

**PHILANTHROPY AND RURAL POLICY:
REFRAMING THE WAY FORWARD**

A Background Briefing Report to the National Rural Funders Collaborative (NRFC), in preparation for a consultative dialogue with the U.S. foundation community interested in national rural policy issues

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Presented by the Rural Policy Research Institute (RUPRI)
and the National Association of Development Organizations (NADO)



INTRODUCTION

The National Rural Funders Collaborative recently requested that the Rural Policy Research Institute and the National Association of Development Organizations create a background briefing report and facilitate a consultative dialogue for a group of U.S. foundations particularly interested in national rural policy issues.

This report is designed to provide a framework for that discussion. In the first section, we outline the current context for U.S. rural policy, and highlight the key meta-policy and rural policy drivers which will frame future considerations, or which offer the greatest potential for meaningful rural policy progress. We then address the upcoming Farm Bill reauthorization opportunity, particularly the potential for a landscape-changing Rural Development Title. In the third section, we look out over the next 24 months, and review the potential for philanthropic impact in several specific policy sectors. Finally, concluding concerns and considerations are offered, along with specific recommendations for foundation action to enhance the efficacy of current rural policy efforts, and to amplify the impact of future investments.

We appreciate this dialogue opportunity, and look forward to the future journey together.

Sincerely,



Matthew Chase
Executive Director
National Association of Development Organizations



Charles W. Fluharty
President
Rural Policy Research Institute

I. KEY RURAL POLICY DYNAMICS

Rural policy considerations have remained a “back-water” concern for U.S. public policy over the last four decades, usually rising only with a new Farm Bill tide, and then receding, after sufficient lip-service, with only minimal impact. However, over the past decade a number of dynamics in the U.S. culture and political economy are driving significant new attention to these challenges. In addition, several domestic meta-policy dynamics will have significant impacts across the whole of U.S. public policy. These key drivers are outlined below:

In the foreseeable future, the Federal government will be unable to increase discretionary spending, without significant tax increases.

A pervasive challenge for all public policy considerations today is the continuing federal deficit. The Federal Budget for FY 2007 was projected to be \$2.77 trillion. This assumed a \$423 billion deficit for FY 2006 – a level that exceeds non-defense discretionary spending -- with subsequent reductions to \$200 billion by FY 2008. These budget projections excluded additional costs associated with the wars in Iraq and Afghanistan and the Gulf Coast recovery efforts, and the impact of permanently extending tax cuts enacted in 2001 and 2003 and providing relief from the Alternative Minimum Tax for middle class families. When the Bush Administration releases its FY08 budget, these deficit projections are expected to be reduced, for the near term. However, recent testimony by Federal Reserve Chairman Ben S. Bernanke has heightened concerns for the longer-term implications of current entitlement programs. Mandatory and entitlement spending approaching \$2 trillion now accounts for almost two-thirds of the federal budget, with exponential growth in the costs of Medicare, Medicaid and Social Security. Equally significant is the 44 percent increase in defense spending over the past six years.

These annual deficits equal the combined budgets of the states of California, Texas, Florida and New York, and equal all spending for federal discretionary domestic programs, appropriated through the annual Congressional process.

The rural challenge in this dynamic is heightened by a significant structural disadvantage in federal funding, and uneven, episodic and unscaled philanthropic commitments to rural people and places.

Because the federal government will continue to devolve roles and responsibilities down to states and localities, often in block granting structures, the capacity of rural jurisdictions to compete for these funds is increasingly important. However, compared to their colleagues in urban and suburban governments, rural public decision makers are significantly disadvantaged. Most rural jurisdictions have relatively few or no research staff, grant-writers, technical assistance funding bases, or economic analysts. Many are led by part-time public servants, with few or no paid staff at all. On this uneven playing field, urban and suburban counterparts will almost always be victorious in competing with rural jurisdictions for scarce, competitively awarded state block grant funds.

One of the largest challenges for rural development in the U.S. remains the inherent structural disadvantage which rural areas face in federal funding commitments. Current federal funding policy inadvertently, but significantly, disadvantages rural areas. The Consolidated Federal Funds Report for 2001 (the most recent reported data) shows that the federal government returned \$6,131 on a per capita basis to urban areas, while returning only \$6,020 to rural areas¹. This amounts to a nearly \$6 billion annual federal disadvantage to rural areas. However, an equally challenging issue is the difference in the nature of these federal funds.

While currently available data is somewhat dated, in Fiscal Year 2001, direct payments as a percent of all federal funds per capita were 50.5% in metropolitan areas and 63.9% in nonmetropolitan America². This 13% differential funding builds much of the community capacity and infrastructure of urban and suburban America. Therefore, with each passing year, these dynamics further disadvantage rural jurisdictions and organizations, who are forced to compete with their metropolitan counterparts on an increasingly uneven playing field, without benefit of the professional staff, technical assistance and planning resources which this funding secures.

These stark community capacity disadvantages are additive. Each year from 1994-2001, the federal government spent two to five times more, per capita, on urban than rural community development, and one third as much on community resources in rural areas³. Per capita spending on community resources in 2001 was \$286 per person less in nonmetro areas than in urban America, a \$14.1 billion dollar rural community capacity disadvantage (based on 2003 metropolitan classifications of Census 2000 population)⁴.

These rural implications are exacerbated by an ongoing federal “push down” of funding and statutory responsibility to states and localities, which further challenges rural resources and community capacity. Federal block granting has become a more common framework for these shifts, with increasing use of loan and loan guarantees, and fewer direct granting possibilities, which is forcing new interjurisdictional cooperation – a good thing, with reduced federal commitments – a huge challenge. However, while the U.S. has a somewhat incomplete and incremental regional development framework, these challenges have increased interest in new collaboration, and have renewed interest in new regional approaches.

These rural community capacity challenges in federal funding are exacerbated by an equally uneven commitment to rural community and economic development by our nation’s foundations and corporate grantmakers. In a May 2004 report, the National Committee for Responsive Philanthropy⁵ noted that of the \$30 billion distributed annually in by our nation’s foundations, only \$100.5 million was committed to rural development. Of 65,000 or so active grantmaking foundations in the United States, only 184 engaged in rural development grantmaking. About 20 foundations engaged in rural development grantmaking accounted for 80% of this total, and two foundations, the W.K. Kellogg Foundation and the Ford Foundation, constituted 42%. While the

¹ Analysis of Consolidated Federal Funds data by the Economic Research Service, USDA.

² *ibid.*

³ W.K. Kellogg Foundation (2004) “Federal Investment in Rural America Falls Behind”

⁴ Economic Research Service/USDA, U.S. Census Bureau.

⁵ National Committee for Responsive Philanthropy (2004) “Beyond City Limits: The Philanthropic Needs of Rural America.”

significant rural community and economic development commitment of these two foundations is commendable, these numbers indicate that the majority of grantmaking foundations in the U.S. have not seriously addressed the developmental needs of rural populations.

Sadly, the same rural differential disadvantage also applies to corporate philanthropy. While total corporate grantmaking in the U.S. amounts to \$12 billion annually, a 2000 study of the 124 Fortune 500 corporations found that corporate grantmaking for rural, racial / ethnic organizations amounted to 1% of their total racial / ethnic grantmaking. In total, corporate grantmaking for rural groups constituted seven-tenths of one percent (.7%) of the grant dollars awarded by the 124 surveyed corporations for racial / ethnic giving. Rural organizations received only 153 of the 10,905 grants made, approximately 1.4% of all grants.

A growing understanding of the true nature of the rural economy, and of rural poverty, offers a potential platform for renewed policy attention and action.

As the rural economy in the U.S. continues to consolidate, and as commodity producers, whether in agriculture or manufacturing, are forced to respond to the dynamics of globalization, it is becoming increasingly clear that innovation and technology must drive new rural economic engines, and that this is not only possible, but a necessity. This has helped to support a new commitment to building regional competitiveness strategies that seek to identify and exploit a region's unique assets, and build integrative approaches to optimize this potential. Furthermore, understanding of the limited value of reliance on business attraction strategies and the importance of greater support for asset-based innovation and entrepreneurial approaches are now widespread.

There is also no question now that rural is not synonymous with agriculture, and that rural economies must become more diverse, as rural incomes continue to lag urban, with the greatest lags most often occurring in commodity-dependent counties.

Similarly, attention to rural poverty has increased over the last decade. While many organizations, institutions and individuals deserve credit for increasing awareness of these concerns, much of this enhanced attention is a direct result of an ongoing effort within U.S. philanthropy. Recently, the tragedy wrought by federal and state inability to more effectively address the plight of the poor during Hurricane Katrina has highlighted this awareness. However, in our nation today, persistent poverty remains a rural challenge, with 340 of our nation's 386 persistently poor counties being rural. Rural median family income is 25% lower, and rural poverty rates 28% higher than metro.⁶ And this differential disadvantage is increasingly being viewed by decision-makers as a lag on broader regional economies.

Targeting mechanisms for rural programs must be redesigned, to address the emerging interdependence of rural and urban people and places, and to build new alliances across these constituencies.

⁶ Economic Research Service, USDA, County Typology

County level designations of metropolitan, micropolitan and noncore areas, collectively referred to as core based statistical areas, are often used in federal program targeting. Metropolitan areas are defined by the presence of a principal city of at least 50,000 population, plus surrounding counties that are linked to it through commuting ties. Micropolitan areas contain a principal city of 10,000 to 49,999 plus surrounding counties that are linked to it through commuting ties. All other counties not included in metropolitan or micropolitan areas are defined as noncore counties. The most recent listing of Core Based Statistical Areas for the United States and Puerto Rico (December 2005) by the Office of Management and Budget includes 369 Metropolitan Statistical Areas (361 in the U.S. and 8 in Puerto Rico), and 582 Micropolitan Statistical Areas (577 in the U.S. and 5 in Puerto Rico). Metropolitan and micropolitan areas may contain one or many counties, and many cross state lines.

Nonmetropolitan counties, which include both micropolitan and noncore counties, are often equated with rural. However, official definitions of rural and urban involve sub-county geography. Urban areas are defined by the U.S. Census Bureau as “core census block groups or blocks that have a population density of at least 1,000 people per square mile and surrounding census blocks that have an overall density of at least 500 people per square mile.” All territory not defined as urban is considered rural. Urban areas are divided into two categories: urbanized areas have populations of 50,000 or more, and urban clusters have populations from 2,500 to 49,999.

Both metropolitan and nonmetropolitan counties contain both urban and rural territory. The following table shows population by both county designation and urban and rural geography, and illustrates that county level geography does not accurately reflect urban and rural population distributions. *Over half of all rural people actually reside in metropolitan counties. And, over 40 million metropolitan residents reside outside of large urbanized areas.* It is important, then, to look beyond county level designations when targeting rural populations in public policy and program design.

Distribution of Population				
	Urbanized Areas	Small Cities and Towns	Rural	Total
Metropolitan	192,064,228	10,338,988	30,176,724	232,579,940
Micropolitan	255,305	14,976,437	14,299,972	29,531,714
Noncore	18,588	4,704,763	14,586,901	19,310,252
Total	192,338,121	30,020,188	59,063,597	281,421,906
48.8 million people live in nonmetropolitan counties				
40.5 million people live outside urbanized areas in metropolitan counties				
<i>Urban and rural population figures from Census 2000; CBSA status from the December 2005 classifications</i>				

Clearly, nonmetropolitan residents should be included when targeting rural populations. While nonmetropolitan counties do include some urban residents, with few exceptions nonmetropolitan urban residents live in small cities and towns, which are not targeted in urban programs. Though unintentional, urban targeting tends to usually advantage larger urbanized areas, while many smaller cities and towns, as well as rural populations within metropolitan counties, often fail to receive significant advantage from urban programs; and likewise are excluded from rural programs which target only nonmetropolitan residents. Given these dynamics, and the level of rural population in metropolitan areas, policymakers should consider new alternatives for precise rural targeting.

New rural governance and investment models offer an opportunity to promote an entirely new framework for American rural policy.

Despite, or perhaps as a result of these economic challenges, a new “Rural Governance” is expressing itself across the U.S. rural landscape. Changes are underway in the processes by which decisions are made regarding the distribution of public and private resources and responsibilities across multiple stakeholders, including the public, private and non-governmental sectors. The dynamics in U.S. federalism outlined above are forcing ever greater interdependence of rural governmental and nongovernmental organizations, as the central government’s role continues to reduce over time and circumstance. This requires greater coordination, facilitation and negotiation, through multiple policy networks which are often diverse and overlapping. While this offers a possible new set of strategies to confront the community capacity challenge outlined above, it also creates the necessity for new intermediaries to be formed and functioning.

These intermediaries provide the “glue” that enables new rural governance to express itself, and these new actors are now playing critical roles across multiple institutional settings. As an example, over 20 states now have a rural policy center, either located in the office of the governor, within state government, serving the state legislative process, or operating through the private efforts of universities or non-governmental organizations. Intermediaries such as these are becoming much more relevant to state and local governmental decision making, and will play a more important role in the future of rural policy, as these processes evolve.

These new rural intermediaries are as diverse as rural America itself, yet community foundations are playing a very significant role in many of these dynamics. As but one example, RUPRI is honored to be collaborating with the Nebraska Community Foundation, the Heartland Center for Leadership Development and the Center for Rural Affairs in a promising new initiative, Hometown Competitiveness.⁷ Yet these new intermediaries exist in all sectors, governments and NGO organizations, and are changing the face of policy decision-making across the rural landscape.

⁷ For information on HTC, see the RUPRI Center for Rural Entrepreneurship at www.ruraleship.org.

Despite this potential, three critical questions will determine whether these forces are passing fads or sustainable platforms for new policy innovation:

- Will public sector champion(s) step up, take on the New Governance mantle, and support public and private entrepreneurship?
- Will institutional innovator(s) accept the challenge of building these new intermediary structures, and the burdens of institutional innovation?
- Where are the constituencies to support these innovative leaders and institutions?

A new rural entrepreneurial culture and climate has emerged, but must be nurtured and scaled.

Rural economic development must overcome a number of obvious challenges. Low population size and density, and limited local demand make it difficult to achieve economies of scale. Efforts to achieve efficiencies drive consolidation, from school systems to financial institutions, often with unintended but very deleterious consequences. Remoteness from global markets and poor infrastructure limits rural economic opportunities, and core connections to regional and global markets exacerbate these challenges. More poorly educated, lower skilled workers and the challenges of building rural entrepreneurial cultures have limited rural participation in the new global economy. However, across the nation today, a new rural entrepreneurial culture and climate is flourishing.

Philanthropy is playing a significant role in these developments, but more must be done, and systemic change will only be achieved if integrative, long-term investments and programs, across multiple foundations, can be coordinated and sustained. Four principles should drive these efforts:

- **Focus on the entrepreneur.** Systems thinking is required to properly organize and align the training, technical assistance, and financing programs that are available for small businesses and entrepreneurs. Focusing on the entrepreneurs and their needs ensures that all these programs are aligned in a coherent system, that allows entrepreneurs to obtain the support they need without being passed from door to door or given inappropriate advice.
- **Focus on the region.** Only through regional cooperation across jurisdictions and through regionally-aware institutions can there be sufficient scale, resources, and expertise to enable individual communities to play their full role as supporters of an entrepreneurial climate. It is rare for an individual county to be able to act effectively on its own in economic development, workforce development, transportation or any other complex public service activity. Economic regions invariably cross county and often state boundaries, and these boundaries are irrelevant for the markets entrepreneurs have to be able to serve.

- **Focus on the community.** Local communities need the tools and resources to identify and build upon their competitive assets, and to make appropriate choices among economic, social, and environmental imperatives. Communities can achieve much if they are open to experimentation and innovation, but they will go nowhere if they continue to do what they have been doing for decades, in spite of the changes that are going on around them.
- **Focus on continuous learning.** Entrepreneurs, policymakers, community leaders, and service providers all benefit from networks of peer support and learning. Entrepreneurs in particular rely on networks to share ideas, conduct business together, and link to markets, capital, employees, partners, and services. Taking this one step further, entrepreneurship should without a doubt be an integral part of the school curriculum.

If we are to achieve this, three steps are essential. Anchor institutions with the capacity to articulate a vision, advocate for change, build partnerships and attract and mobilize resources must be built. Secondly, supportive public policies which ensure adequate resources, send positive messages, and build programs with the capacity and flexibility to meet the needs of diverse rural regions must be crafted. Finally, these approaches must provide support and encouragement to both “opportunity” and “necessity” entrepreneurs, and avoid “picking winners.” We must also acknowledge that failures will occur.

In summary, a systems approach must have three critical dimensions to be totally efficacious:

- Regional framings – embracing both urban and rural, tailored to economic, geographic, cultural and demographic diversity.
- Integrative dynamics – cross-sectoral (entrepreneurship opportunities in agriculture, energy, amenities, education, health etc.), cross-jurisdictional (collaboration across public-private-nonprofit organizations and all levels of government) and cross-functional (entrepreneurship education, training & technical assistance, access to debt and equity capital, networking, infrastructure)
- Cultural contexts – building capacity and support for private and public entrepreneurship, focus on entrepreneurs as converters of rural assets into rural competitiveness.^{8 9 10 11}

Finally, one huge challenge before us remains the development of rigorous, quantitative evaluative tools to assess the return on investment for public sector commitments to these systems. Absent such, we will still have too few risk management tools for public entrepreneurs

⁸ Articulation of scope and potential for entrepreneurship in a rural context – Dabson, Brian, Jennifer Malkin et al. (2003) *Mapping Rural Entrepreneurship*. W.K. Kellogg Foundation and CFED

⁹ *Entrepreneurship in specific contexts* – Malkin, Jennifer with Brian Dabson et al (2004) Native Entrepreneurship: Challenges and Opportunities for Rural Communities. Northwest Area Foundation and CFED

¹⁰ Entrepreneurship as a core economic development strategy – Brian Dabson (2005) Presentation to the Secretarial Advisory Committee, Strengthening America’s Communities, Clearwater, Florida, June 2, 2005

¹¹ Comprehensive guidance for rural communities interested in pursuing entrepreneurship – Markley, Deborah, Don Macke & Vicki B. Luther (2005) *Energizing Entrepreneurs: Charting a Course for Rural Communities*. RUPRI Center for Rural Entrepreneurship and Heartland Center for Leadership Development.

willing to risk such commitments. However, serious attention is currently being paid to this deficiency, and many in the field are discussing approaches to address this challenge.

II. The Farm Bill Rural Development Title: An Emerging Potential for a New Rural Vision

As a new Farm Bill approaches, with the budget challenges outlined above, increased WTO trade pressure, and no lessening of competing demands from the very diverse constituencies affected by this omnibus title, are new framings to address the issues and opportunities raised above possible, or will baselines be so reduced that no new rural development funding is available?

This will be an historic Farm Bill. Renewed coalitions within the progressive community, who nearly succeeded in their reform efforts during the 2002 Farm Bill debate, are currently aligned and coordinated, as never before. The environmental and natural resources, sustainable agriculture, nutrition, fair and free trade, and rural development communities have been meeting for nearly a year to craft common approaches and to achieve coalition solidarity. Fiscal conservatives, such as the CATO Institute and the Taxpayers for Common Sense, have joined this effort – all seeking a reduction and/or realignment of the nearly \$20 billion currently allocated to Title I commodity programs.

The current ethanol juggernaut and the broader renewable energy interest have priced most commodities so highly, so far out, that no counter-cyclical payments will be necessary in the foreseeable future. Consequently, billions of dollars allocated in the last Farm Bill remain unused, and available either to be returned to the U.S. Treasury, or to be allocated to other policy priorities. Unfortunately, due to technical dynamics within the budgeting process, the new Congressional Budget Office baseline reduces the new Farm Bill funding level by nearly \$31 billion, because of these unallocated commitments.

Nonetheless, most analysts believe these developments still bode well for a renewed interest in rural development. USDA Secretary Mike Johanns has consistently stated his position in support of such a move, and the Administration's Farm Bill proposals, which will move to the Hill in the next two weeks, are expected to reflect this approach. Senior Members of both Ag Committees are also developing legislative proposals which should place much greater emphasis on rural policy concerns.

Many now agree a significant new approach is possible in this Rural Development Title, and models exist which can be incorporated into such a framework. Several of these are briefly highlighted below.

A Regional Rural Investment, Collaboration and Strategic Investment System

Obviously, until the structural resource disadvantages outlined above are addressed, rural America must look internally to better its community and economic development opportunities. Rural regions must craft a common vision; pool very limited resources, talents, and capacities from all sectors; and develop an asset-based approach in which new institutional partnerships between the private, NGO and philanthropic sectors link with under-resourced rural

governments. Though challenged by the lack of technical assistance funding available for such efforts and the relative lack of philanthropic capacity and grant making in rural regions, rural communities have begun this effort. However, absent attention to these huge resource disadvantages, building the new regional collaboration and investment system outlined below will remain a significant challenge. Nevertheless, such developments are absolutely essential, if rural regions are to optimize their relative competitive advantage.

Given these challenges, where should policy makers turn in building wiser public sector investments in rural community and economic development? First, we must acknowledge that what has worked in the past will no longer suffice. Once that is evident, regional collaboration and investment systems can be considered. When this happens, we will move from attraction strategies to entrepreneurship; identify and encourage “functional economic regions” to build on existing assets, broadly defined; and move from sector to place-based approaches. This regional framework will be appropriately configured, and will engage our institutions of higher education in a new regional compact, where public and private entrepreneurship will be central, a new rural governance between the public, private and philanthropic sectors will be evident, and new regional leadership, through innovative institutional renaissance, will be expressed.

While this may seem a bridge too far, it is already emerging all across rural America. Purdue University has designed and developed a new Discovery Park, Research Park, and the Center for Regional Development, outstanding new intermediaries, creating traction and scale for new regional collaboration and investment systems. Dr. Sam Cordes, Director of the Center, has been working with the Administration of Indiana Governor Mitch Daniels and Lieutenant Governor Becky Skillman over the past year to create the Rural Indiana Strategy for Excellence 2020 (RISE 2020)¹². This effort has engaged over 150 Indiana organizations and institutions, and has become a national model for new rural governance and regional innovation development. This process resulted in a foundation framework and seven pillars for collective work and voice by those who care about rural Indiana. Each of these elements is critical in the framework. They include civic leadership and engagement; asset-based community development; regional frameworks; rural innovation; diversity access and inclusiveness; youth engagement; and wealth creation and retention. A new state agency, the Office of Rural and Community Affairs, was created to provide greater rural focus within Indiana’s executive branch. The seven pillars developed in the RISE 2020 process were used to target the state’s “Small Cities” CDBG funding investments, along with additional general revenue funds committed to this effort, to achieve these outcomes. The first round of grants have now been made, and the philanthropic communities of Indiana have matched these public investments nearly one to one.

Northeastern Ohio institutions created an exciting new regional competitiveness strategy, linking higher education, the private sector and governments across the region and generating significant innovation and collaboration success. Multiple counties across the United States are beginning to forge collaborative “functional” compacts, and across the rural landscape federal, state, regional and local agencies and governments are rethinking and defining their appropriate roles and responsibilities.

¹² The Indiana Rural Strategy (2006) <http://www.purdue.edu/pcrd/Indiana%20rural%20strategy.htm>

The growing number of these innovations should result in the federal government creating incentives for regional partnering, expanding investments in basic research and regional community and leadership capacity, and funding the development of new public goods for regional decision making, all key elements in a national rural entrepreneurship framework. Should this occur, the federal government will become an enabler rather than a driver of such dynamics, as regional, state and local actors work together to build effective new frameworks for regional governance, public and private collaboration, and identification of unique regional assets. Then, a true rural entrepreneurial development system can emerge, to enable innovation to leverage these assets, across space.

Globalization has had profound and lasting effects. It also has created two unmistakable rural challenges: uneven growth across space, and new drivers of sustainable growth, primarily innovation and entrepreneurship. Building a Regional Rural Innovation, Collaboration and Strategic Investment System, which acknowledges these necessities and seeks to address them, has the potential to emerge within the new Farm Bill debate as the organizing framework for the Rural Development Title. Should this occur, philanthropy has an important new opportunity to align sector investments with strategic commitments from federal, state and local governments.

III. Looking Ahead: Significant Opportunities over the Next 24 Months.

A number of significant political and policy developments, some the result of last November's election, are already affecting the policy horizon over the next two years. With leadership transfer in both Houses of Congress, and increasing numbers of moderate Democrats, particularly House Blue Dogs, the political calculus is much less clear. Likewise, the next Presidential election cycle, which will ramp up in earnest in the third quarter of this year, has already begun. These, along with the continuing pressure upon the Bush Administration from committees of oversight, lessen the potential for meaningful attention to significant policy change. However, recent comments by Federal Reserve Chairman Ben Bernanke, and the development of a joint commission on entitlements by Senators Kent Conrad and Judd Gregg, along with the health care proposal by California Governor Schwarzenegger, increase the potential for the initiation of a national health care reform and federal entitlement debate within the next year.

Although systemic action on either is highly improbable, this dynamic reinforces a growing trend, in which states are acting as incubators for innovation and experimentation in public policy. These efforts also enhance the opportunity for innovative policy discussion at both the federal and state levels.

Finally, the growing recognition that global climate change is real, and that global impacts resulting from the unbridled development of China, India and other third-world nations will have major impacts upon our economy and environment, enhance the potential for U.S. engagement and action on international agreements, including the WTO trade compacts.

All these developments increase the potential for greater policy attention to rural considerations, along with an enhanced potential to link rural and urban interests. While many possibilities for

new philanthropic engagement exist, below are six federal legislative reauthorizations that offer unique possibilities:

Rural Governance - Federal-State Regional Commissions

The national rural landscape is marked by several multi-state regions with chronic and persistent poverty, high levels of citizen outmigration, or severe economic dislocations due to dramatic declines in traditional industries and global market changes. One important structural development in federal policy efforts to address these rural issues has been the three federal-state regional commissions (Appalachian Regional Commission, Delta Regional Authority and Denali Commission) authorized and funded by Congress to provide regional leadership, project gap financing and intergovernmental coordination. The 2002 Farm Bill authorized the creation of an additional five-state commission for the Northern Great Plains Region, and members of Congress have introduced legislation to establish the SouthEast Crescent Authority (SECA), Southwest Regional Border Authority and Northeast Regional Development Commission. All of these predominantly rural regions are significantly lagging in their global and national competitiveness.

The regional commission model is designed to promote federal-state-local cooperation, strategic planning and prioritization of projects, and leveraging of limited public and private sector investments to address the fundamental building blocks for community and economic development. While the philanthropic community has a strong history in support of many of these highly distressed rural regions, more work is needed to coordinate and leverage all these public, private and philanthropic investments and initiatives within these areas. During the current legislative session, Congress and the Administration will be addressing reauthorization proposals for both the Appalachian Regional Commission and the Delta Regional Authority, and hearings will be held on the pending proposals for the other regional commissions.

Job Creation- The Workforce Investment Act

The nation's main law governing training programs for workers, the Workforce Investment Act, has not been reauthorized since 1998. (In the absence of WIA reauthorization, the Administration can change rules and requirements without local input and legislative oversight.) This law governs training provided by local nonprofits and government agencies serving youth, veterans and seasonal and migrant workers. The 1998 rewrite of the law consolidated more than 60 training programs into state block grants and established "One-Stop Career Centers" where the unemployed apply for aid and receive job counseling. The One-Stop Career Centers are directed by a local Workforce Investment Board (WIB) derived from the Job Training Partnership Act, which was a business and locally driven system.

Several rural concerns should be addressed in the reauthorization. Maintaining local flexibility and control is essential, to address the needs of both the rural workforce and rural business. WIA allocation formulas do not consider the costs and scarcity of

resources in rural communities and the unknown cost to the community and its businesses if the One-Stop closes its doors, resulting in yet another vacant Main Street building, as well as reduced or eliminated services to local citizens and businesses. Often, One-Stop Centers are the only federal/state/local presence in rural regions, and could conceivably serve as the physical location for other federal/state/local or non-profit programs. With collapsing budgets, the One-Stop office may be the only way to keep all these services available to the community. Reauthorization of WIA should expand the flexibility for both to the One-Stops and the WIB, both in programming and location decision-making.

As a potential model of nationwide regional workforce development, The Workforce Innovation in Regional Economic Development (WIRED) program, a two year old approach of the US Department of Labor, shows much promise. The WIRED model regions seek to integrate economic and workforce development activities and to demonstrate that talent development can drive economic transformation in regional economies across the United States. This project is now in its second round of funding, and several rural regions have received grants. Results of these rural programs will inform future funding criteria.

Community Investments-New Markets Tax Credit

The New Markets Tax Credit (NMTC) Program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide investments in low-income communities. The credit provided to the investor totals 39 percent of the cost of the investment and is claimed over a seven-year credit allowance period. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period. This December, Congress approved H.R. 6111, The Tax Relief and Health Care Act of 2006. This act includes an extension of the New Markets Tax Credit through 2008, with additional credit volume of \$3.5 billion. The legislation also includes a provision to encourage the use of the Credit in non-metro areas. Specifically for rural areas, it states “(6) which ensure that non-metropolitan counties receive a proportional allocation of qualified equity investments.” New Market Tax Credits were first authorized by the Internal Revenue Code of 1986.

Rural America faces disadvantage in fully taking advantage of this program, due to the lack of rural CDEs, the lack of leveraged capital currently offered by rural investors, and/or the small pool of appropriate potential recipients of these funds, The new rules for the non-metro provisions have yet to be written. Rural areas will benefit if the rules are more flexible and allow both private development schemes as well as public, e.g., hospitals, schools, community colleges, etc.

Community Health – Title VII and VIII Health Professional Shortage Areas

Title VII Health Professional Shortage Areas (HPSA) programs of the Public Health Services Act are focused on the implementation of training and educational programs that

provide health care professionals with the support they need to provide care to diverse populations, including those in medically underserved areas. Well-known HPSA programs include Area Health Education Centers (AHEC), Health Education Training Centers (HETC), Geriatric Education Centers and Quinton Burdick Rural Training Programs. All of these programs serve medically underserved rural regions and are important tools to provide young rural residents with opportunities to remain in their communities as they enter the job market. During the current Congressional session, Title VII and VIII should be considered for reauthorization, but two of the programs, AHECs and the Quinton Burdick Rural Training Program, received no funding in FY 2006, nor in the House and Senate FY 2007 Appropriations Committee recommendations.

Throughout the course of the lifetime of these programs, it has been difficult to determine appropriate metrics for program effectiveness measurement. While providing a well-trained supply of qualified health care professionals in medically underserved areas, including rural communities, is critical, and innovative model projects do exist to measure the effectiveness of these programs, the annual appropriations provide no funding to conduct these measurements at a national scale. At the same time, our nation's 957 rural community colleges are well-positioned to be intermediaries between community health needs and federal training requirements. Many community colleges already play this role.

Public Housing-HOPE VI Reauthorization

HOPE VI has been primarily used by urban communities to tear down dilapidated public housing complexes and replace them with mixtures of rental and owner-occupied housing stock that are sold to people of various income levels. The intent is to avoid concentrating poor people in cities, to eliminate blighted developments that are thought to breed crime. In December, 2003, the American Dream Downpayment Act became law. This Act amended the statute that controls the HOPE VI program. Part of the Act set aside a portion of all future HOPE VI funds for grants to small communities with Main Street projects. Main Street area revitalization efforts seek to rejuvenate older, downtown business districts while retaining the area's traditional and historic character. The purpose of the HOPE VI Main Street Program is to provide assistance to smaller communities in the development of affordable housing that is undertaken in connection with a Main Street revitalization effort. The Act limited the size of communities that are eligible for these grants to a population of 50,000, and required that the community not be served by a public housing authority with more than 100 housing units. The program is authorized under the Housing Act of 1937. Program authorization expired September 30, 2006.

Most public housing in small communities and rural places is slightly newer and in relatively good condition, and thus does not need Hope VI demolition and revitalization. Few small communities have used HOPE VI. (E.g, Frederick, MD; Meridian, MS; and Helena, MT). The rural opportunities in this reauthorization include retaining and expanding program actions and funding, targeting Hope VI funds to improve the conditions in existing rural and small town public housing developments, and encouraging the mixed income revitalization of core neighborhoods and main streets of

small cities and towns, while allowing the continuing use of funds to include planning and consultation with the surrounding community.

Education- Elementary and Secondary Education Act (No Child Left Behind)

The Elementary and Secondary Education Act (ESEA), renamed the "No Child Left Behind" (NCLB) Act of 2001, aims to provide accountability for states, school districts, and schools; greater choice for parents and students, particularly those attending low-performing schools; more flexibility for states and local educational agencies (LEAs) in the use of Federal education dollars; and a stronger emphasis on reading, especially for younger children. Programs and regulations implemented under the 2001 legislation will expire at the end of FY 2007.

Rural educators face special challenges in trying to improve student achievement. Educators may instruct on a wide variety of subjects. They may teach to several grade levels at once. School choice and tutoring options may be complicated by logistics. Changes in the current NCLB language could recognize and address these challenges and meet the specific needs of rural teachers and students. New teachers in small rural school districts would have additional time to meet Highly Qualified Teacher requirements. Larger rural districts would have the flexibility to use federal funds that are currently available to only the smallest districts. And larger per-child Supplemental Educational Services (SES) amounts would be provided for qualified low-income rural students to receive free tutoring and after-school instruction.

Alternatives for Foundation Engagement

The foundation community has a number of opportunities for systemic engagement with the public sector regarding rural implications of policy choice. In the reauthorization of the Farm Bill and these six other Titles, as well as in the departmental processes which build regulatory and program frameworks to implement these legislative actions, a number of alternatives exist for foundations to support rural opportunities, including:

- Developing carve outs, set-asides, as well as unique targeting formulae to specifically address rural issues,
- Fostering urban/rural interaction around policy decision points where the interests of these constituencies coalesce,
- Funding pilot or experimental projects which enhance or complement public investments in these efforts,
- Building rural community and institutional capacity to advantage rural regions in grant application, program development, or regional collaboration,
- Convening state and regional actors to enhance attention to rural issues and build regional dialogues,
- Providing match funding for federal and state programming,
- Supporting and funding research and evaluation activities,
- Promoting growth of community foundations as rural intermediaries, and

- Supporting an Annual Rural Summit or a similar rural policy focused alternative in each state.

IV. Final Concerns and Considerations: Recommendations for Philanthropic Action

In this changing environment, there are special challenges for rural philanthropy. The way that philanthropy regards and engages public policy will need to be re-thought. Perceived legal constraints have deterred foundations from getting too close to the policy-making process. As a result, there has to be a re-learning of this process, a willingness to engage when opportunities arise, and an ability to focus on systemic change and outcomes, at national, regional, state, and local levels. Moreover, foundations need to think in “campaign” terms to achieve policy change, which implies long-term commitment, a willingness to partner across sectors, and the encouragement of substantive national dialogue regarding rural challenges and opportunities.

For these dynamics to be achieved, philanthropy must commit to a rural policy renaissance.

Our nation’s foundation CEOs must engage, and this engagement must continue at the highest level. Major policy institutes, policy organizations and political jurisdictions also must become part of an ongoing consultative dialogue.

The conversation between philanthropy and public policy must be reframed.

The dynamics outlined above point to the potential to move to complementary action between philanthropy and the public sector. However, moving from an accusatory to an anticipatory narrative will not be achieved in a short-term framework. Acknowledging an interest in a collaborative, long-term relationship such as the “Campaign for Rural America” must be the first step.

Initial action must accommodate both small steps and the commitment to a more significant journey.

A number of short-term, “low hanging fruit” opportunities should be captured, but they should be positioned within a longer-term vision. Particularly beneficial will be alternatives for action which link national, state, or local policy action with practice considerations.

Policy education and decision support must be clearly seen as a legitimate, legal philanthropic activity.

All policies and budgets are ultimately the expression of visions and values. President Teddy Roosevelt formed the Country Life Commission in 1904 to address a searing national challenge:

“The social and economic institutions of the open country are not keeping pace with the development of the nation as a whole.”

Roosevelt rightly recognized this as an institutional dilemma; one which this nation has not yet solved. And, as we know, this insight sadly applies to rural landscapes the world over.

Philanthropy must be a party in building this institutional innovation, but it cannot do so outside of our nation's policy processes.

IV. APPENDIX

A. Breaking the Boundaries - Strategic Plan for Rural Indiana

B. RUPRI Farm Bill Policy Brief #1: Targeting Rural Populations based on Urbanized Area Geographies

C. Reauthorizations with Potential for Rural Attention