# REVIVING RURAL TENNESSEE:

## A PRESCRIPTION FOR A RURAL RESURGENCE

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# EXECUTIVE SUMMARY

Since the Great Recession, rural areas of the state have fallen behind. While most rural areas are at least at full or close to full employment, real economic growth has been concentrated in a select few urban areas. Rural areas of the state have experienced slower wage growth and stagnant population, or in many areas, population loss. The main reason these residents flee rural areas is to look for more economic opportunities. In response, firms grow or expand in urban areas to take advantage of deeper and more skilled labor pools. This natural convergence is called "agglomeration effects" or "agglomeration economies" and creates a downward spiral with even fewer economic opportunities for those who remain. Meanwhile, traditional methods of economic development, such as tax breaks, tax incentives, or loan programs have been costly at best and ineffective at worst. If rural areas are to experience a resurgence, state and local policymakers should create an environment that will organically encourage more entrepreneurial activity and economic dynamism in rural areas. Over time, this will create the economic engines necessary to create opportunities to incentivize more people to stay or move back to rural areas.

## Recommendations:

- **Prohibit FastTrack Economic Development funds, Tennessee's main grant economic development incentive, from being used for intra-state company relocations.**
- **Grant universal reciprocity to out of state holders of an occupational license.**
- **Prioritize Tennessee Broadband Accessibility Act funds for local library Internet hotspot lending programs and educational efforts over expansion grants and tax credits.**
- **Eliminate sales taxes on equipment purchases for broadband deployment and cease providing grants and credits to only certain providers.**
- **Create a "business-friendly community" designation for communities that streamline and remove regulatory burdens for business formation and investment.**
- **Work with local officials across the state to identify and reform harmful zoning policies to business formation.**
- **Implement a statewide property tax cap to limit long-term cost increases for businesses.**
- **Create a program that matches retiring rural business owners with would-be entrepreneurs, similar to the Kansas "RedTire" program.**
- **Fund the creation of technology transfer offices, and establish accelerators and incubators at rural universities and community colleges.**
- **Eliminate unnecessary state regulations on financial institutions and streamline the process for state-chartered community credit unions to expand their field of**

**memberships to distressed rural areas.**
**• Increase funding for localities and judicial districts wishing to expand services to those with addiction issues, such as drug courts and other innovative services.**
**• Implement pre-trial reform to keep those charged with lower-level crimes employed and working, avoiding any domino effects.**
**• Expand education savings account access statewide and allow county governments to create county vocational schools.**

# A TALE OF TWO STATES

Since the end of the Great Recession, Tennessee has experienced unprecedented economic growth. With near-record employment, Tennessee has come a long way from its high of 12.5 percent unemployment in 2009.[1] Beyond unemployment numbers, from Nissan to Amazon or even ICEE, it seems not a week goes by without some manufacturer or company announcing its relocation or expansion in Tennessee. Not only is the state's economy booming, but its population is as well, with estimates reaching nearly eight million people by 2040.[2] While reasons may vary, many choose to move here due to important state-level policies such as Right to Work, lack of a state income tax, low taxes per capita, and low levels of debt. Data suggests that states without income taxes are a magnet for individuals with high incomes looking to escape higher tax states.[3] Simply put, like Austin Powers, other states wish they were Tennessee, and their residents want to be here.

Despite this unprecedented growth and wealth, there is a real and growing acknowledgment that not all Tennesseans are experiencing this new prosperity. A glance at Nashville's skyline shows cranes everywhere building the next corporate headquarters or luxury hotel. Outside of Nashville, most other urban areas are growing as well. Yet, outside these few places, no growth is certain.

While most Tennessee counties are close to full employment, there is the sense that the urban areas are growing and thriving, while the state's rural areas are surviving. In response to this sentiment, both Governor Bill Haslam's administration and Governor Bill Lee's administration have made rural Tennessee a focus. Governor Haslam created the Rural Task Force, and Governor Lee's first executive order required state agencies to find ways to better serve rural communities.[4]

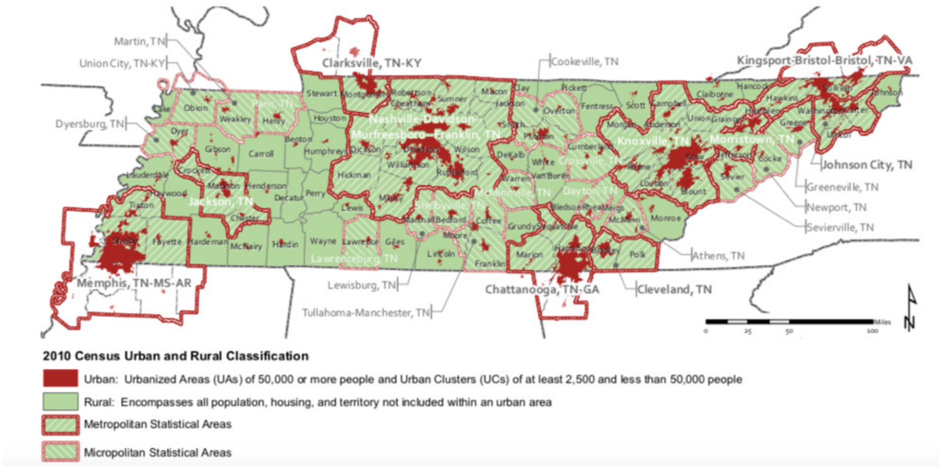
The increased focus on rural prosperity is not occurring just at the state level, but at the federal level as well. In 2017, President Trump created the Interagency Task Force on Agriculture and Rural Prosperity "to identify legislative, regulatory, and policy changes" for rural America.[5] Much of President Trump's message during the 2016 presidential election focused on the "forgotten American" in "flyover country." These actions are hardly the first efforts to assist and develop rural America. Every year, the U.S. Department of Agriculture (USDA) spends billions of dollars in the name of rural economic development through a variety of grants, loans, and subsidies, many of which are redundant, or at least in direct competition with local or private market forces, with little results to show for it.[6]

If local, state, and federal governments are already spending billions of dollars combined, yet the belief is that our rural areas are falling further behind, clearly our existing policies for rural "economic development" are not working, and new policies are needed to boost the economic mobility and opportunity of rural Tennesseans.

# WHAT IS RURAL REALLY?

With all this increased attention and money spent on rural Tennessee and its development, it is important to first answer "what is rural"? Both the USDA and the Tennessee Advisory Committee on Intergovernmental Relations (TACIR) have even produced studies on the different definitions and ways to classify rural areas.[7] While the Justice Potter Stewart test of "I know it when I see it" certainly works in everyday life, how policymakers define rural versus urban has drastic consequences. For example, to determine eligibility for some federal programs the USDA relies on the White House's Office of Management and Budget's (OMB) metro-micro system, which creates metro and micro statistical areas (MSAs) based on commuting and population concentrations. Tennessee's MSAs can be seen in the map below:

*Map 1: Metropolitan and Micropolitan Statistical Areas of Tennessee, 2010*

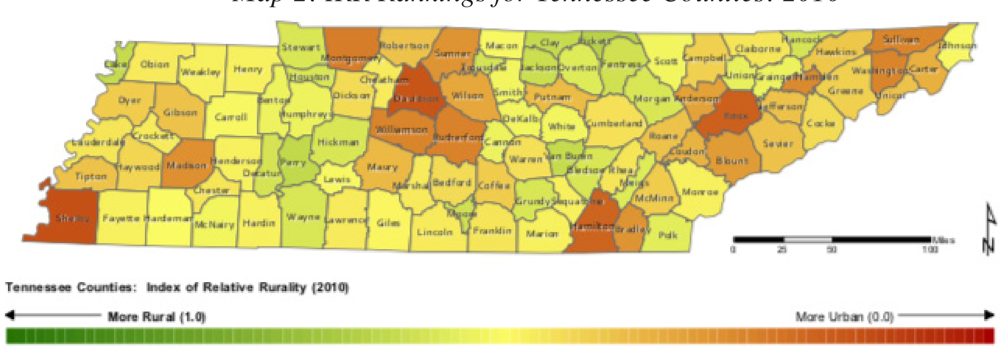



Source: Tennessee Advisory Committee on Intergovernmental Relations (2016)

A simple glance exposes issues with this system. The fact that Hickman County, despite being one of the least dense counties in the state, is considered urban by the OMB's MSA system because a significant portion of its population commutes to Nashville every day for work, presents a serious flaw.

While any measurement system is going to have faults, as TACIR's 2016 study points out, the best system for classifying an area as rural is the "Index of Relative Rurality" (IRR) created by Dr. Brigette Waldorf of Purdue University. The IRR scale ranks counties on a scale from zero to one with counties closer to zero as more urban and vice versa, with .500 being the nationwide average. A county's value is determined by four factors: total population, population density, percentage of residents living in urban areas, and distance to metropolitan areas. This system allows all counties to be ranked on a continuum and avoid any "threshold traps." Map 2 below shows all Tennessee counties on the IRR Index.

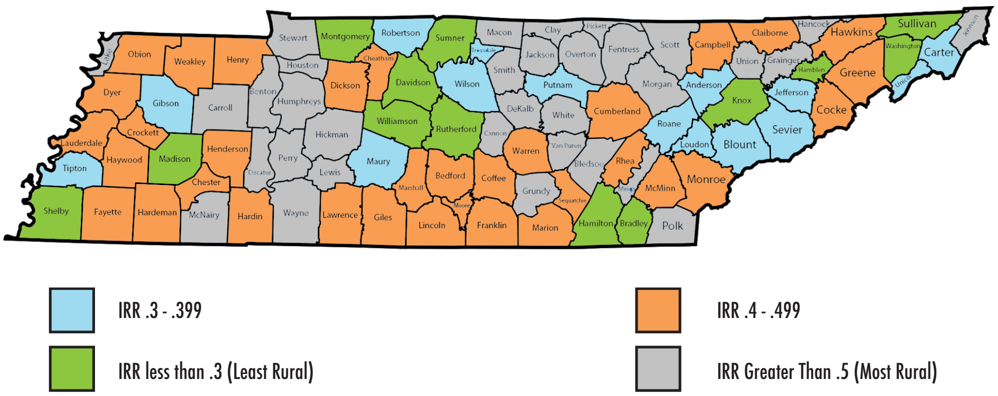
*Map 2: IRR Rankings for Tennessee Counties: 2010*




Source: Tennessee Advisory Committee on Intergovernmental Relations (2016)

While the merit of the IRR is the lack of thresholds, for simple visual comparisons, we will categorize the state's counties into four categories: one with an IRR less than .3, ones with an IRR between .3 and .399, ones with an IRR between .4 and .499, and those that are more rural than the national average with an IRR above .5.

*Map 3: Tennessee County Index of Relative Rurality (IRR), 2010 Ranking*

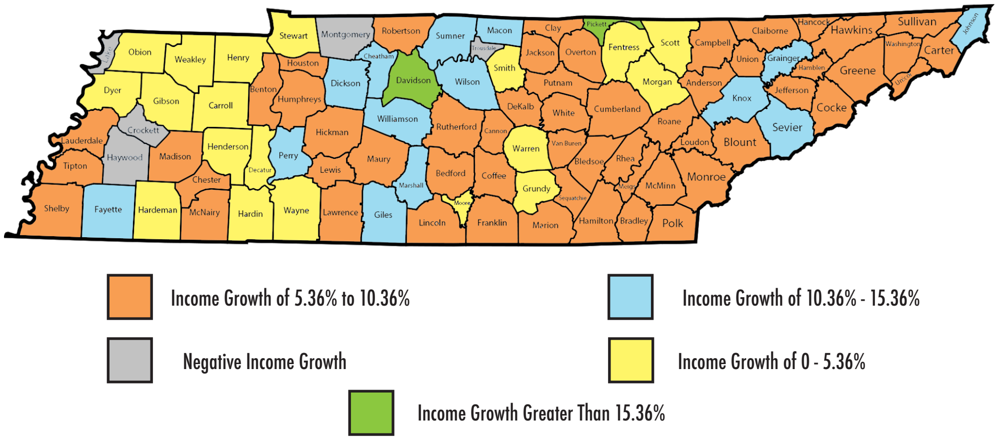



Source: Prepared by Beacon staff from data presented by the Tennessee Advisory Committee on Intergovernmental Relations (2016)

# HOUSTON, WHAT IS THE PROBLEM?

As previously stated, there is a commonly held belief that our rural areas are falling behind and being left out of the prosperity that urban areas are experiencing. Two simple ways to "put meat on the bone" and demonstrate this is with personal incomes and population growth. First, income growth can demonstrate the increase in personal productivity and wealth created by that individual. According to data from the Bureau of Economic Analysis, from 2013 to 2017, the average income in Tennessee rose from $39,549 to $45,517, an increase of 10.36 percent after accounting for inflation. But, when the income growth of each county is compared to the state average, the results show the trailing performance of more rural counties.

*Map 4: 2013 - 2017 Per Capita Income Growth [Statewide Average = 10.36 percent Inflation Adjusted]*




Source: Prepared by Beacon staff from data from the Bureau of Economic Analysis

Not surprisingly, more rural counties experienced slower average income growth compared to more urban counties. However, counties in West Tennessee lagged compared to the rest of the state. Meanwhile, upper East Tennessee along the Kentucky border did experience growth. This should be encouraging, as five of the nine counties labeled as persistent poverty counties by the USDA, most of whom are along the Tennessee/Kentucky border, saw slightly below average or above-average income growth.[8]

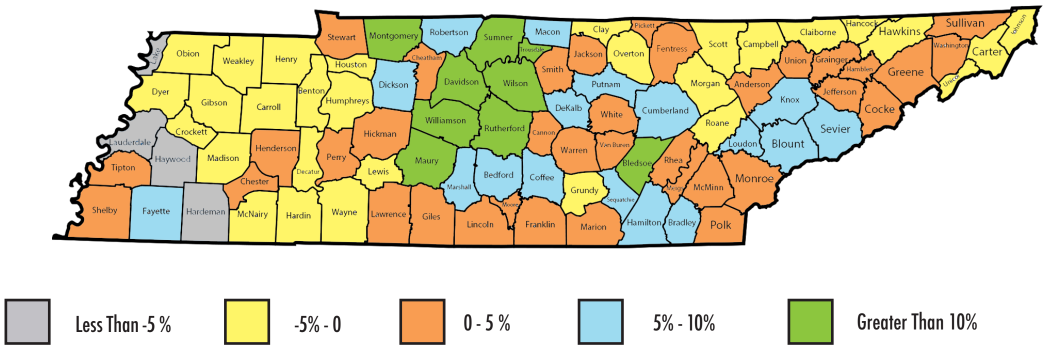
*Table 1. Average County Per Capita Income Growth 2013-2017 (Inflation-Adjusted)*

| IRR RANGE | AVERAGE INCOME GROWTH |
|---|---|
| Greater than .5 (More Rural) | 6.46% |
| IRR of .4 to .499 | 6.47% |
| IRR of .3 to .399 | 8.2% |
| IRR of less than .3 (Less Rural) | 8.67% |

Source: Prepared by Beacon staff from data from the Bureau of Economic Analysis

Second, when an area experiences a population loss, whether through lower birth rates, an aging population, or migration, it serves as a severe economic drain. The loss of those residents' economic activity like spending, innovation, and investment reduces growth and leaves fewer opportunities for those who remain. Like many states, Tennessee's rural areas are lagging in population growth and in many cases losing population. According to U.S. Census Bureau estimates, despite statewide population growth of 6.53 percent from 2010 to 2018, 32 of the state's 95 counties experienced a decline in population.

*Map 5: Population Percent Change of Tennessee Counties: 2010 - 2018*




Source: Prepared by Beacon staff from data from the U.S. Census Bureau

Overall, the state's more rural counties have experienced a net population loss since the Great Recession. This is in stark contrast to previous periods, as no county in the state experienced a net loss in population between the 1990 and 2000 censuses and between the 2000 and 2010 censuses.[9] Regionally, West Tennessee once again performs worse overall, as only five of the 21 counties in West Tennessee have grown in population. Meanwhile, despite being fairly rural, south-central Tennessee and most of East Tennessee grew, albeit below the statewide average.

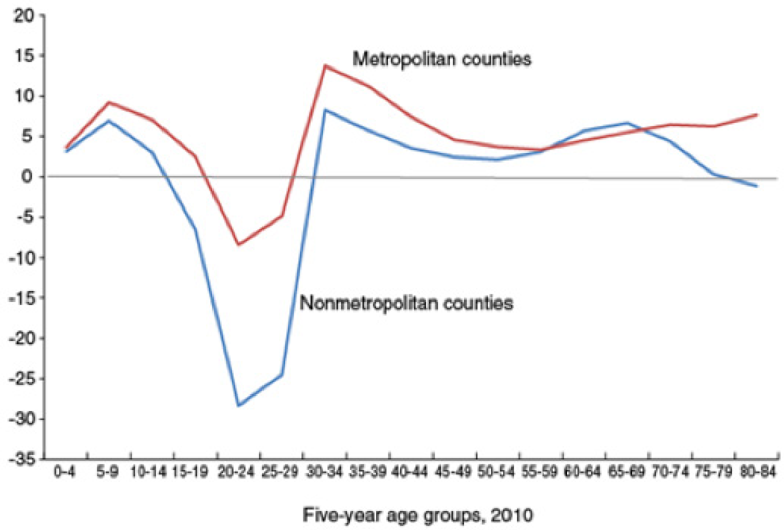
*Table 2. Average County Population Growth 2010-2018*

| IRR RANGE | AVERAGE POPULATION GROWTH |
|---|---|
| Greater than .5 (More Rural) | -2.27% |
| IRR of .4 to .499 | 2.26% |
| IRR of .3 to .399 | 6.93% |
| IRR of less than .3 (Less Rural) | 17.26% |

Source: Prepared by Beacon staff from data from the U.S. Census Bureau

Predictably, the demographic flocking from rural areas in droves is young adults after graduating from high school, who often never return.  While this out-migration is partially offset by young families and retirees moving back to rural areas, this "brain drain" of young workers has prolonged effects, such as fewer entry-level workers, retail spending, and entreprenurial talent.

*Figure 1: Median Percent County Population Change Due to Net Migration, 2000-2010*




Source: ERS, based on estimates from the University of Wisconsin-Madison

# A DOWNWARD SPIRAL

The images above provide a clear snapshot that our rural areas are falling further behind. But why is this the case? The simplest answer is what economists call "agglomeration effects." Simply put, despite increases in technology, allowing for more remote work and geographic mobility, companies and workers benefit by clustering together and operating near one another. Clustering together helps firms become more productive by accessing shared tailored facilities and suppliers, matching workers to best fits through deep labor pool and learning through intense knowledge transfer.[10] Residents, particularly young residents, leave rural areas to take advantage of these opportunities in urban areas, creating a downward spiral. Therefore, any strategy to empower and revive rural areas must focus on improving economic opportunity for those still living in rural Tennessee, providing hope that they can prosper and increase the general attractiveness of these areas to urban residents, particularly young families who have been shown to be willing to move back to rural areas.

# PICKING WINNERS AND LOSERS

The first part of reversing this drain of people and talent is to fix some disparities in the state's corporate welfare programs. Tennessee, like all states, gives taxpayer dollars to companies to entice them to either retain jobs, expand, or relocate here through the form of cash grants or tax subsidies. Typically, large companies and corporations receive the vast majority of these corporate welfare handouts. One study determined that large companies receive on average 80-96 percent of incentives.[11] Even worse, these subsidies are often given to already growing large urban areas. For example, the Nashville metro area added 100,000 more jobs than the other six metro areas combined, yet the state continues to give taxpayer money to companies moving to Nashville, like the $87 million in cash grants and tax credits for Amazon's operations hub.[12] Exacerbating this bias is that state funds can be used to subsidize companies' intra-state relocations. The vast majority of states do not subsidize intra-state job relocations.[13] In Tennessee, most of the state's incentives already have this prohibition, such as the FastTrack Job Training Funds and Headquarter Tax Credit.[14] However, FastTrack Economic Development Funds can still be used for intra-state job relocations. Some notable examples include ServiceMaster, which received $5.5 million in taxpayer money from the state to relocate to downtown Memphis without having to create a single job.[15] Another example is when Bridgestone America received $15 million in FastTrack money to move five miles to downtown Nashville.[16] While the effectiveness of corporate welfare incentives is already highly disputed, state tax dollars should only be used for newly created jobs and should not be used to move jobs from one area of the state to another.

### Recommendation:

**Prohibit FastTrack Economic Development Funds from being used for intra-state company relocations.**

# GIVE ME YOUR LICENSED, YOUR CERTIFIED, YEARNING TO LIVE FREE OF RED TAPE

The Statue of Liberty is one of, if not the most, recognized landmarks in the country. For many years it stood as a symbol of freedom and economic opportunity to those immigrating to the United States from all over the world. Over 100 years prior, the first settlers crossed over the Appalachian Mountains into Tennessee seeking freedom, land, and opportunity. While one can easily enter Tennessee today, sadly the economic opportunity part can be challenging for many. Why? Occupational licensing serves as a barrier to many who wish to move here and seek a better life for themselves and their families. In recent decades, licensing has exploded to where close to 30 percent of Americans need the government's permission to work, compared to just one in 20 workers in 1950.[17] According to the Institute for Justice, Tennessee is the 13th most broadly licensed state, requiring a license for 71 lower-income occupations. This includes some occupations that few other states license such as dental assistants, bartenders, and locksmiths.[18] Licensing requirements are estimated to have cost the state more than 46,000 jobs, many of which would be in rural areas, depriving rural workers of these opportunities.[19]

Even when a new Tennessee resident comes from a state requiring a license for their occupation, different educational and hours requirements can keep them from working or delay them from earning a living as they seek to fulfill the state's higher standards.

These barriers for those already licensed in another state are especially relevant to Tennessee as the only state besides Missouri to border eight other states. Even worse, licensing requirements prevent many from even considering moving to Tennessee. Individuals in licensed occupations have been found to have a 36 percent lower interstate migration rate compared to those in non-licensed professions.[20] While many "white collar" professions, such as doctors and accountants, already have reciprocity, many licensed professions do not. Tennessee should follow Arizona's lead, which now grants universal reciprocity to nearly every occupation.[21] Making it easier to transfer out of state licenses to Tennessee will continue to make Tennessee a net migration state, spurring indirect jobs, investment, and innovation with them. While it is true that many people who would move here afterward would choose to live in urban areas, many would choose to move to rural areas of the state, perhaps to face fewer competitors or even to enjoy the natural amenities that rural Tennessee provides.

## From New York to the Tennessee classroom

Andy Judd moved to Tennessee after working as a licensed cosmetologist in New York for four years. Despite being licensed in both Ohio and his home state of New York, Andy was told that he would need to go back to school since Tennessee required more hours of schooling than New York. Unable to work and earn a living, Andy re-enrolled in cosmetology school and was even initially denied student loan funding from the federal government since they felt he didn't need the additional hours after already being licensed in two states. When even the federal government has heartburn about spending money, you know your state has taken red tape too far.

## Recommendation:

**Grant universal reciprocity to out of state holders of an occupational license.**

# EXPAND BROADBAND WITHOUT BREAKING THE BANK

No area of rural economic development has received more attention than broadband Internet access. In an increasingly Information Age-based economy, reliable Internet is important in accessing opportunities and markets. In recent years, some have even argued broadband Internet should be viewed similarly to electricity or another public utility rather than a telecommunications product.[22] Local, state and federal governments have invested hundreds of millions of dollars to bring broadband to Tennessee's rural communities. For example, the Federal Communications Commission's (FCC) Connect America Fund has already pledged $210 million over seven years to expand rural broadband in Tennessee alone.[23] Additionally, the state has pledged $45 million in funding for the Broadband Accessibility Grant Program created by the Tennessee Broadband Accessibility Act (TBAA).[24] Meanwhile, some local governments like Clarksville and Chattanooga have invested hundreds of millions of dollars into government-owned Internet networks, with little to no hope of ever paying off the costs.[25]

Despite these already existing programs and many others, rural broadband access continues to make headlines, even in the current presidential race. Earlier this year, candidate and Senator Elizabeth Warren announced that if elected president, she would create a new federal grant program to expand access to the tune of a staggering $85 billion.[26]

With millions of government dollars being poured into broadband expansion and billions more being proposed, it begs the question of how many are still without access. According to the FCC's 2019 Broadband Deployment Report, 77 percent of rural Tennesseans have access to 25 Mbps download speed and 3 Mbps upload speed, the most accepted standard for the definition of broadband. This compares to 98.5 percent of Tennesseans in urban areas.[27] While in an ideal world, every resident would have access to broadband Internet, it's important to note that Tennessee is actually in a favorable position ranking 28th nationally overall in terms of total access and 21st in terms of rural access. When looking solely at the Southeast (Tennessee and its bordering states, plus Florida, South Carolina, and Louisiana) Tennessee ranks fifth in terms of overall access and fifth in terms of rural access.

*Table 3. Percentage of Total Population and Rural Population With Broadband Internet Access*

| | PERCENTAGE OF TOTAL POPULATION | PERCENTAGE OF RURAL POPULATION |
|---|---|---|
| United States | 93.5% | 73.6% |
| Alabama | 86.1% | 69.7% |
| Arkansas | 77.4% | 55.9% |
| Florida | 96.2% | 77.9% |
| Georgia | 92.5% | 77.6% |
| Kentucky | 90.9% | 79.7% |
| Louisiana | 87.6% | 63.3% |
| Mississippi | 79.6% | 62.6% |
| Missouri | 88.7% | 65.1% |
| North Carolina | 94.8% | 84.8% |
| South Carolina | 89.9% | 73.7% |
| Tennessee | 91.3% | 77.0% |
| Virginia | 91.7% | 74.1% |

Source: Federal Communications Commission's 2019 Broadband Deployment Report

Closing the gap and bringing service to those nearly one-in-four rural residents still without coverage is not going to happen overnight and is a costly endeavor the state should avoid. In fact, in 2016 the Tennessee Department of Economic and Community Development (ECD) estimated that bringing 25/3 broadband through fiber to the home of all unserved areas would cost between $1.1 and $1.7 billion.[28]

Expanding access does not mean that residents will decide to purchase and utilize the service. Many residents choose not to adopt broadband due to cost or perceived lack of value. Simply having an additional one percent of households adopt broadband would cost an additional $313 million at a 40 percent adoption rate.[29] A far more cost-effective solution to improve adoption and increase access in the short run as private providers continue to slowly expand access across the state is to increase funding to local libraries to purchase mobile hotspots. According to TACIR, at $384 per device, it would cost roughly $1.6 million annually to ensure there is a sufficient number of hotspots statewide.[30] Fully funding this effort will complement the educational and digital literacy training efforts already being provided by some libraries. While the TBAA allowed for grant funding to libraries to help accomplish these goals, only roughly $250,000 of the $25 million in funding thus far has been awarded for these purposes.[31]

Meanwhile, to better facilitate the long-run expansion of broadband services the state should discontinue spending millions of dollars in grants and credits created by the TBAA. Instead, the state should eliminate the sales tax on equipment purchases. By eliminating the sales tax on equipment, all providers can benefit, not just those receiving a grant or tax credits under the TBAA. The largest "purchase" required to produce telecommunications services is the taxes that telecommunications sellers collect and remit to governments.[32] Exempting the purchase of equipment, a business-to-business transaction, removes the effects of "tax pyramiding" and limits costs being passed to consumers.[33] This will better serve to lower costs to consumers and ultimately increase adoption. While some argue that private providers will not adequately invest in expanding access, the private sector has invested an average of $72 billion per year to bring broadband services across the country.[34]

### Recommendation:

**Prioritize Tennessee Broadband Accessibility Act funds for local library Internet hotspot lending programs and educational efforts over expansion grants and tax credits. Additionally, shift from providing grants and credits to certain providers to eliminating sales taxes on equipment purchases.**

# NOT ONLY "OPEN" BUT RIPE FOR BUSINESS

Calvin Coolidge once said, "the business of America is business." If rural Tennessee is going to begin to prosper once again, it will be led by thriving businesses investing and expanding in these communities. Historically, rural and small-town U.S.A. relied upon one or two businesses to support an area. In what is a seemingly every day event, these factories close, leaving fewer and lower-paying jobs for the residents who remain. To recapture this prosperity and nostalgia, despite the at best mixed record of this strategy, governments and economic development professionals often rely on large corporate welfare deals to recruit large production or manufacturing companies, commonly referred to as "smokestack chasing."[35] While ribbon-cutting ceremonies and announcements of a hundred jobs make the news, relatively few jobs are created (or lost) through recruitment and relocation, as little as one percent.[36] Relying on large companies and manufacturers also leaves rural communities susceptible again in the next economic downturn, while smaller independent manufacturers are more resilient.[37] Pursuing policies that would facilitate and encourage organic investment and growth of a multitude of sizes and industry would better serve rural areas. One example would be simplifying permitting processes with "one-stop" permitting and timely processing of permits using the "Broadband Ready Community" label created by the

TBAA. Creating a "Business" or "Investment" ready community designation with community best practices like Georgia's "Entrepreneur Friendly Community Initiative" with regulatory and zoning streamlining would simplify and encourage investment and business creation in communities that wish to participate.

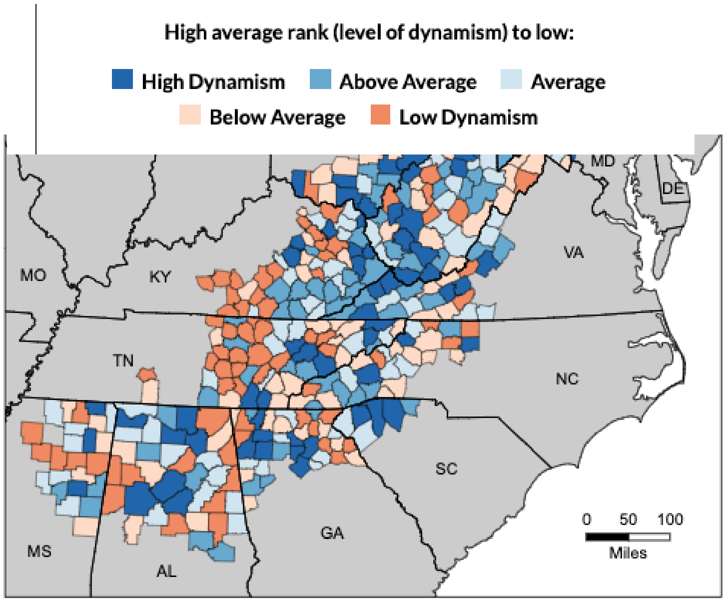
### Recommendation:

**Create a "business-friendly community" designation for communities that streamline and remove regulatory burdens for business formation and investment.**

# DON'T JUST GET A JOB, BUT OWN THE JOB

If rural areas are to become engines of growth that create jobs and attract new residents, it will take more than existing businesses expanding and investing in rural areas. In fact, many states are increasingly turning to entrepreneurs and would-be entrepreneurs to lead a renaissance in rural communities, and for good reason. On average, each new business creates six new jobs in its first year.[38] However, startup rates have been falling for decades and since the Great Recession, for the first time in American history, firm deaths have outpaced firm creation, startup rates are even lower in rural areas, 6.1 percent compared to the national average of eight percent.[39] While most new businesses fail, high rates of business churn (firm births and deaths) are strongly correlated with expanding local economies. Additionally, as the startup rate rises in an area, the gap between the startup rate and closure rate widens.[40] This lower level of economic dynamism, the rate and scale of business creation and churn, deprives rural areas of long-term growth drivers.

*Map 3: Dynamism In Appalachian Region*




Source: Appalachian Regional Commission

However, while new businesses are the main source of new jobs and innovation, most are unlikely to grow and generate community benefits.[41] Therefore, the primary goal should be to support scalable businesses, not just startups. It is new fast-growing businesses, commonly referred to as "gazelles," where most of this growth occurs. Overall, gazelles represent a small number of companies (2-4 percent) but generate most new jobs.[42] Therefore, how can we assist new and scalable business without wasting taxpayer dollars subsidizing new a select few of businesses when most are likely to fail? One part is to work with local leaders to identify harmful zoning practices as half of new businesses start in the home.[43] This could include transparent zoning criteria and similarly to broadband and permits, mandating quick turnaround decisions by local boards. Finally, allow property owners to "buy" the right to certain land use activities where zoning restrictions exist.

Additionally, Tennessee is one of only four states with no statewide cap on property taxes, alongside Hawaii, Vermont, and New Hampshire.[44] Property taxes have been shown to harm new businesses and startups because unlike other taxes, property tax bills are paid irrespective of company performance.[45] Passing a statewide cap on property tax hikes would protect entrepreneurs and new businesses from large jumps in costs from property tax spikes.

One underutilized source of entrepreneurial activity is the state's higher educational system. Universities and colleges serve as centers of innovation and business creation and increasingly as engines of economic growth. This can come from the commercialization of intellectual property or assisting spin-offs. In 2015, over a thousand spin-offs and nearly four million jobs were created from university research, with 70 percent of the companies started in the same state as the affiliated university. [46] However, Tennessee universities and those in the South lag significantly. In a 2017 ranking of university effectiveness on commercializing research by the Milken Institute, not one university in the "heartland" cracked the Top 25, with Vanderbilt ranking highest at 42nd and the University of Tennessee (UT) Knoxville at 85th nationally.[47] One way to improve these efforts would be for ECD to partner with UT to assist graduates looking to become entrepreneurs with those looking to retire. Many owners of small and medium-sized businesses, particularly in rural areas, often fail to identify successors and choose to close their business at retirement. The School of Business at the University of Kansas sought to fix this problem with their RedTire program, which hosts a list of businesses available for purchase, similar to that of a jobs board, and matches would-be retirees with qualified graduates or experienced business managers.[48]

Additionally, many of the state's smaller regional universities lack the infrastructure to assist and facilitate startups and commercialization, such as technology transfer offices (TTOs). Kentucky recently invested $1.6 million to bring TTOs to six of its regional universities.[49] A great model for Tennessee to follow is the Eastern West Virginia Community and Technical College, which has become a regional hub for entrepreneurs after creating their LaunchPad accelerator and the Institute for Rural Entrepreneurship and Economic Development to support new businesses in manufacturing, agriculture, arts/culture, tourism, and technology.[50] While the track record for incubators and accelerators is generally mixed, businesses in university-sponsored incubators and accelerators perform better that incubated businesses not sponsored by a university, with a 17 percent failure rate, 200 percent higher sales growth, and 370 percent higher employment growth.[51] Empowering community colleges and regional universities throughout the state to better serve as entrepreneurial hubs would help to facilitate the creation of new businesses in rural areas, leading to a more dynamic economy.

Rural entrepreneurs face additional challenges compared to those in urban areas, none greater than limited access to capital. When asked in a survey what their businesses needed the most now, owners of small businesses overwhelmingly named greater access to capital, not tax breaks or other forms of corporate welfare.[52] These survey results shouldn't come as a surprise. Lending to small businesses is at less than half of its 2004 peak when adjusted for inflation. The decline in funding has drastic long-run consequences, as a decline in small business lending in rural areas, unlike in urban areas, leads to a decline in new business formation two to three years later.[53]

By looking at the total number of people who are proprietors, we can see this play out. According to data from the Bureau of Economic Analysis, Tennessee's urban areas are seeing nearly three times the growth of residents who are business proprietors, which is defined as sole proprietors, LLC owners, or business partners.

*Table 3: Growth in Total Amount of Proprietors*

| IRR Range | Growth in Proprietor Employment 2010-2017 |
|---|---|
| Greater than .5 (More Rural) | 0.32% |
| IRR of .4-.499 | 0.31% |
| IRR of .3-.399 | 0.24% |
| IRR of less than .3 (Less Rural) | 0.92% |

Source: Prepared by Beacon staff from data from the Bureau of Economic Analysis

While most regulations on financial institutions are federally mandated, the state should look to remove any unnecessary state regulations. Additionally, the state could relax requirements for state-chartered community credit unions looking to expand their field of memberships to underserved rural or distressed areas. Currently, credit unions must prove they can serve the area they wish to expand. By changing the presumption to where credit unions may expand unless the state finds reasons not to grant the expansion could open up additional sources of funding for rural businesses. In concert, removing burdensome regulations, lowering costs, and expanding access would give rural entrepreneurs access to the capital needed to grow their businesses from "mom and pop" businesses to engines of economic growth. However, the state should resist calls to expand the Rural Opportunity Fund (ROF) or create similar guaranteed loan programs, as credit assistance programs merely allocate credit to targeted entrepreneurs at the expense of others.[54]

Tennessee can assist entrepreneurs in rural areas to launch a business and obtain capital by creating an underlying favorable environment by reducing regulatory barriers and providing targeted assistance. Doing so will inevitably lead to the creation of businesses, more economic dynamism, and long-term sustained growth.

## Recommendations:

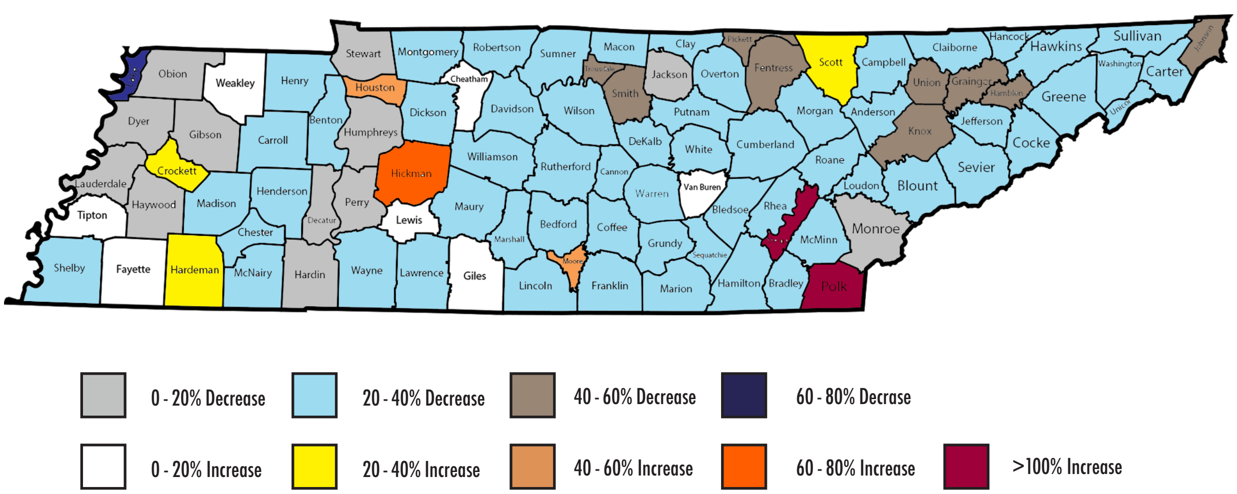
- **Work with local officials across the state to identify and reform harmful zoning policies.**
- **Implement a statewide property tax cap to limit long-term cost increases.**
- **Create a "RedTire" program to match retiring rural business owners with would-be entrepreneurs.**
- **Fund the creation of TTOs, accelerators, and incubators at regional universities and community colleges in rural areas.**

**• Eliminate unnecessary state regulations on financial institutions and streamline the process for state-chartered community credit unions to expand field of memberships to distressed rural areas.**

# THE OPIOID EPIDEMIC

The only issue facing rural areas that has received more press than broadband access is the opioid epidemic. While all areas of the state (and country for that matter) are dealing with the effects of increased opioid addiction and death, rural areas have been hit considerably harder. While the earliest signs of the epidemic started occurring in the late 1990s, opioid deaths have risen dramatically in recent years, up 65 percent in Tennessee from 2012 to 2016.[55] While primarily a health crisis, the opioid epidemic is also a workforce issue, as many rural businesses are unable to find enough workers without substance abuse issues. However, there is good news. In recent years, opioid prescriptions have been on the decline in nearly every county. While the factors that led to the current epidemic are more than just prescription levels, over-prescription is certainly a root cause. Reducing prescription amounts will lead to fewer addictions and supply on the black market.

*Map 6: Percent Change of Opioid Prescriptions Per 100 Persons, 2012-2017*




Source: Prepared by Beacon staff from data from the Center For Disease Control: U.S. Opioid Prescribing Rate Maps

Since the limits on prescriptions did not take full effect until the beginning of 2019, we will need to wait until next year's data is available to begin to see the effects of the law. In the meantime, the state could provide additional funding to judicial districts wanting to expand access to drug courts and other features to help those arrested with addiction issues address the underlying root cause. A great example is the 4th Judicial District's Recovery Oriented Compliance Strategy (ROCS), which provides treatment to those who are considered low risk and do not qualify for Drug Recovery Court programs. This program has seen recidivism levels of 32 percent, compared to the statewide average of nearly 50 percent.[57] Additionally, the state should look to implement statewide pre-trial reform, such as a risk needs assessment. Doing so would help keep more residents charged with lower-level crimes out of jail while awaiting trial, keeping them employed and providing for their families.

It will take a collaboration of various fields, from the medical field, mental health field, and criminal justice system to fully fix the opioid epidemic and heal the deep wounds it has caused, especially in rural areas. Fortunately, that work is already underway. While the state waits to see the full effects of the TN Together measures, we should continue to provide resources to the criminal justice system to properly identify the root cause and provide medical and psychological care to those who need it. Over the long run, we will begin to see the human and social costs from this epidemic decrease, causing worker productivity and wealth gains, and more investment from businesses with an increasingly viable workforce.

## Recommendation:

- **Increase funding for localities and judicial districts wishing to offer increased services to those with addiction issues, such as drug courts and other innovative services.**
- **Implement pre-trial reform to keep more charged with lower-level crimes employed and working, avoiding any domino effects.**

# REVOLUTIONIZE EDUCATION TO EMPOWER RURAL STUDENTS

One of the strongest desires of any parent is to provide their child with a good education. Access to a great education is the best springboard to prosperity and opportunity. This desire to provide children with a quality education is such a strong motivation, many parents are willing to uproot and leave family connections to live in an area with strong schools. USDA surveys anecdotally confirm this as well. In what is certainly one of the oddest research projects conducted with taxpayer dollars, the USDA sent employees to high school reunions in rural areas asking attendees why they chose to leave rural areas and, if applicable, why they chose to return. While the lack of economic opportunity was the number one reason given for not returning, many non-returnees "expressed reservations about the academic standards of hometown schools and valued the broad range of activities offered in larger, urban schools."[58] Improving the skill sets of graduates of rural schools will increase worker productivity, which pays dividends when industries sell highly specialized goods and services to customers outside the local area.[59] Refocusing education on increasing job skills is a far more cost-effective strategy to attract businesses and investment than incentives and other corporate welfare strategies.[60] Additionally, more specialized education options will entice new families to return to rural areas. Recognizing the necessity for additional educational options, Tennessee has invested heavily into vocational and technical training in recent years with the creation of the Tennessee Promise program under Governor Haslam's administration as well as the "Governor's Investment in Vocational Education (GIVE) Act" proposed by Governor Lee and passed by the General Assembly in 2019. While these are certainly strong reforms, they both focus on post-secondary opportunities or incentivizing post-secondary education through dual enrollment. To bring increased access to vocational and technical education, Tennessee could look to the recently passed Educational Savings Account (ESA) program as a vehicle. The ESA program could be expanded to any student statewide attending a private school that focuses on vocational education.

The state could also look to New Jersey for an alternative model to provide career and technical education (CTE) to all students. New Jersey allows counties to directly create and manage public vocational schools that are independent of any locally elected school board. While still subject to all state academic requirements, New Jersey county vocational schools are public schools of choice, with CTE on top of traditional coursework. Because the school leaders are directly appointed by county leaders who are generally well connected with the needs of local businesses, the schools' curriculum can rapidly adapt to reflect the needs of the job market. For example, one vocational school in a county that has five different jails or prisons could make criminal justice part of its programming. Some counties even make it the vision of their vocational school to "help the county's students stay in the county."[61] While these vocational schools are certainly more expensive to operate than traditional public schools, they are extremely popular with many schools receiving two applications for each available slot. Creating opportunities for students in rural areas to acquire marketable skills will create a deeper talent pool that attracts additional investment from businesses, which will slowly increase productivity and wages, and create the opportunities necessary for rural areas to become more desirable places to live.

### Recommendation:

**Expand ESA access statewide for private vocational schools and allow county governments to create county vocational schools.**

# CONCLUSION

For nearly a decade, Tennessee's rural areas have fallen behind. While the state as a whole has experienced unprecedented growth, this increase in prosperity has been heavily concentrated in urban and surrounding areas. As urban areas have offered more economic opportunities, many young residents of rural areas, usually the most highly skilled, leave. This creates a "brain drain" that leaves fewer economic opportunities for those who remain, resulting in a downward spiral. Reversing or at least stemming this trend will take time and a more "bottom-up" approach as traditional economic development efforts to stimulate growth, such as incentives using taxpayer dollars, are expensive and ineffective, with most rural areas lacking the necessary skilled labor force to attract large or high-tech firms. Instead, policymakers should foster a favorable environment for the creation and growth of new businesses, which will lead to more economic opportunities, encouraging residents to stay or return home. Ultimately, many of the policies necessary to accomplish this goal are not "rural" policies directly, but generally good government and free market policies that will better empower rural residents.

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