Rural Virginia: Issues and Opportunities

Sometimes a picture truly is worth a thousand words. This presentation is a companion piece to the final report of the Rural Virginia Prosperity Commission (RVPC) that describes what is happening in rural Virginia and offers recommendations to correct ongoing problems. The presentation focuses on an updated set of maps and graphs that provide background for issues and opportunities. With each map or graph, a brief commentary highlights the key message.

This update is built around the September 25, 2000 "Story in Pictures" on the RVPC web site at *http://www.rvpc.vt.edu*. Click on "The Changing Story of Rural Virginia."

Rural Virginia is falling behind.

The Rural Prosperity Commission started with the perspective that rural Virginia is falling behind and this set of perceptions.

- Future of our rural communities is at risk.
- Quality of life is being threatened.
- Market will not correct the disparities.
- Rural communities need to take lead.
- Local governments cannot handle everything alone.

Early on RVPC recognized that the Commonwealth will need to intervene. We have no "silver bullet." The Commission members recognize this reality and their report presents a set of complementary recommendations that will start and facilitate the needed process of correction.

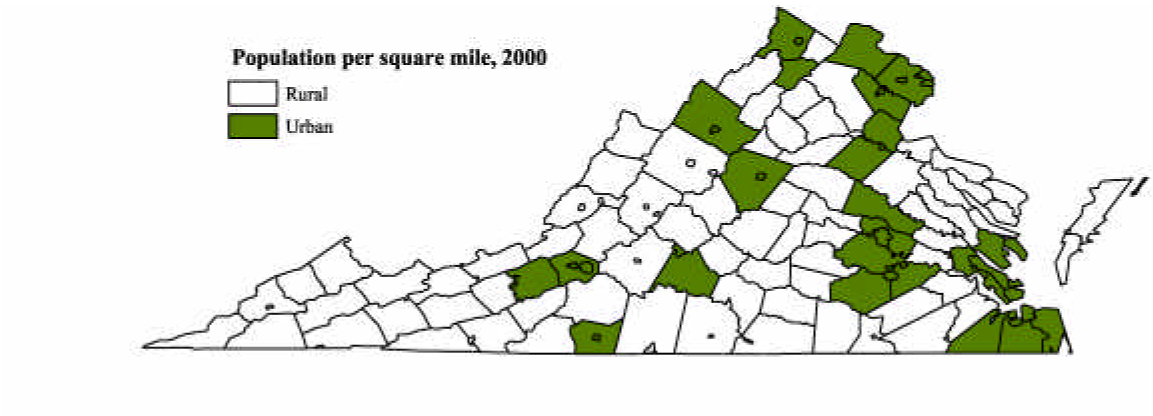
The objective of this presentation is to indicate ways in which rural Virginia is falling behind and to relate the problems to the solutions proposed by the Commission in their final report, *From the Grassroots: Final Report of the Rural Virginia Prosperity Commission to the Governor and the General Assembly of Virginia*, *December 1, 2001* (*http://www.rvpc.vt.edu)*.

What is Rural?

The Commission examined three reasonable and workable criteria:

- People per square mile
- A business service index
- Metropolitan Statistical Areas as defined by the U. S. Bureau of the Census

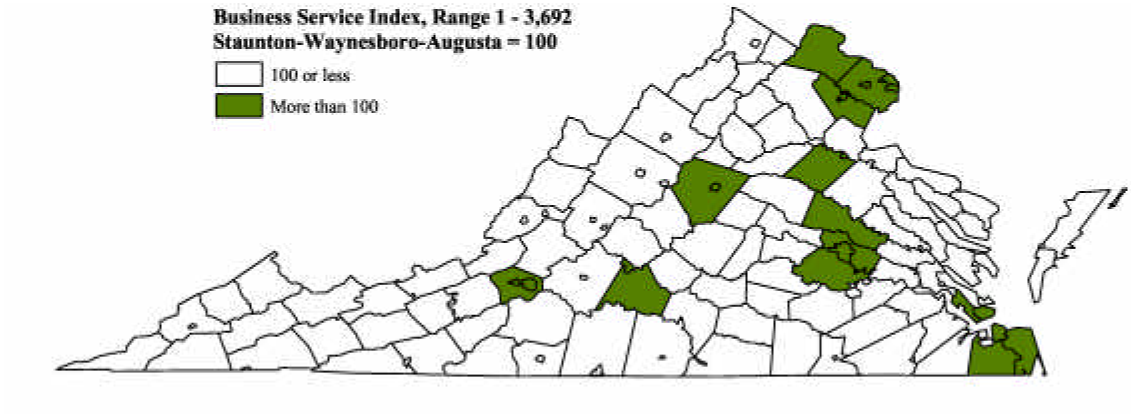
Defining Rural as Counties with Less Than
120 People per Square Mile, 2000



Source: Department of Commerce. Bureau of the Census, 2000 Census data. *http://www.census.gov/main/www/cen2000.html*.

If we define rural as counties with fewer than 120 people per square mile, the crescent of booming economic activity from Northern Virginia down through Richmond and into the southeast corner is apparent. The Roanoke, Lynchburg, and Martinsville areas are identified as urban areas in the central and southwest parts of the state. Many of the rural areas are located such that they are isolated from access to airports, good highways, and e-commerce potentials via the Internet. The Commission attempted, in its recommendations, to deal with the ways that rural areas are significantly isolated and to propose solutions.

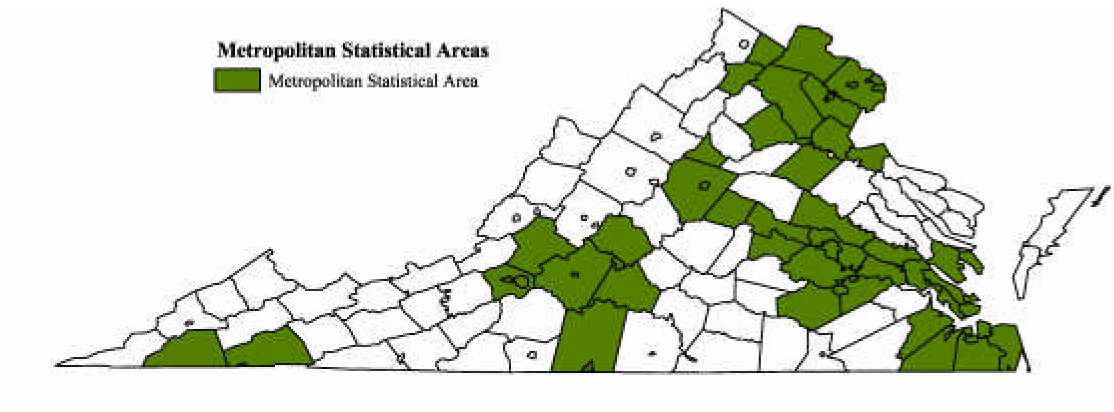
Defining Rural as Counties with 101
or Fewer Service Businesses, 1996



Source: US Census Bureau. County Business Patterns, 1996. *http://www.census.gov/epcd/cbp/view/cbpview.html*. Accessed Aug. 12, 2000 (Current data are not comparable because of the change from SIC to NAICS codes.)

If we define rural as the counties with 101 or fewer service businesses (the number in Augusta/Staunton/Waynesboro), even more of the state is considered to be rural. Augusta/Staunton/Waynesboro was also the dividing county for population below 120 people per square mile. The number of service businesses (lawyers, CPAs, doctors, software developers, equipment repair firms, computer companies, banks, etc.) is a good proxy for the economic activity that occurs in an area. Much of the crescent is still present, but more of the central and southwest parts of the state are classified as rural. The Martinsville/Henry County and Harrisonburg/Rockingham County areas are now classified as rural, and the Roanoke urban area is much smaller.

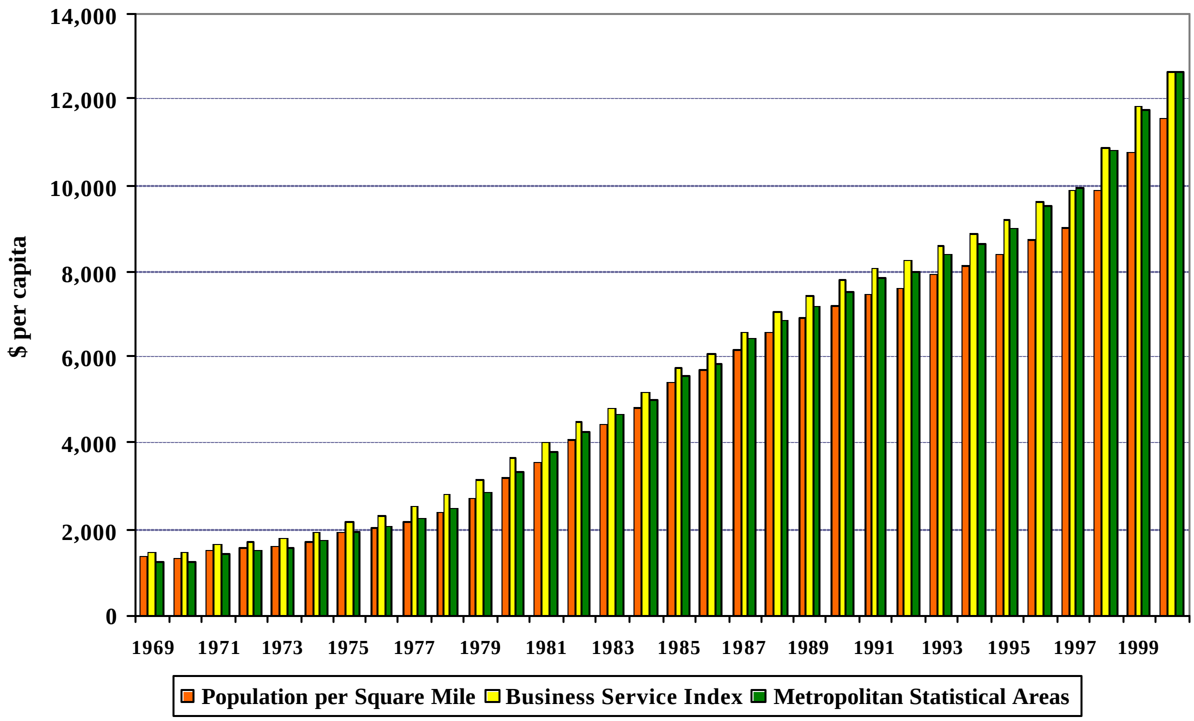
Defining Rural as Non-Metropolitan, 1999 Definition



Source: US Bureau of Labor Statistics. "Metropolitan Areas and Components, 1996, with FIPS Codes." *http://stats.bls.gov/790metdf.htm.* Accessed Aug. 12, 2000. (Bureau of Labor Statistics revised Metropolitan Areas and Components in 1999. No change occurred in Virginia.)

This widely used federal classification scheme shows metropolitan (metro) areas with population centers of 100,000 or more and their adjacent counties. When the number of localities in Metropolitan Statistical Areas (MSAs) is compared to population per square mile and service businesses, the proportion of rural to urban areas decreases. This measure suggests the presence of more concentrated economic activity in the central and southwest parts of the state.

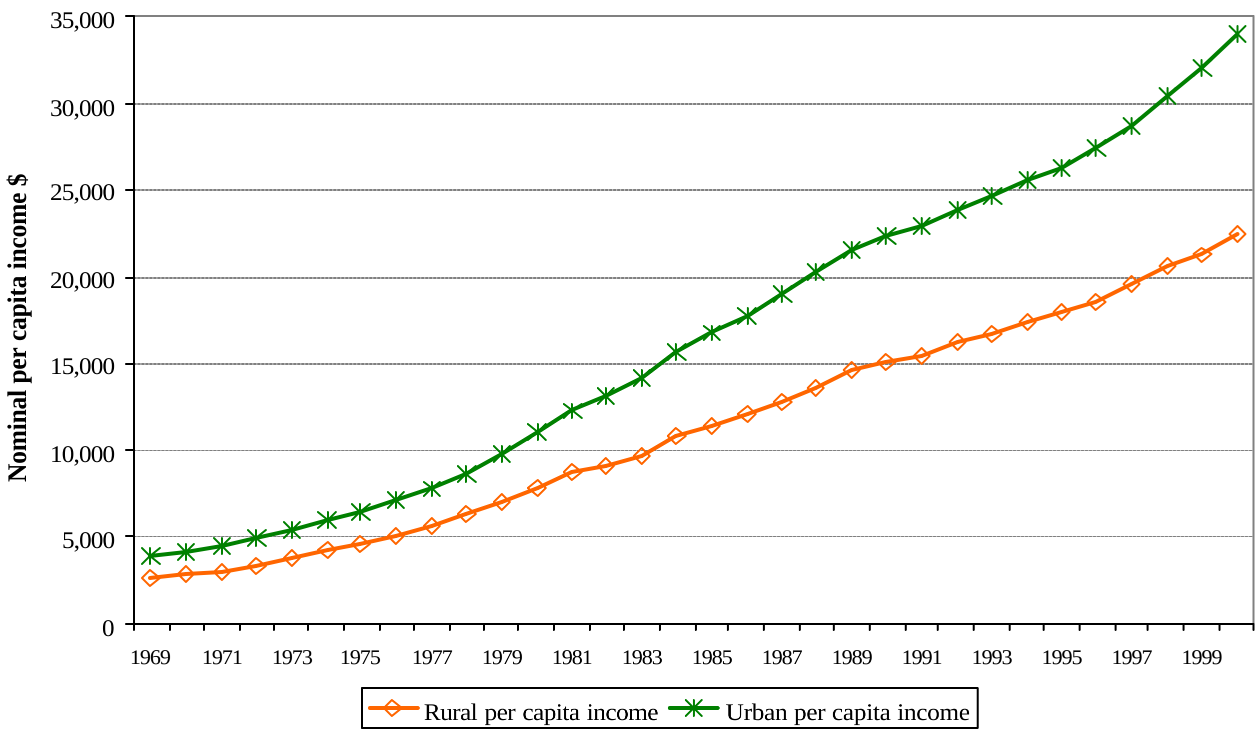
Differences in Per Capita Disposable Income, Urban Minus Rural, Using Three Ways to Define Rural, 1969-2000



Source: US Dept. of Commerce. *Regional Economic Information System 1969-00.* Bureau of Economic Analysis. RCN-0295, May 2002.

The differences in average per capita disposable income are revealing. In 2000, the difference was $11,600 to $12,700, and since 1995, the differences appear to be increasing exponentially. There is no evidence to suggest that the marketplace is correcting this trend of growing divergence. The Commission recommendations focused on programs to boost incomes and to create economic opportunities in rural communities.

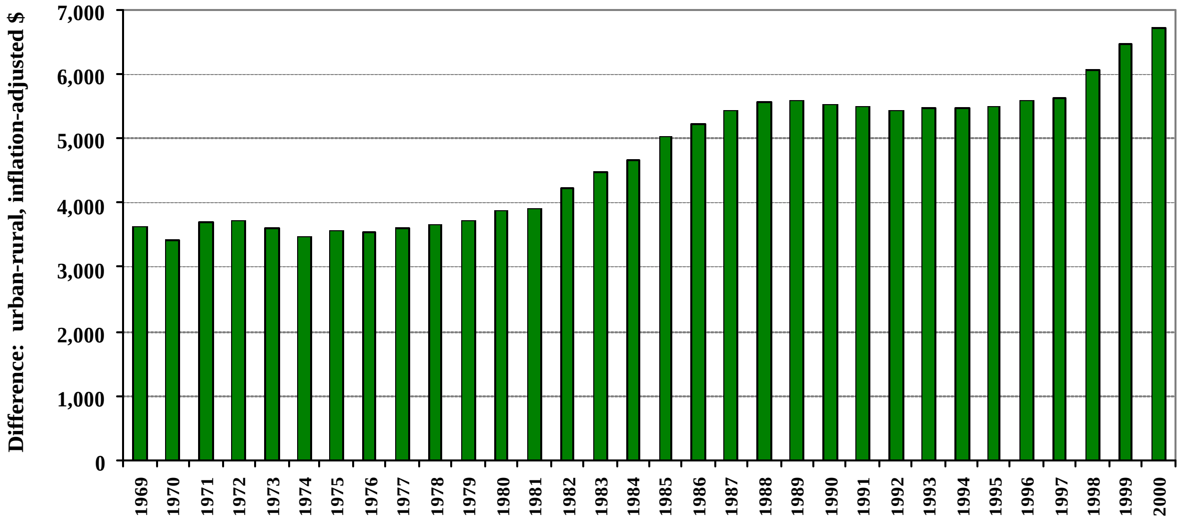
Per Capita Income Trends in Rural and Urban/Suburban Regions, 1969-2000 Based on Population/Square Mile.



Source: US Dept. of Commerce. *Regional Economic Information System 1969-00.* Bureau of Economic Analysis. RCN-0295, May 2002.

This graphic shows the trends in incomes in urban and rural areas. The source of the increasing difference in the previous graph is clear in this graph: per capita incomes grow much faster in urban areas. In 2000, urban Virginians were approaching $35,000, higher than the $29,500 national per capita average. The rural level of about $22,500 was well below the national per capita average.

Difference in Inflation-Adjusted per Capita Income: Urban-Rural, 1969-2000 Based on Population/Square Mile



Source: US Dept. of Commerce. *Regional Economic Information System 1969-00.* Bureau of Economic Analysis. RCN-0295, May 2002.

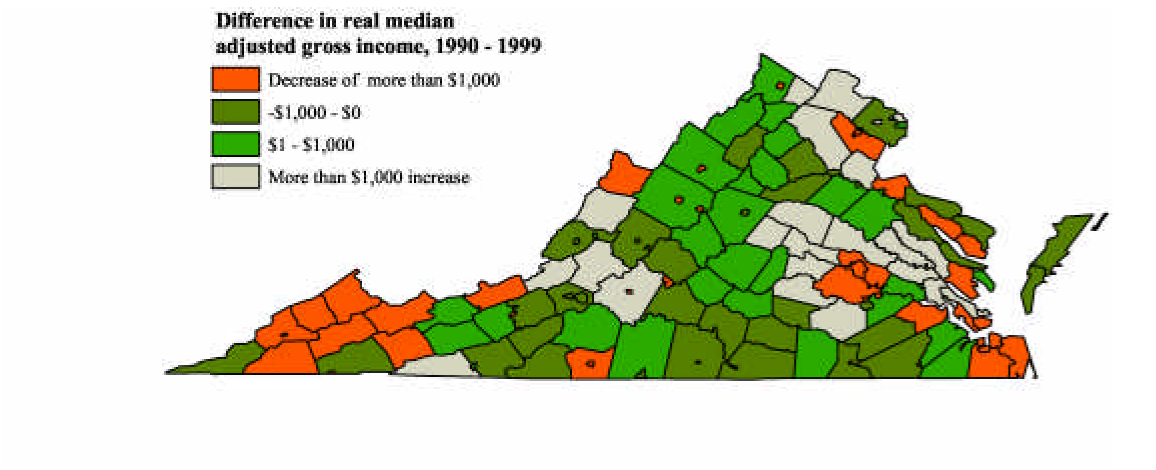
After adjusting for inflation, the urban-rural differences have increased from about $3,500 in the 1970s to nearly $7,000 in 2000. The rapid recent growth of urban versus rural incomes is very apparent in this graphic, with an increase of 11 percent in just three recent years. The possibility of exponential increases in recent years is even more apparent in this graph. The pattern could be related to access to high speed internet and telecommunications services. The Commission paid close attention to this issue.

Rural counties are falling behind in many ways:

- Incomes,
- Educational Attainment,
- Unemployment,
- Population losses,
- Percent of families on welfare, and
- Percent of families living in poverty.

Solving these problems will require a balanced program that deals with the urban-rural divergences in efficient and effective ways.

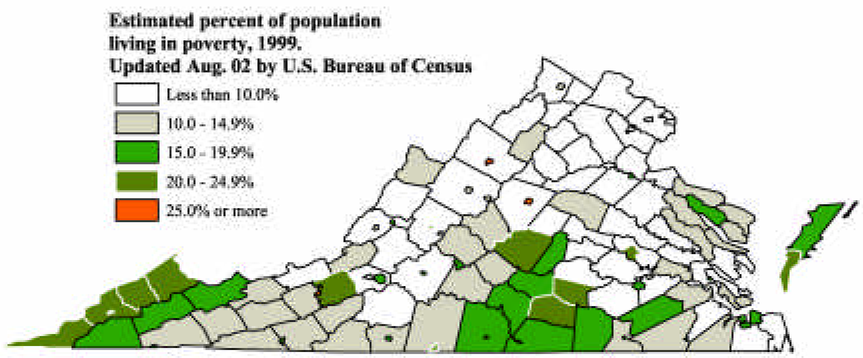
Difference in Inflation-Adjusted Median Adjusted Gross Income, 1990-1999



Source: Weldon Cooper Center for Public Service. Table 1: All Returns, 1999. Jan. 03. Found at *http://www.virginia.edu/coopercenter/*

The data showing the change in income appear to paint a mixed picture, but the same rural-based story is there. Decreases in inflation-adjusted median Adjusted Gross Income from 1990 to 1999 suggest a major problem and the decreases are mostly in rural areas. If incomes are not going up as fast as the overall cost of living as measured by the Consumer Price Index, the standard of living is going down. Some families are falling farther and farther behind—into poverty and dependence on welfare. A few counties in Northern Virginia show an interesting pattern of decline. This pattern likely comes from people with higher incomes fleeing the D.C. congestion as increased incomes allow them to move further out.

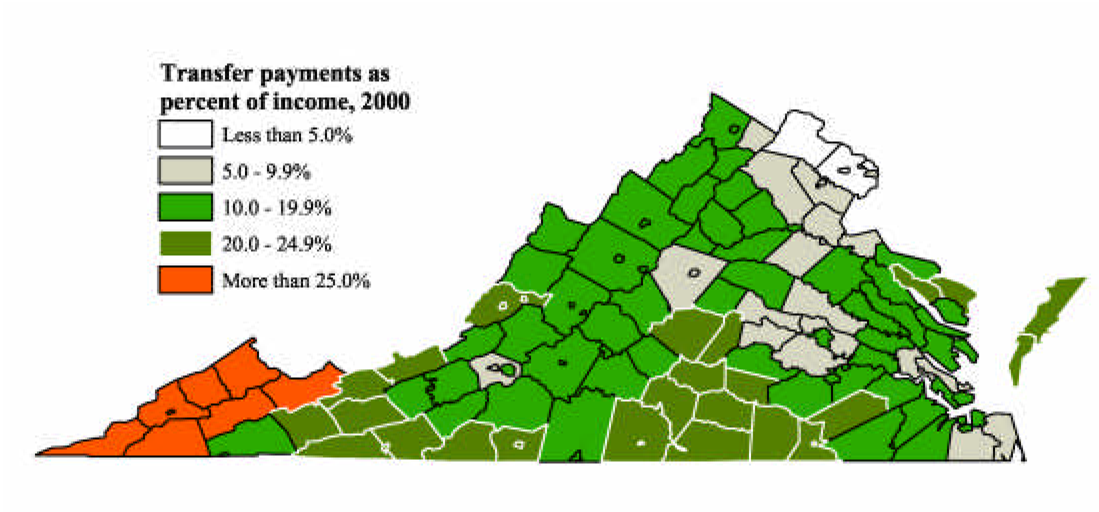
Percent of Population Living in Poverty, 1999



Source: US Bureau of Census.

Living in poverty destroys confidence and self esteem. It is one of the most unfortunate characteristics of rural areas falling behind. As a general rule, poverty exists because of the low market value of resources in the community. The problem spreads across southern Virginia, reaching from the coalfields of the Southwest and to the Eastern Shore. Poverty is a vicious cycle that feeds on itself if left unattended. Compared to 1995, the percent of people living in poverty has decreased slightly—only three cities now show 25 percent or more of their population living in poverty, but the geographic patterns remain the same.

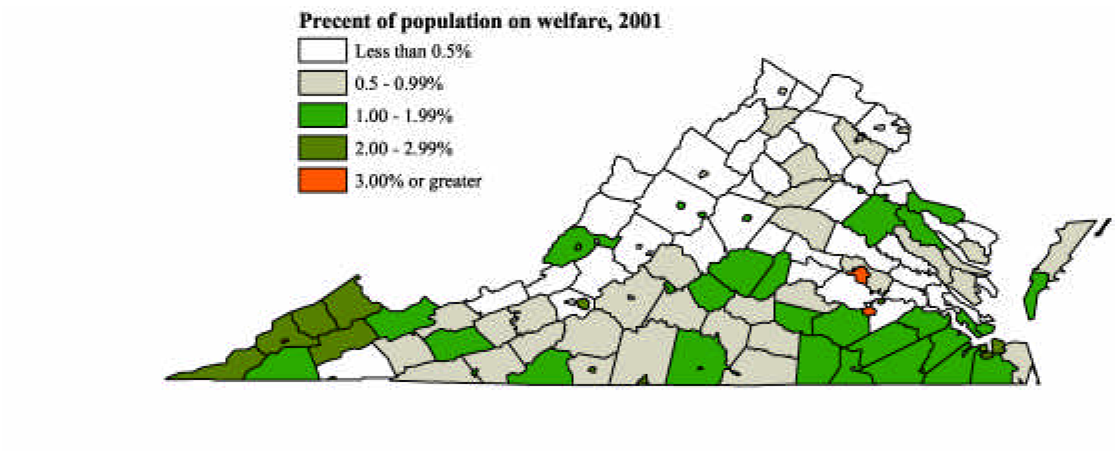
Transfer Payments as a Percent of Income, 2000



Source: US Dept. of Commerce. "Regional Economic Information System, 1969-98." Bureau of Economic Analysis, RCN-0295, May 2002.

Transfer payments are made up of social security, welfare, retirement pensions, food stamps and related programs, and other forms of unearned income. (Earned income is made up of wages and salaries.) The higher percentages of transfer payments are in rural areas and the two lowest percentages largely trace out the crescent from Washington, D.C. down to the southeast corner of the state. Families relying more heavily on transfer payments for income will usually have more problems paying taxes to support local services. The geographic pattern seen in this map parallels the patterns of low incomes and higher percentages of families in poverty.

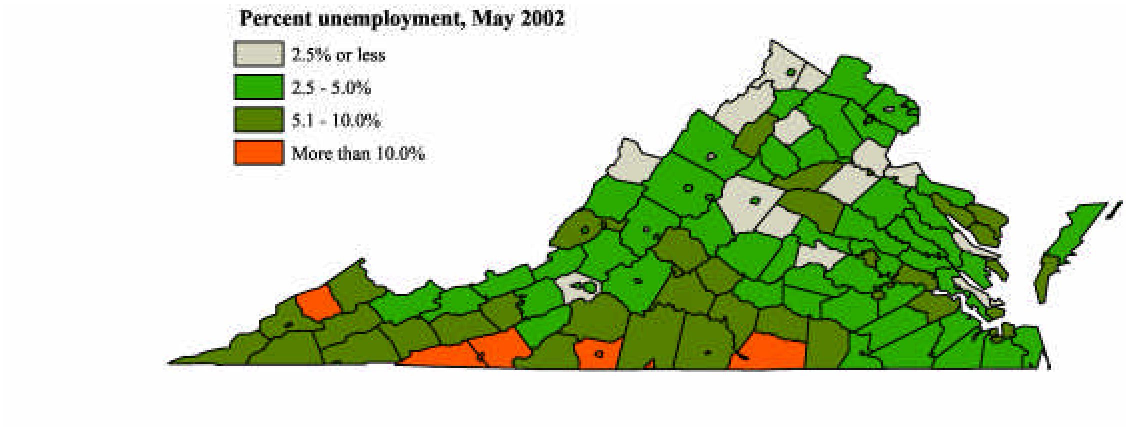
Percent of Population on Welfare, 2001



Source: Department of Social Services. TANF Average Counts by Locality for the Calendar Year January 2001 - December 2001. At *http://www.dss.state.va.us/benefit/vip.html*.

The higher percentages of families on some type of welfare will be found in the same communities where more people are living in poverty. Virginia has been active in programs to get people off welfare. Rural Economic Analysis Program research at Virginia Tech shows that difficulties in arranging transportation to work and lack of childcare facilities make it harder to move from welfare to work in rural areas. The Commission recommendations targeted special economic development programs to struggling rural communities in its December 2001 final report (*http://www.rvpc.vt.edu)*.

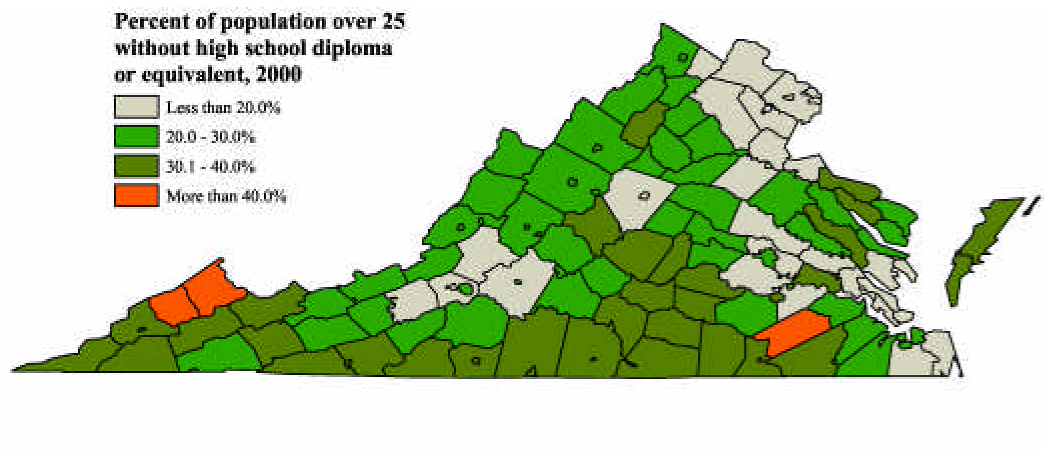
Percent Unemployment, May 2002



Source: Virginia Employment Commission. Local area employment statistics, counties and cities. http://www.vec.state.va.us/lbrmkt/lausc/labor.cfm

The higher rates of unemployment in the rural areas that have more poverty and more reliance on transfer payment are not surprising. This high unemployment is spread across southern Virginia, the Southwest, the Northern Neck, and the Eastern Shore. Commission recommendations for a tiered economic development program using tax credits focused on programs to create new jobs.

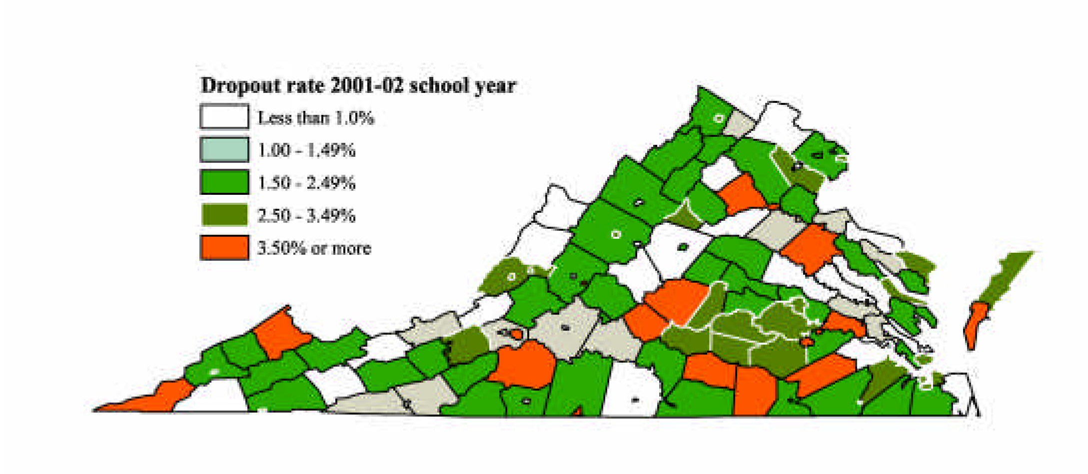
Percent of Population over 25 without
High School Diploma, 2000



Source: Bureau of the Census. *http://www2.census.gov/census_2000/datasets/100_and_sample_profile/Virginia*. Accessed July 2002.

The job market in the U. S. is changing from manufacturing to service and information technology with the high-income career opportunities in the new marketplace. But rural communities in Virginia are not always ready for the new economy, reflecting the loss of younger and usually better educated workers. The population that is being left behind showed, in the 2000 census, some counties with over 40 percent of adults 25 years and older without a high school diploma. Many rural areas, especially in Southside, Southwest, and the southern Piedmont, show more than 30 percent of adults 25 years and older without a high school diploma. As the younger, better educated move out, the residual population is not well-prepared for the modern high-tech job market. Wages and incomes fall behind, and the cycle of divergence continues. One of the Commission recommendations was to provide incentives for adult education and to encourage business firms to support employees to get their GEDs.

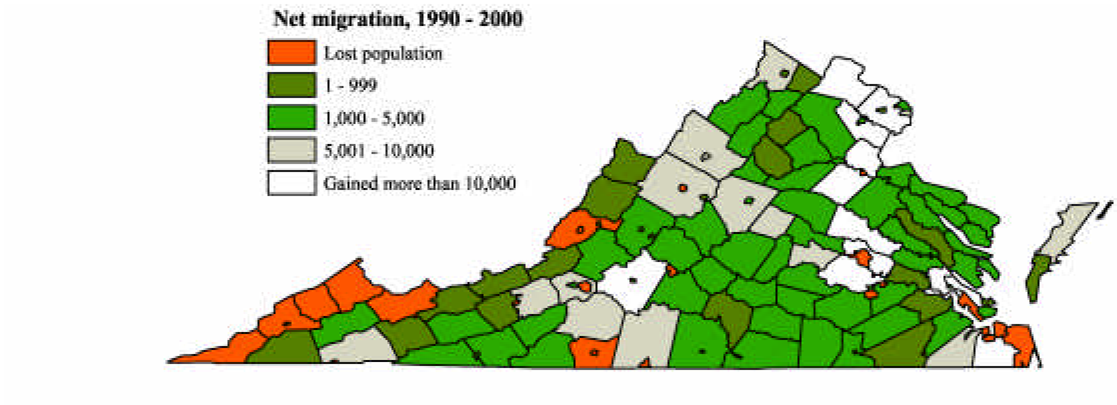
Percent of Dropouts, 2001-02 School Year



Source: Virginia Dept. of Education. *Superintendent's Annual Report, 2001-02.*

Higher dropout rates in some of the same areas with low educational attainment are not surprising. But the dropout rates in rural counties are not markedly above the statewide rates. The younger, better educated family members are leaving the rural areas. This pattern, if it continues, will make things worse as potential future leaders in rural communities continue to relocate to urban areas.

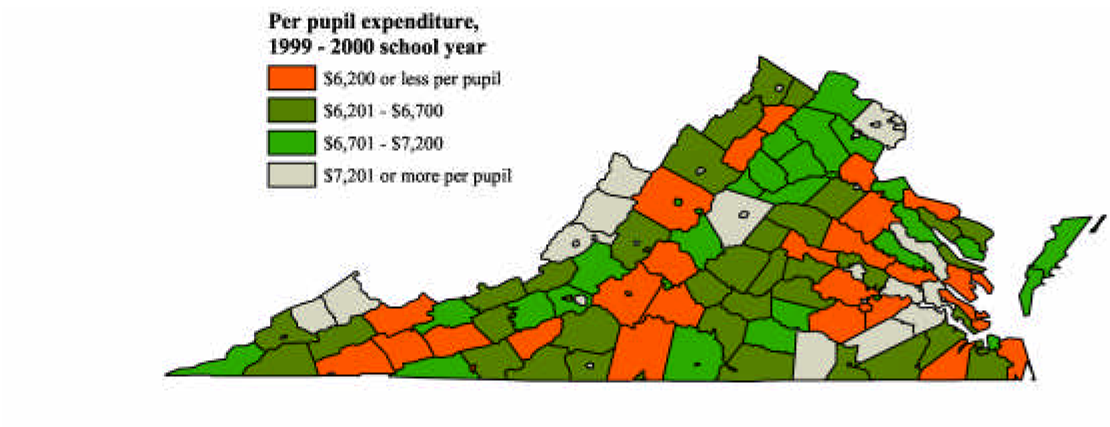
Net Population Migration, 1990-2000



Source: Weldon Cooper Center.

The net migration of people from rural communities across the Commonwealth suggests the problems will continue and worsen unless there is intervention. The younger, better educated tend to leave the rural communities where fewer opportunities exist. If this out-migration of young people continues, these communities will fall further behind. Reversing this trend will not be easy. It will require visionary, creative public/private programs and solutions. The Commission recommendations as a group reflect this need.

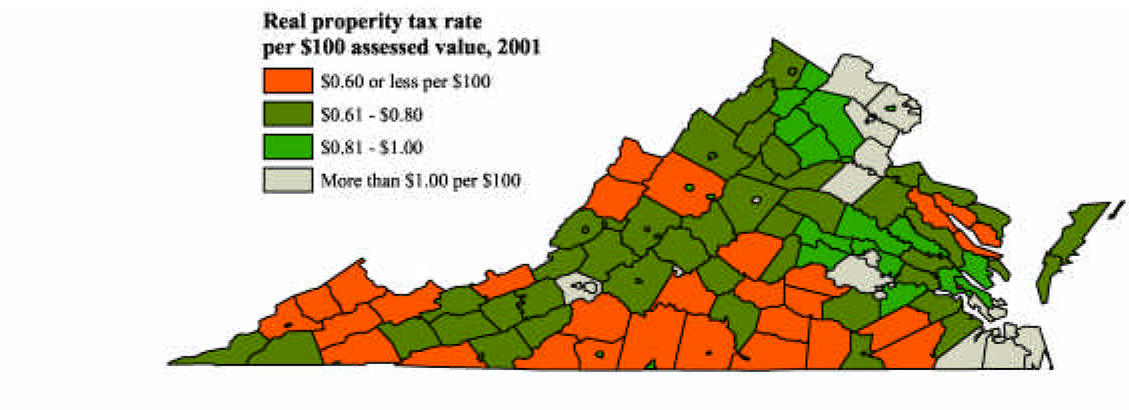
Per Pupil Expenditures, 1999-2000 School Year



Source: Department of Education. "Table 15. Sources of Financial Support for Expenditures, Total Local Expenditures for Operations," Superintendent's Annual Report. 2000-01. Found at *http://www.pen.k12.va.us/VDOE/ Publications/.*

Throwing money at problems is never a sufficient answer. Money alone will not solve the problems of low educational attainment in rural areas. However, rural areas do spend less money on public education and, over time, the lower spending has an impact. Starting teacher salaries are lower in rural areas, and teachers with advanced degrees and experience typically "top out" at lower salaries than they would in urban areas. The current crisis in teacher shortage may be at least partly due to long-standing disparities between what college graduates can get in teaching compared to what they can earn in the private sector.

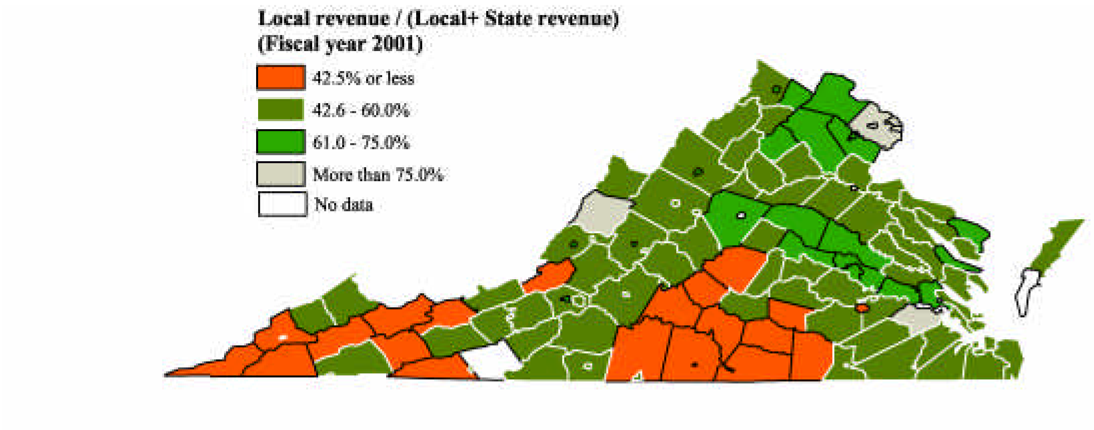
Real Property Tax Rate per $100 of Assessed Value, 2001



Source: John Knapp and Stephen Kulp. *2001 Virginia's Cities, Counties, and Selected Towns*. University of Virginia, Weldon Cooper Center, 2001.

The "why" of low contributions to local public service budgets, including education, appears to be easy to find. The majority of local financing capacity is raised via the real property tax. Tax rates below $0.60 per $100 of assessed value are found largely in rural counties and largely in Southside, the Southern Piedmont, the Southwest, some Highland counties, and the Northern Neck. "Raise the tax rate" is not necessarily a workable answer in these regions of the state, however. These same areas tend to be suffering from reduced inflation-adjusted family incomes, from the lowest educational attainment, from seeing the young with more income-earning capacity leave the area, and from less disposable income above the poverty level. Some of the real property in these rural areas, while valuable as a stock of wealth, may be earning little or no income with which to pay even the use-value tax bill. Rural Economic Analysis Program research indicates that families in the rural areas are likely to see a bigger decrease in the standard of living (housing, diet, recreation, and so forth) in response to real property tax increases than would families in most more affluent urban areas.

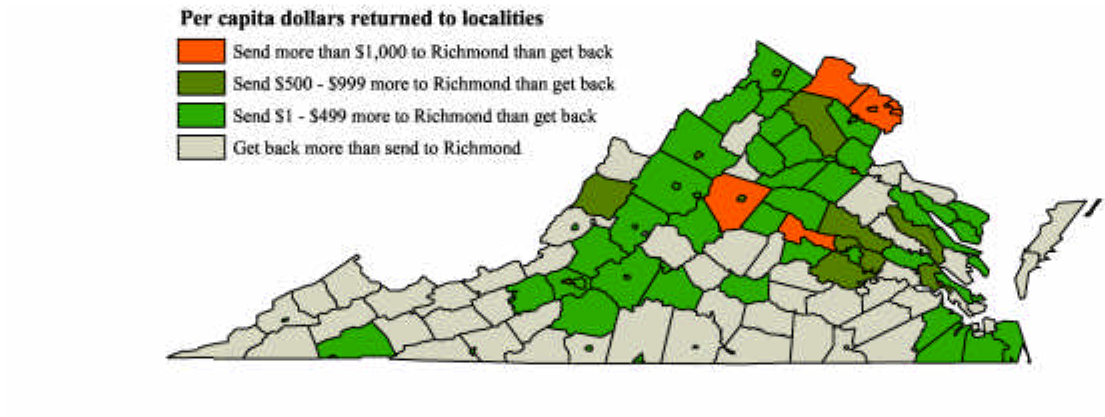
Local Revenue as Percent of
Total Local and State Revenue, 2001



Source: Auditor of Public Accounts. *Comparative Report of Local Government Revenue and Expenses, Fiscal Year Ended June 30, 2001. http://www.apa. state.va.us/reports.htm*

Investments in public services like education, community-specific infrastructure, local leadership, economic development programs, and amenities may be a necessary condition to stop the "falling behind" syndrome. But the investments are difficult to finance. If you total the local and state dollar support of local budgets for public services and express the local contribution as a percentage of that total, rural localities across southern Virginia are often contributing less than 42.5 percent of the total. Northern Virginia and other more affluent counties and cities send more dollars to Richmond than are returned to those localities. Recognizing this reality makes statewide support of programs and policies that have a chance of helping rural Virginia help itself very important.

Counties That Send More Dollars to Richmond
Than They Get Back from Richmond, 1998

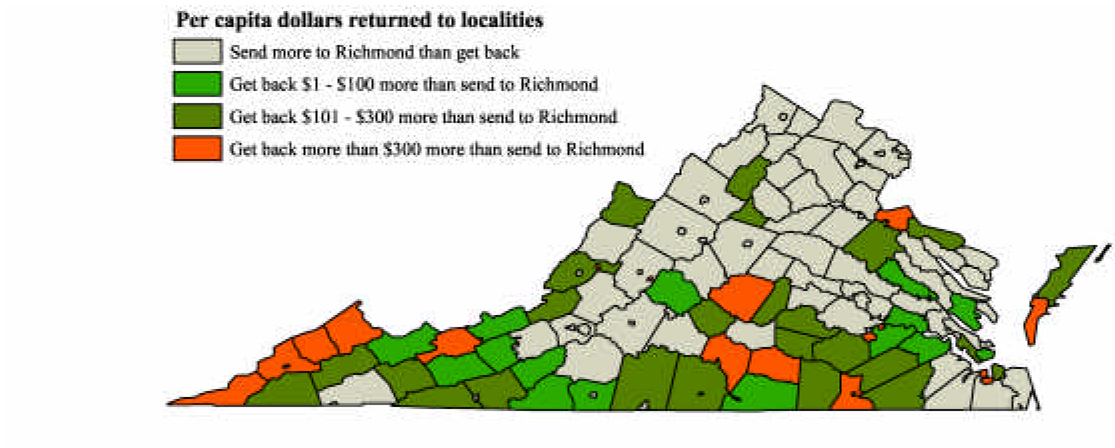


Source: Department of Taxation. Unpublished data.

The early look at local contributions as a percentage of local budgets suggested revenue transfers within the state. In 1998, based on a special analysis of intergovernmental transfers, 42 rural counties and 4 rural cities got $189 million more back from Richmond than they sent to Richmond—a significant income transfer from more affluent localities to struggling rural localities. The $189 million comes from the small number of primarily urban jurisdictions shown in this map. Some Northern Virginia counties are sending nearly $2,000 per capita from personal income taxes, corporate taxes, fees, and other sources of revenue to Richmond. On the basis of a family of three, the contributions from such an affluent locality approach $6,000.

Everyone in the Commonwealth has a vested interest in seeing economic vitality return to our rural localities or the income transfers will continue to grow.

Counties That Get Back More Dollars Per Capita from Richmond Than They Sent to Richmond, 1998



Source: Department of Taxation. Unpublished data.

This map is the "mirror image" of the previous map. The 42 localities that receive a revenue transfer through Richmond from the small set of affluent localities are essentially the same set of rural localities with low incomes, families on welfare, and families living in poverty. They are the localities that continue to see young adults leave. The Commission's tiered economic development program and the proposed boost to Virginia's Capital Access Program target these localities.

Rural Virginia Prosperity Commission Initiatives in the Final Report and Presented for Action in the 2002 General Assembly Session

- Create a rural center.
- Increase state support for the Virginia Capital Access Program.
- Enhance and facilitate adult education programs and workforce training.
- Create a tiered economic development program to focus on rural issues.
- Facilitate access to broadband and high speed internet in rural areas.
- Create a Secretary of Agriculture or a Secretary of Agriculture and Forestry.

Actions in the 2002 Session

- Commission Extended: The Rural Virginia Prosperity Commission was extended by resolution through 2003 to allow continued efforts since the legislative initiatives were not funded in the 2002 Session.

- Telecommunications: Legislation in the 2002 session enables localities that are in the electrical distribution business to operate telecommunications systems if they are certified as a Competitive Local Exchange Carrier by the Corporation Commission.

Two Continuing Thrusts in 2003

- Subcommittee on the telecommunications issue is active and continuing its work.
- A new subcommittee has been established to give leadership to the design and creation for a rural center in Virginia.

Action in the 2003 General Assembly Session

House Joint Resolution 574 passed by both Senate and House, waiting for Governor's signature, supports "the creation of a Secretariat of Agriculture and Forestry position . . . as soon as fiscally prudent or through appropriate restructuring within State government."

What is the future of rural Virginia?

Much is yet to be done to deal with the myriad problems that continue to plague rural areas. Most of the proposed programs and policies require funding. To date no budget has been allocated to these needs.

The ongoing effort in 2003 to create a rural center in Virginia, if a center is created, will provide an institution that can help organize, coordinate, and lead efforts to get needed programs and policies in place. Continued efforts in the public and private sectors will be needed.

This pictorial update was organized by Virginia Tech members of the RVPC staff: Karen Mundy, REAP Communications Director; Wayne Purcell, Alumni Distinguished Professor of Agricultural and Applied Economics; and George McDowell, Professor, Agricultural and Applied Economics.