housing and Community Affairs.)

All REDLF funds are currently loaned out. No appropriations were provided to the fund during the last legislature.

Product development and small business incubator loan funds have not yet been implemented. A total of \$45 million in general obligation bonding capacity authorized for these areas has not been utilized.

Two issues were raised by interviewees regarding the use of these loan programs under the previous administration of TDOC. First, the programs were not focussed sufficiently on "indigenous" small businesses, particularly as operated by entrepreneurs with little access to capital. Second, they have not launched strong enough efforts to capitalize and develop the capacity of local revolving loan funds.

TDOC received substantially more flexible financing authority through SB 1070 in the last Legislature. This new authority is designed to support TDOC in establishing community-based loan funds and in taking substantially more risk on start-up and industrial innovation loans.

Recommendation: TDOC has been taking steps to establish more innovative and flexible uses of rural financing mechanisms. These efforts should be pursued aggressively with the support of the Legislature, and should be tied to projects demonstrating sectoral opportunities in rural industries, use of local financial "intermediaries" such as community-based loan funds, and partnership with Economic Development Sales Tax projects.

4.5.4 Industrial Development

Project interviewees were asked to comment in general about industrial recruitment activities undertaken at TDOC. This category includes: (1) out-of-state promotion of Texas as an industrial location site, through mailers,

meetings and other tools; (2) specialized, high-profile recruitment efforts, including the SuperCollider, Formosa Plastics, and McDonnell-Douglas; (3) assisting out-of-state businesses by directing them to communities that match their site requirements; (4) promotion of foreign direct investment; and (5) administration of the state Enterprise Zone program and the Office of Technology.

Three major issues were raised about the industrial recruitment program during project interviews. The first issue concerns equity. Many of the non-metropolitan communities contacted during this project felt that TDOC did not provide sufficient attention to their needs for recruitment. They indicated that they are rarely given recruitment leads. The same criticism was made by representatives of minority communities.

Recommendation: Some interviewees commented that special efforts are required to target industrial development to these specific groups -- for example, emphasizing smaller and minority firms in the recruitment process. One local official suggested that TDOC should establish an industrial development initiative specifically for small cities and minority business organizations. This would help TDOC become more knowledgeable about rural industrial needs and create a stronger network among rural local governments and minority constituencies.

The second issue raised by interviewees was the need for targeting of specific industries. TDOC has utilized the sectoral approach through its Office of Advanced Technology, a strong initiative for the textile industry, and in other areas. According to some project participants, however, TDOC needs to continue to build the resources, skills, and research base for industrial innovation, including industries appropriate for rural areas.

Recommendation: Some observers feel that TDOC should concentrate more attention to sectoral strategies. In a sectoral approach, TDOC staff would be trained to become experts in particular industries. They would act as sectoral advocates by working with industry groups to examine

needs and identify how best to meet them through state programs or policies.

Interviewees argued that the recruitment program should be oriented towards supporting communities to target and design their own recruitment efforts, based on local understanding of what kinds of businesses offer an appropriate form of growth.

Recommendation: TDOC should undertake, as a part of overall local development planning, to assist communities in designing recruitment efforts tied to their particular local strengths. Moreover, it was recommended that TDOC should more actively help communities negotiate with companies that are proposing to locate a facility in their area.

4.5.5 Other Issues

The Texas Department of Commerce's recent history reflects common problems among Departments of Commerce. Apparently other Southern states, as well, have experienced management and policy shifts and problems in dedicating significant appropriations to Departments of Commerce.⁴⁷

Overall, most of the rural elected officials and staff interviewed through this project perceive TDOC programs to be improving. The new TDOC initiatives were praised in many of the interviews. Nonetheless, there is also a strong perception that non-metropolitan areas still do not get a fair share of resources from the agency, and that TDOC has not yet articulated a coherent, agency-wide strategy for rural economic growth.

Obviously, TDOC has limited general revenue resources. The findings of this project suggest that the agency should place a priority in the 73rd Legislature on expanding the funding base for non-metropolitan development programs.

⁴⁷Personal communication with Mary D. Mountcastle, MDC, Inc., North Carolina.

Programs have been announced that indicate important new directions for the agency. Particularly, the Texas Marketplace, Rural Development Office, and Incubator programs open up new policy windows. They represent a structural innovation in the way TDOC does its business. By working more actively through local "intermediary organizations"--such as SBDCs and incubators--TDOC can reach more effectively into rural communities.

On the other hand, project interviews suggest that TDOC still relates primarily to traditional economic development constituencies--chambers of commerce, utilities and industrial development corporations--and is not yet reaching out aggressively to rural community-based development organizations, minority organizations, small city governments, or other elements of a broader rural constituency. Three general recommendations emerged from the interviews.

Recommendation: TDOC should dedicate more effort to designing services appropriate for economically-distressed rural communities and regions. As discussed previously, many non-metropolitan areas in Texas are in danger of becoming a drag on the state's economy. Specialized initiatives need to be undertaken to make agency programs available to broader constituencies and distressed populations.

Recommendation: More effort is needed to identify industries appropriate to non-metropolitan areas. This is a research process that should be based on continuing relationships and organized discussion within rural industries and communities. In many communities, these industries may be focussed on self-employment and home-based businesses. In other communities, they may be value-added industries such as specialty food processing plants or small wood products manufacturers.

Recommendation: Interviewees also recommended that TDOC establish rural demonstration projects. These types of projects would use all available resources--

finance, JTPA, recruitment, technology, SBDCs, and policy initiatives in the Legislature. They would be chosen for appropriateness to the workforce, entrepreneurial skills, capital availability, and infrastructure available in small communities. The demonstration approach would provide TDOC a programmatic structure to target scarce resources on special projects in the major rural regions of the state, in key industries, and in minority and distressed communities.

4.6 Texas A&M University System

Rural development services are provided through four elements of the Texas A&M System, exclusive of services for traditional commodity producers:

1. County extension agents engaged in rural development projects;
2. Community Development Program in the Texas Agricultural Extension Service;
3. Municipal Assistance Program in the Texas Engineering Extension Service; and
4. Community Training Division of the Texas Engineering Extension Service.

In many of the interviews conducted through this project, it was suggested that most county extension agents do not have time or resources to be aggressive participants in rural development activities. Interviewees pointed out that some agents across the state have played a critical role to lead rural development initiatives. In most cases, however, extension agents dedicate their services to traditional agricultural commodities and 4H programs.

Project participants were broadly supportive of the role played by the Community Development Program at the Texas Agricultural Extension Service. The Community Development Program sponsors a statewide conference on rural development policy; staffs the Rural Economic Development Commission; conducts a strategic planning

effort to help local leaders understand and plan for their local economic environment; implements the national Rural Information Center (RIC) program; and sponsors Texas Rural Leadership, Inc., which helps train rural leaders so they can evaluate and initiate community development projects (this last program has not yet been fully implemented).

The Community Training and Municipal Assistance Programs at the Texas Engineering Extension Service provide, respectively, training in community development and technical assistance in project feasibility studies. The Community Training Program previously focussed on industrial recruitment, but has recently been redesigned to cover a broader range of community economic issues. Many rural community staff in Texas have utilized this training. The Municipal Assistance Program uses graduate students to conduct feasibility studies in industries such as textiles and apparel.

In addition, rural development projects often draw on the expertise of individual faculty or extension specialists who can act as consultants in specific fields such as horticulture or process engineering. Faculty at Texas Tech, the University of Texas and other institutions also provide similar services.

Recommendation: Two state administrators made similar recommendations for the Texas Agricultural Extension Service. They suggested the state should mandate a broader role for extension agents in rural development programs, and upgrade the training of extension agents in rural development practices.

For example, it was suggested that one-fifth of all extension agents should be made rural development specialists, each responsible for a multi-county area. These agents would also continue other extension responsibilities, but would dedicate a portion of their time to development projects in their region. These specialists would go through a series of intensive training programs extending over a period of one to two years. The state would also mandate that hiring practices in the extension service emphasize rural development

skills as well as knowledge of agricultural production.⁴⁸

Recommendation: The Texas Engineering Extension Service could also play a broader role in assisting with the engineering of rural manufacturing facilities. A number of states across the country have established programs designed to improve the competitiveness of manufacturing industries by expanding engineering extension programs.⁴⁹ Texas appears to have an effective program which could be of greater benefit if expanded.

4.7 General Land Office

Land Commissioner Garry Mauro created the GLO Rural Development Program in the fall of 1991. The purpose of this program was to generate new rural initiatives within the agency emphasizing environmental technologies, new production practices for public lands, and sustainable community planning. This program was planned in part by staff that had previously worked for TDA under Commissioner Jim Hightower.

The program is staffed with 2 professionals. Activities of the office include: (1) advising small communities on economic alternatives, particularly regarding resource conservation; (2) assisting businesses with development or use of new environmental products and technologies; and (3) establishing demonstration projects in use of new products and technologies. GLO field staff will be trained to carry out some of these

⁴⁸See Richardson, Burl, An Analysis of Extension's Strategic Planning Process, Texas A&M University (February 1991); Texas Agricultural Extension Service, Statewide Issues and Initiatives for the 1991 - 94 Long-Range Extension Program (October 1990); and Texas Agricultural Extension Service, Extension Initiatives for the 1991 - 94 Long-Range Extension Program, White Papers, Texas A&M University.

⁴⁹U.S. Congress, Office of Technology Assessment, Making Things Better: Competing in Manufacturing, OTA-ITE-443, Washington, DC: U.S. Government Printing Office (February 1990).

responsibilities. Examples of GLO projects include the following:

- * Economic strategic planning in Colorado City, to help the community assess alternatives to a proposed hazardous waste incinerator. (See § 5.1 for a detailed case study on this situation.) The effort is currently assessing a prison, main street retail projects, and a microenterprise fund.

- * Development of a dairy waste recycling program. GLO is assisting this effort by researching new waste technologies and markets on behalf of a group of dairy farmers, and seeking funding for a demonstration project utilizing dairy wastes.

- * Coordination of the Holistic Resources Management (HRM) demonstration project in Hudspeth County. HRM is an innovative grazing technology designed to rehabilitate damaged range. It is based on a principle of intensive livestock pasturage and management. This will be the first public demonstration of HRM on public lands in Texas.

- * Assistance for Cotton Unlimited, a manufacturer of cotton insulation in Post, Texas. GLO is providing technical and marketing aid to help Cotton Unlimited expand its product line into manufacture of oil spill clean-up materials.

The Land Office rural development program is only a few months old and, thus, its success cannot be fully assessed. In concept, however, it appears to be valuable both as a development strategy for the environmental services industry, and as an effort to build capacity in rural communities for planning around sustainable development.

Recommendation: Interviewees recommended that GLO's Rural Development Program be strengthened through definition of a specific legislative mandate and through additional legislative appropriation or budgeting of broader resources for the program within GLO. This program should be supported at a level to provide substantial services for

sustainable community planning and development of environmental service industries in Texas.

4.8 Texas Comptroller of Public Accounts

The Economic and Local Assistance Division was created by Comptroller John Sharp in the fall of 1991. This Division focuses on offering aid to local governments in financial management practices and making available information and concepts about economic development. The Division provides information on financing options, regional economic statistics and economic trends. Development programs within the Division include the following:

The State and Federal Grant Directory is accessible to local governments for computer searches about grant funding sources in a wide variety of categories.

Economic Outlook Seminars are conducted regularly in different regions of the state. They present information about trends in regional industries and about possible areas of growth or decline in the regional economy.

Small and Disadvantaged Business Recruitment Program works with business owners to help them interpret purchasing procedures and become eligible vendors on the Comptroller's bid list. In addition, economic development specialists help vendors become certified with TDOC as a small and disadvantaged business. TDOC makes the names of these businesses available to all state agencies.

The Division also provides a variety of other assistance to rural local governments, upon request. For example, it helps local officials understand the statutory requirements of the Economic Development Sales Tax and identify state resources to support industrial development projects.

Recommendation: Rural local governments are now faced with significantly expanded responsibilities for financial evaluation and management of

economic development projects. The interviewees indicated that the Economic and Local Assistance Division should be strengthened to be available for more intensive and frequent consultation with local governments on financial aspects of the operation of local economic development programs. Moreover, it was suggested that the Division establish a formal program to monitor use of public monies in rural economic development projects, and that the Comptroller report to the Legislature on program effectiveness.

In addition to the functions described above, the Texas Department of Commerce was provided statutory authority in SB 1070, 72nd Legislature, to establish cooperative agreements with the Comptroller's Office and other state agencies regarding the creation of joint programs for dissemination of economic development information. This authority has not yet been utilized.

Recommendation: Cooperative efforts among agencies could greatly improve the availability of information about the rural economic climate, project models, availability of state programs and emerging industry opportunities. Interview results indicated that a lead agency should be identified--and specific staff resources dedicated--to developing a cooperative information approach and a unified rural database or computer network shared among rural organizations and agencies throughout the state. Funding would be required to regularly update this database or network and ensure access to a range of organizations, including those with limited budgets. Legislative appropriations or philanthropic funds should be sought to support this effort.

Finally, the Comptroller's Office undertook a performance review of Texas state government during the 72nd Legislative session, and submitted recommendations to the Legislature and the Governor for reorganization of state agencies. These reviews were generally well-received and provided greater insight into agency operations.

Recommendation: Future performance reviews could provide a valuable mechanism for evaluating the effectiveness of rural programs. Reviews of all major rural development programs should be conducted, with solicitation of input from affected groups.

4.9 Texas Department of Housing and Community Affairs

The largest source of discretionary funding for non-metropolitan areas in Texas is the "non-entitlement" Community Development Block Grant Program. This program has expended between \$48 and \$63 million per year over the last decade in the small cities and counties of Texas.

The Community Development Block Grant (CDBG) program was created by Congress in 1974. It is administered federally by the Department of Housing and Urban Development (HUD) and in Texas by the Texas Department of Housing and Community Affairs (TDHCA). The 72nd Legislature transferred the program from TDOC to TDHCA in an effort to consolidate community development activities within TDHCA.

The CDBG program awards grants and loans to non-entitlement cities and counties based on a competitive proposal process. Non-entitlement cities have less than 50,000 in population and non-entitlement counties have less than 200,000 in population.

The objectives of the CDBG program are to benefit low and moderate income people, aid in the elimination of slums and blight, and meet other community development needs of particular urgency.

In FY 1991, the Texas CDBG program was awarded \$54,328,000 in federal funds. The program allocated these funds as follows: \$32,185,210 to the Community Development Fund; \$9,160,470 to the Texas Capital Fund; \$5,432,800 to the Colonia Fund; \$1,980,000 to the Governor's Special Assistance Fund for Small and Minority Business; and \$543,280 to the Planning/Capacity Building Fund.

The **Community Development Fund** is used for water and sewer projects, street and drainage improvements, public facilities, housing rehabilitation and acquisition, and other activities. Grants are awarded through regional review committees in each of the 24 planning regions of the state. These committees, in conjunction with CDBG staff, establish scoring criteria, evaluate applications and make grant awards.

The **Texas Capital Fund** is administered separately by TDOC and has been described previously.⁵⁰ The **Emergency/Unmet Need Fund** is used to respond to situations of natural disasters or threats to public health and safety.

The **Governor's Special Assistance Fund for Small and Minority Businesses** is available for special demonstration projects creating employment opportunities for low and moderate income persons through development of small or minority businesses. Selection of projects is made by the Executive Director of TDOC based on recommendations from TDOC staff.

The **Planning/Capacity Building Fund** provides grants of up to \$40,000 through an annual statewide competition. These grants can be used for a wide variety of planning activities such as base mapping, land use and housing studies, utility studies, economic development studies and others.

A review of community development grants during 1986 through 1990 indicate that the great majority have been used for water and sewer projects. TDHCA has indicated that in the 1992 fiscal year more emphasis will be placed on housing projects.

The majority of the Planning/Capacity Building funds have been used to develop base studies and evaluate water, wastewater, capital improvement programs, subdivision ordinances, street conditions, and other basic city needs. According to CDBG staff, few economic development applications are received, and no grant exclusively for small

⁵⁰Section 4.5.3

city economic development has been awarded in recent years.

According to users of CDBG grants, the state CDBG program does not have resources to provide intensive technical assistance on development of innovative uses for CDBG funds. Thus, it must function primarily as a "reactive" administrator, ensuring that the proposed use of funds meets federal guidelines but not aggressively working with local governments or community organizations to ensure the most effective use of funds.

Both local and state officials raised several issues about the CDBG program. The strongest criticisms were made of the regional review process. On the one hand, critics of the review process comment that local elected officials on these committees direct funding to "pet projects" through a process of "horse trading." According to this argument, the process does not result in the highest and best use of CDBG funds.

On the other hand, supporters of the local process suggest that state program rules and criteria have been too narrowly defined. This has tended to funnel CDBG monies into projects that may not be of highest importance to the community. According to this argument, the review process would work better if local committees were provided more flexibility.

Recommendation: The regional review process should be re-evaluated. At a minimum, the application process should be opened to broader community participation, or even a genuinely competitive process at the regional level, and representatives from low and moderate income communities should be appointed to the regional committees.

The Planning/Capacity Building Program was criticized in interviews. Local official called it a "full employment program for consultants." Particularly, this program is famous for producing boilerplate plans used repeatedly in a number of communities.

Recommendation: One rural development advocate suggested that the

Planning/Capacity Building program be restructured to award high points for planning processes that are undertaken by members of the community themselves (rather than primarily by consultants). Moreover, strategic economic planning is in significant demand all across the state. The Planning/Capacity Building Program should be broadened to fund strategic plans or the design of local development programs such as microenterprise pools.

Recommendation: The Governor's Special Assistance Fund points toward an innovative use for CDBG in economic development projects. Other innovative options should also be developed for the CDBG program. In some states, for example, CDBG monies are used for sustainable agriculture demonstration projects.

4.10 Texas Higher Education Coordinating Board

The Texas Higher Education Coordinating Board plays an important role in rural economic development. It has the following primary functions in this regard:

1. State formula funding for community colleges;
2. Administration of Carl D. Perkins Act funds for special needs populations;
3. Administration of Carl D. Perkins Act grants for program research and development; and
4. Administration of the Advanced Research and Advanced Technology Programs.

Despite the lack of staff members specifically designated for rural development activities, the Coordinating Board has undertaken several important rural development initiatives. For example, the Commissioner of Higher Education, Kenneth Ashworth, helped organize a set of statewide conferences with TDA on curriculum for agricultural

diversification. In addition, Carl D. Perkins Act funds have been used to support research and demonstration efforts to improve economic development services and courses in community colleges.

A number of rural community colleges host rural economic development activities. Common activities focus on labor markets including employee retraining, customized training, training for industrial start-up or expansion, JTPA training, or basic skills centers. Business development activities include bid procurement centers, business incubators, and small business development centers. Some rural community colleges are involved in local economic development task forces and regional economic forecasting efforts.⁵¹

Interviewees commented that community colleges can play an important role in rural development because of their flexibility in curriculum development. Courses can be scheduled if as few as ten students are interested and an instructor is available. After courses have been taught for one year the community college can request partial support through state funds.

Recommendation: Creation of a "seed" fund was recommended to cover costs associated with introducing new rural coursework into the community college curricula. These courses could cover such topics as development of microenterprises, organic vegetable production or management of home-based businesses. They could be based on available models such as developed at Kirkwood Community College in Iowa. Use of Carl D. Perkins Act grant funds could be evaluated to support such a "seed" fund.

One interviewee commented that Advanced Research Program and Advanced Technology Program funds could be key to investment in new rural industries. These competitive grant programs were created by the Legislature in 1987 through HB 2181 with the

⁵¹Amarillo College, Your Directory of Economic Development Resources in Texas.

purpose of improving research capabilities in Texas higher education in order to help diversify the Texas economy. The \$65 million biennial appropriation for these programs is one of the largest development investments made out of state general revenues.

These two grant programs are part of an overall "strategic plan" designed to encourage and support research and development activities at the state universities. Other elements of the plan are the Research Enhancement Program (which provides research funds on a formula basis); special item research programs; campus technology transfer centers; the Product Development Fund and the Product Commercialization Fund; and the Texas Innovation Information Network Service.

One recent assessment of these grant programs, based on two days of interviews conducted in January, 1991, found the programs to be "superb, both in principle and in practice."⁵² However, the results of these grants have not been closely evaluated to determine their general economic impacts, benefits for specific industrial sectors, or impact on specific regions such as non-metropolitan areas.

Forty-one agriculture and aquaculture-related grants were funded through these grant programs in 1989. Other funding included 34 biotechnology grants, 37 energy-related grants, and 24 environmental sciences and engineering grants. The research funded covers diverse topics, from bovine brucellosis and computer-integrated farming to low-cholesterol meat production.⁵³

Recommendation: A few interviewees suggested that rural-related research programs need to be linked as closely as possible to specific economic opportunities.

⁵²Ebert, James D., Craig Fields and James B. Wyngaarden, Evaluation of the Advanced Research Program and Advanced Technology Program (January 1991).

⁵³Texas Higher Education Coordinating Board, Division of Research Programs, Advanced Research Program and Advanced Technology Program: Progress Report (December 1990).

They recommended that research policy in Texas be evaluated to determine how efficiently state funds are utilized, and how effectively researchers communicate with and transfer research products to small manufacturers, innovative agricultural producers, and other industries contributing to rural diversification.

Recommendation: With a legislative mandate, the Coordinating Board could play a useful role to organize discussions on rural research policy between universities, community colleges, and a broad range of rural constituents, including industries and representatives of minority and limited-resource communities. This coordination should be designed to lead to policy recommendations for tying research more closely to the rural economic development process.

4.11 Texas/Federal Rural Development Council

The Texas Federal Rural Development Council was created in 1991 to establish state-federal cooperation and collaborative rural development projects. It consists of federal departments and agencies located in Texas and affiliate members from state and local government, private sector organizations, and non-profit and charitable groups.⁵⁴

The Council has established an office in Austin with an Executive Director. Four working committees were created to develop policy for the Council: clearinghouse functions; outreach and retention; delivery system, and special issues (focussing on creation of a demonstration project).

In interviews, the Council was not viewed as being an active player in rural development in Texas. State and local members of the Council have only a junior status as "affiliates", which could tend to limit their participation.

⁵⁴The United States Department of Agriculture, Putting the Pieces Together: Annual Rural Development Strategy Report (August 1991).

4.12 Economic Development Sales Tax

The Economic Development Sales tax is a local option sales tax which was approved by Texas voters as a constitutional amendment on the November 1989 ballot. It enables small cities that meet certain criteria to hold an election for approval of an additional one-half cent sales tax increment. These funds can be used for a wide variety of economic development purposes. Over \$50 million of such funds have already been approved by voters in 65 communities.

Because of the flexibility in the sales tax legislation, a wide range of projects can be undertaken with its proceeds. It was pointed out in interviews, however, that few statutory restrictions or administrative guidelines have been provided by the state to help define appropriate uses. With few statutory or historical benchmarks for appropriateness, the sales tax could be subject to inefficient use.

Three possible pitfalls in use of the sales tax were discussed in interviews with state officials: (1) program design and project decisions are captured by a self-interested segment of the community, and benefits of the sales tax accrue only to a small group of people; (2) the staffing, management, or decision making process of the organization ultimately authorized to use the tax revenues is often ineffective; or (3) the impacts of some of the projects sought or promoted with the tax are potentially adverse to the community, such as environmental damage or creation of hazardous working or living conditions.

Interviewees also pointed out that no state programs have been established to offer concerted aid to small cities organizing sales tax programs. Programs that do work effectively with these cities are not currently organized to provide a full range of services on options for using the sales tax.

Overall, the sales tax could be important because it creates a new balance in state and local relationships. This balance has not yet been institutionalized, and Texas is in a pivotal phase as the two levels of government work

out their respective roles on a new plane, with expanded resources. Recommendations regarding the Economic Development Sales Tax are presented in Section 6.3.1. (Recommendation No. 4).

4.13 Conclusions

Over the past five years, the Texas Department of Agriculture and the Texas A&M system were key state agencies for innovation in rural development programs. TDA programs, in particular, were controversial and had a strong influence over other national and state rural institutions.

More recently, and particularly since the elections of 1990, other state agencies have established rural initiatives. These include the Governor's Office, General Land Office, and the Comptroller's Office. These initiatives are still tentative and the services to be provided by these agencies are not well-established in budget patterns. The Texas Department of Commerce has also established new rural-related programs.

Thus, the structure of state rural programs is becoming more diversified, but also more fragmented. This structure is still evolving. Nevertheless, problems of poor collaboration and redundancy of services are already becoming more prominent.

Moreover, most of the state programs are migrating towards offering information and clearinghouse "products." These are valuable, but such an approach raises a question about who will provide the "hard" research and development services--feasibility analysis, business plans, industry assessments, demonstration projects, without which small rural communities are at a distinct disadvantage.

The balance of power in the relationship between small cities and Texas state government has been shifting downward for more than a decade. As a result of the state's fiscal problems, small cities are responsible for an increasing proportion of the shared tax burden. Along with this, small cities have been

forced to become more sophisticated technically and more innovative and self-directed in policy.

The passage of the Economic Development Sales Tax acknowledges this shift, but also sharply accelerates it. As described in the case studies in the following section, small cities are also facing a more complex environment in defining economic development goals, distributing program benefits, and addressing local ecological problems related to development.

The added responsibilities for small cities are straining local resources. Other community organizations have also become involved in the development process. Several state programs are now beginning to provide local governments and community groups with in-depth consulting and expertise, including GLO, the Comptrollers' Office and Texas A&M. These programs are not funded sufficiently, however, to have a broad impact.

Throughout the overall structure of rural programs, few resources are dedicated to economic growth in minority and limited resource communities. This is the most glaring gap in state services.

A number of local officials have had no recent contacts with state rural development programs, including telephone contacts, promotional literature, or invitations to agency events. Several local officials interviewed through this survey were largely unaware of the economic development services provided through state programs.

There was pervasive criticism that state development programs do not provide "hands-on" services. For example, interviewees perceived that agencies do not have the technical focus or practical resources to help rural communities think through and package specific development projects.

State development programs are, in general, considered too rigid. They are viewed as not adapting well to local situations and the new dynamic in rural economies. A high proportion of interviewees suggested that state programs are still driven by bureaucratic formula and that the programs often need a

much higher degree of innovation and flexibility to respond to the dramatic needs in rural Texas.

The majority of state programs are not organized with cooperative decision mechanisms to help rural communities avoid conflict and polarization over environmental issues and ensure that minority communities participate in economic growth.

There was broad consensus among interviewees that the state should explore a more aggressive approach to rural development, providing a higher level of support for local initiative and for the growth industries in the different regions of Texas. Particularly, interviewees suggested that the state should be willing to take more risks in implementing rural development programs.

5.0 THE RURAL DEVELOPMENT DEBATE IN TEXAS: CASE STUDIES

This section presents several case studies illustrative of current trends and issues in rural Texas. Section 5.1 examines several situations in which waste disposal sites have been courted by local economic development or elected officials, only to result in a divided community and questions being raised about the environmental implications of the proposals. Section 5.2 examines a small business incubator in Sweetwater, Texas. Section 5.3 examines the Main Street program and its application in Mineola, Texas. The San Juan Farmers Cooperative is discussed in Section 5.4.

5.1 Courting Waste Disposal Sites as "Economic Development"⁵⁵

Over the last few years, several rural Texas local governments have become involved with companies seeking to site hazardous waste facilities. It has become clear that these local governments often lack the expertise to properly evaluate the risks associated with such proposals and are lured in by false expectations of the benefits that might accrue to the community. In many instances, severe divisions over waste facility siting have arisen between local economic development leaders, including some local elected officials, and the community residents.

Four such situations are described below. There have been similar instances in many parts of Texas, especially rural West Texas, which has been targeted for at least six new commercial hazardous and radioactive

waste disposal sites over just the last few years.

Athens, Texas and the Hazardous Waste "Recycling Facility"

A few years ago a company called Recontek set up a competition between several small East Texas cities, offering to locate a new commercial hazardous waste "recycling" facility in the community that could offer the company the best location and package of incentives. The cities that became involved in the competition were generally facing serious economic development problems and local leaders were anxious to recruit a new industry and new jobs to their area.

Athens, Texas, a city of about 10,000 people, eventually won the proposed new Recontek facility, but the real fight has just begun. Recontek examined a couple of alternative sites in Athens. One was in the "white" part of this long-segregated city. When some of the wealthier neighbors of this proposed site opposed the location of the facility before Athens City leaders, the site was dropped. Instead, Athens and Recontek agreed on a site in the African American section of town.

The proposed site is directly adjacent to a residential neighborhood, primarily inhabited by low income African Americans.⁵⁶ This neighborhood, although within the city limits, has never had paved streets or gas service. Drinking water for many homes is supplied by shallow groundwater wells, and much of the neighborhood does not have fire hydrants. In essence, its development has been ignored by the City. Neither Recontek or the City of

⁵⁵This case history was prepared based on an interview with the attorney for the citizens who are now opposing the Recontek facility (Richard Lowerre) and on news reports and documents filed with the Texas Water Commission.

⁵⁶There are over 30 homes within 1/2 mile of the proposed facility. Some homes would be as close as 250 feet to hazardous waste tanks.

Athens sought to actively involve residents of this neighborhood in selection of the site.

The site chosen by Recontek was previously undeveloped agricultural land, accessed only by a partially paved road. As part of its agreement with Recontek, the City re-zoned the site as "heavy industrial" and designated it an Enterprise Zone under Texas state law.⁵⁷ The facility is apparently going to be built with the help of industrial revenue bonds, which would be issued by the local industrial development corporation. The City of Athens has also recently applied to the Texas Department of Commerce for a loan to assist in providing water and wastewater infrastructure to the proposed facility. A siting agreement between Recontek and Athens requires Recontek to set up a "community assistance" fund with revenues from the proposed facility. This fund can be used by the City to hire an expert to review the Recontek facility, once the plant is operational.

The proposed facility has caused great controversy in Athens. The African American residents of the adjacent neighborhood united in opposition to the facility, even though the City had been able to secure an endorsement of Recontek's plan from the NAACP. As the neighbors began to investigate the proposal, they found many disturbing facts.

For example, it turned out that Recontek did not, at the time Athens agreed to host the facility, have any successful full-scale operating facilities anywhere in the country. Recontek finally succeeded in permitting a facility in Illinois, after filing applications in several other states. This Illinois facility has only operated for about one year, but it has already received citations of non-compliance from the Illinois state environment department.⁵⁸

While Recontek had initially promised 180 jobs for the facility, the permit application

filed with the Texas Water Commission stated that there would only be 100 jobs. The Illinois facility was found to actually employ only about 50 people.

The residents, aided by support from East Texas Legal Services and a group of residents from another part of Athens, retained an attorney and an expert to evaluate Recontek's proposal in detail, something the City had never done. With the engineer's help, they discovered Recontek's claims that it was going to operate strictly a "no discharge recycling" facility were quite dubious. They also discovered that there was a strong possibility that the shallow groundwater supplying many of the area water wells would be threatened with contamination from hazardous waste leaks or transportation accidents associated with the facility.

Finally, the residents discovered that the City of Athens had not sought any legal advice about whether the siting agreement might eventually put the City in the position of being liable for clean-up of the Recontek facility if the company failed in the future.⁵⁹

As these facts began to be made public, white residents from another part of Athens formed a citizen group to support the African Americans opposing the Recontek facility. This is rare alliance in East Texas (and may be one of the side benefits of the situation). But because the City had already signed the siting agreement, city leaders have been forced to maintain their support for the Recontek proposal, even in the face of increasing opposition among their constituents. The permit application remains pending before the Texas Water Commission.

The Athens experience shows that without the capability or inclination to fully evaluate the potential environmental and health impacts of a proposed new industry, local governments can find themselves embroiled in

⁵⁷The Enterprise Zone designation allows Athens to offer Recontek several incentives, including tax abatements.

⁵⁸Press Release, Illinois Environmental Protection Agency (August 12, 1991).

⁵⁹Because the City would have substantial involvement with the site, through the agreement and other actions, liability for waste clean-up might be imposed under the federal "Superfund" law if Recontek could not clean up contamination in the future.

controversy and facing a divided community. They can also find themselves out on a limb in terms of obligations undertaken in siting or "host" agreements, without adequate forewarning of the consequences. Finally, the situation is illustrative of the lack of meaningful minority involvement in many "economic development" projects, even when minority residents of a community are most directly affected by the proposals.

Mitchell County and Waste Speculators⁶⁰

In 1990, three Philadelphia investment bankers who had formed a corporation called National Waste and Energy Development, Inc. approached a few local bankers and elected officials about the potential for siting a large hazardous waste incinerator and municipal solid waste landfill near Colorado City in Mitchell County, Texas. Mitchell County is located in rural West Texas, with a total population of about 10,000 people. Its economy had been heavily dependent on oil and gas and ranching revenues, both of which declined severely over the last decade.

Like Recontek, National Waste did not have any track record with a successful full scale commercial waste disposal facility at the time it contacted Mitchell County officials. Lured by the promise of jobs and tax revenues, the County Commissioners court entered into a host agreement with National Waste after the company secured an option on a large tract of land within the County. The County, in return for a share of the revenues from the proposed facility, agreed to provide the necessary roads and other infrastructure for the site. The County did not retain experts to evaluate the geological suitability of the proposed site or the other possible environmental impacts of a large hazardous waste facility. Also, like Athens, the County failed to examine whether its siting agreement could lead to potential long-term

⁶⁰This case history was prepared based on an interview with the attorney for Mitchell County citizens opposed to the National Waste Management proposals, Richard Lowerre, and on news reports and documents filed with the Texas Water Commission.

liability for clean up costs if the site was abandoned by the disposal company.

Many area farmers and ranchers were taken by surprise when the agreement was announced. They formed a citizens group that actively opposed the proposal. The group investigated National Waste's background and the suitability of the proposed site, retaining lawyers and experts. It also organized on the political front, voting two of the County Commissioners out of office and replacing them with candidates who supported the group's opposition.

Meanwhile, National Waste changed its proposal several times--one day it was a hazardous waste incinerator, the next it was a hazardous waste landfill and the next it was just a municipal waste landfill. Its proposals were clearly not based on need for waste disposal capacity in Texas, but rather on speculation and an attempt to secure some type of permit that it might then sell to an established waste disposal company.

The opposition group took its concerns to state legislators, and was a significant source of support for a stronger law regulating the siting of such facilities passed by the 72nd Texas Legislature in 1991.⁶¹ The group also appealed to the area's State Senators to help them formulate alternative economic development plans. Under a grant from the Texas Department of Commerce and with assistance from the General Land Office, alternatives to the waste site are being investigated.

National Waste has yet to file a complete permit application with any state agency, and it appears the proposed site is stalled indefinitely.

The Mitchell County experience is also illustrative of the lack of technical expertise of many local governments in evaluating speculative waste disposal company proposals.

⁶¹Senate Bill 1099 adds more stringent criteria for siting of commercial hazardous waste facilities in Texas. It also requires applicants for such permits to now disclose substantial information about their financial status and backing and their track record in other states.

A potential positive outcome of the situation is the effort to investigate specific alternative economic development plans for the area, with support from state agencies.

Amarillo and Nuclear Production Facilities⁶²

During 1985 and 1986, the rural communities in the Texas Panhandle battled with the federal Department of Energy (DOE) over the possible location of the country's first high level radioactive waste disposal facility. With the support of some Amarillo business and local government leaders, the DOE had chosen an area of Deaf Smith County, Texas as the leading candidate for the high level radioactive waste site.

Many of the smaller communities and virtually all the ranchers and farmers in this productive agricultural region vigorously opposed the waste site. Their opposition was based primarily on the potential for contamination of the Ogallala underground aquifer, a huge aquifer spanning several western states and the Panhandle's most important water supply source. In the face of this opposition, which was actively supported by then Attorney General Jim Mattox and former Agriculture Commissioner Jim Hightower, DOE withdrew its proposal and began to focus on a Nevada site.

But just when the opponents thought it was "safe to go back in the water," many of the same Amarillo city commissioners and chamber of commerce members who had courted the high level radioactive waste site were eyeing a new economic development scheme based on the nuclear programs of the federal government. This time, the Amarillo officials were courting DOE to move its facilities for production of plutonium triggers for nuclear weapons from Rocky Flats, Colorado to the existing Pantex nuclear weapons facility in neighboring Carson County, Texas. The Rocky Flats facility has a notoriously bad

environmental record, and was finally shut down after major FBI investigations.

The promoters of moving the Rocky Flats facility to Pantex contend that the new facility would be "state-of-the-art" and would not have the problems of Rocky Flats. They succeeded in convincing the Texas Legislature to pass a resolution in support of the move, and garnered support from Governor Ann Richards. The supporters also contend that Pantex had not caused environmental problems, despite the fact that the U.S. Environmental Protection Agency and the General Accounting Office have both recently issued reports documenting serious environmental contamination and worker health and safety problems at the facility.

While the promoters initially were successful in obtaining support for the expansion of Pantex from many small city governments, school districts, chambers of commerce and other organizations in the area, much of that support has been withdrawn as more facts emerge regarding the problems at Rocky Flats and at Pantex. Strong opposition has formed in the ranching and farming communities and among the area's underground water districts. Opponents recently outdrew supporters substantially at a DOE public hearing on the upcoming environmental impact statement.

One final aspect of this situation is worthy of note. A "task force" to support the Pantex expansion was formed with the help of the Amarillo city commission and the local chamber of commerce. This Task Force received \$50,000 from the Amarillo Economic Development Corporation, which is funded by the half-cent sales tax.⁶³ A number of area residents have raised questions about the propriety of spending tax dollars on such a major, controversial proposal without a vote or referendum. At least one Task Force member, a powerful Amarillo lawyer, has expressed strong opposition to allowing for voter referendums on how the economic development commission funds are spent.

⁶²For an in-depth discussion of this situation, see Armstrong, "Panhandling for Plutonium" in Texas Observer (June 14, 1991).

⁶³See § 4.12.

The Amarillo experience in courting nuclear facilities for an area with a fairly strong agricultural community dependent on clean groundwater illustrates the contradictions facing many areas of rural Texas communities: the challenge for many communities will be to discover new sources of employment and revenues that are compatible with existing ones. It also illustrates the potential for conflicts to arise as half-cent sales tax funds are spent on recruiting industries that do not have solid, widespread support in the community.

Hudspeth County and The Low-Level Radioactive Waste Repository

The 67th Texas Legislature created the Texas Low-Level Radioactive Waste Disposal Authority to select and administer a low level radioactive waste disposal site. The Authority went through a long and intensely controversial site selection process lasting almost eight years. Several potential locations in rural communities were evaluated during this period.

In each location, communities mobilized aggressively against the project, and succeeded in defeating it either through administrative procedure or in the Legislature. A variety of community leaders and interests combined at each successive site to oppose the facility.

In 1991, the Authority successfully selected a site near Sierra Blanca, in Hudspeth County. This is a ranching and farming county near El Paso with a population density of less than one person per square mile. The county's population declined by more than 30 percent between 1950 and 1987.

In 1980, the population of Hudspeth County was about 60 percent Hispanic. The poverty rate was twice the statewide rate, and incomes were about 60 percent of state values. Sierra Blanca, the county seat, still largely does not have such basic services as sewer and paved streets.

The 70th Legislature passed amendments to the original Act requiring that assistance be provided from waste disposal fees to areas impacted by the facility. The

Authority estimates that \$1 million a year will be available to Hudspeth County to mitigate negative impacts from the facility.

This mitigation fee will be used to address two development problems faced in the region: (1) providing necessary public services and absorbing population growth from the facility; and (2) expanding amenities and economic opportunities for the community at large.

With the support of the Authority, the Rio Grande Council of Government proposed to the utilities which would be sending radioactive waste to the facility that the present value of the mitigation fee be placed in an endowment. This would equal approximately \$20 million. It would be available to the impacted area in the form of several dedicated funds. For example, a revolving loan fund would be created enabling local businesses to upgrade and expand their facilities in preparation for increased sales.

The utilities did not approve this proposal. Consequently, the Council of Government went back to the utilities with an interim proposal -- to fund the preparation of a comprehensive plan for the impacted area including a sewer system, paved streets, health care, vocational education, social services, economic development activities, and other projects which the community deems important to their quality of life.

The utilities did agree to fund the planning process. Its first phase--a socioeconomic impact assessment--is currently underway.

The comprehensive plan will be developed over a six-month period. After agreement is reached about initial elements of the plan, a local coordinator will begin implementing it with additional administrative support from utilities. The planning process will be on-going and incremental as the community learns about and experiments with different project options.

Town meetings have been held but have not elicited strong participation. The Rio Grande Development Council is considering a non-traditional approach which involves

soliciting public comment at "gas stations, grocery stores, or wherever people are gathered."

In addition to the revolving loan fund mentioned above, several other economic development projects are already under consideration. Potential spin-off businesses from the repository will be evaluated through discussion and negotiation with utilities. For example, is it possible to locate the plant which manufactures "caskets" to hold radioactive wastes in Sierra Blanca? Educational programs will be evaluated at the high school in terms of their effectiveness in preparing residents for operating jobs in the facility. Also, a technical assistance program and peer support group will be considered to help local businesses adapt to shifting markets resulting from the repository and to other regional opportunities.

As projects are identified, funding will be sought from either the Authority itself or through an additional negotiation process with utilities. The current administration of the Authority has indicated that it will support whatever reasonable projects have been agreed upon locally. The utilities on the other hand, are under no statutory obligation to provide additional funding.

There appears to be a sentiment among some local leaders involved in the project that the "deal" made during the 70th Legislature--which stipulates a \$1 million annual payment from utilities--is inadequate to cover what they project to be the community's needs.

Efforts may be made to reopen the legislation by requiring utilities to contribute substantially more to the area. Otherwise, additional appeals to the utilities for project funding will be made on a philanthropic basis.

In sum, the situation in Sierra Blanca is an example of the growing pressures to locate undesirable facilities in rural Texas. Often, there is a perception that the political weakness and economic hardship faced by many small rural communities can be exploited to make the proposal more acceptable than it might otherwise be. In this case, an arbitrary political deal was concluded which defined the revenue stream to the site community before the

repository location (or local needs) were identified. Sierra Blanca may have additional room to negotiate, however, because virtually no other communities in Texas were willing to host the repository.

A non-traditional, incremental planning process has now been proposed by the Rio Grande Development Council to identify these needs. Its success could be critical in defining how effectively a "bottom up" constituency can be built around development projects in Sierra Blanca, and how aggressively negotiations can be pursued with the state and utilities.

5.2 Sweetwater: People for Progress Business Incubator

Sweetwater, Texas is the county seat of Nolan County in rural west Texas. Its economic base is agricultural services, gypsum mining and processing, grain milling, miscellaneous manufacturing and the Texas State Technical Institute.

Sweetwater is also the home of Temple Dickson, State Senator from the 24th District. Dickson was instrumental in locating the Texas State Technical Institute campus in Sweetwater when he was a state representative in the mid-1960s. As a state Senator and chairman of the Economic Development Committee, Dickson has also been an aggressive advocate for development projects in his district.

An agribusiness incubator was established in Sweetwater in 1989. This incubator, which provided a physical location and technical assistance services for new small businesses, was sponsored by People for Progress, a community action agency with a strong orientation towards economic development projects benefitting limited-resource entrepreneurs. The incubator was funded through the Texas Agricultural Diversification Program and other sources. One staff member acted as administrator and business technical advisor.

The incubator was located in a part of a closed bowling alley which was given to People for Progress as the site for the project.

The incubator also provided extensive assistance to small businesses who were not tenants in the building, and provided material and referrals to businesses requesting general information. The incubator established a pilot program to make microenterprise loans to agricultural businesses.

During 1990 and 1991, the incubator attracted six tenants, including a photography studio and video production facility. Tenants were all young or start-up businesses which paid relatively low rent and participated in business educational programs. Agricultural projects included a seedling producer for native plants and a quail-raising business which marketed the birds to property owners offering hunting leases.

In selecting these businesses, emphasis was placed on their synergistic value in supporting other businesses in small regional industries and their strategic value in demonstrating regional growth opportunities.

The quail business, for example, was designed to supply birds to ranchers who were members of a recently-organized hunting cooperative in Fisher County. This cooperative had achieved significant successes by jointly administering leases and marketing them aggressively in urban areas. Availability of quail had been a bottleneck for the cooperative, however. The quail business was created to improve supply and thus expand business for all ranchers operating local bird leases.

Working with TDA, the People for Progress incubator also experimented with institutional forms and financial instruments for a microenterprise revolving loan fund. It was one of four microenterprise sites supported by TDA with grants of between \$7,000 and \$15,000, and technical assistance. The purpose of this effort was to explore models and develop Texas experiences with microenterprise lending. It was also designed to build local capacity for investment from the statewide Rural Microenterprise Fund.

This incubator required a significant planning effort on the part of local communities, with little reimbursement from the state. Communities were willing to

undertake this because they received flexible grants from TDA, and because there was a long-term commitment from the agency to build a funding base in the state for a microenterprise network.

A year-long evaluation and education process was undertaken in Sweetwater. The process resulted in the formation of a local review panel of bankers; the definition of loan criteria, loan documents and a loan review process; and the formation of a business support group. Four pilot loans were made ranging from \$1,000 to \$3,000.

Mary Buchanan of Star Gardens, for example, received a small loan to purchase materials for a seasonal greenhouse for native plant seedlings. Native plant sales have been expanding rapidly in Texas over the last decade, and Mary Buchanan acts as a wholesale supplier to many of the retail nurseries in the state. Although the business was determined to have strong potential for growth, its primary assets at the time of the loan were Mary Buchanan's knowledge of native plants and the equivalent of several greenhouses full of seedlings. The incubator loan was small but had an important effect to expand Star Garden's capacity.

After Hightower lost the election in 1990, the commitment to the Sweetwater incubator was continued by Senator Dickson, Governor Richard's new appointees to the Texas Agricultural Diversification Board, and by TDA. In December of 1991, additional grants were made from the Diversification Program to the Sweetwater incubator. The additional funding provides People for Progress the opportunity to leverage additional philanthropic funds, and continue the expansion of both the incubator and local revolving loan pool.

The Sweetwater Incubator is an example of a flexible relationship between state government and a local development project. Policy for the incubator and microenterprise programs was created as a mutual process, both "top-down", to satisfy state fiduciary and policy requirements, and "bottom-up", to meet the realities of rural economic opportunities, institutions, and community goals.

The Sweetwater Incubator is also an example of the downside of "jerry-rigging" state development policy without strong funding or policy commitment from the state political leadership. The Incubator has survived and has provided useful services to a small number of limited-resource entrepreneurs. This has occurred, however, only as a result of enormous expenditure of staff effort at People for Progress, and strong agency interest from TDA.

Nonetheless, People for Progress provides a useful model for a community-based incubator, focussed on limited-resource entrepreneurs, and for the initial phase of a Microenterprise fund. Moreover, People for Progress is a good example of the development role for independent, community-based organizations.

5.3 Mineola: Main Street Project

Mineola, Texas is a town of about 5,000 located in Wood County, in the northeastern part of the state. It is a railroad town and agricultural service center. Beef cattle and sweet potatoes are important local agricultural products.

In 1989, Mineola was selected as one of five Texas communities to participate in the Main Street program. The Texas Historical Commission provided start-up funding for the first year of program operation in Mineola. In addition, the Historical Commission coordinated the activities of a "resource team." The team included an employee of the Commission who is an historical architect, a commercial architect and landscaper, a member of the Texas Department of Commerce tourism division staff, and the assistant manager of a mall in Houston. The team evaluated the architecture and physical appearance of the city, its tourism potential, and the retailing and merchandising efforts in Mineola.

A local advisory committee was created with representatives of local businesses, and a project manager was hired with a three-year funding commitment from the community. Mineola city staff, the chamber of commerce

and the Wood County Historical Commission and Society all participate actively in the project.

The economic focus of the Mineola Main Street program is to build retail trade by making the community a more attractive location for tourism. Mineola is located halfway between Dallas and Shreveport, Louisiana. It has the natural attractions of the East Texas piney woods (Mineola is called the "gateway to the pines") and 30 lakes in the vicinity. The downtown has a number of historic commercial buildings dating from the 1880s. Both the natural features and the historical buildings are considered important tourist resources.

Projects undertaken by the Mineola Main Street program include: removing architectural slipcovers and restoring downtown buildings; landscaping street corners; installing benches with matching trash receptacles and benches; and restoring permanent canopies. Merchandising initiatives include organizing a business recruitment committee. This committee is working to attract retail businesses and plan the grouping of businesses by theme along Highway 80. Tourism initiatives include developing a promotional brochure, designing a logo for handmade items from Mineola, creating window displays, and expanding the Farmer's Market. The various initiatives were divided into long and short-term projects, enabling Mineola to achieve successes early in the program, and build momentum for longer-term efforts.

The experiences of the Mineola Project illustrates several important features of the Main Street program. First, Main Street offers a specific, concrete service. It provides funding, professional expertise, and a project template which has now been used in many communities across the state over more than a decade. The continuity and tangibility of the Main Street program make it unusual among economic development efforts in rural Texas.

Interestingly, Main Street is structured so that it draws extensively on private architects and the retail industry. This brought a high level of technical expertise to the Mineola

project. The need to establish mechanisms for bringing in outside expertise--both from industry and non-profit groups--was considered an issue among a number of other program administrators interviewed through this project.

Second, Main Street projects are based on a specific commitment of time and resources for a relatively long duration. Participants in Mineola understood at the outset that the project would unfold phase-by-phase over a three-year period. The steps included, in succession, initial "resource team" assessment; execution of short-term projects such as designing and printing a brochure; and long-term planning and implementation of projects such as building renovations.

Many of the other rural development programs in Texas are structured around one-time infusions of capital or technical expertise. This sharply limits the depth and scope of projects they can undertake.

Third, Main Street is based on a competitive application process in which communities must demonstrate the commitment of both volunteer and financial resources. Main Street communities are required to continue this internal investment over a period of three years. The high level of community participation in Mineola, around a structured process and specific projects, was considered critical in its success.

Finally, Main Street focuses on the specialized retail marketplace. This market can be highly competitive and variable, particularly the specialized tourist trade based on car trips from urban centers. A high level of dependence on this trade can leave small cities vulnerable to shifts in regional tourist preferences.

Moreover, wage and skill levels in the tourist industry tend to be low. Specific efforts need to be undertaken enabling limited-resource entrepreneurs and minority communities to participate. Finally, many small cities in Texas are not suitable retail centers or marketable destinations for tourists. Thus, Main Street can be an important element, but only part of, a broader diversification strategy for small cities.

5.4 San Juan: Valley Farmers Cooperative

The Valley Farmers Cooperative is a chartered, member-owned cooperative headquartered in San Juan, in the Lower Rio Grande Valley along the Texas:Mexico border. The Cooperative handles and markets produce, primarily jalapeño peppers and onions. Its membership includes about 30 Hispanic vegetable farmers. These are small growers for whom their other primary market outlet is large packing sheds.

Valley Farmers Cooperative was started in 1985 as an effort to avoid what small growers felt was profit-gouging by large packing sheds. The goal for the growers was to finance the production, and handle and directly market their own produce so they could retain the value-added and marketing profit.

As a group of growers were considering this idea in 1985, they contacted TDA for organizational assistance. TDA staff helped with initial paperwork, provided cooperative training to the six founding members, and began to help search for markets. Within a year, the Cooperative signed a contract with Pace Foods in San Antonio, a picante sauce maker, for jalapeño pepper production. The Cooperative sold over \$40,000 worth of produce in its first year.

By 1987, Valley Farmers Coop had 19 members. With TDA's assistance, another contract was signed with Pathmark, a supermarket chain in New Jersey. Grants were obtained from the Oblate Fathers and Willie Nelson, and a loan was signed. In the second year, the Cooperative did more than \$250,000 of business a year.

Currently, the Cooperative has two contracts with Pace for onions and peppers. Their sales were about \$450,000 last year. A packing shed has been constructed with a 40x40 foot cooler and an office. A full-time manager is employed.

Valley Farmers Cooperative also has areas of weakness, however. Cooperative members were hurt by the freeze in 1987 and

the drought in 1990. Some members did not make their crops and were unable to pay back loans. As a result, the Cooperative has encountered trouble obtaining financing for its

members. Some members have again started growing for the large packing sheds because it represents their only access to production loans.

6.0: RECOMMENDATIONS

6.1 Overview

With the decline of traditional, federally-dominated, rural programs, a new rural development system is emerging in Texas. It is more fragmented, in general less well-funded, and involves a broader range of agencies and statewide elected officials than the older system. A comparable downward shift is occurring from state to local government in taxing authority and policy direction over development policy. The new system relies on an array of new relationships between state agencies, local governments and community organizations.

Interviews conducted during the project suggest that this multi-level system has the potential to be both creative and responsive. For the system to work effectively, however, the state of Texas must acknowledge the changes that have occurred in the rural economy and the traditional channels for promoting rural economic development. The state must systematically re-evaluate and redesign rural programs based on a new framework reflective of changed conditions.

This new framework should emphasize the state's role as a coordinated, flexible instrument that strategically supports rural innovation at the local level. The Texas Department of Commerce and other agencies have taken steps in this direction, but a stronger, statewide mandate and a broader structure needs to be created to build momentum behind this new direction.

Strong leadership from the Governor will be critical to increasing the effectiveness of Texas' rural development programs in the next few years. The Governor, in cooperation with other state and local elected officials, must lead the effort to establish the new framework and to restructure state-level rural economic development programs.

6.2 New Framework for Rural Development Policy

Based on the interviews and information gathered during this project, there are at least nine key elements of a new framework for rural economic development policy in Texas. These elements are discussed below.

1. Define Shared Rural Development Goals and Create Mechanisms for Coordination and Accountability Between Agencies

The results of this study indicate a serious lack of coordination of rural development efforts among the numerous state agencies with such responsibilities or programs. The Governor's office can and should take the lead in the effort to evaluate goals of these various agency programs and help develop a coordinated coherent set of goals to guide the programs in the future. All relevant agencies, local elected officials, community organizations and others should be included in this evaluation and goal-setting process.

2. Broaden the Constituency for Rural Development Policy in Texas

Two conclusions regarding the constituency for rural development policy emerged from this study. First, many interests are excluded from current policy development and implementation efforts. This can result in controversy over development strategies (such as courting waste disposal companies) and polarization of rural communities. Second, the constituency must be strengthened to expand support for funding of rural development programs.

The constituency for rural development programs can be broadened by incorporating minority and environmental constituencies into policy and project development at all levels.

Other constituencies such as existing small businesses and new industries should also be incorporated into state rural development programs.

3. Build Economic Development Capacity in Small Cities and Local Governments

This investigation has shown that small cities and other levels of local government will be key players in the design and implementation of rural economic development policy in Texas over the next decade. However, the research also suggests that most rural local governments do not have adequate resources to systematically evaluate development proposals and programs.

The state should aid small cities and other units of local government to act as "public corporations" with more aggressive strategic planning, environmental evaluation, growth bargaining, enterprise investment and resource development programs. At the same time, the state should work with local governments to reduce the drain of development resources as a result of unnecessary competition for industrial or public facility site locations.

4. Support Grassroots and Institutional Innovation

Another finding of this project is that there is widespread program experimentation going on among various types of community organizations and regional institutions in rural Texas, ranging from community colleges and Texas A&M research stations to marketing cooperatives of Hispanic and African American farmers.

State policy should focus on how best to support and reward initiatives that show promise for direct economic development benefits. Moreover, it should ensure that successful rural development models can be disseminated quickly and implemented in other areas of the state. This requires a new orientation to state grantmaking and rural technical assistance programs.

5. Focus Resources on Practical Assistance to Competitive Industries

Recognizing the limited resources available for rural development, the state must design programs that are as responsive as possible to the needs of industries that show potential for long-term benefit to rural communities. This requires a higher level of flexibility in the structure of state programs, but the trade-off will be more effective use of state resources.

All state programs that aid in development and recruitment of industries to rural areas should be evaluated according to at least three tests: (1) Are they designed to create new industrial sectors in rural Texas that can be competitive in national and world markets? (2) How practical is the assistance they provide?; and (3) Do the programs provide for a thorough analysis of the sustainability and environmental impact of industries being examined?

6. Develop Programs for Economically-Distressed and Minority Communities

A priority should be placed on programs that can be utilized by rural Mexican American, African American and other minority communities, and communities experiencing high levels of economic distress as a result of severe economic dislocations or structural decline.

At present, no active economic development programs in Texas state government are specifically designed to be available in minority and economically-distressed communities. Statutory authority for such programs was introduced during the 72nd Legislature through Senate Bill 1070, and during the 71st Legislature through revisions to the Agricultural Code. Aggressive steps should be taken to organize programs under these authorities.

7. Support Growth of Producer and Marketer Networks and Development Organizations

State rural development policy should also focus on supporting the creation of new rural economic networks and organizations. In many cases, the presence of a network will

help organize growth of emerging industries. These might be as "grassroots" as a local farmer's market association that advertises, offers insurance, and sets product standards for truck farmers that put up booths on Saturday morning in a parking lot. New agricultural commodity associations and "flexible manufacturing networks" bringing together producers and suppliers in specific industrial segments are other examples.

The state's role in assisting these networks and organizations should be better defined. This can occur in at least two ways. First, grantmaking policy can be structured to ensure that the state provides an appropriate level of financial support to such entities. Second, agency priorities can be placed on specialized initiatives such as the Small Business Incubator program at TDOC and the Direct Marketing Program at TDA which aids farmer's markets and other marketing associations and cooperatives.

8. Establish New Forums and Channels to Broaden and Improve Information Exchange About Rural Economic Development

The state of Texas should expand its role as a convener, meeting facilitator and organizer of other information channels for rural community and industry leaders who are grappling with similar problems. This is important because of two conclusions of this study. First, many rural officials and development interests do not have significant contact with state programs that could assist their efforts. Second, there are few opportunities for communication among community leaders and entrepreneurs who are undertaking or are interested in policy or business innovations.

Examples of such forums include the EcoFair, Black Farmers Conference, and the Community College Innovation workshops established by the Texas Department of Agriculture. These and other information channels are necessary for exchanging experiences, identifying and encouraging rural leaders and innovators, providing a means by which rural leaders can bring their concerns directly to appropriate state officials and staff,

and exploring various rural development options.

9. Create New Sources of Finance for Rural Businesses

Texas has put in place many of the statutory tools required for financing sound rural businesses and industries. The 70th and 71st legislatures established a network of programs including administrative funds for rural intermediary organizations, linked deposit authority, and mezzanine financing for agricultural businesses.⁶⁴ Insofar as they have been implemented, these programs are successful. Through SB 970, the 72nd regular legislative session also reorganized the programs at TDOC to provide greater flexibility.

The state should fully implement these flexible financing programs and responsible agencies should push for full funding levels as a priority. Efforts to develop other innovative, flexible financing mechanisms should be stepped up.

6.3 Recommendations for 1992 - 1993 Actions to Improve Rural Development Policy in Texas

This section presents both overall state policy level recommendations and program-specific recommendations. The program-specific recommendations are excerpted from Section 4.0 and are repeated here for the reader's convenience.

6.3.1 State Policy Recommendations for 1992-93

Recommendation 1: Governor's Rural Development Council

The Governor's Office could create a Rural Development Council by Executive Order. The Council should be given the task of producing a coordinated policy statement by the

⁶⁴See § 4.4, *supra*.

end of 1993, setting out rural development priorities and identifying conflicts between those priorities and current program directions.

The Council's schedule of work should be coordinated with the agency strategic planning process occurring during 1992, mandated under House Bill 2009, 72nd Legislature. This legislation establishes a procedure by which the Governor's Office and the Legislative Budget Board will evaluate and, where appropriate, redefine, goals, mission statements and program performance measures submitted by agencies in all areas of state government.

The Rural Development Council should advise the Governor's Office and the Legislative Budget Board in establishing new measures and evaluating the performance of rural development programs in Texas. In addition, the Rural Development Council should prepare and submit recommendations to the Sunset Commission, Legislature, and other state or federal entities where appropriate.

The Council should include representation from each state agency and university with rural economic development responsibilities. The Council should also include participation from representatives of local governmental and non-governmental organizations involved in rural economic development, minorities involved in rural economic development, and representatives of grassroots citizen groups who have encountered problems with siting of hazardous waste facilities in economically-depressed rural areas.

Appropriate state legislators should also be invited to participate in the Council, either as members or as observers. The Council could establish subcommittees to deal with particular areas of policy coordination and goal formulation.

Recommendation 2: Agency Outreach

The agencies with major rural economic development responsibilities should undertake outreach efforts to broaden knowledge of their rural development programs and seek out the views of those who have not traditionally been

heavily involved in state level rural development policy formulation. For example, the Texas Department of Commerce should make a major effort to hold discussions with minorities involved in rural economic development at the local level and with grassroots citizens groups who have opposed siting of hazardous waste or other polluting facilities in their communities.

Recommendation 3: Constituency Development

Statewide non-profit organizations should work to cultivate and focus policy engagement by new rural development constituencies, with priority given to involving groups that participate in the local rural development process but are not full partners in the state rural policy debate. Such groups include minority development organizations, community colleges, local governments, grassroots environmental groups and young industries.

TCPS recommends that a cooperative outreach initiative be developed among organizations representing these constituencies. This could include, for example, Texas Rural Communities, Community Resources, Inc., the Texas Center for Policy Studies, the Texas Farmer's Union and the Texas Development Institute.

The initiative could be organized around a series of constituent workshops in different regions of the state to discuss topics in state rural development policy. These workshops would provide a forum for reviewing issues with state programs, and developing recommendations to make programs work more effectively for currently under-served constituents. The workshops would be structured to produce specific proposals for consideration by state agencies, the Governor and the 73rd Legislature. Workshops would be supplemented by an on-going research effort to bring a variety of policy models and options into discussion.

If appropriate, funding should be sought for support of a rural development network as an on-going forum. This would function as a continuing channel to bring

minority, environmental, small city, community college and other views into the state rural development debate, and for sharing experiences.

Recommendation 4: Capacity-Building for Local Governments

The half-cent Economic Development Sales Tax offers a sustained new source of development funding. It has the power to concentrate the attention of state agencies and local governments on the purpose and design of rural development programs. With the Sales Tax, Texas has the opportunity to re-focus Texas rural development priorities and responsibilities.

However, a much higher level of training and consultation needs to be made available to rural communities -- both with regard to the sales tax as well as other economic development initiatives. Moreover, state statutes related to local economic development need to be reevaluated to examine their effectiveness and the opportunities they provide for participation by diverse segments of an affected community in economic development decisions.

TCPS has identified three options by which the state could provide such assistance. These options are not mutually exclusive, and all could be undertaken simultaneously if resources permit.

Option 1: Organize and train a team of state agency personnel that would provide consultation to rural communities in a broad range of development topics. This team should include representatives from TDA, GLO, TDOC, the Comptrollers' Office, and Texas A&M. It should be coordinated by a single agency, probably TDOC.

Models for this kind of consultation are now widely available, including programs that have already been organized in Fisher County, Texas and other parts of the state; the work of the Corporation for Enterprise Development in Mississippi; and the community training programs organized by the Missouri Extension Service.

This consultation program should be designed to provide specific opportunities for follow-up through additional state services and programs. Consultation should emphasize inclusion of a diverse group of community participants in formulating local economic development priorities. It should also enable communities to evaluate the local natural resource base and the effects of alternative development options on maintaining or improving local environmental quality.

Option 2: Texas statutes structuring local government economic development authorities need to be reexamined. At least five major issues should be addressed:

1. Is the state providing enough flexibility to enable local governments to use the most effective tools?
2. Does the state sufficiently monitor the use of these authorities -- specifically their costs and benefits?
3. Do the statutes adequately provide for public participation in decision-making?
4. Do the statutes provide safeguards against economic development projects that may cause environmental degradation?
5. Are there adequate accountability provisions for local economic development corporations?

The review should examine at least the statutes dealing with tax abatements, tax increment financing, enterprise zones, economic development sales tax, and industrial development corporations. This review could be conducted by the State Auditor or Comptroller's Office. The Governor's Office could begin the process by requesting the review.

This project should achieve three outcomes: (1) a statewide sampling of the use among rural communities of the economic development authority provided under current statutes; (2) recommendations for revisions to the statutes based on the audit; and (3) a technical assistance package for

rural communities that could help them identify the costs and benefits of using the various authorities, and target the use of these authorities most effectively.

Option 3: Sustainable development is the most critical area of training required by rural local governments in Texas. Many of these governments are evaluating significant development proposals, often with the potential for adverse environmental consequences. In addition, many rural communities face worsening problems resulting from production practices in agriculture, oil and gas, or the lumber industry. Frequently, these issues are highly divisive in rural areas.

State programs offer few tools to help rural communities evaluate development proposals for their environmental impact. (See case studies in Section 5.1 above). In general, small cities do not have the staff capability to evaluate development proposals from an environmental perspective.

Resources should be made available to help rural communities cover the costs of contracting with non-profit organizations or consulting firms that have the technical expertise to evaluate major development proposals. This effort could be organized as a competitive grant pool, possibly administered by the Governor's office, with funding sought from state appropriations, foundation contributions and other sources. At the same time, organizations should be identified that as much as possible can provide cost-effective and unbiased services in technical evaluation of development proposals. The grant pool could also be used to fund the costs of technical assistance teams that could consult with rural communities or regions on environmental issues such as reduction of pesticide or water use.

Recommendation 5: Discretionary Grant Programs

Discretionary grants represent one of the most important opportunities for policy innovation within the Texas rural development

system. A significant amount of discretionary funds are expended each year on rural projects or rural-based industries, and the impacts of most of these grants have not been subject to independent evaluation.

The following grant programs should be examined to identify how they affect rural areas and what opportunities exist for coordination:

1. Texas Agricultural Diversification Grant Program
2. Advanced Technology Research Program
3. Carl D. Perkins Vocational Education Act Grants
4. Community Development Block Grant (Small Cities)

TCPS has identified 3 options by which these grant programs could be evaluated or coordinated more effectively. In addition, a program expansion is proposed as Option 4.

Option (1): Chairpersons of the oversight boards for each grant program could serve on a subcommittee of the Governor's Rural Development Council, discussed above, to develop coordinated policy and grantmaking procedures related to rural economic development. This committee would hear testimony from a variety of rural constituents about how to target grant programs most effectively. A coordinated proposal would be developed out of these hearings and submitted back to the respective oversight boards for their approval.

Option (2): The State Auditor or Comptroller's Office could undertake a review of grant programs using criteria such as short- and long-term economic benefits to small cities and rural areas; environmental effects; benefits to minority communities; and possible impediments for minority communities or other rural residents to participate in grant awards.

Option (3): A legislative committee should undertake an interim study of rural-related grant programs. This would include evaluation of the needs and opportunities

for coordination and consideration of additional statutory language to target grant awards more effectively in rural areas. The Senate Economic Development Committee, for example, has the authority to undertake an interim study that could encompass evaluation of state grantmaking.

Option (4): The Legislature should establish a grant program enabling small seed grants to be awarded to community groups for demonstrations of innovative rural development projects, and for building organizational capacity. Design of this legislation could be based on existing seed grant programs in Indiana, Minnesota and other states.

Recommendation 6: Finance Programs

There are also a number of financing programs in Texas which could be made available in rural areas. No overall examination has been conducted of these programs to determine opportunities for collaboration between agencies and with other non-profit rural funding organizations.

Approximately \$50 million in general obligation bonding authority have been left unused for over two years in the Microenterprise Fund, Product Development Fund and Incubator Fund. These funds might be better utilized through a cooperative initiative between programs.

TCPS proposes the following steps to make capital more accessible in rural Texas.

Option (1): Representatives of the boards of the major financing programs should sit on a subcommittee as organized by the Governor's Rural Development Council. This would include at least board representatives from the Texas Agricultural Finance Authority, Texas Agricultural Diversification Board, Texas Department of Commerce and Texas Rural Communities.

This subcommittee could evaluate all rural finance programs and propose administrative and statutory changes enabling the programs to provide additional financial assistance to rural enterprises. In

addition, this committee should examine state banking regulations to ensure that rural banks are provided the greatest possible opportunity to finance local businesses.

Option (2): Rural Microenterprise and Linked Deposit Programs should be provided appropriations in the 73rd Legislature to significantly expand rural credit availability through small direct loans and interest rate reductions on bank financing.

6.3.2 Specific Program Recommendations

The recommendations that follow are excerpted from Section 4, above.

1. Texas Department of Agriculture

Recommendation: The primary recommendation emerging from project interviews concerns the Rural Microenterprise Program. This program has \$5 million in unused general obligation bonding authority. According to the interviews, there is significant demand for the program, and at least five rural organizations have designed programs to utilize microenterprise funds. Microenterprise finance is the best-developed model in Texas to generate economic activity in communities without access to conventional capital sources. Participants recommended that strong efforts be undertaken to fully implement this program.

2. Texas Department of Commerce

Rural Development Office

Recommendation: Participants in this project judged the resources available to the Rural Development Office (3 FTEs) to be inadequate for its mission and for the level of needs among rural communities.

Recommendation: Many of the project interviews indicated that the Rural

Development Office should have a higher profile within TDOC. Organizationally, it should be located near the Executive Director and should have a stronger ability to influence resource and staff allocation within other programs.

Texas Marketplace

Recommendation: It was suggested in interviews that a strict system of performance review and accountability should be established to ensure that SBDCs meet state policy goals, including service to non-metropolitan areas and distressed communities. It was also suggested that the performance reviews should be extended to the entire SBDC general revenue appropriation of approximately \$2 million.⁶⁵ It was also recommended that SBDC funds be administered directly by TDOC, and be distributed to regional centers through interagency agreement.

Recommendation: Interviewees also recommended that TDOC should quickly extend the "Texas Marketplace" to low-income and minority organizations. This would link the agency to an important new constituency for TDOC services.

Finance

Recommendation: TDOC has been taking steps to establish more innovative and flexible uses of rural financing mechanisms. These efforts should be pursued aggressively with the support of the Legislature, and should be tied to projects demonstrating sectoral opportunities in rural industries, use of local financial "intermediaries" such as community-based loan funds, and partnership with Economic Development Sales Tax projects.

Industrial Recruitment

Recommendation: Some interviewees commented that special efforts are required to target industrial development to specific groups -- for example, emphasizing smaller and minority firms in the recruitment process. One local official suggested that TDOC should establish an industrial development initiative specifically for small cities and minority business organizations. This would help TDOC become more knowledgeable about rural industrial needs and create a stronger network among rural local governments and minority constituencies.

Recommendation: Some observers feel that TDOC should concentrate more attention to sectoral strategies. In a sectoral approach, TDOC staff would be trained to become experts in particular industries. They would act as sectoral advocates by working with industry groups to examine needs and identify how best to meet them through state programs or policies.

Recommendation: TDOC should undertake, as a part of overall local development planning, to assist communities in designing recruitment efforts tied to their particular local strengths. Moreover, it was recommended that TDOC should more actively help communities negotiate with companies that are proposing to locate a facility in their area.

Other TDOC Issues

Recommendation: TDOC should dedicate more effort to designing services appropriate for economically-distressed rural communities and regions. As discussed previously, many non-metropolitan areas in Texas are in danger of becoming a drag on the state's economy. Specialized initiatives need to be undertaken to make agency programs available to broader constituencies and distressed populations.

Recommendation: Project interviews also suggest that more effort is needed to identify industries appropriate to non-

⁶⁵SBDC Appropriations in FY 1992 include the following: Lamar University - \$130,167; University of Houston - \$1,265,712; University of Texas at San Antonio - \$184,240; Dallas Community College - \$200,000; and Texas Tech University - \$157,476.

metropolitan areas. This is a research process that should be based on continuing relationships and organized discussion within rural industries and communities. In many communities, these industries may be focussed on self-employment and home-based businesses. In other communities, they may be value-added industries such as specialty food processing plants or small wood products manufacturers.

Recommendation: Interviewees also recommended that TDOC establish rural demonstration projects. These types of projects would use all available resources--finance, JTPA, recruitment, technology, SBDCs, and policy initiatives in the Legislature. They would be chosen for appropriateness to the workforce, entrepreneurial skills, capital availability, and infrastructure available in small communities. The demonstration approach would provide TDOC a programmatic structure to target scarce resources on special projects in the major rural regions of the state, in key industries, and in minority and distressed communities.

3. Texas A&M System

Recommendation: Two state administrators made similar recommendations for the Texas Agricultural Extension Service. They suggested the state should mandate a broader role for extension agents in rural development programs, and upgrade the training of extension agents in rural development practices.

Recommendation: The Texas Engineering Extension Service could also play a broader role in assisting with the engineering of rural manufacturing facilities. A number of states across the country have established programs designed to improve the competitiveness of manufacturing industries by expanding engineering extension programs.⁶⁶ Texas

appears to have an effective program which could be of greater benefit if expanded.

4. General Land Office

Recommendation: Interviewees recommended that GLO's Rural Development Program be strengthened through definition of a specific legislative mandate and through additional legislative appropriation or budgeting of broader resources for the program within GLO. This program should be supported at a level to provide substantial services for sustainable community planning and development of environmental service industries in Texas.

5. Texas Comptroller's Office

Recommendation: Rural local governments are now faced with significantly expanded responsibilities for financial evaluation and management of economic development projects. The interviewees indicated that the Economic and Local Assistance Division should be strengthened to be available for more intensive and frequent consultation with local governments on financial aspects of the operation of local economic development programs. Moreover, it was suggested that the Division establish a formal program to monitor use of public monies in rural economic development projects, and that the Comptroller report to the Legislature on program effectiveness.

Recommendation: Cooperative efforts among agencies could greatly improve the availability of information about the rural economic climate, project models, availability of state programs and emerging industry opportunities. Interview results indicated that a lead agency should be identified--and specific staff resources dedicated--to developing a cooperative information approach and a unified rural database or computer network shared

⁶⁶U.S. Congress, Office of Technology Assessment, Making Things Better: Competing in

Manufacturing, OTA-ITE-443, Washington, DC: U.S. Government Printing Office (February 1990).

among rural organizations and agencies throughout the state. Funding would be required to regularly update this database or network and ensure access to a range of organizations, including those with limited budgets. Legislative appropriations or philanthropic funds should be sought to support this effort.

Recommendation: Future performance reviews could provide a valuable mechanism for evaluating the effectiveness of rural programs. Reviews of all major rural development programs should be conducted, with solicitation of input from affected groups.

6. Texas Department of Housing and Community Affairs

Recommendation: The regional review process for CDBG grants should be re-evaluated. At a minimum, the application process should be opened to broader community participation, or even a genuinely competitive process at the regional level, and representatives from low and moderate income communities should be appointed to the regional committees.

Recommendation: One rural development advocate suggested that the Planning/Capacity Building Program be restructured to award high points for planning processes that are undertaken by members of the community themselves (rather than primarily by consultants). Moreover, strategic economic planning is in significant demand all across the state. The Planning/Capacity Building Program should be broadened to fund strategic plans or the design of local development programs such as microenterprise pools.

Recommendation: The Governor's Special Assistance Fund points toward an innovative use for CDBG in economic development projects. Other innovative

options should also be developed for the CDBG program. In some states, for example, CDBG monies are used for sustainable agriculture demonstration projects.

7. Texas Higher Education Coordinating Board

Recommendation: Creation of a "seed" fund was recommended to cover costs associated with introducing new rural coursework into the community college curricula. These courses could cover such topics as development of microenterprises, organic vegetable production or management of home-based businesses. They could be based on available models such as developed at Kirkwood Community College in Iowa. Use of Carl D. Perkins Act grant funds could be evaluated to support such a "seed" fund.

Recommendation: A few interviewees suggested that rural-related research programs need to be linked as closely as possible to specific economic opportunities. They recommended that research policy in Texas be evaluated to determine how efficiently state funds are utilized, and how effectively researchers communicate with and transfer research products to small manufacturers, innovative agricultural producers, and other industries contributing to rural diversification.

Recommendation: With a legislative mandate, the Coordinating Board could play a useful role to organize discussions on rural research policy between universities, community colleges, and a broad range of rural constituents, including industries and representatives of minority and limited-resource communities. This coordination should be designed to lead to policy recommendations for tying research more closely to the rural economic development process.

APPENDIX I

SURVEY FORM

RURAL ECONOMIC DEVELOPMENT POLICY PROJECT

1. How does your agency promote rural economic development? What programs have you implemented? Have any of these undergone a recent evaluation?
2. What should be the priorities statewide in promoting rural economic development? How should state agency programs support these priorities? How should state programs interact with local initiatives?
3. What has been your experience in working with:
 - Texas Department of Commerce
 - Texas Department of Agriculture
 - General Land Office
 - Texas A&M University
 - Higher Education Coordinating Board
 - other agencies
4. How would you evaluate the current rural economic development programs of state agencies? Which programs should be expanded? Which programs should be dropped?
5. What new programs and initiatives would you like to see implemented by state agencies?
6. What new programs and initiatives should be implemented on a local level?
7. What should be the allocation of resources in rural economic development of industrial recruitment versus supporting indigenous business development? On the state level? On the local level?
8. What priority should be given to supporting the efforts of start-up businesses? How can they most effectively be helped? Are there entrepreneurial training programs that could assist this process?
9. How would you assess the ability of economic development programs to reach rural minority populations? What should be the development strategy? What techniques have worked well? Have failed? How involved in economic development activities are minorities in your area?
10. To what extent are environmental issues considered in creating an economic development program? What role should the natural resource base play in implementing economic development programs? Are there any successful examples of green businesses in your area?
11. What is your assessment of the credit/capital needs of rural businesses in your area? How can credit gaps be filled? What types of government programs are most effective? Which ones have failed?
12. How can federal funds be more effectively leveraged and utilized? What changes would make JTPA more effective? CDBG?
13. What industries do you think are growth industries in your area? Which ones are dying? How do you assess industry and market trends?

14. What are some examples of the most successful efforts at rural economic development in your area?

15. What is your opinion of the proposal to create an Office of Rural Affairs in the Governor's Office?