

HomeTown Competitiveness, Nebraska

The HomeTown Competitiveness EDS is built on the work of three Nebraskan nonprofits – the Heartland Center for Leadership Development, the RUPRI Center for Rural Entrepreneurship, and the Nebraska Community Foundation -- that have developed a model for comprehensive community economic development. Its essence is a broad and deep community process focused on four pillars – leadership development, youth engagement, charitable asset development, and entrepreneurship – that first, seeks to nurture an attitude of activism within communities, and second, provides an organizing process and set of tools to support economic success. HTC has used the Kellogg program to expand its work into many more rural communities, work with new partners, and deepen its policy involvement.

Context

HomeTown Competitiveness (HTC) targets rural counties and communities in geographically isolated areas of Nebraska that have defined their most critical indicator of distress as “de-population,” because the loss of young, entrepreneurial, or educated people is eroding every aspect of current and future capacity. Located not in one region but in counties across the state, these communities have lost between 10 and 37 percent of their population over the last 50 years. And their higher rates of seniors and dependent youth (under 18) – between 42 to 50 percent compared to 38 percent across the U.S. – provides evidence that missing are those in the middle, the young working adults that are a community’s lifeblood. Most although not all communities have poverty rates that match or exceed the national average (from 8.1 to 25.6 percent). And as important as the numbers are, more important is the trend driving these numbers -- changes in traditional agriculture and the lack of other industrial options, that are perpetuating the low wages and limited career choices that incentivize young people to seek their fortunes elsewhere. As a consequence, self-employment is strong in rural Nebraska but the majority of businesses are microenterprises, with five or fewer employees. Fewer than one percent can be defined as entrepreneurial growth companies, much lower than the four to five percent found countrywide, further reducing the prospects for greater job creation.

As the leaders of HTC comment, “With out-migration, school closings and business vacancies, there has been a disintegration of social networking within communities, and bridging between communities continues to be underdeveloped. Above all, our target communities struggle to find hope. Whether they are successful, failing, disadvantaged, young or old, social and venture entrepreneurs in our target areas live among people who have lost faith in the future of their communities.”⁴⁷

These communities also are characterized by: a general lack of awareness of available services and public/private resources; low levels of capital literacy, especially among new immigrants; a lack of technical assistance providers to serve remote entrepreneurs; and a lack of entrepreneurship education opportunities for both young people and adults. The culture of traditional rural banking is largely focused on commodity agriculture lending, with limited expertise and interest in other venture financing. The capital picture is made more complex by a shortage of mid-range loans to bridge microenterprise into growth ventures, while many community revolving loan monies lie dormant. And a lack of “bankable deals” is ascribed to the limited capacity of many business owners to develop the necessary business plans.

⁴⁷ HomeTown Competitiveness, 2004 Proposal to the Kellogg Foundation and CFED, 7

Structure and Strategy

In this context, three experienced Nebraskan nonprofits – the Nebraska Community Foundation, the Heartland Center for Leadership Development, and the RUPRI Center for Rural Entrepreneurship -- began working together in 1999 and 2000 to develop a framework for the comprehensive rural economic development strategy that forms the core of the Kellogg Foundation-funded EDS. Under the EDS, HTC has sought to: expand the number of communities assisted; add resource partners to fill gaps in tools and services; develop a policy agenda focused on increasing resources to entrepreneurs, and entrepreneurial support programs at the community, state and federal levels; and evaluate and document impacts of the HTC strategy.

Specifically, the HTC EDS has focused on the broad range of entrepreneurs in targeted HTC communities, social entrepreneurs (who are expected to lead community change efforts), and youth. And priority attention has been given to increasing educational resources for youth, and offering training, technical assistance and coaching for adult entrepreneurs, and linking them to external capital, and other resources.

HTC is led by an executive committee of the three principal partners, with the executive director of the Heartland Center serving as the lead.⁴⁸ A management team incorporating several additional partners, provides advisory support to the HTC team, identifies opportunities for it, advocates for it, and networks on its behalf. Members of the management team include HTC's executive committee, plus resource partners from higher education and the private sector. In addition, other resource partners have participated in research and product development, service provision, and policy work. HTC's partners number 28 organizations, including the community groups with which HTC works. Many of these resource partners have played limited roles, however, and over the course of three years, the HTC core organizations have forged closer relationships with some more so than with others. The listed resource partners include:

- Institutions that offer microenterprise finance and business development services;
- University and state college institutions that helped with 4-H entrepreneurship curriculum development, and lend Extension staff in specific communities to play key HTC roles as community coordinators and coaches, and provide other services;
- The Center for Rural Affairs, which supports policy development and advocacy as well as microenterprise services through its Rural Entrepreneurial Assistance Program (REAP);
- Institutions with specific constituencies that provide entrée and support to target communities, such as the Ho-Chunk Community Development Corporation; and
- Telecommunications companies such as Consolidated Companies and Great Plains Communications that have strong interests in specific local communities.

As the three-year demonstration has come to a close, the HTC core organizations have concentrated their energies on deepening their partnerships with the university and college systems, as these institutions are making staff and other resources available that extend the capacity of HTC. They also have shed much of the coordinating activities that they attempted early in the project. There are no meetings of the resource team and infrequent meetings of the management team. The HTC staff draws upon management team members on an as-needed basis.

At the community level, the HTC structure includes a steering committee, a set of task forces focused on what are called the four pillars of the HTC strategy – leadership, charitable assets, youth and entrepreneurship – and where possible an on-site HTC coordinator and business coach paid for by the communities. The local structure is

⁴⁸ The Center for Rural Affairs was invited into the executive committee under the EDS, but left the committee due to differences in strategy. The Center for Rural Affairs continues to cooperate with the EDS on policy and on service provision through its microenterprise program, the Rural Entrepreneurial Assistance Program (REAP).

supported by an external coach (usually HTC staff or consultant) and other HTC staff who offer technical assistance in their specific areas of focus. HTC's strategy has three phases:

- Phase 1, the assessment phase, focuses on data collection and analysis at the community level that gauges the strengths and weaknesses, and opportunities for transformation that exist with respect to the four pillars. While HTC staff originally implemented the assessment directly through surveys, focus groups, and individual interviews, they are now moving to include community leadership in these tasks. Phase 1 also includes a facilitated reflection with the community on the results of the assessment and on suggested directions for change.
- Phase 2 focuses on implementation of the plan that emerges from the assessment phase. During this period, which is expected to last about three years, the community organizes its steering committee (which oversees the whole process) and task forces (responsible for each of the pillars) and conducts a set of activities related to each. This will involve leadership training courses to nurture new leaders spanning age, gender and ethnicity; youth-initiated activities for community improvement and entrepreneurial development; fund-raising for the local community foundation and grantmaking that supports the overall community revitalization plan; and a business development strategy that aims to sustain and grow entrepreneurial talent through coaching and connections to technical and financial resources. In many instances, a hired community coordinator promotes and facilitates the overall plan, and a business coach works with a portfolio of entrepreneurs, supported and guided by an advisory group. The portfolio approach is designed to assure that time is appropriately dedicated to the combination of emerging, ongoing and growth-oriented businesses that makes the most sense for the community.

During Phase 2, the communities contract with HTC for services: coaching for the community coordinator and business coach, leadership development training, planning, and evaluation assistance. HTC also connects community leaders, coordinators and coaches with external resources from its resource partners list and other sources. As an example, communities have accessed EDGE and REAP for business plan training, and REAP for microfinance. HTC has helped the Valley County business coach develop a roster of contacts for governmental and nonprofit sources that provides a rich resource pool to draw on as needed by individual entrepreneurs. The emphasis of the EDS is on rationalization of service providers "from the bottom up" rather than attempting to rationalize services at the service provider level. The expectation is that an informed community leadership – with defined entrepreneurial development goals – can better select the services needed, and as more communities engage in the HTC process, these demand "signals" will condition and transform service providers. This changed mode of interaction between communities and services will be further strengthened as local groups become more able and willing to pay for services received.

The further expectation is that over the course of this phase, local communities will join with neighbors extending and deepening the HTC process, and strengthening its potential impact with a regional vision and regional resources. In Holt County, for example a process that started in two small communities, Stuart and Atkinson, grew to include O'Neill as that larger community observed the process in the first two. These communities now have a county-wide development authority, and an interlocal agreement comprising nine communities to finance HTC-like activities. Working as a region, these localities are expected to define and develop their own regional competitive advantage which, as one HTC leader commented, will be based less on sectors and more on "the strength of relationships and connection to a place."

- Phase 3 represents a continued implementation by a mature community structure, with more limited and targeted technical assistance services from the HTC team. By Phase 3, a community will be demonstrating "systemic impacts" that can be measured in substantial changes in businesses, jobs, private investment, income and population. Valley County, HTC's earliest community, is the best example of a Phase 3 community.

HTC communities locally finance community coordinators and business coaches (some with the assistance of funds acquired under a state funding program – Building Entrepreneurial Communities – that was developed and funded due to the advocacy of HTC; and others through the mechanism of interlocal agreements that enables communities to join together to raise taxes for joint initiatives). HTC communities also partially cover the costs of HTC team services, with matching funding from the Kellogg EDS grant.

Accomplishments

Over the course of three years, HTC has demonstrated notable accomplishments.

Building the Pipeline

The youth-oriented work has had a transformative effect on many of the communities as HTC's survey work has demonstrated repeatedly young people's interest both in returning to their rural communities after education and work experience, and in entrepreneurship as a career path. Surveys consistently find that about half say they are interested in returning home, and between 41 and 51 percent say they are interested in owning their own businesses. While the actual return rate to communities has been 2 to 10 percent, an HTC-created tool has demonstrated that, in most cases, the percentage needed to sustain communities' population size ranges from five to 19 percent, something that surprises residents because of its reasonableness. These numbers have become a "call to action" for some counties.

A recent master's degree thesis also has documented how the HTC process of catalyzing latent youth leadership works. Most interestingly, the study notes the importance of having adult leaders making "the ask" of high potential youth to get involved. Other key factors are asking multiple youth to engage, providing the structure of a task force, but allowing participants to create their own agenda, and offering opportunities beyond the task force for participation as well. The results have become manifest in:

- the introduction of entrepreneurship classes in the high school curricula in several communities,
- experiments in group and individual business activities, and
- the implementation of a range of community betterment activities, including physical improvements and advocacy for community centers, and podcasts on local businesses

In addition to its support of youth task forces, HTC funding supported the development of a 4-H curriculum, ESI: Entrepreneurship Education, that has filled a gap in entrepreneurial education materials for young people. Designed for ages 10 to 19, it already has been used by 419 students in 28 community pilots. A third-party evaluation found the curriculum rated 4.5 out of 5 by its student users. Curriculum use is continuing to grow.

HTC's adult pipeline work has supported communities both to increase the number of entrepreneurs and assist entrepreneurs to progress along the pipeline from start-up through growth. Its principal accomplishments have been:

- The establishment of entrepreneurial task forces in each of the HTC communities, each with its own "game plan" for developing entrepreneurial talent,
- The acquisition of financial resources to support this work at the county levels in a number of these communities, and
- The leveraging of business development resources as the communities have sought services – from REAP, EDGE and elsewhere to provide technical and financial support. Specific communities have organized business plan training, business succession workshops, and e-marketing training. Loans have been accessed from REAP and other sources.

In most instances, this work is emergent and quantitative results document numbers trained (87 in three counties

as an example) more than outcomes. However, in Valley County, HTC's first and longest-standing community, the outcomes have been notable and include:

- 73 new businesses
- 10 business expansions
- 21 business transitions
- 332 net new full-time jobs
- More than \$100 million in new private investment
- Retail sales up 20 percent versus 18 percent statewide
- An improving retail pull factor
- Per capita income up 22 percent versus 9 percent statewide
- Population gain 3 percent (first in 70 years)
- Doubling of the commercial real estate valuation, and a
- Three-fold increase in sales tax receipts.

Building a System of Support

HTC's model has built *local* systems of support for entrepreneurs that did not exist before: entrepreneurial task forces offer a place to develop local strategies that improve the environment for entrepreneurship. Community-based business coaches are also new elements of the system offering strategic assistance and connections to external resources. HTC only expended limited energy attempting to organize service providers at the state level, and abandoned this strategy early in favor of a more demand-driven, organic approach grown from the community level up.

Community and Policy Change

On the policy side, HTC and its allies have succeeded in winning approval of four key pieces of legislation. The Building Entrepreneurial Communities Act, which has been increased from \$250,000 to \$500,000 a year, makes grants available to local communities for HTC-like activities and "people attraction strategies." The Endow Nebraska legislation provides a tax credit for charitable gifts to endowments. Improvements from its original passage now mean that credits are available up to a \$10,000 maximum in gifts per individual, for up to \$3.5 million in credits yearly, through 2016. This means credits could facilitate the donation of up to \$14 million a year to community foundations for the next eight years. The Nebraska Enterprise Fund (formerly Nebraska Microenterprise Partnership Fund) received an increase in state funding from \$500,000 to \$1 million. And the Microenterprise Tax Credit provides a refundable individual income tax credit for small business owners based on demonstrated growth of their business over a two-year period. Nebraska has had long-standing policy work and experienced advocates with a track record for gaining legislative support. What HTC has added is new proposals for funding that derive from their research and community-level work, and these have been supported by other partners all motivated by the same goals of channeling more resources to rural needs.

With respect to community change, HTC is now in 30 communities, double the number projected in the original proposal to the Kellogg Foundation. While each of these communities is at a different stage of its development, most that have completed the assessment phase have made a commitment to an entrepreneurship agenda, and most have functioning task forces in one or more pillars, each with its own "game plan." More than 200 people are reported trained in leadership development, with these individuals taking positions in the various HTC task forces and other community institutions.

HTC has also helped some individual communities come together to create *locally-driven regional approaches to economic development*. There are several examples of HTC communities that have merged their efforts with neighboring communities to build regional economic development plans with paid staff who can support HTC task force work and business coaching. Four counties are reported to have created interlocal agreements to support economic development activities. Fifteen HTC communities have also garnered Building Entrepreneurial

Community Act (BECA) grants as well, and one has reported a grant from the U.S. Economic Development Administration to support the development of an incubator.

HTC's wealth-building initiatives also have borne results in growing contributions to community endowments, which range from \$10,000 at the low end to more than \$100,000 at the high end in the most recent year. Garden County reports \$1 million in assets; Valley County reports nearly \$7 million in gifts and pledges. Other counties report increasing numbers of community members joining founders' groups making gifts and pledges.

HTC does not have a comprehensive system for documenting the full effects of its interventions in communities. However, it does use a framework developed by the Heartland Center (the "Hierarchy of Community Impacts") for assessing the transformative nature of its work. At level 1, the community engages in activities; at level 2, it generates outputs from these activities; at level 3, it develops commitments by a greater number of residents to community betterment activities; at level 4, it produces outcomes and at level 5, indicators of systemic change are apparent. Using this framework, HTC assessed the counties in which it worked on their entrepreneurial development and found, as of March 2008, that six were at level 1; two at level 2; one at level 3; three somewhere between levels 3 and 4; two between levels 4 and 5, and one at level 5, Valley County which has been working with HTC since 2002 and whose outcomes, listed above, are considered by HTC as evidence of systemic change. Other counties beyond the assessment stage have also documented other types of gains such as the procurement of redevelopment financing for converting an historic hotel into a business incubator (McCook), the development of an integrated development authority with full-time staff (Butler and Holt), the formation of task forces and sustained local entrepreneurial training programs (Mullen and Columbus).

Finally, HTC has also succeeded *in replicating the model into other states*: HTC provided support to Brookfield, Missouri, to develop its HTC strategy, and is developing a support program for statewide HTC initiatives in Indiana and Kansas. RUPRI's Center for Rural Entrepreneurship has offered Energizing Entrepreneurship Institutes to key staff at other EDS sites and elsewhere communicating the key principles of community-based entrepreneurship broadly. The model is providing others with rich examples of how community-centric entrepreneurial development can be promoted, supported and sustained.

Sustainability

There are at least two aspects to the issue of sustainability in this initiative: 1) how the HTC team and strategy is sustained over time, and 2) how communities sustain their engagement in the work. Both of these are related, since HTC sees its sustainability, in growing measure, dependent upon the capacity of communities to pay for services.

Currently, the core HTC team expects to sustain its work through:

- Other grant sources to cover basic operations and provide matching funds for community work;
- Contracts to support the development of HTC-like work in other states;
- The "off-loading" of some staffing costs to University of Nebraska Extension, which as discussed above, is offering staff support for HTC functions in a number of communities;
- Reducing costs by further shedding formal collaboration activities (meetings, etc.) with resource providers;
- Helping local communities acquire resources to pay for their services: as described above, BECA is one of those mechanisms as is helping local communities develop interlocal agreements that incorporate tax initiatives to fund community work. Also long term, HTC expects local endowments will be a source of funding for this work.

Under the Kellogg grant, HTC has been able to cost-share expenses with local communities for Phase 1 and 2 services, which are estimated at \$15,000 for the assessment phase, and a varying sum for the second phase

depending on which services are requested. Local communities already have demonstrated the willingness to contribute substantially towards these costs, providing half the funding for the first stage, and up to \$50,000 for Phase 2 work. Local communities also have their own expenses – salary, benefits and administrative costs for one to two staff, and other investment funds for specific projects. HTC estimates that communities should be investing 1 percent of the value of their economy, with the expectation that these investments will generate 10 percent or more return every year. In the case of Butler County, the economic development budget has grown from \$30,000 to more than \$100,000, and may reach \$250,000 when city and county initiatives are combined.

Summary

HTC has developed a model of an entrepreneurship development system that places a transformative community empowerment process at the core of the system. In this model, entrepreneurial development is enhanced as a consequence of changes in community attitudes that give priority to entrepreneurship, and new structures that expand leadership, grow financial assets for community investment, and build a portfolio of businesses keyed to community needs and opportunities. The community process is then linked to external support structures (the HTC team and tools and other resources) through coaches who serve as strategic advisors and connectors to service providers. In addition, the system is designed to grow organically from community to region as local communities seize opportunities to pool resources and talent to spur even greater economic development.

At this stage, the benefits of this strategy are most apparent in HTC's earliest site, Valley County. As described above, most of the other communities are at earlier stages of the change process, and it will be important for HTC to develop a more consistent and detailed methodology to document results as they unfold in each of these new centers of work. In addition, as HTC's local site evaluator noted, the model needs to evolve a less intensive strategy for smaller, lower-capacity communities, and increase its efforts to ensure inclusion of women, people of color and lower-income individuals in communities. HTC has had its greatest successes in eliciting leadership among young people and gaining adult acceptance and support for civic engagement. Women also have taken on new roles, including as community coordinators and business coaches. The challenge is to continue to build on these successes and expand the leadership circles even further. And there is further work to do to get the cost-sharing with communities right.

Nevertheless the promise of the system is clear. HTC's work already has created a set of lessons for others interested in EDS strategies. Again, as their local evaluator noted, this experience demonstrates:

- The importance of a place-based approach that can accommodate uniqueness.
- The importance of a clear entrepreneur-focused theory of change that guides the work of local communities and offers a vehicle for a more rational application of external resources.
- The importance of coaching as a strategy that replaces the expert approach.
- The importance of creating community systems and structures (rather than projects) that establish strategic directions and a plan designed to create systemic change.
- The importance of "nested" learning communities that are built at the community level. Task forces provide opportunities for individuals to participate and learn from their experiences, and these also are shared within the HTC community level steering committee, and across groups.
- The potential of the process to "unleash individuals' passion regarding the place in which they live."
- The need for local champions to drive this, paid staff to support the day-to-day work (at the community and business level) and the value of an active community foundation to generate resources to develop ongoing financial support.⁴⁹

⁴⁹ Mary Emery, *HomeTown Competitiveness Evaluation: Year 3 Report* (Ames, Iowa: North Central Regional Center for Rural Development, January 16, 2008), 33-46.

t In addition, the model offers a powerful example of how to organize and elicit youth engagement in community betterment activities, leadership development and the testing of entrepreneurial initiatives. And the policy initiatives that have been passed demonstrate how funding and tax credits can be designed to enable communities to hire staff, to support microenterprise and microentrepreneurs, and build long-term assets. Nebraska may have some unique characteristics in terms of local financing (communities can come together and create “interlocal agreements” that include the levying of small, additional sales taxes to support economic development activities), but this tool has sparked communities to cooperate, and has provided funding for staff that has enabled these local processes to thrive.