THE CENTER FOR

Rural Pennsylvania

A Legislative Agency of the Pennsylvania General Assembly

Economic Development and Job Creation

Testimony Presented to the
Pennsylvania House of Representatives Commerce Committee

By
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Lycoming College, Williamsport, PA

Factors for Rural Pennsylvania Economic Recovery and Sustainability

Good morning Chairman Daley, Chairman Hess, Members of the House Commerce Committee. Thank you, and in particular, Representative Mirabito, for the invitation to be with you today to talk about Job Creation and Economic Development, from a rural perspective. I am Barry Denk, director of the Center for Rural Pennsylvania. The Center, as you know, is a bipartisan, bicameral policy research agency of the Pennsylvania General Assembly created in 1987 as part of Act 16, the Rural Revitalization Act.

While your efforts focus on the positive as you look at opportunities for job creation and economic growth, I don't doubt the recession has played some role in your decision to hold these hearings.

Pennsylvania will recover from this recession. Some economists tell us that a recession is a normal, and even healthy, part of the business cycle. By some standards, the recession of the early 1980s was worse. But all things are relative and with more than 161,000 rural Pennsylvanians currently unemployed and many more who are under-employed or discouraged, this recession is, indeed, having a deep and profound impact.

In my desire to focus on opportunities that this recession presents, I offer for your consideration what is needed for the long-term economic recovery and sustainability of Pennsylvania in general and, in particular, for the 3.5 million citizens who call rural Pennsylvania their home.

Drawing from my 18 years of service at the Center for Rural Pennsylvania, and my opportunities to be engaged in several national rural policy development venues, I believe there are five principles of sustained economic development:

1. **There really is no rural economy separate and distinct from our overall economy.**

This is one Commonwealth - urban, suburban, and rural are economically linked and all are linked to the national and global economy.

What affects urban areas also affects rural areas, and vice versa, —although the degree and intensity are different.

Bottom line - for Pennsylvania to succeed, its rural areas must also succeed.

2. **While we are one, one-size economic development policies and programs do not fit all.**

What may work well in urban or suburban areas for job training, business recruitment and retention, or financing may not necessarily work in rural areas—and visa-a-versa. We must have flexible policies and programs that recognize the diversity of this commonwealth to ensure the maximum return on public and private investments.

While rural and urban areas are economically linked and have similar needs, programs and policies need to be flexible. As cluster development studies have shown, Pennsylvania cannot be economically homogenized, each area needs to capitalize on it assets and strengths. Place-based development strategies that build on what makes an area, or region, stand out, be different, and capitalize on that uniqueness, have a better chance of being successful and sustained.

3. **Pennsylvania does not need a separate "rural policy"; rather it should be an integral part of all policy.**

Rural Pennsylvania should not be marginalized by placing all its issues in a separate policy box. Rural areas are every much as dynamic and changing as urban areas.

State decision-makers and administrators must be sensitive to rural needs and opportunities while still maintaining high levels of accountability.

4. **Local capacity (leadership) is critical for any project.**

Throughout rural America, local leadership is the key for successful projects. Sadly, local leaders are in short supply. Two well-known demographic trends are affecting this in

Pennsylvania; we continue to have outmigration of youth and we have the aging of those who remain. Individuals with needed skills are often enticed to move to more urban areas for higher incomes, career advancement, etc. Leaders who stay are often overburdened with being on countless committees and community undertakings that their ability to be effective is jeopardized. State investment in human capital development is critical to help fill this leadership void.

5. Rural and Agriculture are not synonymous.

Agriculture is a very important part of Pennsylvania's total economy; as is manufacturing, health care, and tourism. Yet, all too often, well intended people tend to equate rural policy or rural economic development with farming and agriculture in general. As a result, we have never developed a coherent, integrated rural policy framework at the federal, state and/or local levels. I do believe, however, that agriculture can serve as a key component for development of an integrated policy framework for Pennsylvania. Through agriculture and its varied components, we address food and fiber needs for both urban and rural; land use preservation and conservation; healthy lifestyles, etc.

What is needed for the long-term recovery and sustainability of Pennsylvania's rural economy? Through the Center's sponsored research and database analysis, there are five policy considerations I would like to present to the Committee:

1. **Increase access to and usage of broadband technology – from an Open Access Model.**

   According to Marina Gibbs, executive director of the Institute for the future, we are entering an age where every object, every place, is surrounded by digital data. Massive amounts of data will be streaming in every direction. A Center for Rural Pennsylvania Current Population Survey, in 2009, found that 69 percent of rural households had computers with Internet access. Of these households with internet access, 56 percent used broadband technology. The survey results also showed that for that same year, 78 percent of urban households has computers with internet access and, of them, 68 percent used broadband technology.

The federal and state governments have provided substantial financing to subsidize advanced communication networks. These funds, though, tend to follow a silo approach, meaning they have supported specific sectors such as health care, education, etc. They also depend on a private sector model for delivery. These private sector models are operator-centric. The operator owns the network and therefore "owns" the customer, and determines the types and levels of services (video, voice, data) offered to the customer. Return on investment determines network upgrades, expansion of services, and even the level of competition. In less densely populated rugged terrain areas, insufficient ROI naturally results in less deployment, fewer services, and less competition.

The challenges associated with improving rural broadband have driven the development of an "open access" delivery model. A team of researchers and practitioners from Penn State University, led by Dr. Ted Alter, have looked at this innovative method of deployment. The key distinguishing feature to this open access model is that broadband infrastructure is decoupled from broadband service provision. Open access networks are end-user rather than operator-centric systems. Open access models link residential consumers, commercial and non-commercial consumers, public and private institutions within a physical community.

The open access network is built, maintained, and operated to provide broadband connectivity to the customers in a geographic community served by the network. Services on an open access network, such as telemedicine, internet access, web hosting, voice, video, etc. are delivered to customers by competing private sector entities using open access network infrastructure. This structure speeds up and increases the benefits of competition to customers.

We have examples of this effort in rural Pennsylvania. Clarion County Hospital and the County Commissioners, in 2009, undertook a project to develop a non-profit cooperative to build, own, and operate an open access network capable of delivering carrier class broadband service to 90 percent of the population in Clarion County and the eastern half of Forest County. In Clinton County, a longstanding example of a successful rural telecommunications network is KCNet, or Keystone Community Network, a non-profit corporation that provides infrastructure for electronic access to local, state, and global information.

Part of the reason for the less than adequate deployment is that some rural communities and rural citizens still are not sold on the need for, or benefits of, internet access and broadband capabilities. There remains a need to continue educating citizens, businesses, communities about the relevance and importance of telemedicine, e-commerce, distance education, etc. We cannot assume that if it is built, they will come.

2. **Improve Educational Attainment – Lifelong Learning – but not necessarily a four-year degree.**

For the long-term economic sustainability of Pennsylvania we need to provide affordable, appropriate lifelong learning options. Paul Saffo, a Silicon Valley based technology forecaster, stated in a July 2009 MSNBC interview, "Lifelong learning will be the key to unlocking the future. People should expect to change careers six or seven times in their lifetime". "This is a brain race." "Lifelong learning will be a forced march. If you stop learning, you will become unemployed and unemployable very quickly."

According to the Census Bureau, 19 percent of working age rural Pennsylvania adults (18 to 64) have a bachelor's degree or higher. In urban areas, 29 percent have a similar degree. College degrees, however, will not lead to meaningful employment for all; yet the need for some level of postsecondary education or training is critical. According to the US Department of Labor, employment projections through the year 2018 show that of the top 30 fastest growing occupations, 16 require, at most, an associate's degree. Most of those 16 require short-term to moderate-term on the job training.

Pennsylvania is blessed with an exceptional mix of private, public, and state-related institutions of higher education. But one needs to look at a map of our Commonwealth overlaid by a map of the geographic location of these institutions to see how much of rural Pennsylvania is un-or underserved, particularly with community colleges.

Rural Pennsylvania is fortunate to have a network of community and higher education non-profits councils that play an important role in brokering life skill, education, and training to rural Pennsylvanians. Currently the state supports eight councils serving a dozen counties, most in the northern tier of the state. Their programs range from ABE-GED classes all the way up to master's level programs for MBAs and MSWs. However, there is no funding proposed in the 2010-11 budget for these councils.

According to surveys from Manpower, a worldwide employment services company, sales representatives, teachers, mechanics, technicians, managers and truck drivers are the six hardest jobs to fill today. But while many of the top 10 hardest jobs to fill don't require a college degree, they at not glamorous. Melanie Holms, vice president of North American corporate affairs for Manpower stated, "I'm not sure young people have thought of those occupations as attractive. Our country needs people to go to trade schools, We are running out of machinists, mechanics, and technicians because the people in those jobs are retiring."

3. Local Reinvestments (Transfer of Wealth)

The current and projected budget challenges at both the federal and state levels mean that government investments will be limited. That doesn't mean that worthwhile efforts or critical community needs must go unfunded. We do a disservice to our rural communities to think of them as constantly needy and waiting for government support. Our rural communities represent the investment of generations. Unfortunately, these investments, or assets, often leave the community once their owner passes away.

According to the 2008 Center study, *Transfer of Wealth in Pennsylvania*, Pennsylvania will transfer $1.17 trillion in personal wealth over a 50 year period. In just the 10-year period of 2005 to 2015, the Transfer of Wealth is estimated to be $193.38 billion.

If just 5 percent of these assets would stay in a community, they would pay big dividends by sparking new locally owned businesses, improving housing stock, offering postsecondary education opportunities, and maintaining quality of life features that make areas a place where people want to work, live, and play.

Since the release of this report in the spring of 2009, we have seen several locally driven initiatives to garner that wealth through community foundations

4. Local Entrepreneurship

In rural Pennsylvania, 52 percent of businesses employ less than five workers; 77 percent employ less than nine persons each. From 2000 to 2007, however, the number of these small businesses in rural Pennsylvania has declined or remained relatively flat.

A recent Center examination of small businesses in rural Pennsylvania found that 28 percent were home-based operations, and two-thirds of all businesses were related to the owners' previous work or occupation.

In times of recession with skilled workers losing their employment, efforts to support entrepreneurship should be expanded. However, under the federal Self Employment Assistance Program, (SEAP), one of the measurements of a successful SEAP participant is that the business must establish a storefront and address. With 28% of small businesses being home-based, the SEAP program limits its ability to be used for rural entrepreneurial endeavors. The average age of a small business owner was identified as 53; yet, only 23 percent had any transition or succession plan. What are we doing as a state to connect local small businesses with youth who want to, and will, remain in their hometown communities to keep those businesses operating and expanding as the owner transitions into retirement?

5. Quality of Life Issues Matter—Build on Your Assets

Rural communities are not only competing locally, they are competing internationally. Economic development strategies, with attendant funding, that focus primarily on industrial development have traditionally been viewed as a zero sum game – one community's success comes at the expense of another. This approach is outmoded in a global economy. Sustainable economic development will draw on the uniqueness of different regions where community leaders think and act regionally; identify indigenous assets; match assets with existing or emerging niches in a global market, make the necessary human and physical investments and reinvestment that allow communities and regions at capitalize on assets, and through fostering home grown businesses.

Focusing on quality of life improvements is a win-win situation. Whether it is downtown revitalization, development in recreation activities, or historic preservation, focusing on developing the community's assets will not only make the area more attractive to new businesses, but also give the youth a reason to stay.

Thank you Mr. Chairman, Committee members, and I welcome your comments or questions.

ECONOMIC CONDITIONS IN RURAL PENNSYLVANIA

A Data Snapshot

Using information from its database, the Center for Rural Pennsylvania analyzed a number of key indicators that depict economic conditions in rural Pennsylvania.

Much of the information presented here is available at the county level. If you would like additional information, please contact the Center for Rural Pennsylvania at:

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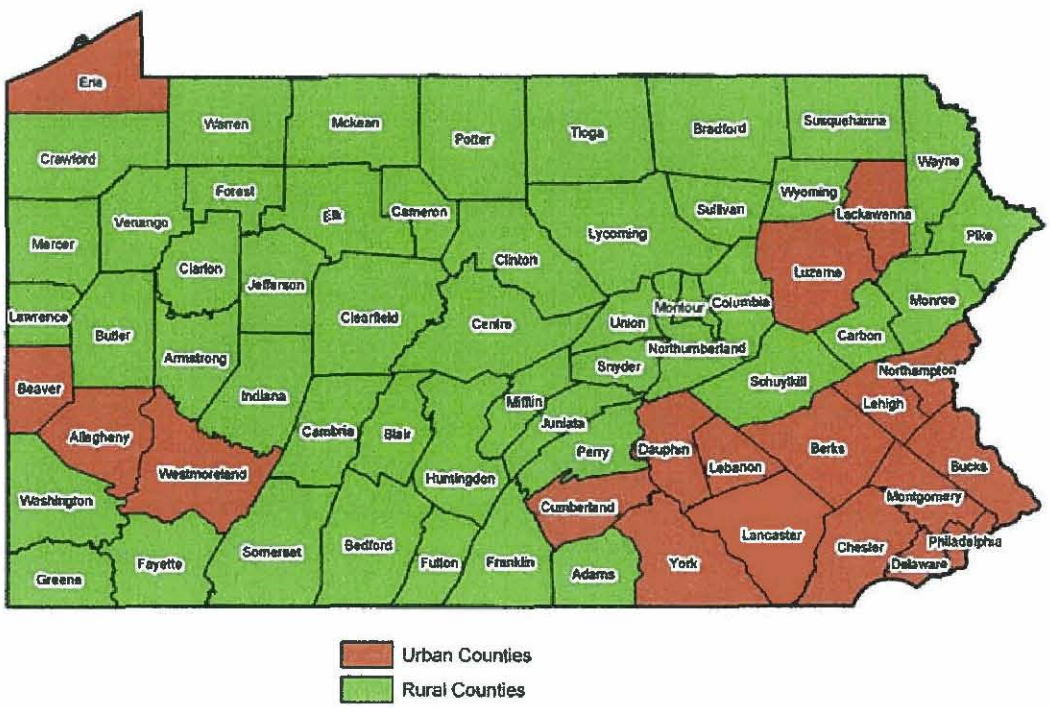
Pennsylvania's Rural and Urban Counties, 2010



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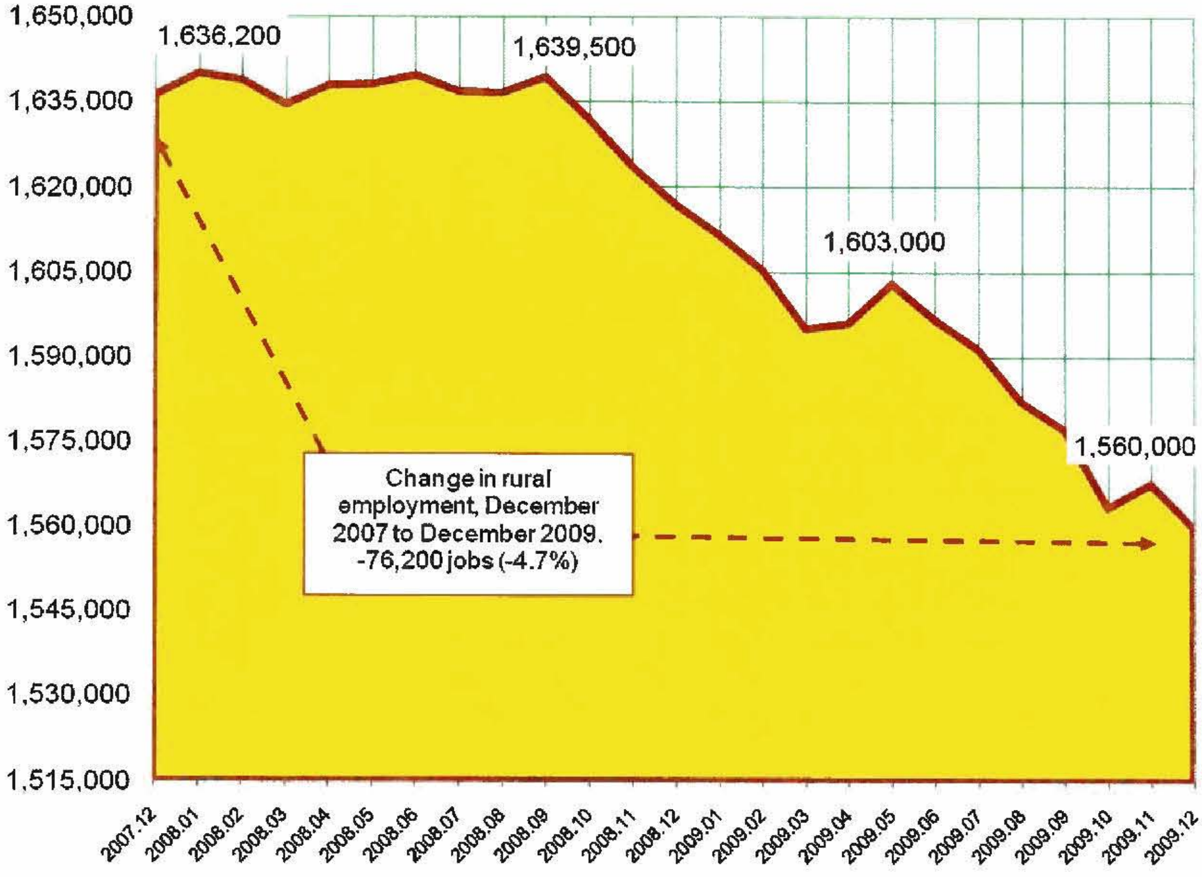
Employment

- In December 2009, 1.56 million rural Pennsylvanians were employed. This figure reflects a 76,200 job loss from December 2007.
- In Pennsylvania's urban areas, in December 2009, 4.19 million persons were employed. This figure represents a loss of 214,100 jobs from December 2007.
- The three rural counties in Pennsylvania with the largest job losses from December 2007 to December 2009 were Fulton (16 percent); Cameron (13 percent); and Juniata (10 percent).
- From December 2007 to December 2009, rural counties across the United States lost 2.0 million jobs, representing a 5 percent decline. During the same period, urban counties loss 5.7 million jobs, also a 5 percent decline.

Number of Rural Pennsylvanians Employed, December 2007 to December 2009

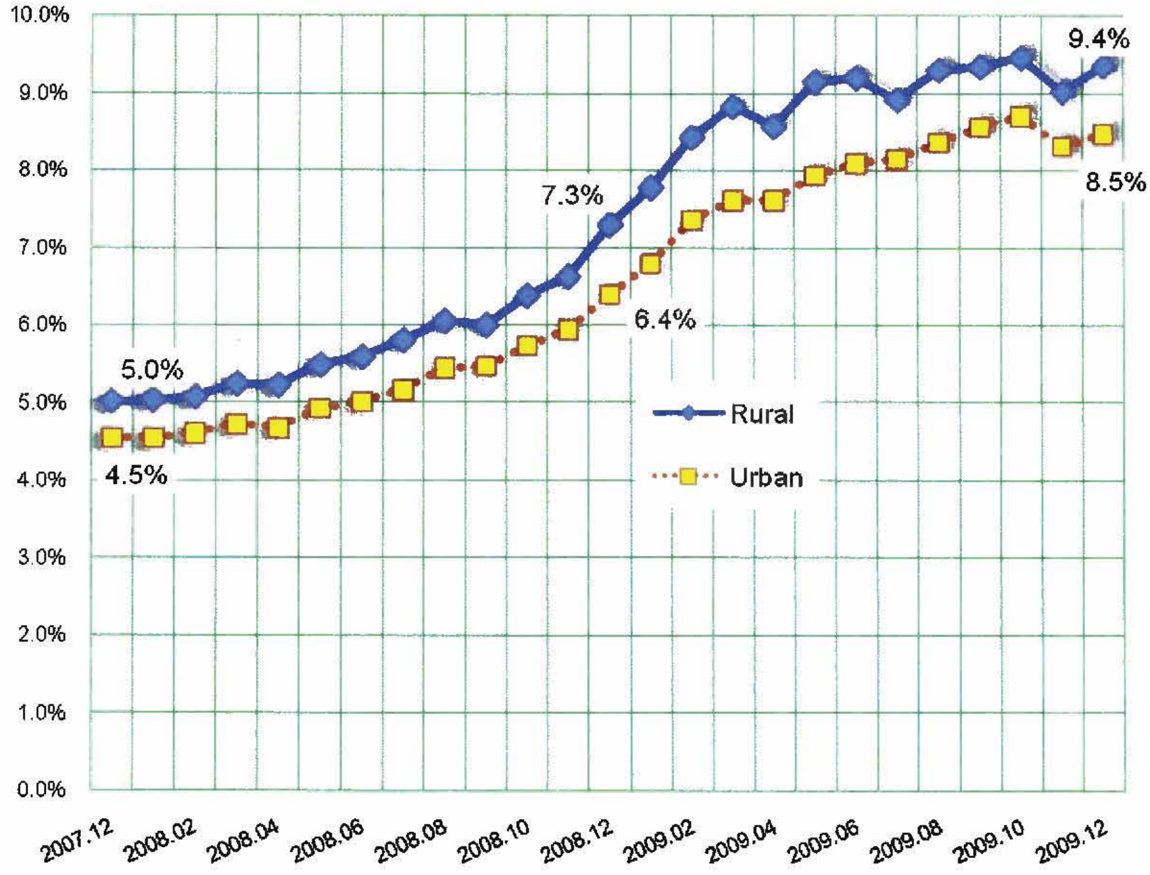


Data source: Pennsylvania Department of Labor and Industry. Data seasonally adjusted.

Unemployment

- In December 2009, 161,000 rural Pennsylvanians were unemployed, or 9.7 percent of the labor force. This represents an 86 percent increase from December 2007
- The three rural counties with the highest unemployment were: Cameron (16.6 percent); Fulton (13.9 percent); and Mercer (12.1 percent).
- In urban areas, 388,000 persons were unemployed, or 8.5 percent of the labor force. This represents an 85 percent increase from December 2007.
- Nationally, the rural unemployment rate in December 2009 was 10.5 percent, the urban rate was 9.3 percent.

Unemployment Rate in Rural and Urban Pennsylvania, December 2007 to December 2009

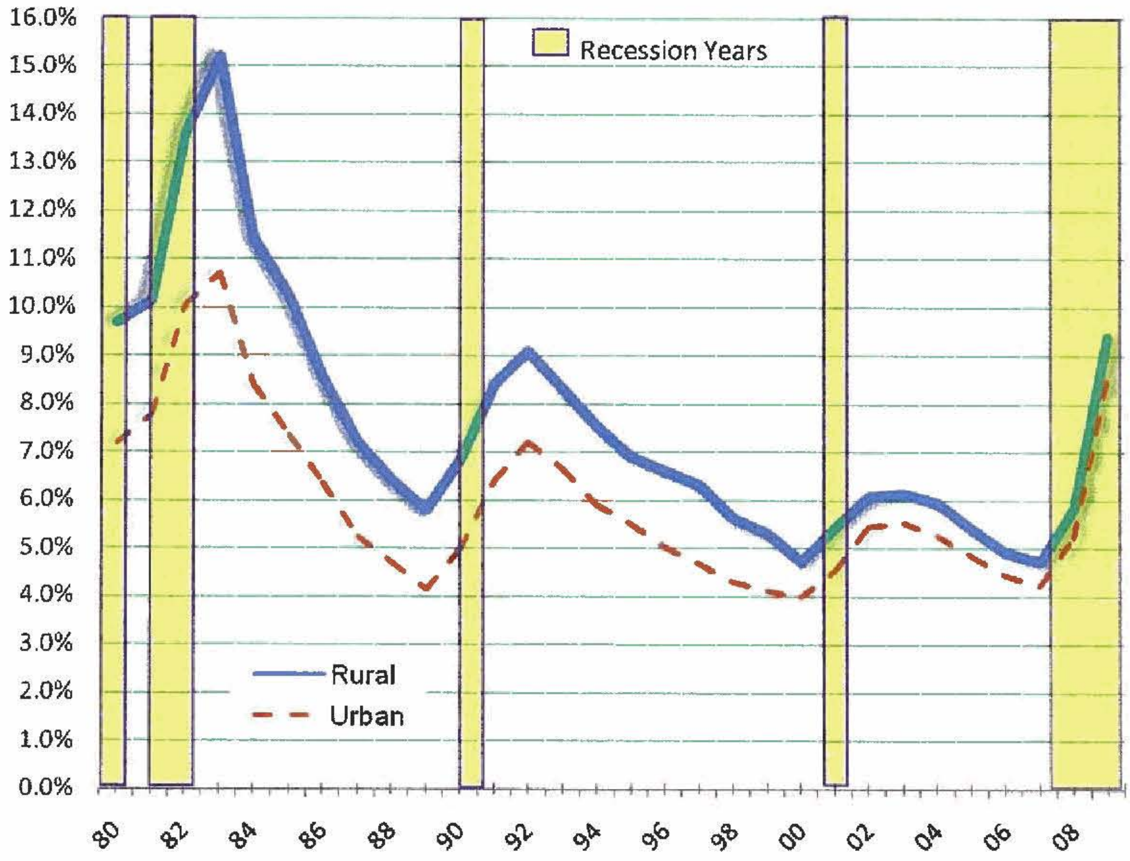


Data source: Pennsylvania Department of Labor and Industry. Data seasonally adjusted.

Unemployment: Historical

- Over the last three decades, rural Pennsylvania's highest unemployment rate was in January 1983, - 19.3 percent. The lowest rate was in October 2006, - 4.0 percent.
- Over the last three recessions, 1981-82; 1991-92; and 2001, rural unemployment peaked, on average, six months after the recession ended.
- During the last three recessions, the average rural unemployment rates were 9.3 percent. For the current recession, December 2007 to December 2009, the average unemployment rate has been 7.1 percent.
- From 1980 to 2009, the average rural Pennsylvania unemployment rate was 7.5 percent or 1.6 percentage points above the urban rate of 5.9 percent.

Unemployment Rate in Rural and Urban Pennsylvania, 1980 to 2009



Data source: Pennsylvania Department of Labor and Industry. Data seasonally adjusted

Profile of the Rural Unemployed, 2008-09

- 52 percent of the rural unemployed are male and 48 percent are female. Among the urban unemployed, 49 percent are male and 51 percent female.
- 44 percent of the rural unemployed are younger adults (18 to 34 years old). Approximately 14 percent of the persons in this age group who are in the labor force are unemployed.
- 59 percent of the rural unemployed have a high school diploma or less. The unemployment rate of persons with this level of educational attainment, who are in the labor force, is 11 percent.

Selected Socio-Demographic Characteristics of Pennsylvania's Rural and Urban Unemployed, 2008-09

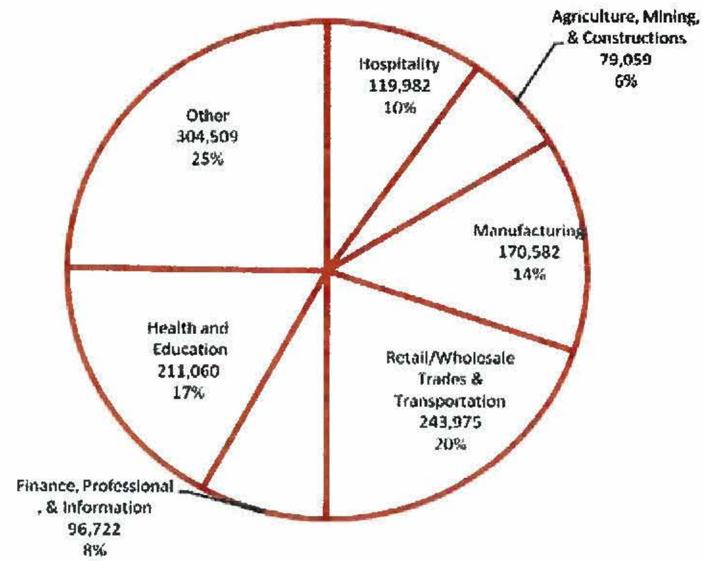
	Rural	Urban
Gender		
Males	52%	46%
Females	48%	54%
Age Cohorts		
18 to 34 Years old	44%	n.a.
35 to 54 Years old	35%	n.a.
55+ Years old	21%	n.a.
Average age of the unemployed	39	39
Educational Attainment		
High school diploma or less	59%	n.a.
Some college, no degree	20%	n.a.
Associate degree or higher	21%	n.a.
Health Insurance		
No health insurance	42%	36%
Health insurance	58%	64%
Households with Children		
Children Living in the Household	37%	49%
Children Not Living in the Household	63%	51%
Housing Tenure		
Homeowner	82%	71%
Renter	18%	29%
Income		
Less than $20,000	23%	n.a.
$20,000 to $39,999	24%	n.a.
$40,000 to $69,999	28%	n.a.
$70,000+	25%	n.a.
Median household income	$41,000	$50,000
Poverty		
Income above poverty level	79%	90%
Income at or below poverty level	21%	10%.
Income <200% poverty level	46%	32%
Income at or above 200% poverty level	54%	68%

Data source: 2008, and 2009 RuralPA-CPS. Sample included 3,487 rural residents and 1,271 urban residents. Also includes persons 18 years old and older and are in the labor force.
n.a. = Less than 50 responses

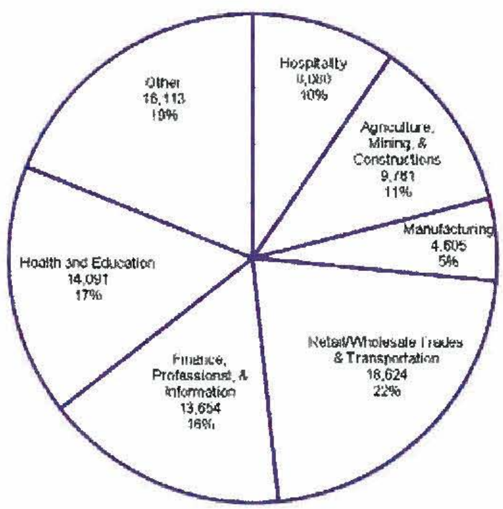
Rural Employment Diversity

- In 2009, no one industry sector dominated Pennsylvania's rural economy.
- During the second quarter of 2009, 14 percent of persons working in rural Pennsylvania were employed in manufacturing. In urban areas, less than 10 percent of the workers were employed in manufacturing.

Rural Employment by Sector, 2nd Quarter 2009



Rural Business Establishments by Sector, 2nd Quarter 2009

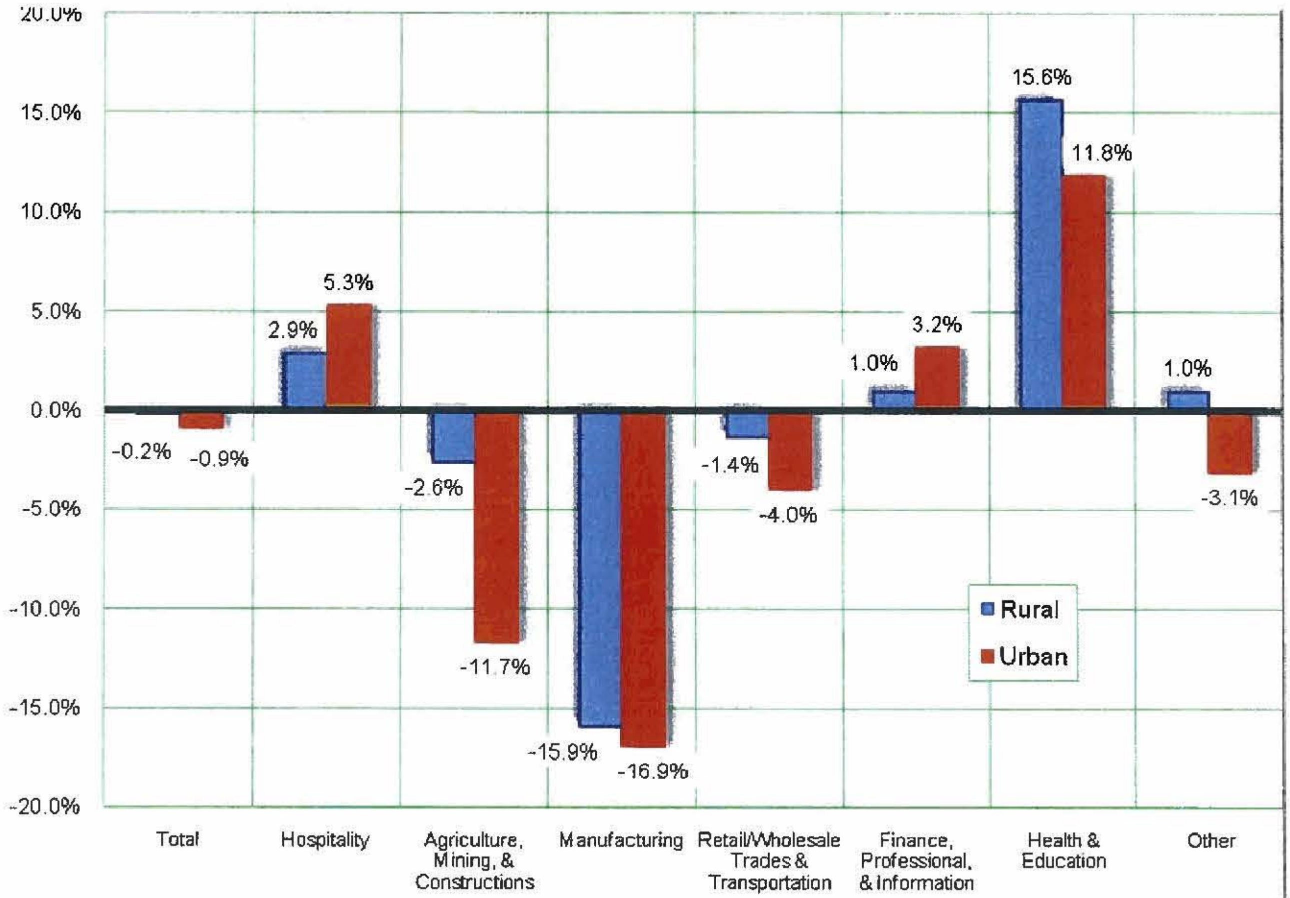


Data source Pennsylvania Department of Labor and Industry, ES-202 data. "Other" includes Waste Management and administration, and suppressed data. Excluded are public sector employees and establishments.

Rural Employment Change

- From the second quarter of 2004 to the second quarter of 2009, overall rural employment declined 0.2 percent. In urban areas, there was a nearly 1 percent decline.
- Rural and urban manufacturing saw deep declines in employment between 2004 and 2009, while health care and educational services had double digit increases.

Sectoral Employment: 2004 - 2009

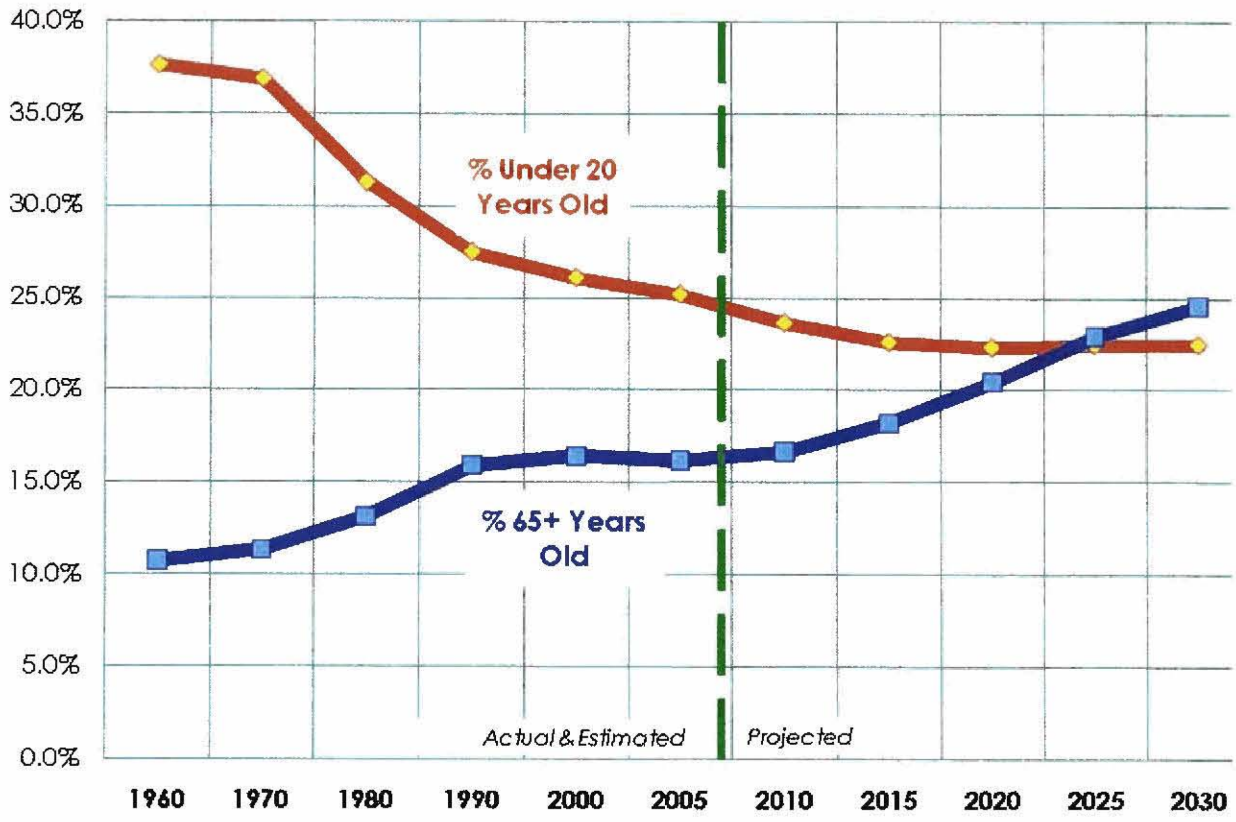


Data source Pennsylvania Department of Labor and Industry, ES-202 data. "Other" includes Waste Management and administration, and suppressed data. Excluded are public sector employees and establishments.

Demographics

- In 2008, an estimated 3.5 million persons lived in rural Pennsylvania, or 28 percent of the commonwealth's population. From 2000 to 2008, rural Pennsylvania had a 1 percent increase in population. During this same period, urban Pennsylvania had a 1.5 percent increase.
- From 2000 to 2030, rural Pennsylvania is projected to have a 5 percent increase in population. This growth, however, will not be even. Twenty of Pennsylvania's 48 rural counties are projected to have population increases, while 28 rural counties are projected to have a population decline.
- From 2000 to 2030, the number of working age rural Pennsylvania adults (18 to 64 years old) is projected to decline 3 percent. Among urban working-age adults, there is projected to be a 1 percent decline.

Percent of Rural Pennsylvanians Under 20 Years Old and 65 Years Old and Older, 1960 to 2030 (projected)

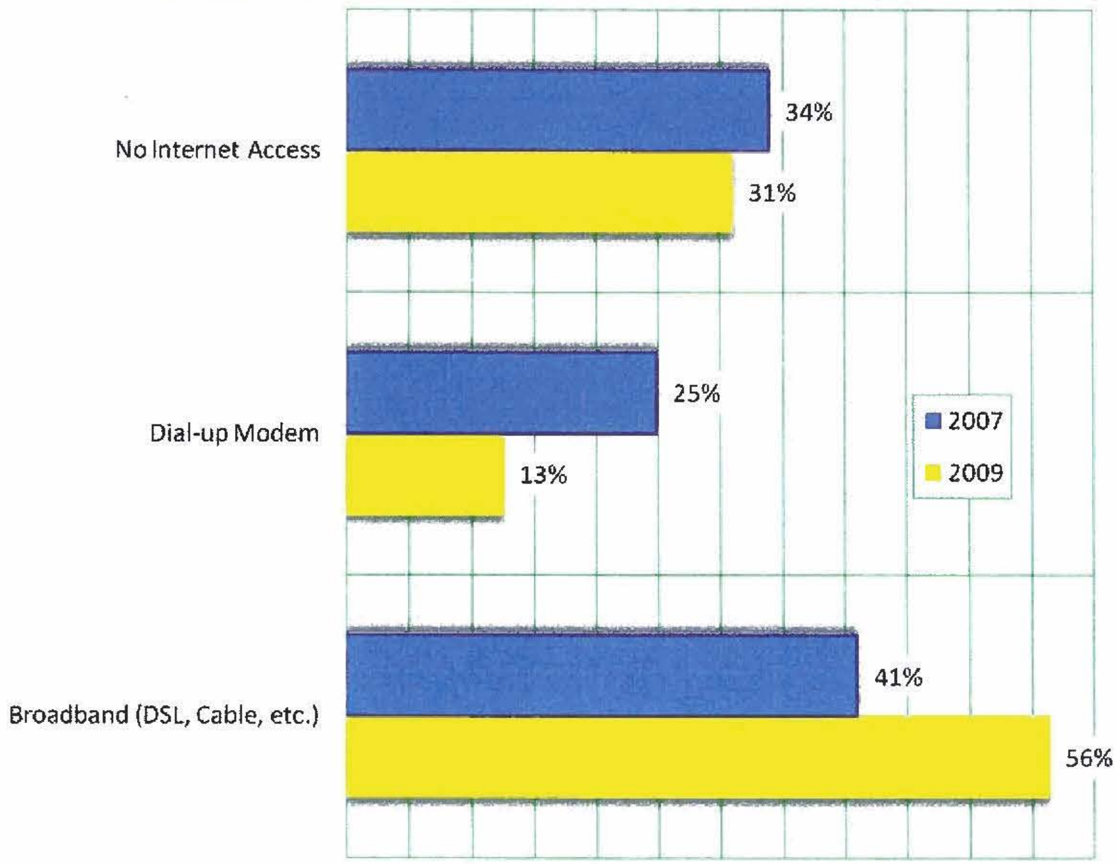


Data sources: U.S. Census Bureau and the Pennsylvania State Data Center

Broadband Internet Access

- According to data from the 2009 RuralPA-CPS, 69 percent of rural households have Internet access in their home, 31 percent do not. Among urban households, 78 percent have Internet access and 22 percent do not.
- Among urban households in 2009, 68 percent had broadband Internet access, either through DSL, cable, or some other means. Among rural households, 56 percent had broadband Internet access.
- In 2007, urban Pennsylvania had nearly five times the number of high technology business establishments (as defined by the U.S. Bureau of Labor Statistics) than rural Pennsylvania. From 2000 to 2007, the number of rural high technology establishments increased 45 percent, while the number of urban high technology establishments increased 33 percent.

Rural Households With and Without Internet Access and Type of Access, 2007 and 2009

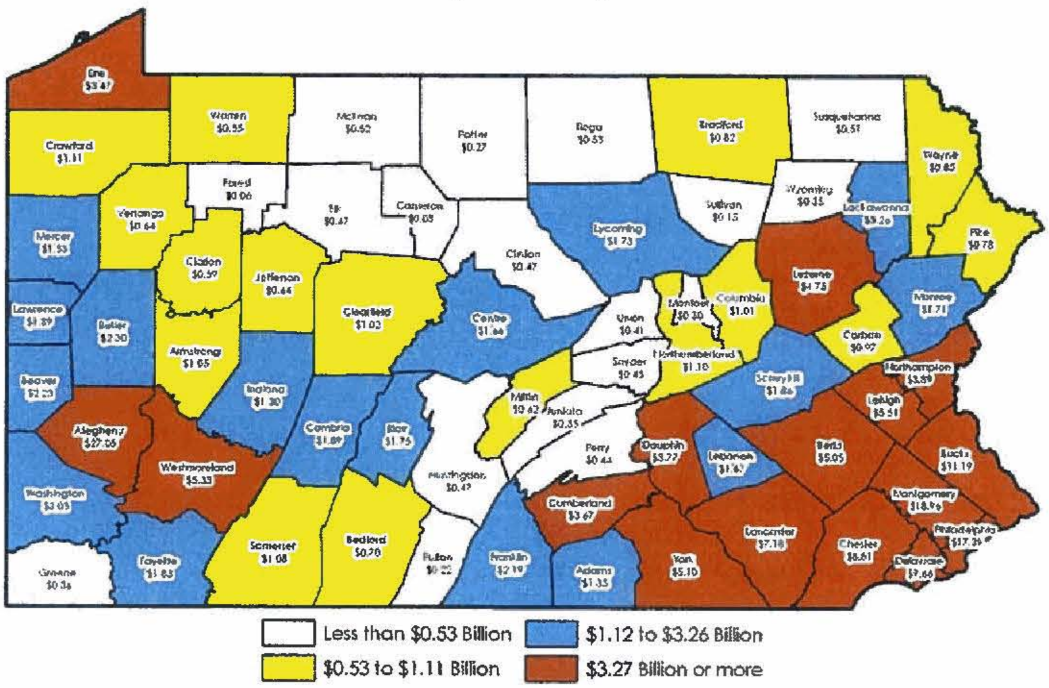


Data source: 2007 and 2009 RuralPA CPS

Transfer of Wealth

- In 2008, a Center for Rural Pennsylvania - sponsored study estimated that the current net worth of all Pennsylvanians was $1.01 trillion. Over the 10 year period, 2005 to 2015, Pennsylvanians are expected to transfer $193.4 billion from one generation to the next.
- If just 5 percent of the $193.4 billion that is expected to be transferred is captured into community endowments across Pennsylvania, an estimated $9.7 billion fund would be realized.
- Assuming a conservative 5 percent yearly payout rate on $9.7 billion in endowed funds, an estimated $483.4 million would be available annually for community betterment investments.

Ten Year Transfer of Wealth, 2005-2015 *(in billions)*

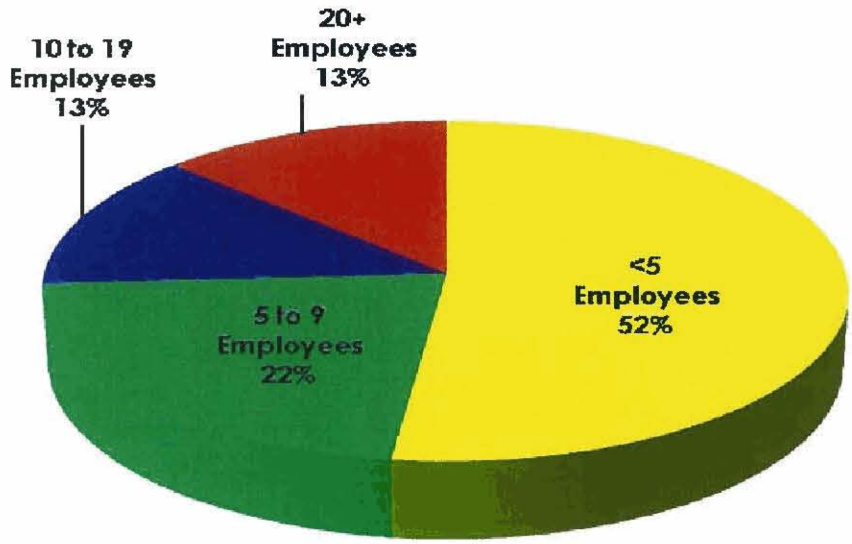


Data source: Center for Rural Pennsylvania

Small Business

- From 1997 to 2007, the number of very small rural businesses (less than five employees) declined 2 percent. During the same period, the number of rural businesses with 20 or more employers increased 13 percent.
- In 2007, the largest concentration of very small rural businesses was in the construction and retail sectors, each with 14 percent of the total.

Rural Pennsylvania Businesses by Number of Employees, 2007

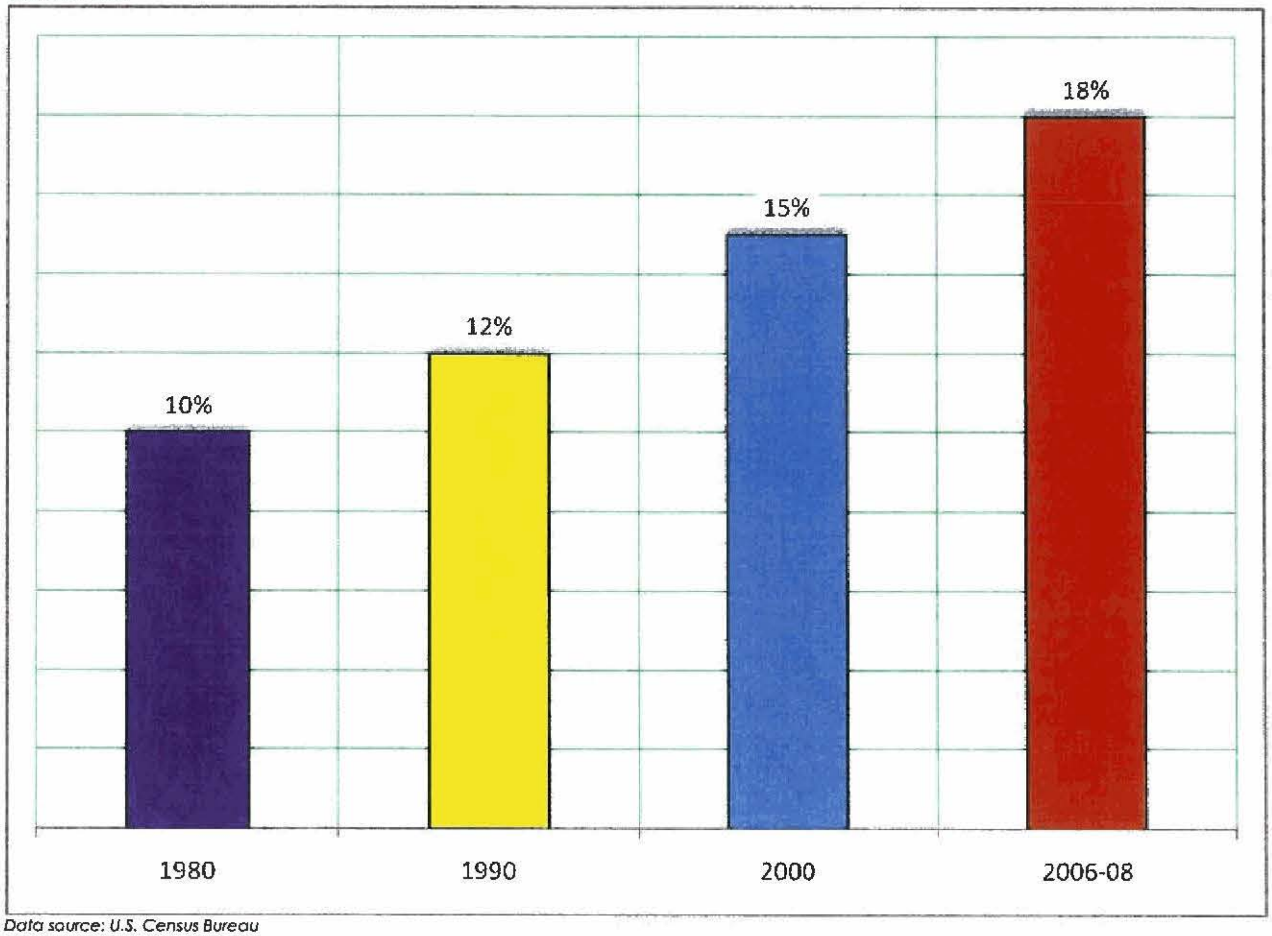


Data source: 2007 County Business Patterns, U.S. Census Bureau

Educational Attainment

- According to Census data, in 2006-08, 18 percent of rural adults (25 years old and older) had a bachelor's degree or higher. Among urban adults, 29 percent had a bachelor's degree or higher.
- Data from the 2008 and 2009 RuralPA-CPS showed that rural householders with a bachelor's degree or higher had a median household income of $80,000. In comparison, those with a high school diploma had a median household income of $42,000.
- In Pennsylvania there are 181 colleges and universities; 41 of these institutions are located in rural areas and 140 in urban areas.

Percent of Rural Adults (25+ Years Old) With a Bachelor's Degree or Higher, 1980 to 2006-08

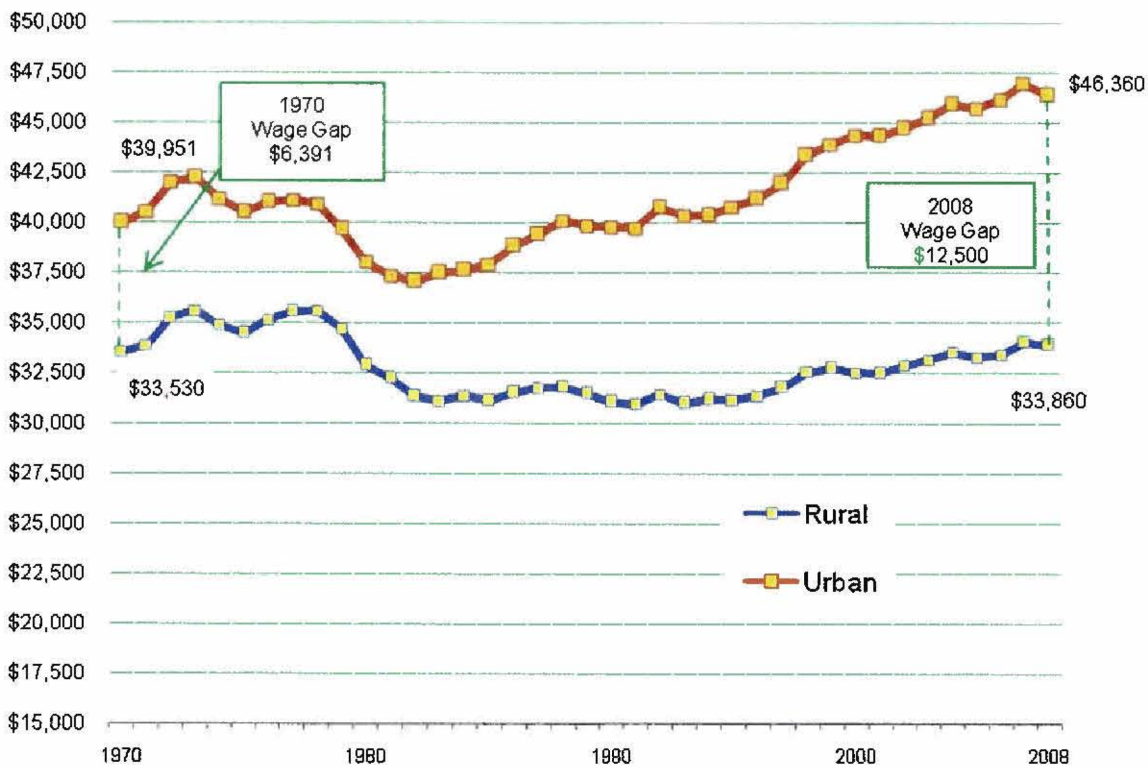


Data source: U.S. Census Bureau

Rural Wages

- According to the U.S. Bureau of Economic Analysis, in 2008, the average annual wage in rural Pennsylvania was $33,860, or $12,500 lower than the Pennsylvania urban average.
- Over a 38 year period from1970 to 2008, the average annual Pennsylvania rural wage increased $330 or 1 percent after adjusting for inflation. During this same period, the average urban wage increased more than $6,409 after adjusting for inflation, or 16 percent.
- According to a 2000 study funded by the Center for Rural Pennsylvania, the average cost-of-living in rural Pennsylvania was 2.4 percent lower than urban areas.
- During the second quarter of 2009, the average weekly manufacturing wage in rural Pennsylvania was $808. For urban manufacturing workers, the average weekly wage was $1,004.

Average Annual Wage and Salary for Pennsylvania's Rural and Urban Wage and Salary Earners, 1970 to 2008 *(Data adjusted for inflation)*



Data source: U.S. Bureau of Economic Analysis. Data adjusted for inflation using the CPI-U with 2008=100.

Center for Rural Pennsylvania Economic Research

Published Research

- An Examination of Pennsylvania's Meat and Poultry Processing Industry (2007)
- Broadband Internet Use in Rural Pennsylvania (2008)
- Developing Effective Citizen Engagement: A How-To Guide for Community Leaders (2008)
- Protocol for Determining the Feasibility of Installing Dedicated Wind Energy in Pennsylvania Rural Communities (2008)
- An Evaluation of the Keystone Opportunity Zone (KOZ) and Keystone Opportunity Expansion Zone (KOEZ) Programs in Rural Pennsylvania (2008)
- Economic and Transportation Impact of Warehousing on Rural Pennsylvania (2008)
- Growing the Links between Farms and Schools: A How-To Guidebook for Pennsylvania Farmers, Schools and Communities (2008)
- Modeling Potential Wildlife-Wind Energy Conflict Areas (2009)
- Using Natural Heritage Program Data for Wind Energy Planning: A Manual for Townships (2009)
- Creation of Organic Feed Formulations for Rural Pennsylvania Aquafarmers (2009)
- Studies on Unemployment and Underemployment in Rural Pennsylvania (2009)
- Rural Exports: A Baseline Study (2009)
- Agritourism Business in Pennsylvania: A Resource Handbook (2009)
- Challenges and Opportunities for Community Banks in Rural Pennsylvania (2010)

Future Research Publications

- Examination of Small Business Owners in Rural Pennsylvania (spring 2010)
- Impact of Uniform Construction Code in Rural Pennsylvania (late 2010)
- Analysis of Small Business Center (SBDC) Use in Pennsylvania (2011)
- Assessing and Mitigating Rising Electric Prices in Rural Pennsylvania (2011)
- Evaluation of Main Street Program in Pennsylvania (2012)

Requested Research Projects (All proposals are due August 2010)

- Rural Pennsylvania's Tourism Industry
- Microfinancing: A potential Partner in Rural Pennsylvania's Economic Recovery
- Pennsylvania's Wine Industry: An Assessment
- Pennsylvania's Weights and Measures Program
- Open call for Marcellus Shale Studies
- Assistance for the Unemployed
- Unemployment in Rural Pennsylvania