

SUBJECT: Establishing the Texas Rural Development Fund

COMMITTEE: Economic Development — favorable, without amendment

VOTE: 4 ayes — Deshotel, Morrison, Ortiz, Veasey
0 nays
3 absent — Straus, Kolthorst, Dunnam

SENATE VOTE: On final passage, May 10 — 31-0, on Local and Uncontested Calendar

WITNESSES: No public hearing

BACKGROUND: In 2001, the 77th Legislature enacted HB 7 by Chisum et al., which created the Office of Rural Community Affairs (ORCA) and charged it with developing a comprehensive rural policy and improving the coordination of state services to rural Texans.

In October 2003, the Texas Center for Rural Entrepreneurship was created by rural entrepreneurs, economic development leaders, non-profit organizations, and local, state, and federal government entities to facilitate the delivery of educational and technical support for rural entrepreneurs. During the 2005 regular session, the 79th Legislature enacted HB 1747 by J. Keffer, which created the Texas Entrepreneurship Network. The network, which includes the Texas Center for Rural Entrepreneurship, ORCA, Texas Department of Agriculture, and other state agencies and non-profit groups, provides programs and services to facilitate the growth and success of entrepreneurs in rural Texas.

DIGEST: SB 1485 would create the Texas Rural Development Fund in Government Code, ch. 487. The fund would be established as an account in the general revenue fund and would be authorized to receive legislative appropriations, gifts, donations, grants and matching funds. The major programs sponsored by the fund would be:

- rural entrepreneurship and business innovation;
- rural area regional planning and implementation matching grants;

- rural capacity and leadership enhancement;
- rural community asset study matching grants;
- Texas Rural Youth Corps Program; and
- rural wealth creation and retention.

Rural entrepreneurship and business innovation. SB 1485 would authorize ORCA to make loans of up to \$35,000 to an eligible business or entrepreneur in a rural area, depending on the number of new jobs created. The applicant would have to provide at least 5 percent of the equity of the project and would be eligible for forgiveness of up to 25 percent of the loan. The loan could not be used to attract a business from elsewhere in Texas, unless the business otherwise would have left the state.

Loans would be issued, in the following order of preference, to:

- microenterprises that employ five or fewer employees;
- small businesses that employ 250 or fewer employees;
- businesses dependent on natural resources in developing value-added products;
- tourism or recreation businesses;
- entrepreneurs or businesses expanding broadband service access to rural areas; or
- projects to develop infrastructure.

Regional planning and implementation matching grants. The bill would require ORCA to create a rural area regional planning and implementation matching grants program to foster regional collaboration for community and economic development in rural areas. Entities eligible to receive the grants would include two or more:

- municipalities;
- counties;
- economic development corporations;
- faith-based organizations;
- hospitals; or
- institutions of higher education.

The entities submitting joint applications would have to be located in two or more adjacent rural counties or in two or more municipalities in a rural county.

Rural capacity and leadership enhancement. ORCA also would be required to create a program to assist municipalities and unincorporated communities with fewer than 10,000 people to:

- develop leadership capacity;
- improve municipal government business practices;
- identify community assets that could enhance community and economic development; and
- provide assistance for emergency services.

ORCA would be required to coordinate the program with a public junior college, a public technical institute in a rural area, or a consortium of colleges or institutes that offered rural leadership development programs. ORCA also could award stipends for local leaders to attend the training programs.

Rural community asset study matching grants. The bill would authorize ORCA to develop criteria for eligible programs and matching grants for projects submitted jointly by two or more rural entities.

Texas Rural Youth Corps Program. SB 1485 would allow nonprofit organizations, public youth employment training programs, youth or community organizations, or other entities authorized by ORCA to apply for grants for a program for rural youths between the ages of 12 and 19.

Service projects could include:

- rehabilitation or construction of energy-efficient housing for the elderly, veterans, or low-income individuals and families;
- sustainable construction or rehabilitation of historic properties, community facilities, business incubators, health care facilities, cultural districts, or parks;
- documentation of community history; or
- identifying or marking community assets.

The bill would require ORCA's executive board to develop rules on selection of grant applications, assistance to grants, limits on administrative expenses, and reporting requirements.

Rural wealth creation and retention. Other provisions would authorize programs to assist rural communities to educate residents about the

benefits of charitable giving and encourage the creation of community foundations and other organizations to build sustainable local wealth and decrease dependence on state and federal resources.

ORCA would be required to adopt rules for all programs by March 1, 2008, but implementation would be contingent on appropriations by the Legislature. This bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2007.

**SUPPORTERS
SAY:**

SB 1485 would help provide sustainable rural economic and community development and would encourage rural Texans to help themselves through fostering entrepreneurship and leadership capacity. The bill is a product of the Senate International Relations and Trade Committee's interim report, which recommended tailoring economic development incentives to retain and recruit businesses in rural Texas and to foster economic and community development in those areas through a Rural Economic Development Fund.

Texas has the nation's largest rural population with 3.2 million living in rural counties and cities. While growth in those areas trails urban and suburban portions of the state, only Georgia and North Carolina have higher state rates of rural population growth. Texas needs to place greater emphasis on helping rural businesses and communities.

Texas could follow the example of successful rural community and economic development programs. For example, Nebraska is at the forefront with its rural development efforts, which include programs to assist entrepreneurs, microenterprises, and community leaders. It also offers a package of tax credits, loans, and grants. Other notable programs have been developed in Indiana, Louisiana, and Utah.

SB 1485 would provide a statutory framework for programs that could be funded in the future. Some programs would require no new resources, and savings could be realized by better coordination of existing programs.

Rural entrepreneurship and business innovation. Fostering the growth of microenterprises and small businesses is vital for the future of rural Texas. Starting a new business is not easy, and start-up enterprises in rural areas face difficulties with a lack of support systems that are readily available to entrepreneurs in suburban and urban areas. Collaboration is

difficult in regions with sparse populations. SB 1485 could help provide needed capital through a business loan program. Further assistance could be provided through coordination with existing small business loan programs and entities such as the Texas Entrepreneurial Network.

Rural capacity and leadership enhancement. SB 1485 could help ORCA meet its mandate to help develop community leadership in rural communities. According to testimony by ORCA officials during the Senate International Relations and Trade Committee's hearings last year, development of that leadership is the most critical tool to address the varying needs of rural communities. Improving local leadership would improve the return on state, federal and local investment in these areas. Rural Texans pride themselves on being self-sufficient, and the bill would fit well into that tradition.

Texas Rural Youth Corps. Creation of a Texas Rural Youth Corps would help build leadership skills and foster a sense of community for the next generation of rural Texans. Young people need to have a sense of involvement in their communities and should be encouraged to stay or return to rural cities and counties once they complete their educations.

OPPONENTS
SAY:

Community and economic development programs for rural Texas need adequate funding, not more new programs. There has been no shortage of programs enacted by the Legislature in recent years intended to help rural communities, but initiatives such as the Texas Entrepreneurship Network have fallen short of their goals due to a lack of funding. In addition, ORCA officials report that the agency can fund only one-third of applications for its existing programs, and much of ORCA's funding for the rural leadership program was eliminated in 2003.

NOTES:

HB 2542 by Kolkhorst et al., the Sunset bill that would continue ORCA until 2015, passed the House by 143-0 on May 7 and was reported favorably by the Senate Government Organization Committee on May 17.