Rural Workforce Development

Executive Summary

Rural workforce development is an approach to economic development that attempts to enhance the economic stability and prosperity of rural communities by providing a variety of tax and other fiscal incentives to businesses. In 2022, three bills (SB 675, SB 905, HB 1885) aim to create the Missouri Rural Workforce Development Act and provide an incentive for those making capital investments in a fund to be distributed to rural areas of the state. Investors would be eligible for an annual tax credit covering 15 percent of an investment in a rural fund if the fund has put at least $100 million in small communities across the country, including $30 million in Missouri. The bills require that 70 percent of investments be made in rural small businesses with 250 or fewer employees and that the principal business operations are in the state of Missouri.

Highlights

- Research looking at the link between investments in infrastructure and the migration and start-up of firms and workers shows that expanding infrastructure investments has a modest impact on rural economic development.
- The number of jobs created and retained increases with the increase in investment in infrastructure.
    - On average, 10.4 jobs are created in rural areas for each $1.7 million spent (9.6 jobs are generated in urban areas for the same dollar amount in investment).
- Research suggests that rural wealth creation plans that use industrial investments while emphasizing the investment across several types of capital or assets - i.e., such as natural, educational, cultural, human, social, political, financial - are the most likely to be effective.

Limitations

- The research on the effects of tax incentives on industrial investments and job growth is inconclusive and sometimes contradictory.
    - Although Alabama's tax abatements for workforce development have influenced companies' decisions to locate in particular communities, the state's natural and transportation resources were the principal factors that attracted the investors within those areas.
    - Georgia's Rural Fund reports that four of five of the targeted industry sectors had significant job creation and that small businesses were supported to secure financing at affordable and reasonable rates.

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Research Background

Determinants of Effective Rural Workforce Development

Some of the prerequisites of effective rural workforce development are *connectivity* (e.g., airports, roads), *innovation* (e.g., research and patents), *entrepreneurship* (e.g., pursuing business opportunities), focusing on the assets that rural communities have to offer (e.g., natural resources), *collaboration* (e.g., between agencies and local, state and federal government), and *regionalism* (e.g., institutionalizing collaboration between the rural and urban communities into economies where new economic opportunities can be found in the long term regardless of labor market conditions).[6]

One of the most important factors in workforce development plans is profit maximization.[1] The most common approach to incentivizing private industrial investments in workforce development plans is a variety of tax and other fiscal incentives that increase companies' profitability.[1] The use of such programs has been increasing over the years and all states offer some type of fiscal incentives (tax incentives are the most common) to attract and maintain investors.[1,8,9] However, research suggests that rural wealth creation plans that use industrial investments while also emphasizing investment across several types of capital or assets - i.e. natural, educational, cultural, human, social, political, financial - are more likely to be effective (**Figure 1**).[1,7] The simultaneous investment in resources can result in increased assets among those capitals as well as others.[7] **Figure 1** demonstrates how investment that allows a flow of assets across capital types can lead to a mutually reinforcing spiral flows of community development.[7]

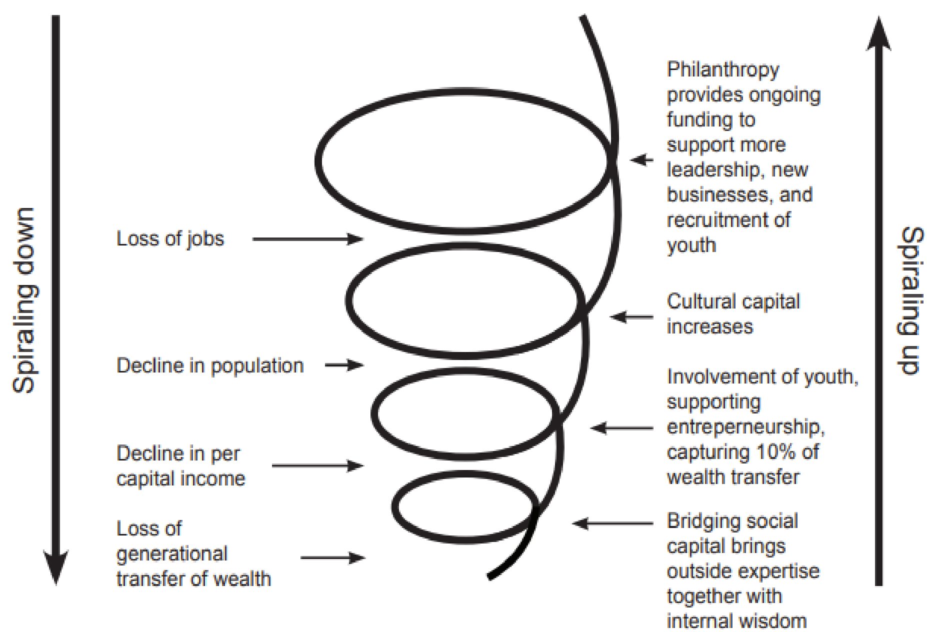

Figure 1. The Spiraling of Capital Assets. The flow of assets invested across capital can lead to the effect of an upward spiral.[7]

Rural Workforce Development and Economic Growth

Research on the effects of tax incentives on industrial investments and job growth is contradictory and inconclusive.[1] Some studies conclude that **despite the presence of tax incentives, industries would have established in rural areas for other factors, such as their natural resources, and that the abatement is merely a corporate subsidy**.[1] Other studies find that projects based on financial incentives **lead to the creation of more jobs, increase in incomes, demand for goods and services, and tax revenues to support public services, cumulatively sustaining further development**.[1] Some research suggests that without workforce development policies based on tax incentives, **some communities are unlikely to attract new investments in today's competitive environment** and that tax policies do have an effect on job growth, although the effect has declined drastically since the 1980s.[2]

Expanding **infrastructure investments** has a modest effect on rural economic development.[3] Generally, the number of jobs created and retained increases with investment in infrastructure.[3] From an economic development perspective, the number of jobs created should be reviewed under the implicit presumption that resources devoted to construction of transportation facilities have no alternative use, so the job creation then represents a net increase.[3] Construction related workforce plans can increase personal income, but the effect seems to only last as long as the construction process.[3] Although the specific number of workers needed in the construction process (e.g., a highway or bridge) varies considerably based on the size and type of project, an average of 10.4 jobs are created in rural areas for each $1.7 million (adjusted for 2022 inflation) spent (9.6 jobs are generated in urban areas for the same investment).[4]

State Variation in Rural Workforce Development Efforts

Alabama started using tax abatements to recruit plants to the state's pulp and paper industry extensively after the 1940s, and the forest-based industry is now the foundation of the state's economy.[1] In addition to abating taxes on manufacturing and other facilities, Alabama also offers competitively low property taxes.[1] Research shows that although tax incentives influenced companies' decisions to locate in particular communities, abundant wood, water, labor, and transportation resources were the principal factors that attracted the industry into the state. Moreover, the same research suggests that despite the economic stimulus of the mills, communities that used generous recruitment packages continued to lag behind other rural counties, the state, and the nation. Finally, coupled with low property taxes, the tax abatements in the state are found to have adversely affected funding for local public education.[1]

The **Georgia** Agribusiness and Rural Jobs Act (GARJA), was signed into law in 2017 with the goal of providing access to capital for small businesses within the rural parts of Georgia. Under GARJA, capital for rural investment is available to Georgia small businesses in exchange for receipt of tax credits which can be utilized by affiliates. In 2020, the Rural Fund reported that it deployed the initial $100 million of capital investments and that four of five of the targeted industry sectors had significant job creation and that the program helped small businesses to secure financing at affordable and reasonable rates. According to Georgia's Rural Fund annual report, one of the challenges that they faced was establishing investments in the technology industry, especially those that were startups or early-stage companies. Also, investors interested in the program were often found to be unfamiliar with the state resources and how to find small businesses in need of capital, which slowed the deployment of GARJA funds. Last, restricting the size of eligible businesses to 250 employees or less was another challenge to the program.

In addition to tax incentives, some states have used direct investments to address rural workforce development. For example, **Nebraska** passed the Rural Workforce Housing Investment Act, to help support job creation and population growth in rural parts of the state that lack housing options. The Act provides matching funds to build high-quality, reasonably priced homes in small towns and rural communities. Grants are available to eligible non-profit development organizations who, in collaboration with local employers and financial institutions, supply a minimum of 1:1 matching dollars to generate Rural Workforce Housing Investment Funds (RWHF). The funds are being used into new rental or homeowner units or on substantial home rehabilitations, while the recouped investments are applied toward the development of additional units. Since its enactment five years ago, RWHF has built over 800 affordable homes and rehabilitated about 12 houses and in 2020 the State Legislature allocated another $10 million to the Fund.

In **Missouri**, there are currently two Senate bills (675 & 905) and one House bill (1885) related to tax abatements for investments in rural communities. If signed into law, the bills would create the Missouri Rural Workforce Development Act, which provides an incentive for those making capital investments to rural areas of the state. Participants would be eligible for an annual tax credit covering 15% of an investment for four years beginning two years after an investment is made. Eligible rural funds must have invested at least $100 million in small communities across the country, including $30 million in Missouri. Recipients would be required to distribute 60% of their investment commitments within two years and 100 percent within three years. The bills require that 70% of investments be made in rural small businesses with 250 or fewer employees and that the principal business operations are in the state of Missouri.

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