HOUSE SELECT COMMITTEE ON RURAL DEVELOPMENT
TEXAS HOUSE OF REPRESENTATIVES
INTERIM REPORT 2000

A REPORT TO THE
HOUSE OF REPRESENTATIVES
77TH TEXAS LEGISLATURE

BARRY TELFORD
CHAIRMAN

COMMITTEE CLERK
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Select Committee On
RURAL DEVELOPMENT

January 26, 2001

Barry Telford
Chairman

P.O. Box 2910
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The Honorable James E. "Pete" Laney
Speaker, Texas House of Representatives
Members of the Texas House of Representatives
Texas State Capitol, Rm. 2W.13
Austin, Texas 78701

Dear Mr. Speaker and Fellow Members:

The Select Committee on RURAL DEVELOPMENT of the Seventy-Sixth Legislature hereby submits its interim report for consideration by the Seventy-Seventh Legislature.

Respectfully submitted,

Barry Telford, Chairman

Members: Alexander, Chisum, Counts, Hawley, Keffer, T. King, McReynolds, Ramsay, Rangel, and Swinford

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INTRODUCTION

When we visualize rural Texas, our mind's eye has no trouble finding familiar images: cattle grazing on open prairies, oil wells quietly pumping wealth from the ground, great forests, quaint towns where life is lived at a human pace, hills and lakes, white-tail deer and jack rabbits.

Further reflection might remind us of another side of rural Texas: post offices and hospitals closed or consolidated, home-owned cafes, department stores and banks replaced by national chains, the graduating class that gets smaller each year, downtowns by-passed by highway loops, and empty storefronts on main streets. In many Texas towns, the last picture show has, in fact, closed.

There is truth in both images.

Texans remain great producers of cattle, row crops, timber and hydrocarbons. Rural Texans do enjoy a lifestyle substantially free from sprawl, ozone and congestion, and they are more attuned to the weather and seasons than to pagers, e-mail and the national news. Our small towns and natural resources are sought out by rural and urban Texans alike for recreation and relaxation.

But the numbers do not lie. Fewer Texans live in the "country" today, as rural mainstay industries require less and less labor. Although agricultural production has increased dramatically, new technologies require fewer workers, and the population living and working on farms and ranches has plummeted. The oil and gas industry is always cyclical, but reserves and production have declined since 1972 and will continue to do so. In the long term, employment and tax bases decline with them.

Together, agriculture and mining counties will constitute less than half of all rural Texas counties. In the past 30 years, more rural jobs have been created in manufacturing, non-agricultural service industries and government than in

Our sense about the state of our mainstay industries is heightened by the recent events over which we have no control: the recent drought, the oil price crisis in 1999, the Freedom to Farm Act in 1996, and low commodity prices. Globalization makes producers in both industries price takers, and both are subject to dramatic fluctuations over relatively short periods of time.[1]

[1] Texas Comptroller of Public Accounts. *Rural Texas in Transition,* Draft Report Submitted to the House Select Committee on Rural Development. Strategic Research Division, June 2000. p.3.

In 1950 the U.S. Department of Agriculture (USDA) classified over 2,000 U.S. counties as "farming dependent." By the same definition today, only 556 counties are so classified.[2] This statistic, very simply, illustrates the transition in rural America.

Agriculture and oil and gas do not dominate the rural economy as they once did. USDA currently classifies 196 Texas counties as non-metropolitan. Only one-third (65) of these are "farming-dependent" and another 30 are "mining-dependent." Together, agriculture and mining counties will constitute less than half of all rural Texas counties (see Appendix A and Figure 1, Part Two). In the past 30 years, more rural jobs have been created in manufacturing, non-agricultural service industries and government than in agriculture or oil and gas.[3]

While the economy of Texas is more diverse than in earlier times, it is also regionally diverse. Agriculture and mineral extraction are still powerful forces from the Panhandle down through Permian Basin. Of the 95 farming and mining counties mentioned above, 73 of them are west of a line from Laredo to Wichita Falls. However, we shall see that there are significant differences in such key factors as income and population growth even within this region. East Texas on the other hand is truly diverse. It has just four small "farming-dependent" counties and three "mining-dependent" counties. In addition, six counties are "service-dependent," eight are "manufacturing- dependent," five are "government-dependent," and 20 are so diverse that they do not reach *any* of the USDA thresholds, i.e., they are "non-specialized." South Texas is similarly diverse, with several counties in all categories except manufacturing. Finally, rural counties adjacent to major metro areas are significantly different from those counties that are more remote.

The face of rural Texas is changing as well. Anglos in rural Texas are declining in number and increasing in age, while ethnic minority populations are younger and growing in number.[4] And while we may wish to look the other way, USDA classifies 72 rural counties as being in "persistent poverty," in which over 20 percent of the population was below federally defined poverty levels in each of the years 1960, 1970, 1980, and 1990 (see Part Two). Twenty-five of the 72 are in the South Texas/Border region.

These numbers amply illustrate that rural Texas, simply stated, is in a state of transition. It is not dying, but it is changing profoundly. Such change is normal and ongoing as individuals, businesses, communities and industries struggle to adapt to changing conditions in the broader economy.

Many rural areas are benefitting from Texans' and others' enjoyment of the land, sky, fresh air and

[2] Mark Drabenstott, "Meeting a New Century of Challenges in Rural America." December 1999. The Region. Federal Reserve Bank of Minneapolis. Minneapolis, Minnesota. p. 18.

[3] Texas Comptroller of Public Accounts. *Rural Texas in Transition*, Draft Report Submitted to the House Select Committee on Rural Development. Strategic Research Division, June 2000. p.15.

[4] Center for Demographic and Socioeconomic Research and Education. *Demographic and Socioeconomic Change in Rural Texas: A report prepared for the House Select Committee on Rural Development*. Steve H. Murdock, Tami Swanson, Md. Nazrul Hoque, Beverly Pecotte, and Steve White. Department of Rural Sociology, Texas A&M University, College Station, Texas. June 2000. pp. 10-11.

unhurried lifestyle to find renewed prosperity. Like agriculture and mineral extraction, many of our transition industries are rooted in the land and its natural resources, including tourism, camping and hiking, retirement, hunting and fishing, exotic game and summer camps. In other communities, manufacturing, telemarketing and data processing is helping.

Government continues to be an economic pillar in rural areas, providing jobs in education, state and local governments, and health-care institutions. Governments also provide much of the income in rural areas through various transfer payments such as social security, Temporary Assistance to Needy Families, Medicaid and Medicare and farm supports. Even state projects have buoyed employment and income in selected areas. Notably, the state spent over two billion dollars building new prisons in the 1990s, much of it in rural counties.

The future of each community lies to a remarkable degree in the hands and hearts of its residents and their leaders. A community that is organized for action, that appreciates its own history and potential, where leaders know how to plan and work together for common goals, is likely to succeed.

The fortunes of rural Texans differ from region to region and, equally important, from town to town within regions. Some communities prosper while others just hold on or lose ground.

The future of each community lies to a remarkable degree in the hands and hearts of its residents and their leaders. A community that is organized for action, that appreciates its own history and potential, where leaders know how to plan and work together for common goals, is likely to succeed. State dollars and programs are highly leveraged in such settings, and the state resources dramatically enhance the efficiency of local effort. On the other hand, communities that have few or none of these qualities drift toward a culture of dependence, where state and federal resources are inefficiently absorbed and produce little return on investment.

What is Rural?

This question has been much discussed, generally in frustration. There are many definitions of rural, and no one definition can suit the needs and purposes of each person or governmental agency. Inevitably, a definition of what is rural is in the eye of the beholder, which is why a uniform definition cannot meet all needs.

The Select Committee's idea of rural is partially communicated in an ad hoc list of "things you find in rural Texas," compiled informally by the members at their first hearing: agriculture, co-ops, volunteer fire departments, propane, water wells, clean air, septic tanks, farm-to-market roads, property rights and fish-fries.

Most academic and governmental research on rural issues is based on the U.S. Office of Management and Budget's (OMB) designation of metropolitan statistical areas (MSAs). The MSA concept is described by Dr. Steve Murdock in Part Two of this report and they are listed in Appendix C (p. 79).

According to the OMB, Texas has 58 "metropolitan" counties and 196 "non-metropolitan" counties. It is noteworthy that OMB does not define "rural," but only "metropolitan." "Rural" is presumably included in the residual category "non-metropolitan."

The Select Committee wishes to recognize that areas that are thoroughly rural may be found within the boundaries of some counties designated as metropolitan, especially in the smaller metropolitan counties and in those suburban counties that are a part of many MSAs. The Select Committee's definition of rural uses the OMB definition as a starting point, then expands on it.

An area is *rural* if:

(1) it is *outside* the boundaries of a Metropolitan Statistical Area (MSA); or

(2) it is *within* the boundaries of an MSA, but has a population of not more than 20,000 and does not share boundaries with an urbanized area.

An "urbanized area" comprises one or more central places and the adjacent densely settled surrounding territory, the "urban fringe," that together have a minimum population of 50,000 persons. The urban fringe generally consists of contiguous territory having a density of at least 1,000 persons per square mile.

As a practical matter, Select Committee members' principal focus has been on the problems of communities smaller than 20,000 people, often much smaller and remote from central cities and their suburban fringes.

The Select Committee's Work

The House Select Committee on Rural Development was created by Speaker Pete Laney in January 2000. Without exception, the Select Committee's members have served with a sense of mission and have committed many hours to its work.

The Select Committee conducted six public hearings dealing with major issues in rural Texas: economic development, transportation, water and natural resources, agriculture, oil and gas, health-care, education, telecommunications and housing. Members and staff also reviewed the research and popular literature and conducted numerous interviews with interested experts.

The Select Committee's goal has been to conduct a horizon-to-horizon search for ways state government can improve the quality of life in rural Texas.

Concern about rural areas is not new or limited to Texas. We expected to find that other states had conducted comprehensive studies similar to ours, and that there would be models to follow.

There is extensive research on rural issues that has proved very helpful. Most notably, the U.S.

Department of Agriculture (USDA) and the Rural Policy Research Institute (RUPRI) have long conducted rural research. Texas A&M University is very active in the field and has provided expert information on many topics.

However, despite the numerous centers and institutes across America, we have not found others engaged in exactly the kind of review the Select Committee has undertaken.[5] To a large extent, the Select Committee has had to learn by doing. The work has been rewarding, but we recognize it is only a beginning. The number and complexity of the issues require a longer-term commitment and more resources.

Part One provides an overview and a framework for rural policy. This work was prepared at the Select Committee's request by Dr. Ron Knutson of the Agriculture and Food Policy Center at Texas A&M University. While the Select Committee studies focused on more concrete problems and issues, this work established a broader context that both complements our work and, we believe, greatly adds to it. For those reasons, we present it here as submitted with only minor modifications.

Dr. Steve Murdock is the Texas State Demographer and on the faculty of the Department of Rural Sociology at Texas A&M University. To assist the Select Committee, Dr. Murdock and his staff prepared three research reports dealing with demographic and economic changes in rural counties.[6] These works have been invaluable to our understanding of rural areas, particularly the differences among regions within rural Texas. Part Two is a summary of the three reports submitted.

Part Three highlights the principal findings and recommendations of the Select Committee, and Part Four details further issues raised in the various sectors reviewed.

The Select Committee regards this work as a starting point, not the final word. In many areas we highlight

[5] http://www.kc.frb.org/RuralCenter/RuralMain (Center for the Study of Rural Affairs, Kansas City Federal Reserve Bank)
http://www.rupri.org/ (Rural Policy Research Institute)
http://www.card.iastate (Iowa state)

[6] Center for Demographic and Socioeconomic Research and Education. *Demographic and Socioeconomic Change in Rural Texas:* A report prepared for the House Select Committee on Rural Development. Steve H. Murdock, Tami Swenson, Md. Nazrul Hoque, Beverly Pecotte, and Steve White. Department of Rural Sociology, Texas A&M University, College Station, Texas. June 2000.

Center for Demographic and Socioeconomic Research and Education. *Nonmetropolitan Country Clusters: An Examination of Demographic and Socioeconomic Patterns in Different Types of Nonmetropolitan Counties in Texas.* Report to the Texas House Select Committee on Rural Development. Tami Swenson, Steve H. Murdock and Steve White. Department of Rural Sociology, Texas A&M University. June 2000.

Center for Demographic and Socioeconomic Research and Education. *Rural Areas in Texas: A Tabular and Graphical Presentation of Data on Selected Demographic and Socioeconomic Characteristics of Nonmetropolitan Counties in Texas.* Report to the Texas House Select Committee on Rural Development. Tami Swenson, Steve H. Murdock and Steve White. Department of Rural Sociology, Texas A&M University. June 2000.

issues of concern without having specific recommendations. Select Committee members and staff will continue to study these issues. In addition, there are issues the Select Committee simply did not pursue to great depth due to time and resource limitations.

In the case of some of rural Texas' most persistent problems, the Select Committee defers to other committees that have more experience. This would include county road funding, most water issues and agriculture policy. For example, the 76th Legislature created a Joint Interim Agriculture Policy Committee, and the Select Committee sees little value in attempting to duplicate work. Rather, we commend the efforts of that Committee to the attention of readers and the 77th Legislature. The Select Committee did not address public education because it is subject to constant debate, and rural constituencies are fully engaged in those debates.

In addition, the Comptroller of Public Accounts produced "Rural Texas in Transition," a draft report which contains extensive research and analysis of rural Texas, especially the agriculture and oil and gas sectors. The Select Committee especially thanks the Comptroller and her staff for this assistance, and we strongly commend their study to readers.

We also thank all those who provided testimony and information in numerous other ways to the Select Committee and our staff. These include state agency officials, university faculty, local officials and citizens and private sector and association experts too numerous to mention. Without the help of these interested citizens, our work would have been much less than it is.

PART ONE*

RURAL DEVELOPMENT POLICY

Rural development policy is a diverse set of government programs targeted to serve people and businesses in rural/non-metropolitan areas. Although rural issues are often seen in terms of agriculture policy, they are that and much more. Rural policy encompasses economic development, the environment, education, health-care, social services, infrastructure and communication policies. In addition, it includes programs designed to build the capacity of rural residents to cope with change, as well as issues designed to build problem-solving and leadership capacity in the adult population. All levels of government -- federal, state and local -- have a hand in developing and implementing rural policy, and cooperation and coordination are essential to maximize the effectiveness of policy programs.

What is Unique About Rural?

Texas is an urban state with more than 80 percent of the people living in metropolitan counties. Policies designed for urban areas may not translate well into solving the problems of rural areas because rural areas have their own unique qualities. Generally, rural areas have a more narrow economy primarily based in natural resources such as agriculture, forestry, energy and mining. These natural resource industries tend to be more economically unstable with higher than average rates of unemployment and underemployment. At the extractive stages these industries also have a higher proportion of low wage and low skill jobs than at the upstream value-added stages.

There is no focal point at state or federal levels for rural policy formulation or implementation, which results in fragmented policies spread among a myriad of governmental agencies.

Rural areas are more sparsely populated than urban areas. While sparse population has its amenities, it imposes higher costs of providing for almost all government services. The same level of government services cost more per capita to deliver in rural than in urban areas. This fact runs contrary to the perception of many who believe equity is achieved by equal expenditures per capita.

Rural areas draw from a smaller leadership pool, requiring local leaders to assume major roles in several organizations. In addition, a small leadership pool requires governmental and non-governmental organizations to rely more on volunteers.

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*Part One was prepared by Dr. Ronald Knutson, Agriculture and Food Policy Center, Texas A&M

University, at the request of the Select Committee on Rural Development.

There is no focal point at state or federal levels for rural policy formulation or implementation, which results in fragmented policies spread among a myriad of governmental agencies. At the legislative level, there are no committees on rural affairs, and agricultural committees frequently are supposed to carry the rural load, which might help to explain why agricultural policy and rural policy are often equated.

History of Rural Policy

In order to better design a framework for rural policy in the future, it is essential to understand the lessons of the past.

Federal Rural Initiatives

It is possible to both overstate and understate the role of the federal government in rural development. Although federal policies have had a major impact in certain areas, only a few areas have received sustained federal commitment. More often than not, federal funding for specific rural initiatives has dissipated within a year or two, and where it has been sustained it has not been specifically targeted to rural areas. Therefore, it is difficult to articulate a federal rural development policy. Nevertheless, over time it is federal regulatory policy that has set the tone for rural initiatives at the state and local levels. Federal rural development policy is divided into the following five periods and program thrusts outlined below:

Early settlement and expansion of rural services. Arguably, when the U.S. was first settled, all policy was rural policy because all areas were rural. Some of the earliest development programs involved the settlement of rural areas, like the Homestead Act, the granting of land to railroads and the creation of our land grant university systems. Of these programs, the most enduring has been the land grant university systems. Although, since the 1970s, federal support for its agricultural experiment stations and extension services has declined markedly in terms of dollars with constant purchasing power. States have been forced to pick up the slack and, in many states, service levels have declined.

New Deal expansion of the federal role. In addition to numerous federal programs designed to get the U.S. economy back on track during the Great Depression, the government took a larger role in solving rural problems. In addition to the establishment of sectoral farm programs, major rural initiatives included rural electrification, telephones, rural mail delivery, farm credit, water retention systems (dams) and distribution systems and many government work program projects. All of these programs stimulated the development of rural areas. Several of these programs still exist today, although, except for farm subsidies, their level of financial support has declined.

Great Society programs. During the Great Society era, many programs were established under the leadership of President Johnson to benefit the poor and disadvantaged, regardless of their location. These programs include food stamps, Aid to Families with Dependent Children, the Women, Infants and Children Program, child nutrition, job training and small business loans. While well intended to reach all

disadvantaged individuals, these programs were less effective in reaching rural areas because they failed to recognize its uniqueness.

New Federalism. In the 1980s, the new federal government philosophy of New Federalism decentralized rural decision-making and shifted it to the state and local level. Under the New Federalism, even the private sector was given major responsibility for the economic welfare of the citizens. Consistent with that philosophy, block grants were made to states and to metropolitan areas. However, over time few programs were specifically targeted for rural areas and few enjoyed sustained funding. The result was that many issues facing rural America had transcended the resources and power of individuals and local communities to deal with them effectively.

Unfunded mandates. In the 1990s, many rural communities simply did not have the resources to carry out the federal social and environmental mandates handed to the state and local governments. Local governments have found it much more difficult and costly on a per capita basis to comply with federal mandates addressing access to social services, prisons, waste disposal and water quality. Funds diverted to comply with the federal mandates left little for maintaining rural roads and bridges, health-care and education, which have deteriorated. Alleged efforts to deal with rural issues, such as the Fund for Rural America, were too little, and funding did not go beyond the initial appropriation.

Texas Rural Initiatives

Texas rural policy has three basic characteristics: it generally follows the federal lead by leveraging federal funding, when available; it has never developed into a comprehensive strategy and has been characterized by a few strong ad hoc initiatives designed to address particular needs; and, like federal policy, it has been carried out by a number of relatively autonomous agencies with no central administrative leadership, coordination, or thrust.

Because of the tendency for Texas policy to follow the Washington lead, the following sequence of program developments looks much like that of the federal government, with a few notable exceptions.

Establishing and maintaining land grant university systems in the face of declining federal support. From its very beginning, Texas took advantage of the provisions of federal legislation providing for the Texas Agricultural Experiment Station and the Texas Agricultural Extension Service. The programs of these institutions were broadly designed to address the problems confronting Texas farmers, ranchers and rural agribusinesses. This base of support contributed significantly to Texas becoming the third largest agricultural state even though its commodities were produced under adverse weather conditions.

Developing a system of farm-to-market roads. The broad spans of Texas required, and continue to require, that Texas farmers and ranchers have access to a high quality system of roads and bridges designed to move products from its farms and ranches to domestic and international markets. Once known for having one of the best farm-to-market road systems in the nation, this is no longer the case, since over time the state has failed to maintain many of its roads and bridges, especially in rural areas.

Responding to increasing federal regulatory standards. The 1970s began three decades of increasing

federal requirements for rural communities to comply with higher federal standards for jails, water, sewer, solid waste management and, more recently, wetlands and habitat for endangered species. The result was to further stress rural communities, many of which had already begun to experience reduced population.

The Community Development Block Grant Program (CDBG) created through the federal Housing and Community Development Act of 1974 sends money to the states for development purposes. Metropolitan areas, cities of 50,000 or more, or counties of 200,000 or more, receive this support directly. Smaller counties and cities must access funds through the "non-entitlement program" or "States and Small Cities Program," which provides federal funds directly to states that distribute funds on a competitive and as-needed basis. The Texas Department of Housing and Community Affairs (TDHCA) administers the Texas non-entitlement CDBG program for non-metropolitan cities and counties throughout the state. Over half of these funds are administered through the 24 state planning regions (Councils of Government), with the remainder being administered either directly by TDHCA or through an interagency agreement with the Texas Department of Economic Development (Texas Capital Fund). In addition, the Texas Water Development Board provides low interest loans to rural communities for water and wastewater projects. In any event, it is doubtful that there will ever be enough money from either state or federal sources to provide adequate infrastructure support.

Delivering business development assistance to rural Texas communities. Economic adversities in the 1980s brought an income and credit crisis to rural Texas communities and clearly demonstrated the need for assertive rural business development. In 1980, Congress created Small Business Development Centers, as a joint initiative with a local government and/or an educational institution to reach into underserved areas. These centers provided access to the business training and financing assistance available from the Small Business Administration. While this was a federal initiative, the local partnership created a decidedly local flavor.

At about the same time, the National Trust for Historic Preservation initiated the National Main Street Program, with the Texas Main Street Program being one of the first state programs. This program, conducted under the authority of the Texas Historical Commission, has provided valuable assistance to main street businesses across Texas. In the 1980s, the Resource, Conservation and Development Districts of the U.S. Department of Agriculture acquired an expanded mandate to include a rural development focus. Like the programs above, this is a federal initiative, but the committee memberships give a local flavor to the program.

State initiatives for business development include programs at the Texas Department of Economic Development to expand and retain business and to assist with infrastructure development targeted at business recruiting. The Department also engages in business recruiting at the state level. Complementing these activities was a decision by the Texas Legislature in 1989 allowing communities to collect up to a half-a-penny sales tax for development purposes. Most of the proceeds from these taxes are used for recruiting new businesses.

While these combined efforts are beginning to have positive impacts, the number of communities and businesses being effectively reached is small relative to the dimensions of the problem. Of particular

concern is the inability of the state to effectively expand value-added business activities based on Texas' status as a major agricultural state despite initiatives of Texas Department of Agriculture and the Texas Agricultural Finance Authority (TAFA).

Medical services for the aging rural Texas population. Getting medical services to sparsely populated rural Texas has been a major challenge. Large investments have been made in medical facilities in Lubbock and Amarillo. The Center for Rural Health Initiatives, established by the Texas Legislature in 1989, has made significant contributions in this area, but the challenges seem to be outpacing the resources. While not yet solving the problems of serving rural Texans, this is an area where positive steps have been made.

Challenges of rural telecommunications. In the first two decades of the 21st century, the major challenge affecting the survival of rural communities involves high-speed Internet access. In 1995, the Texas Legislature established the Telecommunications Infrastructure Fund (TIF) to serve schools, libraries and health-care facilities. This forward-thinking policy has provided substantial assistance, but the problems still persist. Because of the lack of Internet access, rural areas use computers at a lower rate than urban areas. Yet business expansion in rural areas is highly dependent on the existence of high-speed Internet access to sell products in broader markets where consumers are located. Advanced telecommunications technology may not be sufficient without additional training to open new markets for rural areas, but access to this and other electronic communication technology is a necessary condition for rural success.

Status of the Rural Texas Economy

The 1990s have been a decade of unprecedented prosperity in Texas, as in the rest of the United States. However, much of rural Texas, particularly the western half of Texas, has not shared in this prosperity (Figure 1). In fact, 42 western Texas counties experienced a decline in real total income. Most of the other counties in West Texas experienced an increase in real income of less than 18.5 percent from 1990 to 1998.

Significant segments of rural Texas have not shared in the prosperity experienced by the remainder of Texas or the United States as a whole. These problems are very deep-rooted. There is a need for a more assertive and better coordinated comprehensive policy.

Figure 2 indicates that slow income growth has resulted in a decline in population throughout roughly the same areas where income has declined. There are 57 counties in western Texas where population declined during the period from1990 to 1998. Only nine other counties experienced a population decline. Not only did this income decline contribute to the population exodus, but the population exodus also caused income to decline.

Figure 3 converts the data on which Figures 1 and 2 are based to a per capita basis. As in the case of total income, 42 western Texas counties experienced a decline in real per capita income. Most other western Texas counties experienced less than an 11 percent increase in per capita real income.

Figure 4 illustrates that the problem of population decline has existed in western Texas since at least the 1960s. The important point is that despite the sectoral farm programs, the various federally financed state initiatives and the strong state initiatives in areas such as rural health policy, the problems still persist.

Significant segments of rural Texas have not shared in the prosperity experienced by the remainder of Texas or the United States as a whole. These problems are very deep-rooted. There is a need for a more assertive and better coordinated comprehensive policy.

Developing A Comprehensive Rural Policy

This section suggests directions for ways to design and improve a rural policy for Texas. It is not intended to be prescriptive, but to place options in a context for achieving balance, inclusiveness and equity in the treatment of rural areas.

Solving the problems of rural communities requires a broad, comprehensive strategy. The problems of rural Texas are sufficiently complex that the current patchwork of state and federal programs directed at agriculture, social services, health-care and economic development have not been adequate.

Goals and Objectives

The overall goal of a comprehensive rural policy should involve the stimulation of private-sector investment in rural Texas to provide long-term solutions to rural problems. Specific objectives include:

- **Building human capital, management, leadership and decision-making capabilities.** Rural communities will not survive if they do not have the skills needed to be competitive in a global marketplace. Management, leadership and decision-making skills are essential in this era of broad geographic retail markets radiating from urban centers, global product markets, and computer-based communications and decision processes.

- **Providing equity of service and opportunity to all rural residents.** This requires specific targeting of programs because, on a per capita basis, it usually costs more to deliver the same package of services in rural areas than in urban areas.

- **Making rural Texas an attractive place to live and work.** Some programs, such as the Texas Main Street Program, were specifically designed to enhance the esthetic value of rural communities, thus helping to stem the flight of shoppers from a rural downtown to urban malls. More of these types of initiatives are needed to increase the attractiveness of rural Texas as a place to live and work.

- **Using natural resources to the benefit of rural residents and the general public.** Since rural areas tend to be abundant in natural resources, this should not be all that difficult. However, all too often these resources are exported from rural areas in their raw form with little local income or

employment benefits.

Dimensions of a Comprehensive Rural Policy

Rural development policy is specifically oriented toward the needs of rural communities and is much broader than individual sector policy areas such as agriculture. While agriculture policy can have a large effect on rural areas, it is not equivalent to rural policy. Rural policy includes the following basic elements:

Infrastructure Policy. Developing rural physical infrastructures is an essential dimension of rural development policy. As indicated previously, compliance with federal mandates for prisons, water, sewer and solid waste services has had the effect of siphoning critical resources from education, farm-to-market roads and bridges. At the same time, the computer-based communications era requires an update of the telecommunications infrastructure, a need that is not being met in rural Texas. In many respects, rural roads and telecommunications face the same problem that rural electrification did in the 1930s. That is, because of an increasingly sparse population due to out-migration, the cost of providing quality service on a per capita basis is many times higher than in urban areas. As with the development of rural electric associations in the 1930s, and the addition of telephone associations in the 1940s, a co-operative form of business organization may be the appropriate vehicle to provide enhanced telecommunications technology to rural areas.

Rural Business Development Policy. Historically, the thrust of rural business development policies, like that of urban development, has been recruiting new industries. The tools for recruiting have tended to emphasize the construction of industrial parks, provision for the related facilities and tax concessions. Every rural and urban community had high on their list the recruiting of computer-based firms or prisons. Largely ignored were the needs required to retain and maintain current businesses and to attract or establish businesses having a base in the natural resources of the rural community. Also ignored was the reality that every business is dependent on qualified managers within a well-educated and trained labor force. The essential elements missing in a comprehensive rural business development policy include:

Management training. Rural areas need small business management education programs specifically targeted to their needs. Existing business management programs tend to emphasize specialized techniques employed by larger businesses that predominate in metropolitan areas and the national economy, and give little or no attention to cooperatives or other group efforts that tie the local resources to the value-added business.

Management services. The lack of basic business services in rural areas will likely require a variety of public-private partnership centers, also known as business incubators that share specialized business/office equipment and offer a variety of services, including developing business plans, marketing plans, feasibility studies and cash flow assessments. Often these can be carried out through linkages with educational institutions and the Extension Service.

Capital availability. Access to both debt and venture capital is a problem for any business, but particularly for a relatively isolated rural business. Various forms of venture capital pools may be

developed to equitably share the investment costs associated with rural business development. In addition, federal or state loan guarantees may be provided to firms that have undergone objective feasibility assessment and planning.

Rural Education and Retraining Policy. Human resource development is the foundation of rural development. For smaller rural communities, investments in business development are likely to be successful only if complemented by investments in basic education, adult retraining and job-related training. Although the returns to investments in education are demonstrably high, rural communities often experience low benefit-cost ratios because students educated with considerable local investment and sacrifice migrate to urban centers. This means that urban communities often realize the benefits of education investments made in rural areas.

The biggest problem facing rural Texas schools comes from rapidly declining population and the resulting student and resource base loss that is necessary to attract and maintain quality teachers. School district consolidation is not necessarily the answer because of distance limitations. Rural schools are often a primary focal point for rural communities and, in some cases, their reason for existing. Three strategies warrant study for state support:

- Developing an equitable system for sharing the costs of education between rural and urban districts
- Sharing of teachers, administrations, specialists and joint purchasing of equipment and supplies
- Using the Internet and various forms of distance learning technologies (It is essential that advanced service telecommunications infrastructure be available in rural areas not only for long-distance learning programs but also for rural businesses and telemedicine.)

With rapidly changing technology, continuing adult education is as important as the education of children. Rural schools can become the focal point for such adult training and retraining. There are several federal programs, such as the Workforce Investment Act and Pell grants, that could be used to complement well-designed and supported state programs. Such incentives are particularly important in rural areas where sparse populations make it essential that existing human and physical resources are effectively and efficiently utilized.

Rural Health Policy. Rural health policy issues are as complex as those of rural education. These complexities result from an aging rural population. While many steps have been taken to deal with the unique issues of rural health-care, additional investments will be required both to bring health-care facilities to rural people and to bring rural people to health-care facilities. While cost containment has become a major federal concern, rural health-care inherently contains cost factors that are multiples of urban health-care. Urban residents have an interest in a quality rural health-care system as well when they need to access medical care while traveling in rural areas, or if they retire to a rural community.

Resource Policy. It is essential for rural producers to add value to raw products, not just produce raw materials. While every community would like to attract a computer-manufacturing firm, this is an unrealistic goal for rural counties. A more realistic goal is to add value to products produced within the region, whether they are from agriculture or energy. However, adding value requires good information at the local level to make strategic value-added decisions. One reason that Texas natural resources are exported to

other regions is that the local ability to analyze capacity and to judge the potential for success in the area is just not available. This is one reason for the failure of value-added initiatives that have been pursued. The huge burden of assessment is left to volunteers who are expected to invest substantial human and monetary capital for the public good. Public resources could be invested to fill this void, and to meet analytical requirements for sound strategic decision- making that adds value to the rural resource base.

Rural Poverty Policy. Poverty is a drain on the resource base of Texas. There are many federal, state and local programs that address poverty issues in Texas, but the one big solution to poverty is jobs. Rural poverty can best be addressed by a targeted comprehensive program designed to increase employment, enhance training and education and improve rural health-care services. Enlightened leadership and ample resources are required to put together the right package for each targeted area. For example, increased employment opportunities in South Texas as a result of NAFTA have helped bring education, training and health programs to that region. While poverty in South Texas is far from eliminated, the progress that has been made indicates decisive movement in a positive direction.

Priority Rural Development Policy Needs

Texas rural problems did not develop overnight, and it will take considerable time and effort to turn around areas where the economic trends and populations are in decline. Certainly, tough decisions will need to be made. Although the purpose of this review of rural issues is not to prescribe policy, there are a number of rural development policy priorities that need to be addressed, including:

- **Creating a central administrative entity whose sole mission is rural affairs.** To the extent possible major programs and related funding decisions need to be led by a single administrative agency that should be recognized as the lead agency in developing, coordinating and implementing rural policy.

- **Updating rural infrastructure.** Farm-to-market roads and bridges have not been properly maintained or constructed to handle larger vehicles. Internet access, and other means of electronic communication, must be available to all rural communities and businesses for them to be competitive today.

- **Increase rural managers' analytical decision-making capacity.** Strong management training for local businesses and government officials is required to make the rural businesses and communities competitive. Special analytical assistance is needed for communities to analyze their policy options. Without this type of training and assistance there is little hope for making rural Texas communities a good place to live and work.

- **Building on the existing natural resources base.** Rural Texas has a wealth of natural resources that are not being effectively used to create jobs. Agriculture and energy are two important examples of industries where value-added opportunities are not fully developed. Public support is required to help provide the analytical framework local leaders need for strategic planning and to

add value to raw products.

- **Recognizing that it costs more to provide government services in rural areas.** It is more expensive to serve small populations. The economies of scale available in urban areas in delivering government programs are not found in rural areas where sparse populations make the delivery of these services more costly.

PART TWO*

DEMOGRAPHIC & SOCIOECONOMIC CONDITIONS IN RURAL TEXAS

In many regards there is no typical rural area in Texas and thus no one set of demographic and socioeconomic conditions that typify all of rural Texas. Thus, to some rural residents their experiences are of areas with large agricultural enterprises with ever expanding acreage, but with cycles of declining prices and rising debt leading to periodic crises for farm operators and the businesses, employees and communities dependent on agriculture. For rural residents in other areas their experiences are of long-term, nearly continuous, declines in their agricultural bases, decreased employment opportunities, the out-migration of their youth and population decline. To others it is of rural areas growing rapidly as a result of expansive suburban growth from adjacent urban centers with expanding economic bases, reductions in farm land and rapidly changing sets of expectations fueled by new residents. To still others it is of areas undergoing moderate industrial expansion and population growth as manufacturing comes to play an increasing role in the industrial and employment base of the area. To yet others it is of areas with chronically low levels of income and high levels of poverty, few economic opportunities and long-term patterns of failed development.

Similarly, there is no typical rural resident. In some areas farmers remain the dominant group, while in others factory workers and in still others high-tech and other workers with largely urban occupations predominate. In some areas rural residents are primarily Anglo, in other areas predominantly African-American and in still others, primarily Hispanic. Similarly, in some areas it is the young who form the largest single group, in other areas the middle aged and in still others the elderly. It is thus impossible to completely describe the range of demographic and socioeconomic or other characteristics of rural Texas or of rural Texans.

While remaining cognizant of the fact that rural Texas is a diverse and multi-faceted set of areas with equally diverse demographic, socioeconomic and cultural bases it is, nevertheless, important to understand how the general characteristics of rural populations and their socioeconomic bases are changing. Thus, in this section, we attempt to summarize the current conditions and the major changes that have occurred in rural Texas and, using both rural and urban and metropolitan and non-metropolitan definitions of rural and urban areas (as defined below), to address such questions as:

How does population change in rural Texas compare to that in other parts of Texas?

How similar are the demographic and socioeconomic characteristics of the rural population to those of the population in other parts of Texas?

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*Part Two was prepared by Professor Steve Murdock, Tami Swenson and Steve White, Department of Rural Sociology, Texas Agricultural Experiment Station, Texas A&M University at the request of the House Select Committee on Rural Development.

How has the economy of rural Texas changed and what are the current bases of that economy?

What is likely to be the relative size and characteristics of the rural population of Texas in the coming years?

We describe a wide variety of characteristics and changes in these characteristics in rural areas comparing them to those in urban areas. The intent is to provide an understanding of the background context which must be addressed by programs intended to serve the needs of rural Texas. Obviously given space and other resource constraints any single description can only partially identify the numerous demographic and socioeconomic conditions impacting rural Texas. Therefore, after briefly delineating the rural and urban definitions used in the analysis, we specifically examine:

- Historical and recent patterns of population growth and the components of such growth;
- Historical and recent patterns of change in the age structure of the population;
- Patterns of change in the racial/ethnic composition of the population;
- Differentials in income, poverty and education;
- Patterns of employment and earnings by industry;
- Projections of the total population, and population by age and race/ethnicity through 2030; and
- Demographic and socioeconomic characteristics of different types of non-metropolitan counties.

Defining Rural

Rural is a term with a diverse set of meanings. In some statistical analyses, the U.S. Bureau of the Census definition is used in which urban areas are defined as places of 2,500 or more people and all other areas are rural. To most people, however, the term urban refers to larger population centers. Due to this and to the greater availability of data for such areas, sets of counties designated as metropolitan and non-metropolitan by the U.S. Office of Management and Budget are more often used to examine patterns for urban and rural areas respectively. Metropolitan areas refer to sets of counties that are designated as forming Metropolitan Statistical Areas or MSAs. In general, metropolitan counties are counties containing

a central city or adjoining cities with 50,000 or more people or suburban counties surrounding such central-city counties that are significantly linked to the central city county as a result of commuting patterns or other factors. Counties that are not designated as parts of metropolitan areas are designated as non-metropolitan counties. Because of the greater availability of data for non-metropolitan and metropolitan areas, it is data for such areas that are emphasized in the discussion in this section. Thus, the 58 metropolitan counties and

Table 1a: Texas Rural Population Classified by Farm & Non-Farm Residence
Number of Residences

	Rural Farm	Rural Non-Farm	Total Rural*
1920	2,255,734	864,805	3,150,539
1930	2,342,553	1,092,814	3,435,367
1940	2,140,187	1,354,248	3,503,435
1950	1,292,267	1,580,867	2,873,134
1960	699,740	1,598,467	2,302,207
1970	386,174	1,880,274	2,266,898
1980a	357,141	2,540,473	2,897,614
1980b	268,809	2,628,721	2,897,614
1990	192,392	3,155,870	3,348,262

the 196 non-metropolitan counties in Texas are referred to in urban and rural terms respectively. Figure 1 presents a map showing the metropolitan areas in Texas (see Appendix A, p. 76).

The Changing Population Base of Rural Texas

Rural areas in Texas experienced substantial change during the Twentieth Century as agriculture and other extractive industries evolved toward larger and less labor-intensive enterprises. There were 495,489 farms in Texas in 1930 with an average size of 252 acres, by 1950 the number of farms had decreased to 331,446 with an average size of 441 acres and by 1997 there were only 194,301 farms with an average size of 676 acres. Similarly, the size of enterprises had become such that the vast majority of all agricultural output comes from a few large farms. Thus 65.0 percent of total farm sales in Texas in 1997 were from the 2.0 percent of all farms that sold more than $500,000 per year and nearly 87 percent of all sales were accounted for by the 8.8 percent of farms with sales of $100,000 or more.

Population change, particularly that in the rural farm population, has tended to mirror the patterns noted for agriculture (see Table 1). In 1930, 59.0 percent of the total population of Texas was rural and 40.2 percent of the total population lived on farms. By 1950, only 37.3 percent of Texas population was rural and only 16.8 percent lived on farms. By 1990, 19.6 percent of the population of Texas was rural and only 1.1 percent lived on farms. In a little more than half a century Texas had

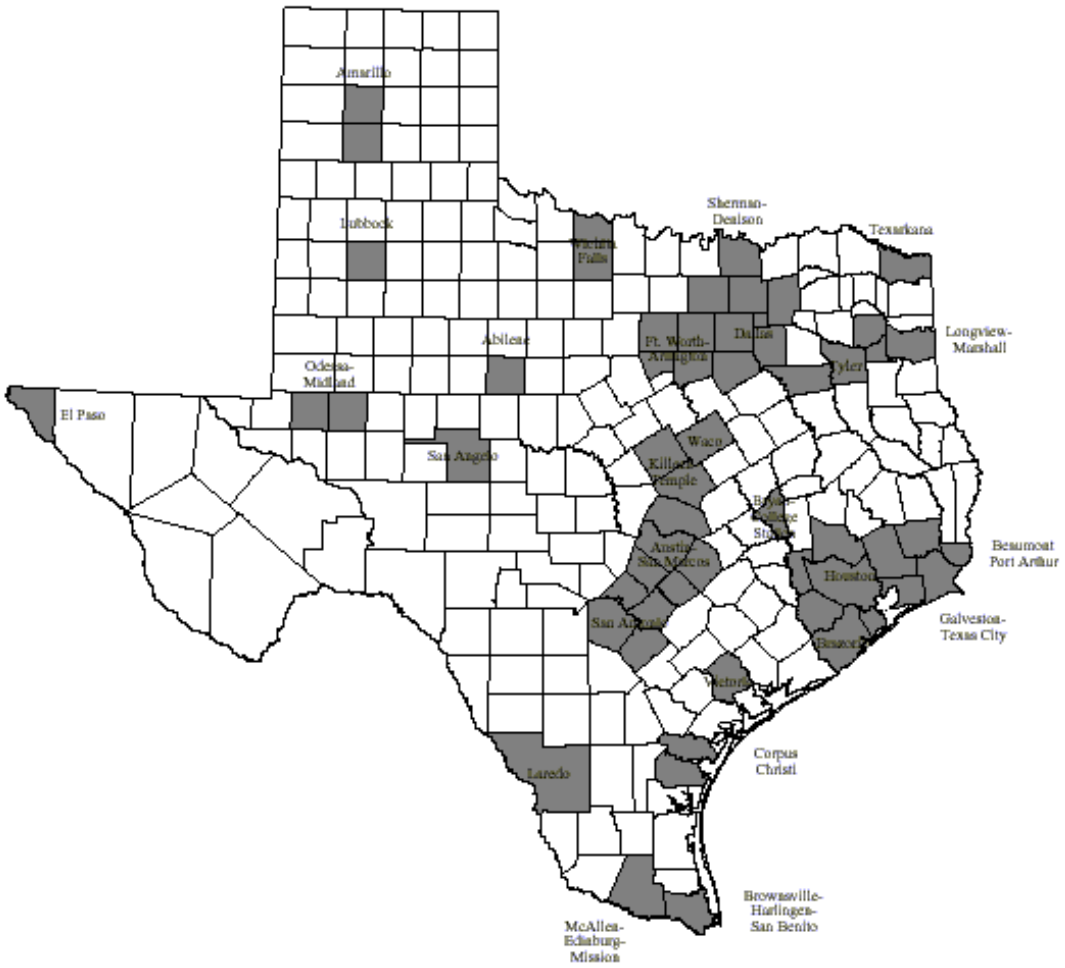
Table 1b: Texas Rural Population Classified by Farm and Non-Farm Residence
Percent of Total Population

	Rural Farm	Rural Non-Farm	Total Rural *
1920	48.6	19	67.6
1930	40.2	18.8	59
1940	33.6	21.1	54.6
1950	16.8	20.5	37.3
1960	7.3	17.7	25
1970	3.5	16.8	20.3
1980a	2.5	17.8	20.3
1980b	1.6	18.5	20.4
1990	1.1	18.5	19.6

a Old definition of rural farm
b New definition of rural farm
***** Total rural on this table is summed from farm and non-farm which are based on sample data.
Note: For definition of terms please see relevant documentation from appropriate decennial census year.
Source: U.S. Bureau of the Census, Decennial Censuses 1920-1990

become a heavily urban state.

Figure 1
Metropolitan Statistical Areas in Texas



However, despite the fact that Texas rural population has declined as a share of the State's total population, Texas rural population of 3.3 million in 1990 was approximately the same in absolute size as in 1930, and the 3.3 million rural residents in 1990 represented an increase from 2.9 million in 1980.

It is important to examine patterns of rural and urban and metropolitan and non-metropolitan population growth relative to those for the State as a whole. Texas has shown rapid growth since its entrance into the union. In every decade since the first U.S. Census in which Texas was included as a state its rate of growth has exceeded that for the nation as a whole. In recent periods such growth has been extensive with the rate of population growth in Texas in the 1970s, 1980s and in the 1990s being nearly twice that for the nation. Texas growth in the most recent period for which data are available, through July 1, 1999, shows Texas to have had the second largest numerical increase (3,057,806), the eighth largest percentage increase (18.0 percent) and the second largest numerical and percentage increase of the 10 largest states in the nation, from 1990 to 1999.

Distinct metropolitan and non-metropolitan patterns of growth are evident (see Table 2).

The pattern of faster metropolitan than non-metropolitan growth is pervasive across the State. An examination of data for the 10 Comptroller's regions shown in Figure 2 (see Murdock et al. 2000 for a delineation of the counties in each region) indicated that in only 1 of 10 of the economic regions did non-metropolitan population growth exceed that for metropolitan areas and that area is Southeast Texas which

Table 2: Population and Percent Population Change 1980-1998

Texas and Metropolitan and Non-metropolitan areas in Texas

	Counties	1980*	1990*	1998 Estimate	% Change(a)	% Change(b)
Texas	254	14,229,191	16,986,335	19,759,614	19.4	16.3
Metro	58	11,542,554	14,165,511	16,682,976	22.7	17.8
Nonmetro	196	2,686,637	2,820,824	3,076,638	5	9.1

Source: U.S. Bureau of the Census and Texas State Data Center, Texas A&M University
*Census Count
(a)1980-1990
(b)1990-1998

had the slowest metropolitan growth in the State. In general, non-metropolitan areas throughout the State have shown slower growth than metropolitan areas.

The sources of population growth in non-metropolitan Texas are also different than those in metropolitan areas. Overall, 56.8 percent of the growth in the State as a whole from 1990 to 1998 was due to a natural increase, 23.6 percent was due to immigration and 19.6 percent was due to domestic migration. However, whereas 58.7 percent of the net increase in population from 1990 to 1998 in metropolitan areas was due to a natural increase, 23.8 percent due to immigration and 17.5 percent due to domestic migration, in non-

metropolitan areas 36.6 percent of the growth was due to a natural increase, 22.0 percent to immigration and 41.4 percent due to domestic migration. This appears to suggest that non-metropolitan areas are experiencing growth primarily as a result of persons moving to them from other metropolitan and non-metropolitan areas in the United States.

A more detailed analysis, however, suggests that growth in many non-metropolitan areas may largely be a result of a "spillover" of urban growth. If non-metropolitan growth is examined for non-metropolitan counties that border, that is are adjacent to, a metropolitan county, and those that are not (that is are non) adjacent to a metropolitan county (generally seen as the most rural) the data show that in adjacent counties the percentage of growth from natural increase is 33.1 percent, the percent due to immigration was 17.9 percent and the percent of growth due to domestic migration was 49.0 percent. In non-adjacent counties natural increase accounted for 51.3 percent of growth, immigration for 40.1 percent and domestic migration for only 8.6 percent.

Texas' rural population remains a major segment of the state's population and the rural population of the United States. In 1990, Texas' rural population was 3.3 million, second only to Pennsylvania's rural population, and larger than the total populations of 25 states.

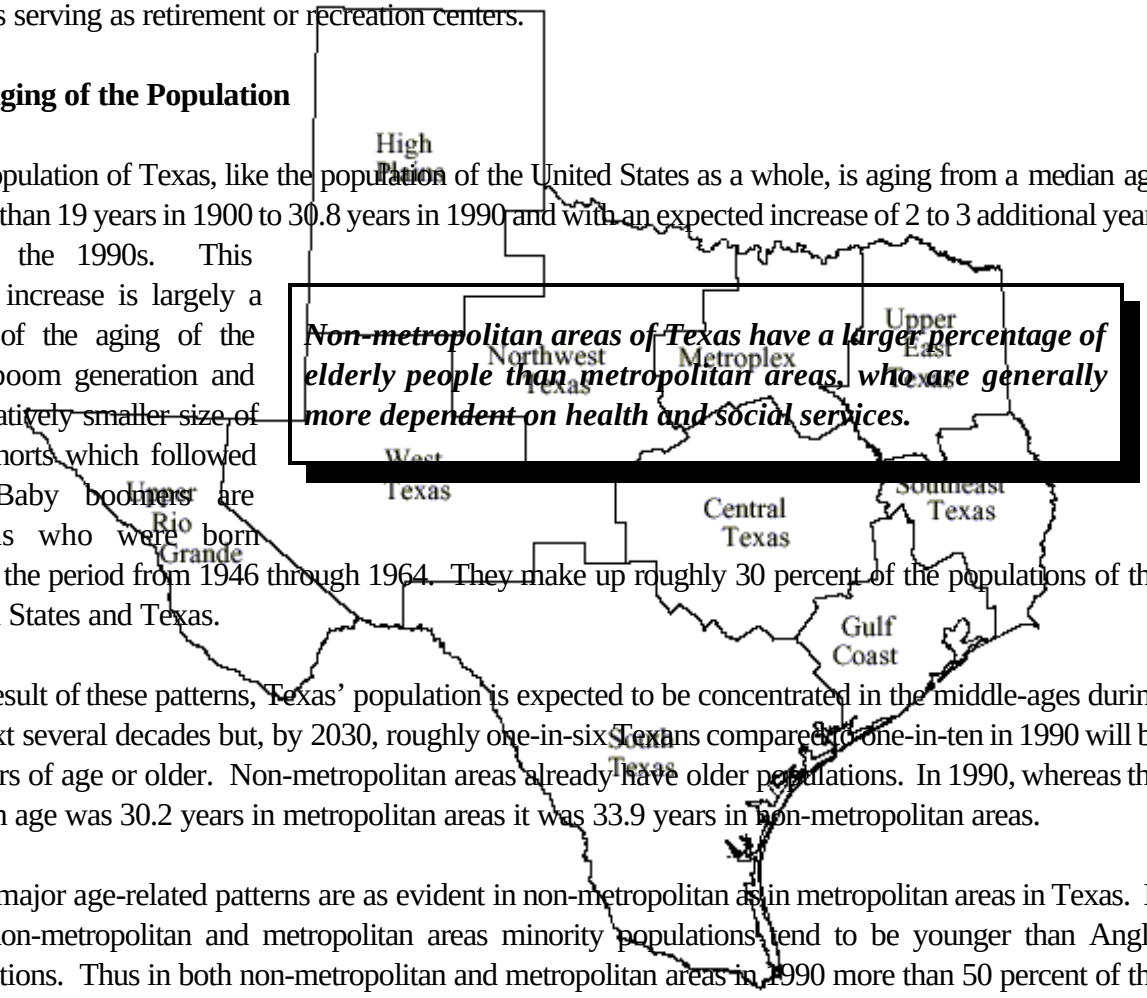
That patterns of population change are different for different types of non-metropolitan areas and that the slowest growth has been in those areas with the most traditional economic bases is evident as well. An examination of Texas non-metropolitan counties grouped by the U.S. Department of Agriculture economic functions and policy types (see Murdock et al. 2000 for a detailed description of these types and the counties in each type) shows that it is those non-metropolitan counties engaged in agricultural and other traditional rural activities that are showing the slowest rates of growth. For example, the slowest rates of population growth in both the 1980s and the 1990s were in areas with economic bases in agriculture and mining while non-metropolitan service and government based, and retirement, recreation and commuting counties experienced the most rapid growth. In the 1980s counties with an agricultural base lost 6.1 percent of their population and in the 1990-98 period they increased by only 3.3 percent. Similarly mining counties increased by only 1.5 percent in the 1980s and 3.9 percent from 1990 to 1998. On the other hand, service-based counties increased by 10.3 percent in the 1980s and by 12.6 percent in the 1990s and government-based counties by 13.1 percent in the 1980s and 11.9 percent from 1990 to 1998. Non-metropolitan counties serving as retirement centers showed population increases of 23.9 percent in the 1980s and 20.1 percent from 1990 to 1998. Population growth in non-metropolitan Texas appears to be increasingly tied to

Texas metropolitan areas have dominated the population growth in the 1980's and 1990's, and although non-metropolitan rates were higher in the 1990's than the 1980's, they are still dwarfed by metropolitan growth rates.

employment bases in nonagricultural and non-extractive industries or to activities that involve serving as residence or recreational bases for more metropolitan centers.

Overall, although Texas population is growing rapidly, that growth is much more extensive in metropolitan and particularly large urban counties than in non-metropolitan areas. The growth in non-metropolitan counties is less than in metropolitan counties and is particularly slow in those non-metropolitan areas that are relatively distant from metropolitan centers and which have economies based in the extractive industries of agriculture and mining. On the other hand, growth appears to be relatively extensive in non-metropolitan areas that are serving as residence bases for more urban areas or are involved in non-extractive enterprises, such as serving as retirement or recreation centers.

Figure 2
Comptroller's Economic Regions



Non-metropolitan areas of Texas have a larger percentage of elderly people than metropolitan areas, who are generally more dependent on health and social services.

The Aging of the Population

The population of Texas, like the population of the United States as a whole, is aging from a median age of less than 19 years in 1900 to 30.8 years in 1990 and with an expected increase of 2 to 3 additional years during the 1990s. This recent increase is largely a result of the aging of the baby-boom generation and the relatively smaller size of the cohorts which followed it. Baby boomers are persons who were born during the period from 1946 through 1964. They make up roughly 30 percent of the populations of the United States and Texas.

As a result of these patterns, Texas' population is expected to be concentrated in the middle-ages during the next several decades but, by 2030, roughly one-in-six Texans compared to one-in-ten in 1990 will be 65 years of age or older. Non-metropolitan areas already have older populations. In 1990, whereas the median age was 30.2 years in metropolitan areas it was 33.9 years in non-metropolitan areas.

Other major age-related patterns are as evident in non-metropolitan as in metropolitan areas in Texas. In both non-metropolitan and metropolitan areas minority populations tend to be younger than Anglo populations. Thus in both non-metropolitan and metropolitan areas in 1990 more than 50 percent of the Hispanic population was less than 25 years of age while 37.3 percent of the Anglo population in metropolitan areas and 34.6 percent in non-metropolitan areas was less than 25 years of age.

Increasingly, in fact, minority populations make up the majority of persons in younger age groups. In the State as a whole and in metropolitan areas more than 50 percent of all persons less than 25 years of age were non-Anglo in 1998 but more than 70 percent of those 65 years of age or older were Anglo. These patterns are similar in non-metropolitan areas although Anglos are still a majority

(56.0 percent) even in the age group less than 25 years of age.

Overall, data on aging show those non-metropolitan areas in Texas already have a population that is substantially older than that in metropolitan areas. Thus, many of the health and long-term care issues discussed relative to the future of Texas and the United States are already areas of importance to rural Texas. The data also suggest that the future of non-metropolitan areas, like the future of metropolitan areas, is likely to increasingly involve minority population members.

Growth in Minority Populations

Texas population growth has been increasingly influenced by differential rates of growth among racial/ethnic groups. Here the racial/ethnic groups examined are non-Hispanic Whites or Anglos, non-Hispanic Blacks or Blacks, non-Hispanic persons from all Other (other than White or Black) racial groups and Hispanics of all races.

In the 1980's, growth in urban and rural minority populations was more substantial and extensive than growth in the Anglo population, and rural minority growth rates exceeded those in urban areas. From 1990 to 1998 non-Anglo populations in non-metropolitan areas grew faster than those in metropolitan areas.

In the 1980s, two of every three net additions to the Texas population were minority group members with nearly one-half being of Hispanic Origin. This pattern is one which is pervasive across both the metropolitan and non-metropolitan areas of Texas. For the State as a whole, the Anglo population increased by 10.1 percent in the 1980s, the Black population by 16.8 percent, the Hispanic population by 45.4 percent and the Other population by 88.8 percent. In metropolitan areas these percentages were 12.1 percent, 20.1 percent, 50.1 percent and 95.6 percent while in non-metropolitan areas the Anglo population increased by 2.9 percent, the Black population decreased by 1.2 percent, the Hispanic population increased by 24.4 percent and the Other population increased by 24.l percent.

The growth in Hispanic populations was particularly important. Hispanics accounted for 47.6 percent of the net increase in population in metropolitan areas and for 68.5 percent of the net growth in non-metropolitan populations in the 1980s. Although Anglos continued to form a larger proportion of the total population in non-metropolitan (68.7 percent) than in metropolitan areas (58.7 percent) in 1990, minority population growth decreased the proportion of the total non-metropolitan population that was Anglo (from 71.3 percent to 68.7 percent) from 1980 to 1990.

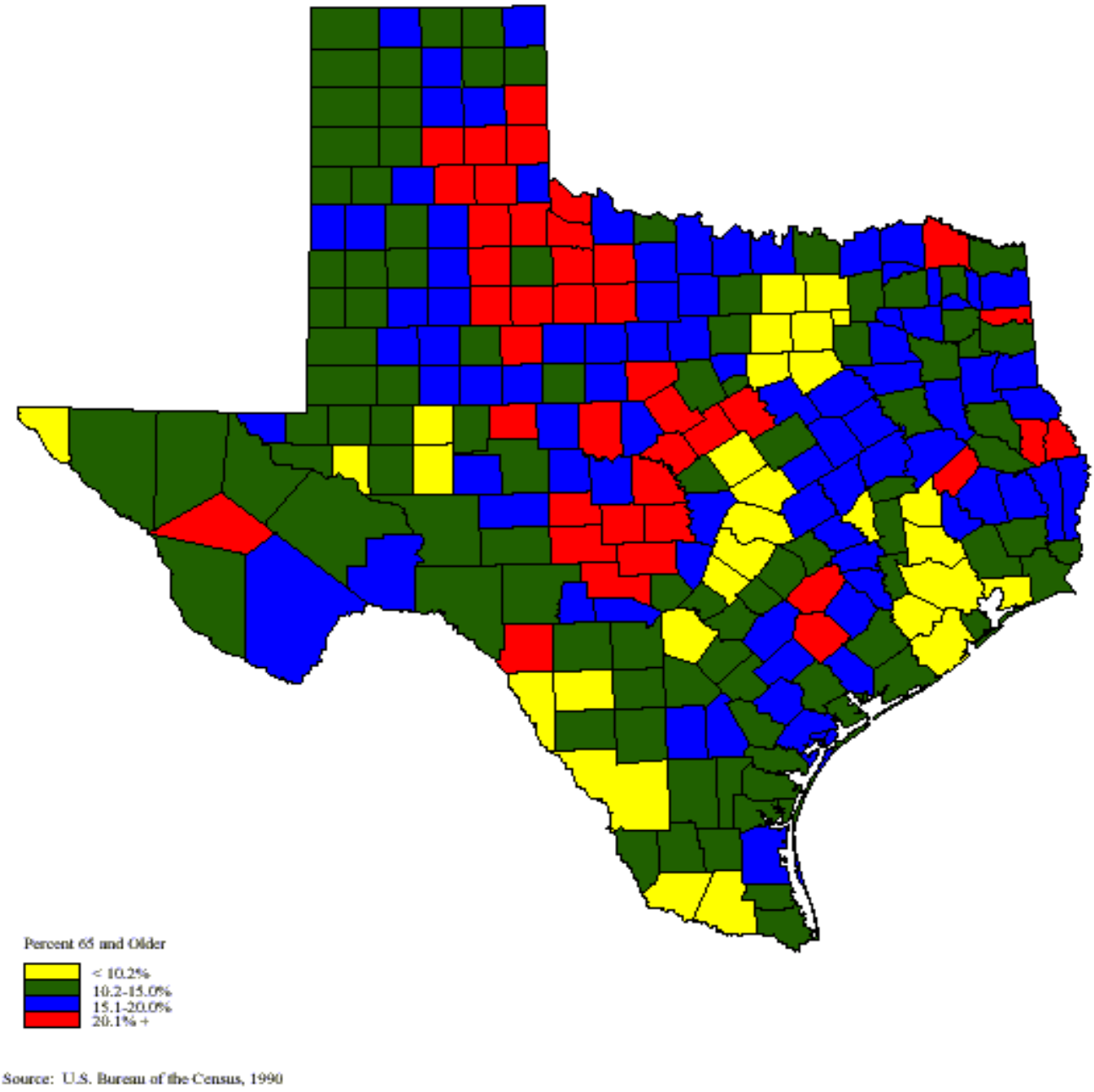
Table 3: Percent Population Change 1990-1998 by Race/Ethnicity Texas and Metropolitan and Nonmetropolitan Areas in Texas

	Counties	Anglo	Black	Hispanic	Other
Texas	254	6.4	13.6	35.3	57.4
Metro	58	7.7	13.5	37.3	60
Nonmetro	196	0.8	14.1	23.7	14.2

Source: Texas State Data Center, Texas A&M University

The 1990s witnessed a continuation of these patterns (see Table 3). In the period from 1990 to 1998, the

Figure 3
Percent of Population 65 Years of Age and Older in Counties in the State of Texas, 1990



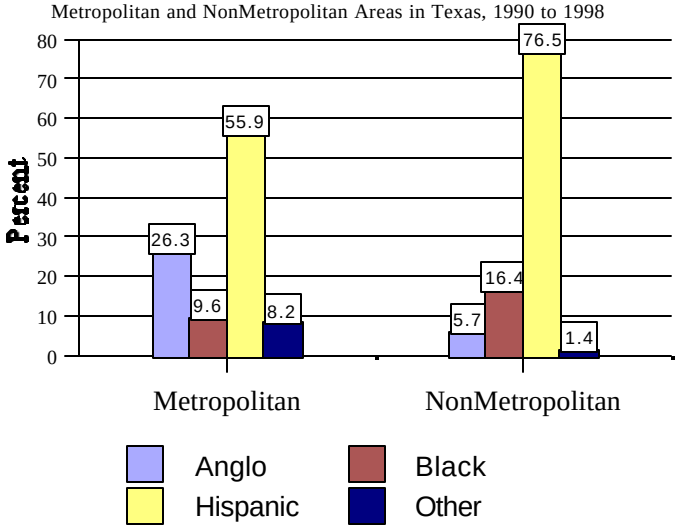
Source: U.S. Bureau of the Census, 1990

more rapidly than the Anglo population and this is as evident in non-metropolitan as in metropolitan areas. In fact, although the total rate of population growth was greater in non-metropolitan areas in the 1990-98 period than that in the 1980s, the growth in Anglo populations was slower in the 1990s than in the 1980s. The Anglo population of non-metropolitan Texas increased by only 0.6 percent from 1990 through 1998 and is likely to be shown (when the 2000 Census data become available) to have been slower in the 1990s than in the 1980s (when it was 2.9 percent).

The pattern of slower growth in Anglo than in non-Anglo populations from 1990 to 1998 was pervasive across the economic regions of the State. For each of the Comptroller's economic regions Anglo population growth was slower than non-Anglo growth in non-metropolitan and metropolitan areas and the Anglo population declined in non-metropolitan areas in 4 of 10 regions and in metropolitan areas in 5 of 10 regions from 1990 to 1998.

As a result of such patterns the proportion of net growth in the population that is due to minority populations increased during the 1990s in both metropolitan and non-metropolitan areas.

Figure 4: Proportion of Net Change due to Each Racial/Ethnic Group
Metropolitan and NonMetropolitan Areas in Texas, 1990 to 1998



Source: Texas State Data Center, Texas A&M University

Overall, the data on change in the racial/ethnic composition of the population suggest that non-metropolitan areas are not only experiencing larger non-Anglo than Anglo population growth, but may, in fact, be experiencing larger increases in minority population bases relative to Anglo populations than their metropolitan counterparts. Although non-metropolitan areas continue to have higher proportions of their populations that are Anglo, minority population growth is dominating population growth in non-metropolitan areas in Texas and many areas would be showing net declines in population if it were not for the growth in minority populations. Issues related to growth in minority populations are thus likely to be increasingly important for non-metropolitan areas in Texas.

Socioeconomic Characteristics of the Population

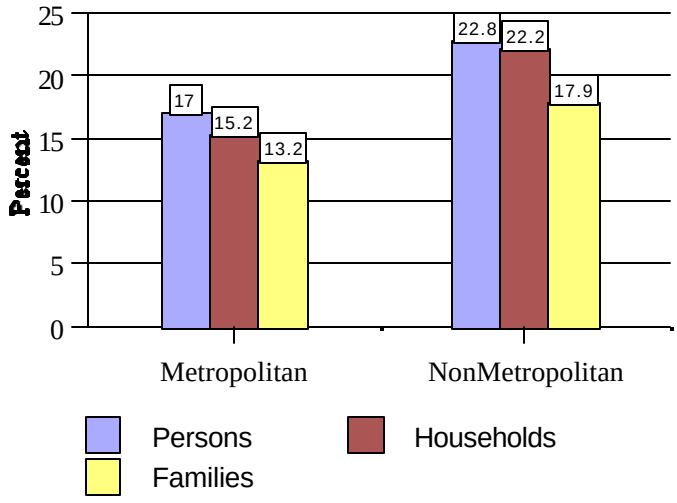
For example, both median household and per capita incomes have tended to be lower in non-metropolitan than in metropolitan areas. In 1989, the reference year for income statistics in the 1990 Census, the median household income in metropolitan areas in Texas was $28,747 while in non-metropolitan areas it was $20,632. Similarly, per capita income in metropolitan areas in 1989 was $13,549 compared to $10,035 in non-metropolitan areas. Median household income in non-metropolitan areas was thus only 71.8 percent of that in metropolitan areas while the per capita income was 74.1 percent of that for metropolitan areas.

Such patterns are pervasive across racial/ethnic groups with persons from all racial/ethnic groups having lower incomes in non-metropolitan than in metropolitan areas. Differences are more pronounced for Black than for other persons, however. For example, whereas non-metropolitan median household incomes for Anglos and Hispanics are roughly 71 percent of those for Anglo and Hispanic metropolitan households, for Blacks the non-metropolitan value is only about 54.5 percent of that for Black households in metropolitan areas. Similarly, whereas per capita income for Whites in non-metropolitan areas is roughly 72 percent of that for metropolitan areas and the per capita incomes of non-metropolitan Hispanics is roughly 76 percent of that for metropolitan Hispanics, for non-metropolitan Blacks per capita income is only 64 percent of the per capita income value for metropolitan Blacks.

People living in non-metropolitan areas in Texas are across-the-board poorer than their metropolitan counterparts, with higher levels of poverty and lower levels of education.

Data on poverty levels in 1980 and 1990 for non-metropolitan and metropolitan areas in Texas show similar patterns.

Figure 5: Proportion of Persons, Households, and Families in Poverty
Metropolitan and NonMetropolitan Areas in Texas, 1990



Source: U.S. Bureau of Census, 1990 Decennial Census

Such data show that 18.1 percent of all persons in Texas, 16.5 percent of households, 14.1 percent of families, 9.7 percent of married-couples, but 35.4 percent of female-householder families, 31.0 percent of Blacks and 33.0 percent of Hispanics compared to 13.9 percent of Whites, and 25.6 percent of all children under 5 years of age compared to 11.0 percent of persons 45-54 years of age and 14.9 percent of those 65-74 years of age, lived in poverty in Texas in 1990. These are pervasive differentials.

What may be most significant is that for each of the characteristics described above, the poverty rate for non-metropolitan households and persons exceeded that for their metropolitan counterparts. The percent of persons, households and families in poverty were 17.0 percent, 15.2 percent and 13.2 percent, respectively, in metropolitan areas in Texas in 1990 but were 22.8 percent, 22.2 percent and 17.9 percent for non-metropolitan areas (see Figure 5). Whereas 33.6 percent of female-householder households and 8.7 percent of married-couple households lived in poverty in metropolitan areas, these percentages were 45.5 percent and 13.5 percent in non-metropolitan areas in

Texas. Among Blacks in metropolitan Texas 29.0 percent lived in poverty as did 31.4 percent of Hispanics while in non-metropolitan Texas

44.8 percent of Blacks and 41.8 percent of Hispanics lived in poverty in 1990. Finally, although 24.3 percent of persons under 5 years of age, 10.0 percent of those 45-54 years of age and 13.8 percent of those 65-74 years of age in metropolitan Texas lived in poverty in 1990, in non-metropolitan areas these percentages were 32.4 percent, 15.0 percent and 17.8 percent respectively.

People in non-metropolitan areas have fewer economic and educational resources than those in metropolitan areas, and recent data suggest that such differences may be increasing.

Table 4a: Per Capita Income 1979-1997

Texas and Metropolitan and Nonmetropolitan Areas in Texas

	Counties	1979*	1989*	1997*
Texas	254	8,910	16,110	23,707
Metro	58	9,250	16,709	24,776
Nonmetro	196	7,453	12,716	17,972

* Values are in 1997 constant dollars
Source: U.S. Bureau of Economic Analysis

How have non-metropolitan areas fared in the 1990s? Although reliable county poverty estimates by non-metropolitan and metropolitan residence are not available for the 1990s, data are available for per capita income for the period from 1979 through 1997 from the Bureau of Economic Analysis. These data show that non-metropolitan areas in Texas continued to lag behind metropolitan areas in 1997 and may be falling farther behind. Thus, the per capita income of non-metropolitan residents ($17,972 in 1997) was 72.5 percent of that for metropolitan residents ($24,776) in Texas in 1997 but was 80.6 percent of that of metropolitan residents in 1979. Non-metropolitan areas in both the 1979 to 1989 and 1989 to 1997 periods showed smaller percentage increases in per capita income and, as a result, whereas per capita income (in current dollars) increased by 167.9 percent from 1979-97 in metropolitan areas it increased by 141.1 percent in non-metropolitan areas (see Table 4).

Table 4b: Percent Change in Per Capita Income 1979-1997

Texas and Metropolitan and Nonmetropolitan Areas in Texas

	Counties	1979-1989	1989-1997	1979-1997
Texas	254	80.8	47.2	166.1
Metro	58	81.6	47.5	167.9
Nonmetro	196	70.6	41.3	141.1

* Values are in 1997 constant dollars
Source: U.S. Bureau of Economic Analysis

Slower growth in non-metropolitan than in metropolitan income has been pervasive across Texas. An examination of per capita incomes and changes in income for the 10 economic regions of Texas indicate that in all 10 regions per capita income in 1997 is lower in non-metropolitan than in metropolitan areas and that in 9 of 10 regions (the exception being Southeast Texas where growth in per capita income in

metropolitan areas has been among the lowest in the State) the percent increase in per capita income from 1979-97 has been lower in non-metropolitan than in metropolitan areas.

The educational levels of non-metropolitan Texans are also lower than their metropolitan

counterparts. Although sub-state data for post-1990 periods are not available, data for 1990 show this long standing differential. Whereas 22.1 percent of metropolitan residents had a four-year college degree or more education in 1990 only 11.5 percent of persons in non-metropolitan areas had four-year college or graduate degrees. Similarly, 74.2 percent of persons in metropolitan areas had at least a high school level of education but 62.3 percent in non-metropolitan areas. Clearly the educational levels of non-metropolitan Texans are lower than those for persons in more urban areas in the State.

These socioeconomic differences are long standing but their pervasiveness across population characteristics and areas may suggest equally pervasive levels of need for additional socioeconomic development.

The Changing Economic Base of Non-metropolitan Texas

Table 5: Percent of Persons employed by Industry 1979-1997

Metropolitan and Nonmetropolitan Areas in Texas

	Metro 1979	Metro 1989	Metro 1997	Non 1979	Non 1989	Non 1997
Farm Employment	1.5	1	0.9	15.8	13	12.1
Nonfarm Agriculture Services, forestry, and fishing	0.5	0.8	0.9	1.9	2.4	2.7
Mining	3.2	2.9	1.9	6	5.3	3.7
Construction	7.5	5.3	6.2	6.7	5.5	5.3
Manufacturing	14.8	11.4	10.1	11.8	10	10
Transportation and public utilities	5.5	5.2	5.6	4.4	3.9	3.8
Wholesale trade	6.2	5.4	5.1	3.4	3.3	2.9
Retail trade	16.4	16.7	17	14.3	15.1	15.9
Finance, insurance, and real estate	8.1	8.6	7.9	5	5	5.2
Services	20.6	27.4	30.3	15.8	19.7	20.8
Federal, civilian government	2.4	2.3	1.7	1.2	1.2	1
Military	2.8	2.3	1.7	1.3	1.2	0.7
State and local government	10.5	10.7	10.7	12.4	14.4	15.9

Source: U.S. Bureau of Economic Analysis

The economic base of rural Texas is also changing. As with the rest of Texas and the nation, there is greater growth in service industries and a decreased dependence on extractive industries, such as agriculture and mining and manufacturing.

Employment information from the Bureau of Economic Analysis on metropolitan and non-metropolitan areas in Texas from 1979 to 1997 show that, by 1997, less than one-percent of metropolitan Texans were directly employed in farming and that 12.1 percent, about one-in-eight workers in non-metropolitan areas,

were employed in farming (see Table 5). By 1997, although agriculture was the (nontrade) sector with the third largest percent of employees, services and state and local government were larger employers. Equally important the percent of employment in farming declined from 1979 to 1997 while the percentages of all workers employed in services and government increased.

Such data suggest that these patterns are pervasive across the regions of Texas.

Similar findings are evident when data on net earnings by industry are examined. Although data on earnings for a single year must be used cautiously when examining industries such as farming that show wide year-to-year fluctuations, such data show that 7.3 percent of all earnings in non-metropolitan areas in the State in 1997 were from agriculture, a decline from 11.0 percent in 1979. As for employment, earnings have increased more rapidly for services and government. Compared to employment, however, data for 1997 suggest that farming is less important in terms of earnings and of substantial importance in fewer regions of the State than was true for employment. Only 7.3 percent of earnings compared to 12.1 percent of employment in 1997 were due to farming in non-metropolitan Texas and in only one region, the High Plains, were more than 25 percent of earnings due to farming.

Although farming continues to be a significant employer in non-metropolitan Texas employing six percent of the workers, farm employment declined from 1979 to 1997, while service and government employment increased.

The information on employment and earnings suggest that, although farming continues to be an important source of employment in non-metropolitan areas in Texas employing one-of-eight workers, non-metropolitan areas in Texas as a whole are decreasingly dependent on farming. Their economies are changing toward greater employment in service-based industries with a substantial presence for government as well. Rural areas in Texas have economies that are increasingly diverse.

Projected Patterns of Population Growth

Although we do not attempt to project the future socioeconomic characteristics of non-metropolitan Texas, we can examine alternative projections for the populations of non-metropolitan and metropolitan areas in Texas. Although any projection must be used cautiously, population projections from the Texas State Data Center at Texas A&M University are widely used for state planning and for metropolitan and non-metropolitan

The percent of population growth in metropolitan Texas is projected to be nearly five times higher than that in non-metropolitan Texas from 1990 to 2030, with metropolitan populations doubling between 1990 and 2030 from 14.2 million to 30.4 million, and non-metropolitan populations increasing from 2.8 million to 3.5 million.

areas suggest that metropolitan Texas will grow much more rapidly than non-metropolitan Texas. The faster growth of non-Anglo populations is projected for both metropolitan and non-metropolitan areas with a resulting increase in the proportion of non-Anglo populations in both metropolitan and non-metropolitan areas. In both types of areas minority populations grow faster than Anglo populations and

Table 6: Population Projections of Metropolitan and NonMetropolitan Texas Areas 1990 to 2030 by Race/Ethnicity

	Anglo	Black	Hispanic	Other	Total
Metro					
1990	8,388,240	1,744,634	3,680,325	337,210	14,165,458
2000	9,182,654	2,040,165	5,852,045	603,508	17,378,392
2010	9,700,416	2,227,675	7,716,224	1,021,276	20,672,782
2020	10,334,873	2,434,788	10,086,952	1,390,423	25,270,828
2030	10,671,233	2,686,975	14,108,063	2,087,658	30,380,789
Nonmetro					
1990	1,909,195	235,859	655,585	28,213	2,828,852
2000	1,927,021	270,707	850,338	23,782	3,066,906
2010	1,888,985	296,875	1,051,144	27,125	3,264,079
2020	1,806,575	323,344	1,265,286	30,739	3,426,944
2030	1,680,419	316,318	1,482,834	34,978	3,512,739

Source: Based on the scenario that assumes 1980-90 Rates of Net Migration from the Texas State Data Center, Texas A&M University

the Anglo population in non-metropolitan areas

is projected to decrease by 12.0 percent from 1990 to 2030.

In total, 86 percent of the net increases in the metropolitan population and all (because the Anglo population declines) of the net increase in the non-metropolitan population would be due to minority population groups. Faster growth among minority populations with a resulting increase in the proportion of the population that is non-Anglo is projected to be pervasive across rural and urban Texas.

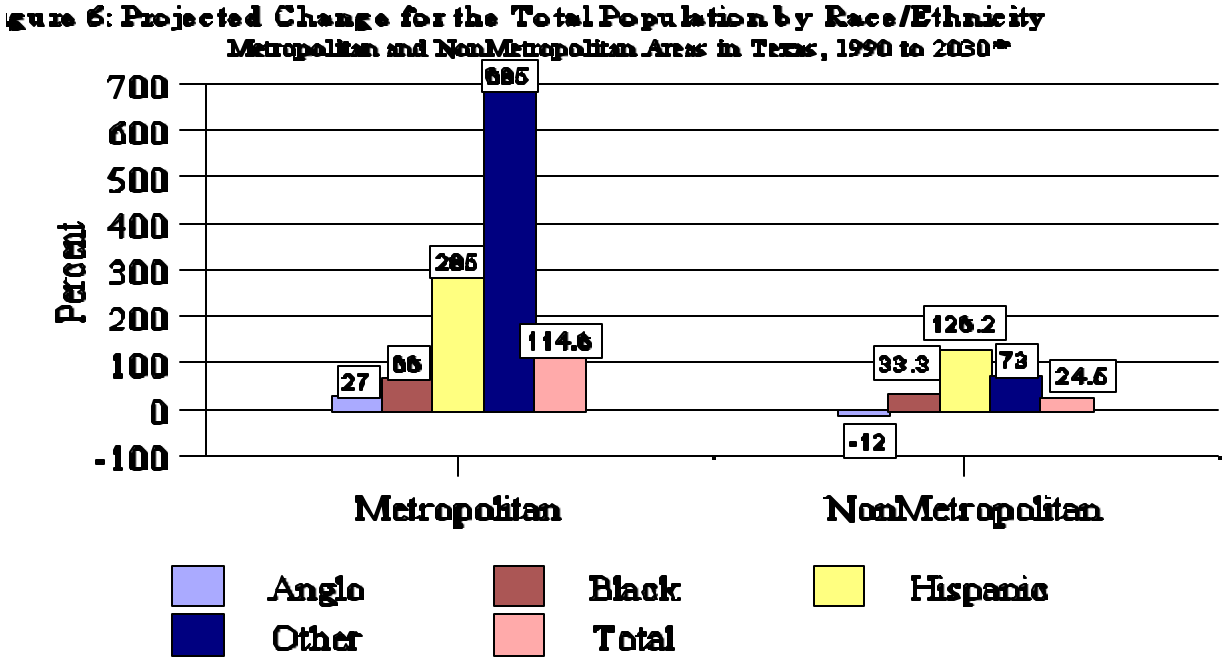
In 2030 the combined Black and Hispanic populations will make up more than 50 percent of the people living in both metropolitan and non-metropolitan areas of Texas.

Finally, the older age structure of the non-metropolitan population is projected to continue. In both non-metropolitan and metropolitan areas minority populations would continue to be younger than Anglo populations in 2030 as they were in 1990.

Nearly a quarter of the non-metropolitan Texas population in 2030 will be aged 65 and older.

The projected populations of non-metropolitan and

metropolitan areas in Texas suggest that unless current patterns are reversed, non-metropolitan populations



*Using the 1.0 Population Projection Scenario
Source: Texas State Data Center, Texas A&M University

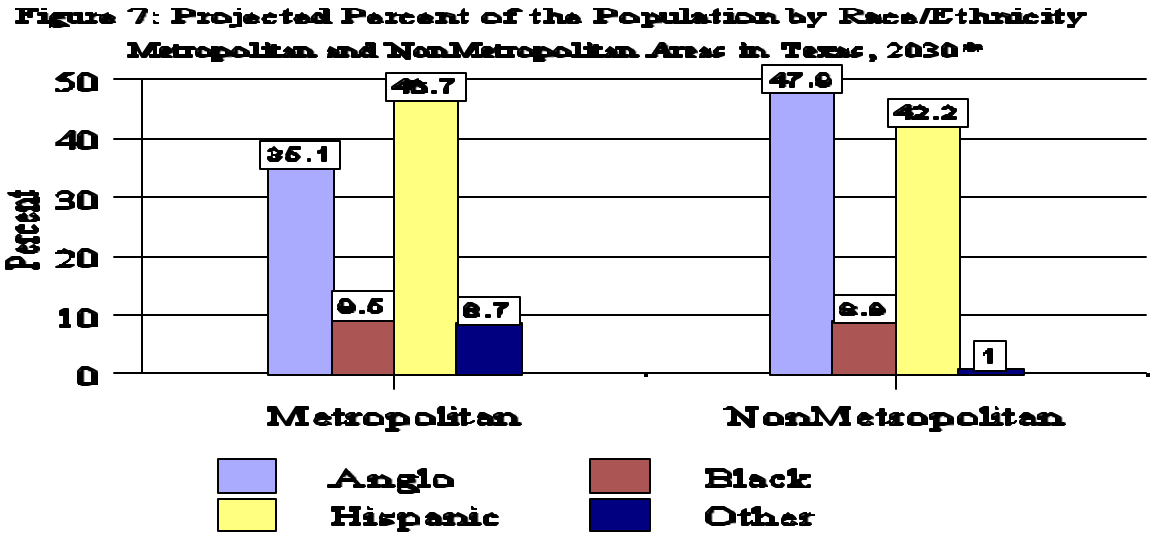
in Texas while increasing in absolute size will decline as a percent of the total population. The non-metropolitan population will also become increasingly diverse and older. Thus, while having limited growth non-metropolitan Texas is likely to face the same potential challenges associated with diversity as in other parts of Texas and has a disproportionate elderly population compared to other parts of Texas.

Non-metropolitan County Types

As noted in the introduction to this section, data such as that provided above that have been aggregated for all rural or non-metropolitan areas provide an important point of reference for understanding the challenges and opportunities facing rural Texas but do not serve to describe the extensive diversity of types of areas that are included within non-metropolitan areas. In this final part of this section, we briefly describe some of that diversity.

In a study completed for the Select Committee by the Center for Demographic and Socioeconomic Research and Education in the Department of Rural Sociology at Texas A&M University an attempt was made to identify distinct types of non-metropolitan areas using a statistical technique called Disjoint Cluster Analysis (for a detailed description of this technique see Swenson et al. 2000). This technique identifies patterns of commonality in data items used to describe non-metropolitan areas. These patterns are referred to as factor patterns or simply factors. It then groups non-metropolitan counties on the bases of the extent to which their characteristics reflect these patterns placing all counties into the one type that their characteristics best reflect. Although this technique is only one such technique and can lead to a diverse set of groupings depending on how it is applied, the groupings identified by the analysis from the Department of Rural Sociology were nevertheless useful in identifying at least some of the types of areas that comprise sub-parts of rural Texas.

Five basic area types were identified (Figure 8 provides a map showing these types of areas and the



*Using the 1.0 Population Projection Scenario
Source: Texas State Data Center, Texas A&M University

counties in each type of area). The names used represented an attempt to note the dominant characteristics

of counties in each type. These types can be briefly defined as follows:

1. **Large Agriculture/Mining (41 counties).** The non-metropolitan counties in this type tend to be located in the western part of the Panhandle, Rolling Plains and some parts of West Texas, to be characterized by large farms with an extensive irrigation and extensive crop and livestock production and with sales of $100,000 or more. They also tended to have farm operators who are full-time farm operators with few working extensively off the farm. Thus counties in this type showed an average farm size of more than 2,600 acres, average crop sales of more than $91,000 and average livestock sales of more than $257,000 in 1997. More than 35 percent of all farms had sales of more than $100,000 per year in 1997 while only 46 percent had sales of less than $25,000. Finally they were areas which also showed extensive employment in mining as a result of gas and oil activity.

2. **Manufacturing/Minority (33 counties).** The non-metropolitan counties in this type tend to be located in East Texas, to have large African-American populations, little agricultural involvement except on very small farms, but very high involvement in manufacturing activities. They also tended to have moderate proportions of their residents who were commuting to other counties for employment.

3. **High Growth Commuting (43 counties).** The non-metropolitan counties in this type are located primarily adjacent to the State's large metropolitan centers particularly Houston, Dallas-Fort Worth, Austin and San Antonio, to show high rates of population growth primarily through domestic migration, to have high percentages of their residents commuting to other counties for employment, and to have extensive in-county employment in construction.

4. **Agriculture/Low Income/Minority (62 counties).** The non-metropolitan counties in this type tend to be located in the eastern part of the Panhandle, Rolling Plains and a few areas in West Texas, to have relatively high levels of involvement in agriculture but tend to have agricultural enterprises that are smaller in acreage and in sales than those in the Large Agriculture/Mining Type. Thus, counties in this type showed an average farm size of about 1,200 acres, average annual crop sales of $29,000 and average livestock sales of roughly $76,000 in 1997. Only about 14 percent of all farms had sales of $100,000 or more per year in 1997 while 70 percent had sales of less than $25,000. They have relatively high levels of poverty, relatively low income levels and high proportions of their populations that are Hispanic or from Other non-Anglo population groups.

5. **Mining/Very Low Income/Minority (17 counties).** The non-metropolitan counties in this type are located primarily in South and West Texas along the Texas and Mexico border. They are characterized by very low incomes and very high levels of poverty, high proportions of young and minority populations, especially Hispanics, and have relatively high levels of employment in mining with secondary concentrations in service employment.

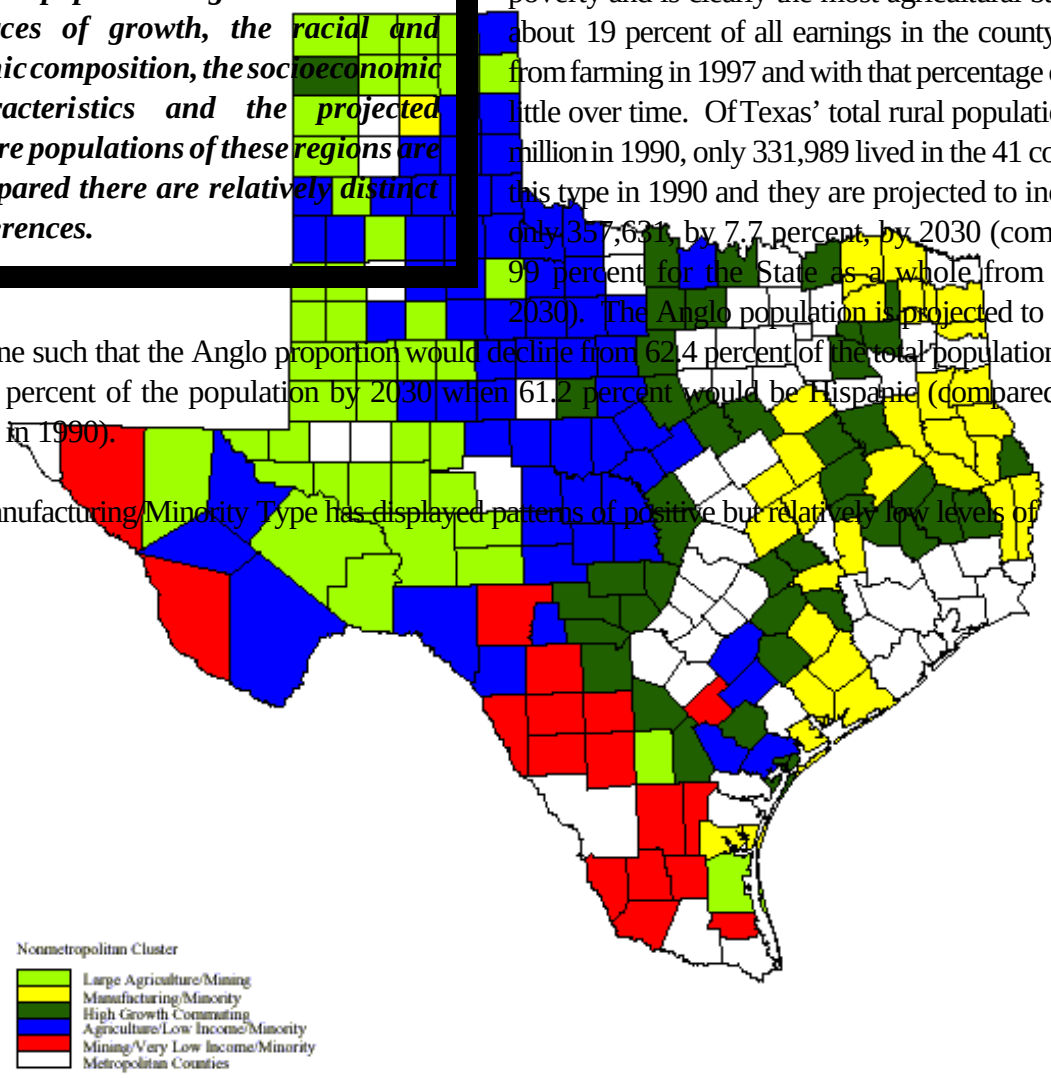
When population growth and the sources of growth, the racial and ethnic composition, the socioeconomic

characteristics and the projected future populations of these types are compared there are relatively distinct differences. These differences can be summarized as follows:

The Large Agriculture/Mining Type has low rates of population growth (negative in the 1980s and 1.3 percent from 1990 to 1998) and growth that is primarily due to a natural increase with a net domestic out-migration. It has a population that is primarily Anglo but also has a substantial proportion of Hispanics and shows declining Anglo populations over time (in both the 1980s and from 1990 to 1998). It shares with the High Growth Commuting Type the highest median and per capita income levels and the lowest levels of poverty and is clearly the most agricultural based with about 19 percent of all earnings in the county coming from farming in 1997 and with that percentage changing little over time. Of Texas' total rural population of 3.3 million in 1990, only 331,989 lived in the 41 counties in this type in 1990 and they are projected to increase to only 357,631, by 7.7 percent, by 2030 (compared to 99 percent for the State as a whole from 1990 to 2030). The Anglo population is projected to continue to decline such that the Anglo proportion would decline from 62.4 percent of the total population in 1990 to 34.4 percent of the population by 2030 when 61.2 percent would be Hispanic (compared to 34.3 percent in 1990).

When population growth and the sources of growth, the racial and ethnic composition, the socioeconomic characteristics and the projected future populations of these regions are compared there are relatively distinct differences.

Figure 8
Nonmetropolitan County Clusters



Source: Center for Demographic and Socioeconomic Research and Education, Department of Rural Sociology, Texas A&M University

The Manufacturing/Minority Type has displayed patterns of positive but relatively low levels of

population growth (4.2 percent in the 1980s and 6.8 percent from 1990 to 1998) with natural increase being the largest contributor to that growth. Its population is primarily Anglo but it has a relatively large African American population (twice as large as that in any other type).

Its Anglo population increased slightly in the 1980s but declined in the 1990-98 period. Its income and poverty rates are intermediate between the Large Agriculture/Mining, High Growth Commuting and the Agriculture/Low Income/Minority and Mining/Very Low Income/Minority types. Its major employment and earnings base is in manufacturing which has remained relatively stable over time but its farming base has declined. It is projected to have very limited levels of future population growth. The total population in the 33 counties in this type is projected to increase from 832,801 in 1990 to 902,458 in 2030, an increase of 8.4 percent. As with all of the other types, however, its Anglo proportion declines (from 71.7 percent in 1990 to 54.9 percent in 2030) but less dramatic than in the agricultural types while its minority populations increase.

The High Growth Commuting Counties show the most rapid historical patterns of population growth of any of the types increasing by 17.3 percent in the 1980s and 16.6 percent from 1990 to 1998. Nearly 89 percent of that growth has been due to a domestic in-migration. They have the highest percentage of Anglo population (79.8 percent in 1990) and are the only type to show positive Anglo population growth in both the 1980s and from 1990 to 1998, although even in these counties Anglo population growth was surpassed by the rate of growth in minority populations. These counties share with the Large Agriculture/Mining Counties the highest levels of median and per capita income and the lowest levels of poverty. They have shown declines in the proportion of employment and earnings from farming but growth in government and services. The total population of these 43 counties is projected to increase from 825,565 in 1990 to 1,138,003 by 2030, an increase of 37.8 percent. This is the second highest rate of increases of the types. Its Anglo population is projected to increase throughout this period but slower than the non-Anglo population so that the percentage of its population that is Anglo declines from 79.8 percent in 1990 to 69.0 percent in 2030. This percentage will keep it as the type with the highest proportion of Anglo population in 2030.

The Agriculture/Low Income/Minority Type has had quite low rates of population growth (negative in the 1980s and 3.8 percent from 1990 to 1998). It is the only type to have a majority of its growth from international immigration and, like the Large Agriculture/Mining and Mining/Very Low Income/Minority Types, has had net domestic out-migration from 1990 to 1998. It had the third largest percentage of Anglo population of any of the types (69.8 percent) in 1990 but its Anglo population declined in both the 1980s and from 1990 to 1998. Its levels of income are the next lowest and its poverty rate is next to the highest of any of the regions. Employment and earnings data for these counties show a dramatic decline in farming (from 20.1 percent of all earning from farming in 1979 to 9.8 percent in 1997) with the most dramatic growth being in state and local government (from 11.0 percent in 1979 to 21.2 percent in 1997). It is the only type in which an absolute population decline is projected to occur with the total population of the 62 counties in this type projected to decline from 573,773 in 1990 to 557,141 in 2030, a decrease of 2.9 percent. The proportion of its population that is Anglo is projected to decline from 69.8 percent in 1990 to 44.2 percent in 2030 while its Hispanic population increases from 26.2 percent of the total population in 1990 to 49.9 percent in 2030.

The Mining/Very Low Income/Minority Type shows patterns of growth in both the 1980s (9.9 percent) and the period between 1990 and 1998 (14.0 percent). Nearly 75 percent of its net growth in the 1990 to 1998 period has been due to natural increase and it has had net domestic out-migration. Its population was 81.1 percent Hispanic in 1990 and its Anglo population has declined and its minority population increased in both the 1980s and from 1990 to 1998. Its levels of income are substantially lower and its

rates of poverty substantially higher than those in any other region and its per capita income shows the lowest rate of increases over the past two decades. Employment and earnings shares from farming have declined while those from services and government employment and earnings have increased. Due primarily to projected rapid growth in its large Hispanic population the 17 counties in this type are projected to increase their total population from 256,724 in 1990 to 557,506 in 2030, an increase of 117.2 percent from 1990 to 2030. Its Anglo population would further decline from 17.8 percent of the total population in 1990 to 5.7 percent in 2030 while its Hispanic population would increase from 81.1 percent in 1990 to 93.1 percent in 2030.

Conclusions and Implications

In this section we have examined the demographic and socioeconomic characteristics of rural compared to urban (defined primarily in terms of non-metropolitan and metropolitan areas respectively) Texas. The data examined suggest that rural and non-metropolitan populations in Texas are increasing but much less rapid than urban and metropolitan areas in Texas and that non-metropolitan areas remote from urban areas are growing very slowly. The populations of non-metropolitan Texas are also increasingly diverse with minority, particularly Hispanic, populations' accounting for a majority of total population growth and coming to form increasing proportions of the populations of non-metropolitan areas. Non-metropolitan populations are also increasingly elderly with many non-metropolitan counties already having the proportions of elderly which create substantial challenges for health and long-term care services.

Non-metropolitan populations also have fewer financial and human capital resources with lower incomes, higher rates of poverty and lower levels of education than metropolitan areas. In addition, current data suggest that the resource differences are increasing because of slower growth in resources in non-metropolitan areas. Non-metropolitan economies are also increasingly diverse and less dependent on farming as a sector of employment and earnings. For many non-metropolitan areas service industry and government employment and earnings have come to exceed that derived from farming or mining.

When projections for the future are examined, current trends suggest that non-metropolitan residents will decrease from about one-in-six Texans in 1990 to one-in-ten Texans by 2030 and an increasing

proportion of them will be minority and elderly. Thus while experiencing, like metropolitan Texas, the challenge of needing to provide additional socioeconomic opportunities for minority populations that have historically not had such opportunities, non-metropolitan areas will also need to address the health and other long-term care needs of a disproportionately large elderly population.

Finally, the examination of different types of non-metropolitan counties shows just how diverse the counties are that are referred to as rural or non-metropolitan. They vary from counties that remain heavily dependent on agriculture to ones with economies based primarily in manufacturing or other

industries centered in adjoining urban centers. They vary from areas with patterns of population decline to ones of rapid growth, from areas with moderate levels of socioeconomic resources to ones with very low incomes and extremely high levels of poverty and from areas that face a future of decline in their population bases to ones that can be expected to grow quite rapidly at rates nearly equal to those in metropolitan areas.

What are the implications of these patterns? The lagging growth of non-metropolitan populations, as well as increased challenges related to elderly and rapidly growing minority populations and substantial levels of economic disadvantage, makes clear that the non-metropolitan Texas is falling behind the rest of Texas socioeconomically, as well as demographically. These data suggest that rural Texas needs assistance in generating increased economic development that will create better paying jobs and retain young people in rural areas.

Although improved conditions for agriculture would assist in revitalizing some areas of non-metropolitan Texas, the decreasing proportion of employment and earnings coming from agriculture and the diversity of types of rural areas suggest that the development of rural Texas will require a multi-sector approach to also enhance the growth in service, recreation, rural retirement as well as mining and other natural resource-based industries. At the same time, non-metropolitan Texas varies substantially from one region of the state to another. It is thus unlikely that one form of development will be the optimum form for all parts of non-metropolitan Texas.

PART THREE

PRINCIPAL FINDINGS & RECOMMENDATIONS

Institutionalize the Focus on Rural Issues

Rural Texas comprises 196 of the state's 254 counties, 80 percent of its land mass, and 3.3 million people who produce $24.3 billion in Gross State Product (GSP).[7] Rural Texans are historically independent and pride themselves on their self-sufficiency. However, this report documents the erosion of important segments of rural life and the significant disparity between rural and urban areas.

Rural Texas can remain a vital social, cultural and economic partner to our thriving metropolitan neighbors, or it can serve as a drag on the state's vitality. All Texans have an interest in the former, rather than the latter, outcome.

Texas state government has done much to address the needs of rural areas. We mention special elements in education funding, the farm-to-market highway system, special colonias programs, Telecommunications Infrastructure Fund (TIF), Texas Agricultural Finance Authority (TAFA), support for agricultural research and special tax treatments for farming and ranching among the many examples of the state recognizing and responding to needs as they arise.

Rural citizens and the state as a whole would benefit from a policy approach to rural issues that is comprehensive in nature and driven by empirical research.

More efficient use of resources better serves both rural beneficiaries and the state's bottom line. But greater efficiency will occur only if we continue the efforts begun by the Select Committee to systematically review critical aspects of rural life, to identify problems and then ask, from a global perspective, which state programs and resources can best be brought to bear on solving them. In short, Texas must have a policy and someone to implement that policy.

Texas does not have a rural policy. This is not a new problem, nor is it unique. In 1989, over 250 leaders from around the state gathered for three days to assess rural conditions in Texas. A principal

[7] Texas Comptroller of Public Accounts. *Rural Texas in Transition*, Draft Report Submitted to the House Select Committee on Rural Development. Strategic Research Division, June 2000. p.43.

conclusion of the group was that Texas needed a comprehensive rural policy but did not have one.[8] We know this to be a common condition in other states and the U.S. as a whole, as well.[9]

If Texas lacks a policy, it similarly lacks a focal point for discussion of rural issues and rural development. The group of leaders in 1989 recognized this as a critical shortcoming,[10] as does the rural development group at Texas A&M University (see Part One).

Based on an informal survey conducted by the Select Committee, it appears that 10 states have some form of rural affairs office. The group includes a number of major states, such as California, New York, Florida, Pennsylvania and Illinois. Other states have highly organized Rural Development Councils or other nonprofit offices.

Office of Rural Affairs

Texas needs an office of rural affairs to assure a continuing focus on rural issues, to monitor governmental actions affecting rural Texas, to research problems and recommend solutions and to coordinate rural programs among agencies. Such an office will go a long way toward assuring that our state gets the best return on its already large investments in rural Texas.

Texas needs an office of rural affairs to assure a continuing focus on rural issues, monitor governmental actions affecting rural Texas, research problems and recommended solutions and to coordinate rural programs among agencies.

Ideally, the office should also have the means to effectuate some solutions. This could be in the form of money for grants and loans or specialists to assist local communities with development-related issues and problems.

The Select Committee believes the Community Development Block Grant (CDBG) program has the potential to serve as the basis for such an office. This federal program provides over $80 million a year

[8] Texas Rural Development Policy Workshop Proceedings. Nov. 13-15, 1989, Hyatt Regency, Austin, Texas. Project Coordinators: Ronald D. Knutson and Dennis U. Fisher. Department of Agricultural Economics, Texas A&M University, College Station, Texas. pp. 2, 34, 80.

[9] Mark Drabenstott, "Meeting a New Century of Challenges in Rural America." December 1999. The Region. Federal Reserve Bank of Minneapolis. Minneapolis, Minnesota. p. 44.

[10] Texas Rural Development Policy Workshop Proceedings. Nov. 13-15, 1989, Hyatt Regency, Austin, Texas. Project Coordinators: Ronald D. Knutson and Dennis U. Fisher. Department of Agricultural Economics, Texas A&M University, College Station, Texas. pp. 2, 34, 80.

to Texas counties of fewer than 200,000 people and Texas cities and towns of fewer than 50,000. The funds can be spent on a wide variety of local needs but must be related to economic development.

CDBG is currently administered by the Texas Department of Housing and Community Affairs (TDHCA). To play a broader role in rural development, the program should have a greater degree of autonomy from TDHCA, and most importantly it should have an independent governing board with expertise in rural issues and commitment to the future of rural Texas.

Other suggestions include creating a Committee on Rural Affairs in the House of Representatives: broadening the mission of the Center for Rural Health Initiatives, or creating a similar organization that would coordinate and advocate for rural issues.

Other suggestions include creating a Committee on Rural Affairs in the House of Representatives: broadening the mission of the Center for Rural Health Initiatives, or creating a similar organization that would coordinate and advocate for rural issues.

Select Committee members and other interested parties will continue our informal investigation of the best means to accomplish the goal of a central focus for rural issues. Whatever the outcome and whatever the mechanism, the Select Committee believes this is the most significant contribution the 77th Legislature can make for lasting betterment of rural Texas.

Community Leadership

A constant theme throughout the Select Committee's deliberations has been the overarching importance of leadership at the community level. Local leaders are key to a community's capacity to act, and to its long-term success. State and federal programs work well only when local leaders are equipped with appropriate skills and information, and when they are organized to pursue goals. In the presence of such local leadership, state funds and programs are highly leveraged and produce tremendous results. In their absence, state dollars are inefficient at best and at worst, wasted.

The Issues

Small community leadership is disadvantaged in several ways. First is the "brain drain" phenomenon. Many of those most likely to become leaders attend colleges away from home and then stay away to pursue more rewarding business or professional careers.

A second factor is the sheer size of the leadership pool. Many community development projects require expertise from a number of areas -- financial, real estate, construction, government programs, bonds, grant-writing and environmental regulations. The smaller the community, the more likely that one or more of these expert "links" will be missing, and when one is missing the entire project may be jeopardized.

A small leadership pool also produces "leadership fatigue" and "volunteer fatigue," which are well known in almost every community. The same people are called upon for almost every civic project, year after year, whether it is for the city, the chamber, the school, the church or any other cause.

A third factor is "time and money." Most small-town leaders are volunteers who serve on public bodies for no pay and have full-time jobs to earn a living. This leaves little time to develop specialized knowledge and skills. Also, the money for training and education is typically scarce.

It is axiomatic that a community with a plan of action, and with energetic and skillful leaders, can improve itself regardless of almost any other advantage or disadvantage.

There is little the state can do to alleviate some of the problems noted. But it is axiomatic that a community with a plan of action, and with energetic and skillful leaders, can improve itself regardless of almost any other advantage or disadvantage. Marion County and the City of Jefferson have made outstanding progress under conditions that most people would consider insurmountable.

Skills and Training

The Select Committee recognizes that a number of leadership training opportunities are available to Texas communities. Texas A&M University and a number of public and private partners operate the Texas Rural Leadership Program. The Lower Colorado River Authority sponsors a schedule of classes and seminars for leaders in its 58-county service area. Numerous others, including private consultants, are also available.

The Select Committee believes, nonetheless, that a comprehensive and affirmative effort on the part of the state to help communities obtain leadership training is not only worthwhile, but necessary. We recognize that such assistance is of value only if communities exhibit a desire and commitment to improve their capacities to act.

Assistance must be viewed as a partnership between the grantor and the grantee, not as a one-way transaction. If a grantee is to benefit from funding or other resources, it must have a demonstrated capacity to use those resources appropriately. Otherwise, we risk creating and then reinforcing a culture of dependence that serves all parties poorly.

The nature of the assistance will be different in different communities, but it should consist of "modules" designed to (1) alert the community to opportunities and needs, (2) develop skills and information required for success, (3) teach goal setting and strategic planning and (4) provide continued resources during plan implementation.

Various plans could be used to provide training programs. A "provider-based" program could fund community colleges, nonprofit organizations, the Agricultural Extension Service (which already has

a community development group), Councils of Governments (COG's), or other organizations to offer training. A "client-based" program would provide funds directly to communities, allowing them to purchase services from vendors of their choice.

The state could use the federal enterprise zone model, which provides funding and incentives for communities to move through a succession of programs, all leading to greater self-sufficiency and greater access to important funding streams. The theory behind such a model is helping those who help themselves and who demonstrate progress along the way.

The incentive approaches could be supplemented by "regulatory" means. For example, access to certain grants could be made contingent on a community having a bona fide strategic plan in place, or access to 4A and 4B economic development funds could be contingent on satisfying certain "readiness" criteria.

Assistance must be viewed as a partnership between the grantor and the grantee, not a one-way transaction. If a grantee is to benefit from funding or other resources, it must have a demonstrated capacity to use those resources appropriately. Otherwise, we risk creating and then reinforcing a culture of dependence that serves all parties poorly.

Select Committee members and staff will continue to study the best means to improve leadership skills and will have recommendations for the 77th Legislature.

Advanced Telecommunications Services

Modern telecommunications, including high-speed or broadband service, is a basic infrastructure in the 21st century. As such, it touches everyone and every facet of life, including work, culture, recreation, education, health care and contact with the rest of the world. Its presence is a necessity for keeping rural communities alive and vibrant. Its absence is a condemnation to backwater status.

However, isolation, distance and low population density are barriers to the deployment of advanced telecommunications services. In an August 2000 report, the Federal Communications Commission (FCC) found that, overall, advanced telecommunications services are being deployed in a "reasonable and timely fashion," but that certain groups are at risk of not having access to advanced services if deployment is left to market forces alone.[11] The at-risk groups include rural residents, especially those outside towns, and minority and low-income Americans.

State and federal governments have long played a role in assuring affordable telecommunications access to all citizens. They must continue that role to accelerate deployment of modern network capabilities to areas where market forces may be too little or too late.

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State Government Actions

Texas government has undertaken several initiatives to foster deployment of advanced services in rural areas.

In 1995, with HB 2128, Texas began to deregulate certain telecommunications services. Recognizing that market forces may leave high-cost, low-density areas underserved, the legislature included several measures to lessen any negative impacts.

HB 2128 required that Southwestern Bell and GTE (now Verizon) significantly upgrade their infrastructure for the digital economy by January 2000. It also required these companies to provide broadband, digital services for voice, video and data interconnection upon request to all educational institutions, libraries, nonprofit telemedicine centers, public or nonprofit hospitals and projects funded by the Telecommunications Infrastructure Fund (TIF) at the preferential cost of five percent over actual cost.

It is critical that the HB 2128 preferential rates for advanced services (T-1, DS-3 and Oc-3) are maintained. While there is some dispute about how long the legislature intended the rates to stay in effect, their loss would cause customer costs to double or triple, making them unaffordable to many rural

[11] Federal Communications Commission (FCC). Aug. 2000. *Deployment of Advanced Telecommunications Capability: Second Report. See* http://www.fcc.gov/Bureaus/ Common_Carrier/Orders/2000/fcc00290.pdf for additional information.

institutions.

In 1999, the 76th Legislature adopted a state telecommunications policy in SB 560 that requires that all Texas citizens in all regions of the state have reasonable similar access to telecommunications and information. Specifically, beginning September 1, 2001 (see Appendix D, p. 82), the law requires Southwestern Bell and Verizon to provide customers in rural areas with advanced telecommunications services comparable to those provided in urban areas, and at comparable prices. The companies must provide such services within 15 months of a bona fide request for them.

Valor Telecom, a new company that purchased 197 Verizon exchanges in the Panhandle and rural East Texas, has agreed to deploy DSL to 10 of their exchanges within 18 months beginning

September 1, 2000, and to do an engineering feasibility study to provide DSL to customers in other exchanges when they receive a minimum of 75 DSL customer requests.

TIF and TEX-AN

Two other state programs have helped bring advanced telecommunications services and infrastructure to rural parts of Texas: the Telecommunications Infrastructure Fund (TIF) and the TEX-AN 2000 service provided through the General Services Commission.

TIF

What is broadband?

Broadband are technologies that allow a user to move data, access the Internet, and use Internet-related services at much higher speeds than those offered by standard telephone dial-up modems. The FCC defines broadband as 200 kilobits per second (kbps) in both directions. This compares to 56 kbps maximum speed through a modem dial-up. The additional speed is important when one considers that it takes nearly one hour to download a 24 megabyte x-ray images file at 56 kbps, three minutes at 1.54 mbps and 20 seconds at 10 mbps.

Broadband generally comes through three types of technologies -- digital subscriber line (DSL) offered by telephone companies via upgraded telephone wires, cable television cable modems using upgraded cable systems, and wireless technologies using either satellite or microwave transmission. The FCC reported that as of December 31, 1999, there were 2.8 million high-speed /advanced services subscribers, with 1.8 million residential or small business customers. One million subscribe to the commission's definition of high speed service, 200 kbps in both directions mostly through cable-based service (875,000). Broadband is advancing at a rapid pace, and testimony at the August 9, 2000, State Affairs Committee meeting on broadband access showed that by July 31, 2000, those numbers had grown to about three million cable modem subscribers, 1.2 million DSL subscribers, and wireless technology users lagging way behind.

Broadband high-speed connectivity is still scarce in rural areas because of cost and distance limitations -- DSL has distance limitations (generally three miles from central office) and cable modem requires cable two-way access, which is expensive for small cable companies. Satellite and wireless technology may prove to be the best alternative for rural areas. Mr. Steve Hindman (Hughes Network Systems) testified at the June 13 hearing that distance limitations are irrelevant for satellite that had a footprint encompassing the entire country, that monthly costs are comparable to other broadband technologies, although installations costs are somewhat higher, and that by mid-2001 satellite broadband will have two-way high-speed capability.

In addition to the technologies cited above, other advanced technologies include integrated switched digital networks (ISDN) and T-1 circuits. ISDN is generally available in most exchanges in Texas, but it has proven to be unpopular because it provides a medium bandwidth at a relatively high cost. Basically, this technology has been skipped over by faster, more cost-effective broadband. T-1 circuits are point-to-point line connections that

TIF underwrites advanced telecommunications infrastructure for public schools, public libraries, institutions of higher education and nonprofit health-care providers. Slated to spend $1.5 billion by 2005, TIF has been instrumental in bringing telecommunications infrastructure to rural Texas. Thus far, TIF grants and loans have funded 562 of the 574 rural school districts, 26 of 27 rural institutions of higher education, 348 rural health-care facilities and 268 rural public libraries.

Largely because of TIF, every rural school and every public library that wants high-speed interconnections now has them.

HB 2128 requires that the large carriers give preferential pricing to TIF constituencies, as noted above. SB 560 contains a complementary provision allowing small telecom carriers to be reimbursed by the Texas Universal Service Fund for the difference between

the actual costs and the preferential pricing, making connectivity costs affordable for all TIF grantees.

Largely because of TIF, every rural school and every public library that wants high-speed interconnections now has them.

With virtually all Texas school districts and public libraries now "connected," much discussion revolves around services for other rural entities, including private businesses that often cannot afford high-speed service.

The legislature should support continuance of the TIF function, including its expansion, so long as its original mission of extending and enhancing infrastructure is not diluted.

TEX-AN

The state TEX-AN network is a private-line network designed and managed by the General Services Commission and operated under contract by private telecommunications providers. TEX-AN provides state and local governments, public schools and higher education and other political subdivisions of the state with cost-effective long-distance, voice, video and data services. This statewide network permits its clients to access a statewide network that has more than 50 points-of-presence (POPs) on the Internet. As the second largest network in America, TEX-AN provides quality services at greatly reduced prices to many of Texas' smallest and most remote cities, towns, counties and schools.

The staff of the Sunset Advisory Commission has recommended moving the state telecommunications network operations from the General Services Commission to the Department of Information Resources. This is one of several interim committee recommendations that would affect state telecommunications.

The Select Committee has not reviewed these recommendations and does not take a position on them. We believe, however, that TEX-AN is very beneficial as a low-cost provider of advanced services to public entities throughout the state. Any actions to restructure the service should proceed with great caution and only with the highest levels of confidence that these services will not be degraded.

The PUC Study

SB 560 also required the Public Utility Commission (PUC) to conduct a study of the availability and pricing of telecommunications and information services in rural and high-cost areas of Texas. The report, which is due by January 2001, is to consider all telecommunications technologies, including cable, wireless and advanced services.

The PUC study will assess the extent to which the market, with current and foreseeable technologies, will provide service to rural and hard-to-serve areas. It will further assess the costs of extending service beyond the areas the market is expected to serve, and will suggest options for governmental action to reach beyond the "market boundaries."

The most discussed options for extending advanced services beyond the market boundary are expansions of the Universal Service Fund, a broadening of the TIF, or a "TIF-like" funding solution. The FCC announced earlier this year that it would re-examine the definition of universal service to determine whether it should include broadband services. State and federal universal service is currently limited to voice telephone service.

Other initiatives that have been used or suggested include low interest loans, grants, tax incentives to telecommunications carriers, community networking and demand aggregation to make it economically viable for carriers to provide advanced services. Bills have been introduced in Congress that would provide money for low interest loans to finance construction of high-speed Internet networks in rural areas. Another approach is to provide a tax credit to companies that invest in high-speed Internet facilities in rural areas.

Making good on the state's promise of "similar services at similar costs" is potentially the most costly rural initiative the 77th Legislature will undertake, but it is surely the most important. It will require imagination and the cooperation of all segments of the industry and rural

In April 2000, the state of North Carolina announced a partnership with its three major communications companies (Bell South, Sprint and Verizon) to bring affordable, high-speed Internet access to all North Carolinians within three years. The three companies have agreed to

work with Internet service providers, telephone cooperatives, state government and others in the communications industry to provide affordable service to all, regardless of income, educational level or geography.

The North Carolina agreement proposes to provide local dial-up Internet access for every telephone exchange within one year; wire the entire state within three years so that rural areas will have access to similar technology and similar costs as those in urban areas; and establish two pilot Telework Centers in the most economically distressed areas within 18 months. These centers will be used by residents and businesses to provide training and technical advice for businesses interested in exploring e-commerce (see Appendix E, p. 84).

Other partnership approaches may be useful to consider. For example, a bill introduced in Colorado would provide communities with state incentive grants to aggregate traffic, thereby creating an "anchor tenant" to encourage private sector infrastructure investment. Throughout the country, citizens working through nonprofit groups are partnered with local providers to establish community technology centers, local networks and a myriad of innovative local solutions.

Making good on the state's promise of "similar services at similar costs" is potentially the most costly rural initiative the 77th Legislature will undertake, but it is surely the most important. It will require imagination and the cooperation of all segments of the industry and rural leadership.

The Land and Rural Transition Industries

Rural Texas is in transition and its economic portfolio, once dominated by the blue-chips of cotton, cattle, oil and gas, is diversifying in many ways and now includes manufacturing, retail and service enterprises. State leaders need to support rural transition industries by assisting them through research, business incubators and extension services, in much the same way they do agriculture and mineral extraction industries.

Experts have noted that rural industries of the future, like those of the past, will be significantly rooted in natural resources. Many of our important, nature-based industries are ripe for development and should be the subject of favorable state attention.

State leaders need to support rural transition industries by assisting them through research, business incubators and extension services, in much the same way they do agriculture and mineral extraction industries.

Texans' enjoyment of the outdoors manifests itself in a multitude of ways that produce income and jobs for rural citizens. Among the major income-

producing activities are fishing, boating, hiking, birding, summer camps and retreats, dude ranches, hunting and game viewing. They also include exotic game, public and private parks, camping, community fairs and festivals, historic sites, weekending and antiquing. There is much that needs to be done to better understand these enterprises and the opportunities to build on them.

Changes In Rural Land Ownership

Changes in land ownership and use provide some important keys to understanding this transition. Texans may be living more in the cities, but city dwellers increasingly own land and spend time in the country. Hobby farms and ranches, weekend getaways, hunting or fishing retreats and family inheritances all demonstrate the phenomenon.

Real estate brokers regularly polled by the Real Estate Center at Texas A&M University report that farms and ranches in many parts of Texas are being purchased by city dwellers for recreation, investment and retirement. Their value is less dependent on their potential to produce income from agriculture and more dependent on scenic and recreational amenities and on their proximity to urban

centers.[12]

According to the Real Estate Center, in recent years "consumers," not ranchers and farmers, have dominated rural land purchases, and "recreation" has been the main motive. The primary reason rural land is put on the market recalls the Committee's testimony about rural demographics: "retirement, age and health" and estate settlement.

The fact that urbanites drive much of the tourism and recreation industries, as well as rural land values, shows how rural and urban Texans depend upon one another. Our own economic health is dependent on that of our neighbors. It also shows the economic importance of maintaining the state's natural legacies.

Conserving Our Natural Resources

According to the Governor's Task Force on Conservation, 97 percent of land in Texas is privately owned. Conserving and managing these lands is important for the future of rural Texas. In its recent report, *Taking Care of Texas: A Report From the Governor's Task Force on Conservation*, the Task

[12] Real Estate Center. 1999. *Rural Land Values in the Southwest: First Half, 1999*. Charles E. Gilliland and John Harris. Technical Report 1335. Texas A&M University, College Station, Texas. pp. 5-7.

Force makes recommendations to protect the legacy. These include encouraging development of outdoor recreation opportunities on private land; creating a statewide program to purchase development rights from willing landowners for restricting future development of their lands; reforming tax laws to encourage conservation by private landowners; and expanding incentives and assistance to landowners for habitat management. Further, they recommend that the state should develop a comprehensive system to address conservation on state lands, and for land and wildlife projects.

The Select Committee does not take a position on the specific recommendations of the Task Force, but it believes the report is a good example of the kind of work that will benefit rural areas and should be encouraged.

Hunting, Fishing and Recreation

Hunting and fishing are good examples of activities that are certainly appreciated as recreation but undervalued as "industries." Hunting income has been an important bridge for many farmers and ranchers, providing new income as agricultural revenues have come under pressure. We know anecdotally that in much of South and West Texas, hunting revenues can be significant for individual ranchers, and they are less subject to market and weather fluctuations than agricultural income. On many game ranches, domestic livestock production has been greatly reduced or eliminated altogether. Hunting has helped support land values, preserving the value of many farmers' main

asset, their land.

Viewed as an industry, hunting ranked 13th among agricultural sectors, with $291 million in production in 1999. While this is just two percent of total agricultural production, hunting ranks higher than such staples as peanuts, turkeys, rice, sheep, goats and oranges.[13]

Hunting and fishing are good examples of activities that are certainly appreciated as recreation but undervalued as "industries."

Fishing and "recreation" produced estimated revenues in 1999 of $131 million and $135 million respectively. Combined with hunting, the total revenues from these three industries was nearly $558 million in 1999, or 8th in the ranking of agricultural production. They produced almost half as much revenue as cotton, and more than broilers,

[13] Texas Agricultural Extension Service. March 2000. Texas Estimated Value of Agricultural Production and Related Items, 1996-999, 2000 Projects. Luke Wyse and Carl G. Anderson. Texas A&M University System, College Station, Texas. p. 88.

corn, vegetables or wheat.[14]

Tourism

Tourism is another industry with a growing impact on rural areas. According to the Tourism Division of the Texas Department of Economic Development (TDED), in 1999 tourists spent $21 billion in Texas, including $2.25 billion in rural areas. Tourism is environmentally friendly, and the impact on rural counties can be much larger than the corresponding impact on urban areas.

Although only 20 percent of Texas visitors made it to rural destinations, they had a relatively large economic impact on rural communities. In 1999, tourism industries employed 62,000 rural Texans who earned $559.6 million, according to TDED. And travel-related tax revenue has risen steadily over the last six years. In 1999, it accounted for $150 million rural tax dollars, most of it from hotel/motel taxes.

Texas Historical Commission programs illustrate the self-help and regional cooperation the Select Committee believes to be core concepts in the partnership between the state and local communities. Such programs deserve support and expansion.

TDED focus groups show that people go to the country to relax and get away from the stress of city life. The weekend trip where driving time is between three and five hours is becoming the preferred vacation, and many rural communities are in a good position to take advantage of this trend.

Heritage Tourism. Many people travel to rural Texas to relax and visit historical and cultural sites. In 1997, heritage tourists spent $1.43 billion in Texas, according to the Texas Historical Commission (THC). THC says that "cultural and heritage tourism" has the potential to become the preferred form of tourism for the baby-boom generation, and rural areas are well suited to capitalize on it.

THC has three programs that help rural communities attract heritage tourists: the Historic Courthouse Preservation Program, the Texas Travel Trails Regional Program and the Texas Main Street Program. Eighty of Texas' smaller cities and towns are partnered with THC in the highly regarded Main Street Program, under which THC provides technical support for revitalization, preservation and marketing. The communities provide funding for the program.

The Travel Trails Regional Program links together multiple tourism sites within a region according to themes

[14] *ibid.*

(e.g., Forts Trail, Independence Trail, Pecos Trail, Plains Trail, etc.). The program encourages and assists communities within a region to jointly develop and market their attractions.

These THC programs illustrate the self-help and regional cooperation the Select Committee believes to be core concepts in the partnership between the state and local communities. Such programs deserve support and expansion. Enhanced coordination between culture tourism and nature tourism would provide even more leverage for rural areas trying to maximize their appeal to tourists.

Funding for tourism marketing and development. Tourism marketing and development are a challenge for most rural communities. Many revenue sources are available to help communities promote tourism, including the hotel occupancy tax and the 4B sales tax. However, some rural communities lack the information to acquire funds and develop strategic marketing plans. Private and state grant funds are an important source, and state agencies that provide grants that can help tourism include: Texas Department of Transportation, Texas Commission on the Arts, Texas Historical Commission, Texas Parks and Wildlife Department, Texas General Land Office and the
Texas Department of Agriculture. In addition, the Texas A&M Extension Service offers grant search and grant writing assistance to Texas communities at minimal or no cost.

PART FOUR

OTHER FINDINGS AND RECOMMENDATIONS

Rural Health Care

There is a substantial gap between urban and rural health-care. Rural Texas has fewer professional health-care providers and hospitals, and this limited access to health-care has significant health consequences.

Texas' 196 non-metropolitan counties have a higher average death rate, higher infant mortality rates, higher suicide rates and higher trauma death rates than our 58 metropolitan counties, according to the data from the Center for Rural Health Initiatives (CRHI). More than half of Texas' rural counties (101 of 196) are considered health professional shortage areas by the CRHI. The lack of health-care professionals affects each and every rural community.

Rural areas continue to lose health-care facilities; 62 rural counties do not have a hospital, and 28 rural hospitals closed between 1984 and 1988.[15] While many of these facilities reopened as other health-care businesses, many were abandoned, with the resulting loss of health-care, employment opportunities and economic support for the community.

Having a local health-care delivery system in a rural county also contributes to the economic health of the community. It is well documented that businesses seek communities with an adequate health-care infrastructure when choosing a location. In addition, it is estimated that every health-care dollar spent in a rural area recycles through that community at least one and a half times. According to the Federal Office of Rural Health Policy, one rural physician generates more than five full-time jobs and $233,000 in local economic activity. Each time a citizen of a rural community leaves town for health-care, that is money lost to the community.

The changing demographics of rural Texas also heighten the need to address the shortage of health-care professionals and facilities. The aging population of rural areas requires additional health services and expertise. The availability of health-care is often a key factor in a retiree's decision about where they will choose to live.

Texas has been a national leader in using computer/video medical communications, generally referred to as telemedicine. However, restrictions on health insurance reimbursements and the inability of all rural health providers to access state grants for telemedicine equipment and training

have resulted in the limited use of telemedicine in rural areas of Texas.

Shortage of Physicians/Allied Health Professionals

There is a chronic shortage of virtually all types of health-care professionals in most rural communities of Texas. Often the only doctor available in a rural area is a primary care physician. However, 26 counties in Texas have no primary care physician. Thirteen counties in Texas have only one primary care physician. Only 11 percent of primary care physicians in Texas practice in a rural county. Besides being in short

[15] Center for Rural Health Initiatives. Rural Health in Texas, 1999, A Report to the Governor and the 76th Texas Legislature, January 1999. p. 41.

supply, rural physicians see more patients than their urban counterparts, averaging 143 patients per week compared to 100 for urban physicians. While access to a primary care physician is most often cited as a problem, rural Texas is also lacking in specialists, dentists, mid-level practitioners (APNs, NPs and PAs), nurses, mental health professionals, emergency medical services personnel and pharmacists.[16]

The recruitment of primary health-care providers should be recognized as the most significant health-care dilemma facing rural Texas. There should be a more unified approach to health provider recruitment. Because studies show overwhelmingly that those who practice in rural counties have a rural background, recruitment should focus on younger rural students with a future interest in medicine. Loan repayment programs should be unified and expanded. There should also be a push for provider retention for those already practicing in rural counties. The emphasis on improving access to health-care in rural areas must include all needed professional disciplines.

The recruitment of primary health-care providers should be recognized as the most significant health-care dilemma facing rural Texas.

The state should implement a comprehensive approach to recruit health-care providers to work in rural areas by coordinating existing programs and services, and coordinating efforts between state and local entities, including:

- maximizing physician loan repayment programs;
- expanding loan forgiveness programs to mid-level practitioners and nurses who agree to practice in rural areas for a specified time;
- establishing a physicians' relief program that allows rural physicians time to obtain continuing education or for personal time;
- expanding opportunities for medical school training in rural health-care settings;
- creating educational programs at rural universities, community colleges, and high schools to mentor students with a future interest in medicine; and
- encouraging rural communities to assist the spouse of a recruited health-care provider to become part of the community by helping the spouse find employment and housing.

[16] *ibid.* pp. 7-8.

In addition to the above points, the Select Committee received information suggesting that Texas' process for licensing out-of-state physicians to practice may be unduly slow and cumbersome. While the Committee has no independent evidence to support or refute the contention, the issue merits review.

The integrity of the licensing process must, of course, be maintained. But rural communities face great difficulties in retaining and recruiting health-care providers, and these should not be further complicated by *unnecessary* procedural obstacles or delays. Consideration should be given to assigning priority handling procedures to licensing requests for communities with no physician, or for those who are the most severely underserved.

Telemedicine Services and Issues

Telemedicine, the ability for health-care providers to consult about, diagnose and treat medical problems over long distances using computer-based video equipment, satellites and high speed transmission lines, is a tool that holds tremendous promise for expanding access and quality care to underserved rural areas. While telemedicine should not replace the care of a trained professional, it can serve as an invaluable tool that allows a patient access to a health-care professional in a manner that might not otherwise be possible.

There are a few issues that must be addressed to assure that telemedicine achieves its full potential to deliver cost-effective and reliable health-care in rural areas, including adequate reimbursement of telemedical consultations and affordable high-speed telecommunications infrastructure.

It is crucial to confront the reimbursement issues, because if health-care providers are not paid for consultations, there is no incentive to continue, or expand, telemedicine technology.

In 1997 the legislature directed the state Medicaid program to reimburse rural telemedicine consultations, but rules adopted for Medicaid reimbursement have often limited rather than promoted the use of telemedicine in rural Texas. It is crucial to confront the reimbursement issues, because if health-care providers are not paid for consultations, there is no incentive to continue, or expand, telemedicine technology.

Under Medicaid rules, consulting physicians are eligible for medicaid reimbursement only when the health-care provider presenting the case is a physician or advanced practice nurse practicing in a medical clinic. This reimbursement rule limits the use of telemedicine in rural communities where the only access to health-care is through nursing homes and school clinics staffed by nurses and

physician assistants (PAs). By withholding reimbursement for telemedicine, this rule denies the legitimate use of telemedicine to the rural Texas communities that would benefit most from this technology.

The cost of telemedicine equipment and advanced telecommunications infrastructure connectivity needed for telemedicine prevents many health-care providers from taking part in a telemedicine network unless they receive state aid. The Telecommunications Infrastructure Fund (TIF), which was created by the legislature in 1995 in part to pay for equipment, wiring, video-conferencing, and related training costs for telemedical projects at nonprofit health-care facilities, has made grant awards to 348 rural health-care facilities totaling about $20.5 million.

While TIF grants target rural and medically underserved areas, currently only nonprofit health-care providers may receive the grants. However, the majority of front-line providers in rural areas are private practitioners. If TIF grants were available to more providers, rural areas would be more able to benefit from telemedicine's capability to attract, train and support health-care practitioners and provide many forms of care to underserved populations.

The 1995 law creating TIF, HB 2128, required that Southwestern Bell and GTE/Verizon significantly upgrade their infrastructure for the digital economy by January 2000, and that these companies provide broadband, digital services for voice, video and data interconnection upon request to all educational institutions, libraries, nonprofit telemedicine centers, public or nonprofit hospitals and projects funded by the Telecommunications Infrastructure Fund (TIF) at the preferential cost of five percent over actual cost.

As was noted in the section on the advanced telecommunications services, some telecommunications carriers believe that these rates are scheduled to expire on September 1, 2001. Although there is some dispute between the PUC and the carriers about how long the legislature intended the rates to stay in effect, their expiration would cause customer costs to double or triple, making the services unaffordable for rural health-care service providers. If necessary, the 77th Legislature should resolve this issue.

It is imperative that the state focus on building a technological infrastructure in our rural counties. The availability of technology in rural areas not only increases the potential to improve diagnosis and treatment, but also decreases the travel time for patients, keeps health-care dollars in a community, and gives providers a necessary incentive to practice in rural areas.

In summary, to improve the efficacy of the state telemedicine program, the state Medicaid program should be required to reimburse any Medicaid provider who participates in a rural telemedicine

consultation as well as rural telemedicine consultations conducted by nurses or PAs who practice under the supervision of a physician. Rural school clinics and nursing homes should be eligible locations for telemedicine consultations conducted by approved eligible health-care providers. Also, rural for-profit health-care entities should be eligible for TIF monies.

Texas Emergency Medical Services (EMS) System

Texas has made progress in its statewide trauma system since 1989, when the legislature passed legislation developing a statewide EMS trauma system. Currently, the state is divided into 22 Trauma Service Areas (TSAs), with a Regional Advisory Council (RAC) coordinating activities in each TSA. Each RAC is required to implement a regional EMS trauma system. This system is established to ensure that an injured person is transported to the closest, most appropriate facility.
Although Texas has accomplished much in the development of a statewide EMS system, there are several problems unique to the rural counties that must be resolved. Rural areas often lack the means to provide necessary EMS resources, and therefore death rates due to trauma in rural areas are three to four times higher than those of similarly injured patients in urban counties.[17]

The most important challenges facing rural EMS systems are recruitment and funding. Volunteer EMS staff, called Emergency Care Attendants (ECAs), make up a large portion of the EMS staff in Texas, and a majority of those volunteers are located in rural areas. Volunteer ECAs utilize the same standards as career professional ECAs. The use of volunteers in rural EMS firms is critical to maintain operations. Therefore, it is crucial to maintain a balance of well-trained volunteers without burdening them with expensive, time-consuming continuing education. Texas does not require a county government to provide EMS funding, which leads to a lack of resources in many counties. In response, the legislature is working through grant programs and tobacco allocations to increase the funding for EMS systems statewide.

To improve EMS service delivery in rural areas, the Emergency Medical Advisory Council established by the 1999 Department of Health Sunset Legislation (HB 2085) needs to become a cohesive EMS system. Additional rural representation should be added to this Council to ensure rural Texas issues are explored. In addition, the Council should be directed to conduct a study to assess the availability of EMS services statewide and develop specific proposals to strengthen rural EMS services and educational opportunities. Finally, Texas should work to encourage awareness of EMS scholarship opportunities (e.g., The Center for Rural Health Initiatives' Rural EMS Scholarship Incentive Program).

Education

Ultimately, the future of any society depends on its people, their commitment to goals and their ingenuity

[17] Center for Rural Health Initiatives. Policy Brief on Rural EMS Issues prepared for the House Public Health Committee, 76th Legislature, January 31, 2000.

in getting to those goals. Education is the link between the commitment and the attainment of the goal.

Experts commenting on rural development invariably place emphasis on education as a means to improve the "human capital" underlying any economy. According to a noted labor economist, studies show that investments in human capital produce returns that outstrip those on non-human capital.[18]

Rural communities face an education dilemma. They recognize the need for young people to have high-quality education in the most modern sciences and technologies. However, to get the training young people must attend colleges and universities in cities and metropolitan areas. And once gone, they typically do not return.

Studies show that investments in human capital produce returns that outstrip those on non-human capital.

Problems in the education arena for rural communities include resolving the "brain drain" dilemma, but also making the most of what they have. Strategies go well beyond public schools, and include training for leadership capacity, improving business skills, raising the skill of rural workers and offering opportunities for higher education. The Select Committee considers its principal recommendation, to improve leadership capacity, to be part of an overall education strategy, and the potential for distance education to mitigate the braindrain dilemma is obvious.

Community Colleges

Community colleges, including technical colleges, occupy an important niche in serving rural needs. They are "closer to home," which helps with the brain drain issue. Full-time students can stay closer to home, and others can pursue or continue education without leaving home or jobs. Community colleges are also important as "gateways" to higher education. Many first-generation students, both rural and urban, begin their educational careers in community colleges.

According to the Texas Association of Community Colleges, 98 percent of all Texans live within 50 miles of a community or technical college, and one quarter of all students in Texas public colleges today started in a community college. Seventeen of the 50 community colleges in Texas are in rural counties, and in 1999-2000 their enrollment was 127,000 students.

Community colleges are also more attuned to local communities than four-year institutions. They serve as

[18] Ray Marshall, Professor, LBJ School of Public Affairs, University of Texas at Austin, prepared remarks at the April 2000 conference, *Beyond Agriculture: New Policies or Rural America*, sponsored by the Center for the Study of Rural American, Federal Reserve Bank of Kansas City.

repositories of technical and academic expertise to their host communities, and they respond more quickly to the changing curriculum and technical training needs of local school districts, communities and businesses.

Community colleges play a pivotal role in rural education and are open to all individuals by virtue of an open admission policy. In addition to teaching students academic courses leading to an associate degree, community colleges certify students completing vocational programs in skilled and semi-skilled occupations. Community colleges also are charged with providing continuing education, developmental education, counseling and guidance programs, workforce development training and retraining, and adult literacy and basic skills programs.

Problems in the education arena for rural communities include resolving the "brain drain" dilemma, but also making the most of what they have. Strategies go well beyond public schools, and include training for leadership capacity, improving business skills, raising the skill of rural workers, and offering opportunities for higher education.

For all of the above reasons, the Select Committee believes community colleges deserve the continued and enthusiastic support of the legislature. In addition, the Select Committee supports continuation of automatic admission of the top 10 percent of high school graduating seniors to Texas colleges and universities. This initiative gives more rural students the opportunity to attend state colleges and universities, including the flagship institutions.

Community College Funding

Rural community colleges experience some special funding challenges. Generally, rural college districts have smaller tax bases and higher tax rates than their urban counterparts. While urban community colleges can rely on a large number of part-time instructors, rural areas have a much smaller pool of qualified instructors from which to choose, and they often have to offer full-time positions with the associated benefits such as retirement, paid vacation, health-care and sick leave to attract and retain instructors. This increases their overhead. Generally, fixed administrative costs are higher in smaller institutions, and rural colleges would benefit from a recognition of these higher costs in the funding formulas.

The community colleges also feel that certain budget performance measures fail to recognize how their missions differ from those of the four-year institutions. Specifically, measures relating to student retention do not recognize their role as entry points to higher education or their role in

lifelong learning.[19] This concern merits review by the legislature.

Workforce Development

The state's workforce development and welfare-to-work programs should occupy an important place in the education of rural Texans. Higher levels of poverty and, in some regions, declining employment bases highlight the special needs of rural areas.

The "Work First" philosophy and new time limits for Temporary Assistance for Needy Families (TANF) make it critical that rural residents have access to employment training and services. With enactment of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996, TANF funding was increased, providing the opportunity to expand employment services.

Unfortunately, both state and federal performance mandates drive the Texas Workforce Commission (TWC) and local workforce development boards to concentrate services in the most populous areas. While this is the most effective way to serve the largest numbers of people, there has been no incentive, either by a funding formula or mandate, to provide services to rural areas. The majority of TWC's "minimum service" counties are rural areas where there is limited infrastructure for education and training and, more significantly, less access to employment.

With support from members of the Select Committee, TWC has begun a three-part initiative to address the problem. Local workforce development boards are developing unique programs to serve primarily rural areas with $1 million in funding.

The first initiative will target 19 board areas that cover 42 rural counties. Ten boards will each be eligible for $50,000 grants to develop programs for rural service delivery. The second initiative allocates $200,000 to find innovative ways to use technology in rural areas. A third initiative allocates $300,000 to assist boards in using local rural experts (such as county extension agents) in determining how to best deliver services to rural areas. Ultimately, by September 2001, the best practices and results from these initiatives will be selected for use in possible future programs.

The legislature should support these efforts to improve access to Texas Workforce Development services and must insist that rural citizens have reasonable access to state services of all kinds.

Training for Community and Business Leaders

The Committee believes that recommendations to improve training for community and business leaders are

[19] Marc Cisneros, President of Texas A&M University Kingsville. Testimony to the Select Committee on Rural Development, May 18, 2000, Kingsville, Texas.

important. A program patterned on the FARM Assistance Program developed by the Texas Agricultural Extension Service deserves consideration.

Under FARM assistance, which stands for Financial and Risk Management Assistance, farmers and ranchers receive expert consultation on the business aspects of their agricultural operations. A database that is used to model economic and policy changes are an important by-product of the consultations. Similar programs could be valuable for business men and women, and community leaders could benefit from programs that model public finance and economic development under a variety of scenarios.

Economic Development

Economic development is a catch-all phrase generally referring to business recruitment and expansion, which are often the primary goals of economic development practitioners. The Select Committee was charged with reviewing *community development*, which is broader in concept than just economic development. Any efforts to improve the quality of life in a community also improve the chances for economic development. After all, businesses want to locate in communities where there are good educational opportunities, health-care, infrastructure, recreation and culture, as well as the specific business amenities. Businesses are attracted to cities and towns with energetic and able leaders who have a vision for the future of their community.

Business recruitment and retention are important goals, and it is appropriate that they continue to be pursued. Communities must be cautious, however, to put these goals in perspective and not overcommit themselves. Small, isolated communities are likely to have limited success in recruiting businesses of any size. A single-minded focus on that objective may cause equally important community issues, such as education or health-care, to be neglected.

Economists report that a community in pursuit of a "big catch" can easily find itself a net loser because the deal may fall through and expensive infrastructure is never put to use, or because more was given than the community will ever recoup, or a success turns to failure when "the catch" goes out of business or looks for a better deal when the tax abatements run out.

Business recruitment and retention are important goals, and it is appropriate that they continue to be pursued. Communities must be cautious, however, to put these goals in perspective and not overcommit themselves.

Texas currently provides rural development services through a variety of agencies and institutions, including various universities, TDED and the Texas Department of Agriculture (TDA). A number of committee witnesses felt that the current division of responsibilities, especially between TDED and TDA, is not efficient, and they advocated consolidating the functions in one location.

4A and 4B Development Corporation Act Sales Taxes

Within the more narrow meaning of economic development there are issues that merit attention. Cities' chief economic development tools, Sections 4A and 4B of the Development Corporation Act, continue to be the subject of much discussion. Many communities cannot access the half-cent sales tax because they are "capped out." That is, their local political subdivisions have already instituted sales taxes equaling the two percent maximum allowed by state law, so no additional taxes are permitted.

Smaller cities (those with a population of 50,000 or fewer and located in a county of 500,000 or fewer) fall under Section 4A, which restricts the use of funds more than Section 4B. However, even the larger cities with access to Section 4B funds generally want more flexibility in the use of the funds, and the tendency has been for the legislature to broaden the permissible uses.

The Select Committee believes that greater flexibility would be valuable for many communities, but the legislature should consider tying expanded flexibility to incentives for bona fide local planning and continuing leadership development efforts. Such incentives would serve the dual purpose of maximizing the benefit of the tax expenditures and promoting local capacity to act.

Smart Jobs

The Smart Jobs program is another important tool cited by many witnesses before the Select Committee. The program has been greatly weakened by lax management and is under review pursuant to the Sunset Act. Smart Jobs' future will be shaped by the 77th Legislature, and members of the Select Committee are not unanimous regarding the value of the program.

Smart Jobs advocates should be attentive to programmatic changes that could weaken its applicability to rural areas. Much concern has developed about requirements imposed by the 76th Legislature limiting grants to projects that would result in jobs with wages at or above the county average wage. Since the Smart Jobs program has been mostly dormant since this change became effective, the actual effect on rural grants is not known. However, legislators should be alert to other changes that would unduly bias grant procedures to the detriment of rural workers and businesses.

The Community Development Block Grant Program (CDBG)

The CDBG program is not often mentioned as an economic development tool despite the fact that it distributes over $80 million per year in federal funds to cities under 50,000 people and counties under

200,000. The funds are provided under Title I of the Housing and Community Development Act of 1974 under the block grant model, which gives communities broad latitude to use the funds for a variety of development activities.

In Texas approximately 12.5 percent of CDBG monies are set aside for colonias projects, and another 15 percent goes to the Texas Capital Fund. Other smaller amounts are dedicated to housing, planning and disaster relief. However, almost $50 million a year is distributed for development projects, which the administering agency, the Texas Department of Housing and Community Affairs (TDHCA), has decided should be used almost exclusively to fund water and wastewater projects.

CDBG provides valuable help to hundreds of Texas cities and towns, including the very smallest ones. The Select Committee believes CDBG can be even more valuable by becoming more flexible and responsive to rural interests. Even though grant applications are evaluated both regionally and by TDHCA, the agency's priority weighting for water and wastewater preclude most other kinds of requests from being funded. We believe communities should have the flexibility to pursue projects that are local development priorities, particularly if they are proposed pursuant to a bona fide planning process.

Furthermore, CDBG policy should be made by a board whose members represent the diversity of rural Texas, and whose expertise and loyalties lie with rural Texans.

Texas Capital Fund. The Texas Capital Fund program uses CDBG funds to spur economic development through grants to cities with populations of 50,000 or less, or counties with less than 200,000 people. The program, operated by the Texas Department of Economic Development (TDED) under a memorandum of understanding with TDHCA, provides incentives to companies to locate or stay in rural Texas communities through three programs: the Infrastructure Development Program, the Real Estate Program, and the Main Street Improvements Program.

The criteria and processes used for distribution of the Capital Fund should be reviewed. Capital Fund grants are intended for rural communities, yet a review of Capital Fund grants made from 1997-99 shows that over half the grants to cities were to cities in counties classified as "metropolitan" by the Office of Management and Budget (OMB). Three of the seven grants to counties were to "metropolitan" counties. The Capital Fund is financed through the CDBG program, which is targeted to non-metropolitan areas, as metropolitan areas receive community development block grant funds directly.

The Select Committee acknowledges that rural communities can exist in OMB's "metropolitan" counties. However, most of the grants are clustered along the IH-35 corridor from San Antonio to the Red River and along the IH-10 and US 290 corridor between Austin/San Antonio and Houston. Only 1 of 70 grants was made in the 96 counties west of a line roughly from Vernon to Abilene to Laredo.

Economic Development and Electric Utilities

Rural communities have long benefitted from the assistance of economic development professionals employed by public utility companies. With the advent of restructuring, it is feared that these services will be lost as "stranded benefits" in the competitive environment. The electric deregulation

bill enacted last session limited the ability of electric utilities to continue to fund economic development and community support activities from income from regulated rates.

Traditionally, electric utilities had partnered with local entities, especially the Chamber of Commerce, to promote economic and community development, spending over $10 million a year in support of local efforts. The PUC has acknowledged the problem by agreeing to review the practice on a case-by-case basis. The legislature should clarify the PUC's authority to allow such expenses as a part of utilities.

State Projects

State government often engages in major job or income-producing projects where the location of facilities has an impact on the local economy. The most notable recent example is the prison construction program of the early to mid-1990s. In other instances, the state influences the development or location of private ventures through statutory assistance, funding, or siting regulations. Some examples include the low-level radioactive nuclear waste facility (not built), the super-colliding superconductor (canceled), backing for the Pan American and Olympic Games bids, and enabling legislation for sports arenas.

The 77th Legislature will be asked to consider additional proposals, including funding and certain tax exemptions for a spaceport. The economic spin-off in jobs, new businesses, population growth, income and tax revenues would be very substantial.

In considering such projects, the legislature must weigh the economic costs and benefits. Rural advocates should pay particular attention to projects like the spaceport that, by their very nature, may jump-start development in isolated areas where opportunities are otherwise severely limited.

Transportation

Texas roads and highways are the envy of most states and are a great economic benefit to rural and urban areas. However, in order to prevent further deterioration of the state's rural transportation system, the Texas Department of Transportation (TxDOT) needs to redirect more funding to upgrade, maintain and repair the farm-to-market road (FM) system. In addition, the impasse regarding county roads must be broken, and the state needs to help preserve critical rail lines in danger of abandonment.

Upgrading and Maintaining Roads

The major factor affecting rural road conditions is the increase in truck weight limits. Most of the FM system, which accounts for 52 percent of the entire state highway system, was built in the 1940s and 1950s when the legal gross limit for vehicles was about 60,000 pounds. The weight limit was raised to 72,000 pounds in 1959, and then to 80,000 pounds in 1978. The increased weight limit and vehicle traffic have accelerated the deterioration of many rural roads.

TxDOT has two programs dedicated to the farm-to-market system -- the FM Expansion program that places county roads on the state system, and the FM Rehabilitation program that upgrades and maintains the FM system. Although funding for these programs has nearly doubled since 1999, two-thirds of the funds go to expansion of the state system, and one-third go to rehabilitation. The annual funding level for 2002-2003 is $80 million -- $60 million for expansion and $20 million for rehabilitation. Although this money is dedicated to the roads in rural areas, it is only about 10 percent of TxDOTs total expenditures for the farm-to-market road system, which TxDOT commissioner Robert Nichols informed the committee was $739 million in 1999.

Rural Texas would benefit from the allocation of significant new funds for maintenance of the FM system, either by appropriation or reallocation internally by TxDOT.

Rural Texas would benefit from the allocation of significant new funds for maintenance of the FM system, either by appropriation or reallocation internally by TxDOT. TxDOT has provided the Select Committee with information that additional funding now will save money in the long run, as it will mitigate the cumulative effects of deterioration.

In addition, the quandary over how to finance county roads and bridges continues to be important and unresolved. This issue has been considered by previous legislatures and reviewed by the House Committee on Transportation. It is apparent that there are no easy answers here and the Select Committee will defer to the leadership of the Transportation Committee.

Rail Service

Another problem facing rural transportation in Texas is the decline of rail service. According to testimony given the committee, Texas has lost 4,000 miles of rail lines since 1980, in contrast to the 1,500 miles lost

in the entire period between World War II and 1980.[20] The lines were lost in part due to mergers, but also, in part, because they were uneconomical. Abandoned rail lines are lost forever. Once they are taken up and sold as salvage, they will never be replaced.

Rail transport has many advantages. It remains the cheapest means of bulk transport, and rail cars can carry three to four times the weight of the heaviest trucks allowed on the highways. For these reasons rail transport has the potential to alleviate the deterioration of rural roads, to lessen the cost of moving rural products to markets, and to mitigate the deterioration of air quality.

Mergers in the wake of the 1980 federal deregulation of railroads have contributed to the high rate of rail abandonments, and many lines are uneconomical. However, rail lines are basic infrastructure, and the state should seek to save those that have the potential for economic viability.

TxDOT is seeking an appropriation that would allow it to purchase critical rail lines to prevent abandonment, and then to lease those lines for commercial operation. We believe this idea has merit and that it is also appropriate for the areas receiving the economic benefit of the lines to contribute a portion of the acquisition cost. Such contributions are possible throughout the formation of rail districts by the respective commissioners' courts.

Natural Resources and Rural Texas

Texas is blessed with abundant natural resources, but increasing population and industrial growth increase the pressures endangering our clean water and clear skies. Rural Texas is home to a majority of the state's reservoirs, and vast portions of our major aquifers underlie rural lands. But the demands on our rural water supplies are increasing, bringing the long-term viability of some of the rural water supplies into question. In addition, although we tend to think of air pollution as an urban problem, rural Texas is no longer immune from air quality regulation.

The House Committee on Natural Resources has studied and reported on all issues related to groundwater availability, including the role and needs of groundwater conservation districts to ensure effective management of the resource, and the House Environmental Regulations Committee has reviewed program options in all areas of the state for achieving and maintaining compliance with federal air quality requirements while preserving the potential for economic growth. The Select Committee defers to these standing committees and commends their work to the 77th Legislature. However, in order to provide a comprehensive overview of major issues, this report will review and highlight those of particular rural

[20] Robert L. Nichols, Texas Transportation Commission. Testimony to the Select Committee on Rural Development, February 15, 2000, Mt. Pleasant, Texas.

interest.

Water

Rural Texas relies mostly on groundwater for its water supply which, in addition to irrigating agricultural land, is used increasingly to provide drinking water for citizens in all areas of the state. The need to balance individual water rights, the state's overall need for water, the drinking water needs of urban areas, and the water needs of rural Texas are some of the most contentious and pressing issues facing legislators.

Groundwater and the rule of capture. Groundwater is water that percolates below the surface of the earth. In Texas, the right to pump groundwater is viewed as a private property right. Common law gives surface property owners the right to drill wells on their property and to capture the groundwater beneath the surface of the land for beneficial purposes. This "rule of capture" was adopted by the Texas Supreme Court in 1904 and remains the prevailing law in groundwater

disputes. The rule gives landowners a right to withdraw water from beneath their land without the threat of liability from another landowner, provided that the water is not wasted or pumped in such a way that it wilfully injures or causes subsidence to a neighbor's land.

The challenge of balancing the need for planning with the rule of capture has largely been answered by the creation of groundwater conservation districts. These may be created as special-law districts by the legislature or as general-law districts through a petition process at the TNRCC. Generally, groundwater districts are governed by locally elected directors and financed through local property taxes, various fees, or a combination of the two.

Conservation districts may establish rules to regulate groundwater pumping. The rules generally specify the location of wells or limit the amount of water produced by a well as a means to manage the groundwater resource.

The challenge of balancing the need for planning with the rule of capture has largely been answered by the creation of groundwater conservation districts.

Even though the rule of capture is recognized as the prevailing law governing groundwater pumping, the state has recognized, and the Supreme Court has reaffirmed, the need for regulation through local groundwater conservation districts, and the Texas Water Code specifies that groundwater conservation districts are the preferred method of managing groundwater. Groundwater rules supercede the rule of capture within a district.

Laws concerning the creation and makeup of groundwater districts, their size, funding and regulatory

powers continue to evolve. The importance of groundwater and its regulation behoove rural advocates to be major participants in these discussions, as they may ultimately impact such critical issues as the sale and export of groundwater, conservation requirements and priority allocations in times of scarcity.

Most of the rural areas of West Texas are included in groundwater conservation districts, but the districts are very uneven in their use of the tools afforded them, and many other areas of the state have few districts in place. This has the potential to upset the balance between state and local interests, as it gives rise to arguments that more state control is necessary to assure adequate management of this precious resource.

Surface water. While it is less important to rural Texas than groundwater, surface water still plays a vital role in rural areas. Surface water reservoirs can be beneficial to rural Texas in many ways, including the creation of new drinking water supplies. However, reservoirs also generate tremendous economic activity because of recreation activities and electric generation facilities. And the development of additional surface water, a renewable resource, will help reduce rural Texas' dependence on groundwater, a limited resource.

Unfortunately, the development of new surface water supplies has not kept pace with the increasing water demands in the state. Only five reservoir sites currently have approved TNRCC permits. These sites are all located in rural areas of the state and will create more than 500,000 acre feet of water. Yet, only two sites are in the preliminary construction phases, and the three remaining sites may require additional permits from the Army Corps of Engineers and other entities. It is usual for it to take up to 20 years to plan, permit and construct a reservoir.

The state has required that all Texas communities plan to develop the water supplies necessary to meet their needs for the next 50 years. However, rural regions may find that the great expense and limited financing options effectively preclude surface water development from their plans.

Currently, the state makes loans through the Texas Water Development Board (TWDB) to local entities to finance the acquisition, improvement, extension, or construction of dams, reservoirs and other water storage projects. While these loans are beneficial in terms of interest rates, financing major surface water projects is difficult because it takes so long to complete the project. Typically, an entity may be required to begin debt service on the loan in as few as seven years, while the project may take in excess of 20 years to complete. As a result, entities must begin loan payments without the ability to sell the resource--impounded water--necessary to generate revenue. In regions with limited economic activity, small populations and small tax bases, this is impossible.

At least one solution to the problem has been suggested . The state could assume more of the cost of reservoir development and, in return, hold some of the water developed in trust for short-term use. Regardless of whether the water is used for rural or urban needs, the state would have the flexibility to direct it to the most beneficial purposes.

The importance of surface water, and the current impediments to developing it, make it imperative that this and any other constructive suggestions are given due consideration.

Junior Water Rights. The Texas Water Code contains a provision that makes the transfer of a surface water right from one basin to another junior in priority to other water rights within the transferring basin. Supporters of this provision, known as junior water rights, say it is designed to ensure water supplies within the basin of origin during times of drought. Opponents claim that junior water rights create a barrier to the movement of water that is needed to address the demands created by the population growth of the state.

Even though rural Texas relies more heavily on groundwater, surface water supplies are integral to the economic health of rural Texas. Rural communities depend on lakes and flowing rivers to support local businesses; electric companies need sufficient supplies of water to meet their generation needs; and some agriculture producers rely on surface water for irrigation or water for livestock. As a result, the legislature must ensure that sufficient water supplies are available at all times for rural Texas, and the junior water rights provision helps accomplish that goal. However, alternatives to transferring water rights, such as long-term contract sales of water or the creation of

economic development funds within the transferring basin should be considered during the coming legislative session.

Water quality. Problems of water quality are just as serious, and in some areas more serious, than those affecting quantity. New TNRCC rules threaten to shift significant pollution control responsibility to rural areas, and to agricultural producers in particular. Also, numerous rural water systems need maintenance and upgrades that small communities simply cannot afford without help from the state.

TNRCC's new statewide approach to watershed management shifts the focus of pollution prevention from one of looking solely at the "point sources" of pollution to one that examines the overall health of the water quality in a watershed. The program assesses the "total maximum daily load" (TMDL) of pollutants a water body can assimilate and still meet water quality standards. To determine the TMDL for a water body, the TNRCC must account for all sources of pollution, including non-point source runoff. A watershed that is out of compliance with quality standards will have to devise and implement a plan to become compliant.

Rural landowners may have to submit plans to control runoff from agricultural land, thus increasing costs of agriculture production. And rural cities and towns may face increased permitting costs for their wastewater plants.

Thus, for the first time, rural landowners may have to submit plans to control runoff from agricultural land, thus increasing costs of agriculture production. And rural cities and towns may face increased permitting

costs for their wastewater plants. They may also be required to install additional processing equipment to meet lower pollutant discharge limits.

Importantly, diverse constituencies within rural areas may come into conflict with one another as they go through the process of negotiating the elements of a compliance plan.

The Texas Soil and Water Conservation Board now administers the state's non-point source pollution program, which facilitates voluntary efforts to mitigate such pollution. Both TNRCC and the Soil and Water Conservation Board are under Sunset review, and their Sunset legislation should be closely attended by rural constituencies.

Diverse constituencies within rural areas may come into conflict with one another as they go through the process of negotiating the elements of a compliance plan.

Many water systems in rural Texas have exceeded their designed life and are in need of repair. Estimates for replacing these aging systems easily run into the billions of dollars. Not only will new federal regulations drive the time frame for many of these upgrades, but cities and towns also will find that upgrades will be necessary to meet the demands of population growth and new industrial customers.

The funding sources for these upgrades are limited. Rural systems compete for limited grants available through the U.S. Rural Development Office, TWDB and the Community Development Block Grant Program. More often than not the demands on these grant funds exceed their availability, and communities must look to the TWDB for low cost loans.

Even low interest loans can create long-term debt problems for rural cities, as the loan payments often must be spread among fewer rate payers. And very small cities face unique problems in terms of the costs required just to prepare and review the bond and loan packages needed to finance the upgrades. In some instances, the costs for bond counsel and consultants can exceed the costs of the upgrades.

The only solution for these problems is for the state or federal government to provide money and technical help to these small, rural water and wastewater systems. We recognize that solving the problem in a single session is not likely, but we urge the appropriate legislative leaders and committees to be mindful of these funding needs and to be vigilant in the search for solutions.

The legislature should also consider allowing the use of promissory notes or loan agreements, which are less costly financing methods than bonds, for very small projects. The use of these debt instruments must be limited for small, rural general law cities and other governmental entities when the costs associated with securing debt through bonds are too expensive.

Air Quality

Most of the state's urban areas suffer from poor air quality. Rural citizens have thought of air pollution mainly as a metropolitan concern, but rural Texas is no longer immune from air quality regulation. The TNRCC claims that vast areas of the state contribute to the poor air quality in the metropolitan areas. To address this, the TNRCC has expanded some regulations to rural parts Texas to help major metropolitan areas achieve clean air goals established by the federal government.

Until recently, the TNRCC has limited most of its air pollution control measures designed to achieve federal clean air guidelines to the non-attainment areas. This approach seemed to make sense: limit the scope of control measures to those areas where a demonstrated problem exists. The Select Committee on Rural Development is not in a position to dispute the TNRCC's conclusions on the impacts of air pollution across vast areas of the state. The Select Committee does believe, however, that the shift in regulatory controls needs to be examined not only in terms of the impact on rural Texas, but also in terms of effectiveness in controlling pollution from the urban areas.

Finally, the Select Committee notes that the U.S. Environmental Protection Agency (EPA) has proposed changes to the air quality particulate standards. These changes may increase the controls on particulates and add new controls for fine particulates. The proposals are subject to a review by

the U.S. Supreme Court, and they may be altered in the near future.

If a new particulate standard is upheld by the Court, the TNRCC will have to issue rules to achieve the new standards. Because of the very nature of rural areas, many of these rules may impact rural Texas in ways that burden agricultural production, which is a natural producer of dust particles.

While state government has little opportunity to affect these federal decisions, it is important to highlight this new, burdensome possibility as an additional challenge to rural producers.

Oil and Gas

Despite almost 30 years of declining reserves and production, oil and gas exploration and production remains an anchor industry for Texas. Its importance in rural Texas is easily documented. Rural counties accounted for 75 percent of the state's oil and gas production in 1999; in almost one of every three Texas counties, oil and gas constitutes at least 20 percent of the property tax base, and in one of every eight counties, it accounts for over 50 percent of the tax base. USDA classifies 30 Texas counties as "mining dependent," meaning that at least 15 percent of all labor and proprietor income come from mining (i.e., oil and gas).

The importance of oil and gas in rural Texas is even greater than the above numbers reflect. Most of the rural counties that are heavily dependent on oil and gas are small and remote with little appeal for tourism and some of the other important transition industries. Also, oil and gas jobs pay wages well above the average for rural jobs in general, and these jobs can be accessed without higher education degrees. Oil and gas exploration has a high multiplier effect compared to other industries. Finally, many of the high-wage jobs in this industry are held by Hispanic Texans who, as seen above, are becoming a larger part of the rural workforce.[21]

Severance tax relief will be a significant issue for the 77th Legislature. From the perspective of rural development, we believe that drilling and production* are the principal activities directly affecting employment and preservation of the tax base. In order to assure the greatest benefit to rural areas from any severance tax relief, the relief should be linked to these activities, especially drilling.

* There are certainly other important benefits, including lease and royalty payments to rural citizens. However, we have no statistics to show how much of these payments are flowing to rural citizens as more leases and land are owned by urbanites.

Housing

It is well accepted that the supply of safe, decent and affordable housing for low income Texans is inadequate in both rural and urban areas. However, rural areas face a number of special problems. Constructing housing projects is extremely complex, requiring specialized expertise and partnering among builders, developers, bankers, local and state officials, regulators and others. Smaller cities are less likely to have all of the necessary players and the level of expertise needed to effectively coordinate efforts to complete a project.

Housing projects in rural areas are likely to be small, and this increases the cost per unit to build and maintain them. However, the main difficulty stems from the low area median family incomes (AMFI) in rural areas.

Except for the Housing Trust Fund (HTF), support for affordable housing in Texas is exclusively federal. And the HTF, with 2000-2001 appropriations of $12.6 million, is one of the smallest in the nation. While the HTF has been increased modestly, recent legislative attempts to expand it on a large scale have not been successful.

[21] Ruben Ramirez, League of United Latin American Citizens (LULAC) and chairman of he Oilfield workers Committee of the Permian Basin Petroleum Association. Testimony to the Select Committee on Rural Development, April 19, 2000, Plainview, Texas.

The greatest problem facing rural housing is that federal programs must use federal guidelines for income eligibility and maximum rent levels, and these guidelines are tied to area median incomes. For example, the Low Income Housing Tax Credit (LIHTC) Program is responsible for virtually all of the new affordable housing stock created in the last decade, and eligibility is limited to families at or below 50% or 60% of AMFI. In counties with low median incomes projects can be realized only with very deep subsidies, and these are often are not available.

The Texas Department of Housing and Community Affairs (TDHCA) has attempted to obtain beneficial modifications of the AMFI standards from the federal Department of Housing and Urban Affairs (HUD). Those efforts have not been successful but should constitute a priority for Texas representatives in Washington, D.C.

TDHCA's other major housing program is the HOME Investment Partnership (HOME) Program. HOME funds are appropriated to TDHCA for Texas' "non-participating" (i.e., rural) areas, because the "participating" (or metropolitan) areas receive direct appropriations for the same programs. Despite the allocation based on "balance of state" needs, in recent years the TDHCA has granted as much as 30% of the state's HOME allocation to urban, participating jurisdictions.

For the current funding cycle TDHCA has assured rural applicants first priority for HOME funding. This should be elevated to Department policy and anchored in state law.

Appendix A

Non-metropolitan Counties in Texas

Anderson	Blanco	Camp
Andrews	Borden	Carson
Angelina	Bosque	Cass
Aransas	Brewster	Castro
Armstrong	Briscoe	Cherokee
Atascosa	Brooks	Childress
Austin	Brown	Clay
Bailey	Burleson	Cochran
Bandera	Burnet	Coke
Baylor	Calhoun	Coleman
Bee	Callahan	Collingsworth

Colorado
Comanche
Concho
Cooke
Cottle
Crane
Crockett
Crosby
Culberson
Dallam
Dawson
Deaf Smith
Delta
De Witt
Dickens
Dimmit
Donley
Duval
Eastland
Edwards
Erath
Falls
Fannin
Fayette
Fisher
Floyd
Foard
Franklin
Freestone
Frio
Gaines
Garza
Gillespie
Glasscock
Goliad
Gonzales
Gray
Grimes
Hale
Hall
Hamilton
Hansford
Hardeman
Hartley
Haskell
Hemphill
Hill
Hockley
Hopkins
Houston
Howard
Hudspeth
Hutchinson
Irion
Jack
Jackson
Jasper
Jeff Davis
Jim Hogg
Jim Wells
Jones
Karnes
Kendall
Kenedy
Kent
Kerr
Kimble
King
Kinney
Kleberg
Knox
Lamar
Lamb
Lampasas
La Salle
Lavaca
Lee
Leon
Limestone
Lipscomb
Live Oak
Llano
Loving
Lynn
McCulloch
McMullen
Madison
Marion
Martin
Mason
Matagorda
Maverick
Medina
Menard
Milam
Mills
Mitchell
Montague
Moore
Morris
Motley
Nacogdoches
Navarro
Newton
Nolan
Ochiltree
Oldham
Palo Pinto
Panola
Parmer
Pecos
Polk
Presidio
Rains
Reagan
Real
Red River
Reeves
Refugio
Roberts
Robertson
Runnels

Rusk

Sabine
San Augustine
San Jacinto
San Saba
Schleicher
Scurry
Shackelford
Shelby
Sherman
Somervell
Starr
Stephens
Sterling
Stonewall
Sutton
Swisher
Terrell
Terry
Throckmorton
Titus
Trinity
Tyler
Upton
Uvalde
Val Verde
Van Zandt
Walker
Ward
Washington
Wharton
Wheeler
Wilbarger
Willacy
Winkler
Wise
Wood
Yoakum
Young
Zapata
Zavala

Appendix B

Metropolitan Counties in Texas

Archer
Bastrop
Bell
Bexar
Bowie
Brazoria
Brazos
Caldwell
Cameron
Chambers
Collin
Comal
Coryell
Dallas
Denton
Ector
Ellis
El Paso
Fort Bend
Galveston
Grayson
Gregg
Guadalupe
Hardin
Harris
Harrison
Hays
Henderson
Hidalgo
Hood
Hunt
Jefferson
Johnson
Kaufman
Liberty
Lubbock
McLennan
Midland
Montgomery
Nueces
Orange
Parker
Potter
Randall
Rockwall
San Particio
Smith
Tarrant
Taylor
Tom Green
Travis
Upshur
Victoria
Waller
Webb
Wichita
Williamson
Wilson

Appendix C

Statistical Definitions for Texas Metropolitan Areas

AREA TITLE	DEFINITION
Abilene MSA	Taylor County
Amarillo MSA	Potter County
	Randall County
Austin-San Marcos MSA	Bastrop County
	Caldwell County
	Hays County
	Travis County
	Williamson County
Beaumont-Port Arthur MSA	Hardin County
	Jefferson County
	Orange County
Brazoria PMSA	
Brownsville-Harlingen-San Benito MSA	
Bryan-College Station MSA	
Corpus Christi MSA	
Dallas PMSA	

Brazoria County

Cameron County

Brazos County

Nueces County

San Patricio County

Collin County

Dallas County

Denton County

Ellis County

Henderson County

Hunt County

Kaufman County

Rockwall County

El Paso MSA

Fort Worth-Arlington PMSA

Galveston-Texas City PMSA

Houston PMSA

Killeen-Temple MSA

Laredo MSA

Longview-Marshall MSA

Lubbock MSA

McAllen-Edinburg-Mission MSA

Odessa-Midland MSA

San Angelo MSA

San Antonio MSA

Sherman-Denison MSA

El Paso County

Hood County

Johnson County

Parker County

Tarrant County

Galveston County

Chambers County

Fort Bend County

Harris County

Liberty County

Montgomery County

Waller County

Bell County

Coryell County

Webb County

Gregg County

Harrison County

Upshur County

Lubbock County

Hidalgo County

Ector County

Midland County

Tom Green County

Bexar County

Comal County

Guadalupe County

Wilson County

Grayson County

Notes:

MSA=Metropolitan Statistical Area

PMSA=Primary MSA

CMSA=Consolidated MSA

Texarkana (TX-AR) MSA

Tyler MSA	Bowie County, TX
Victoria MSA	Miller County, AR
Waco MSA	Smith County
Wichita Falls MSA	Victoria County

McLennan County

Archer County

Wichita County

Appendix D

SB 560, 76th Legislature, PURA, Chapter 51, Sec. 51.001 (g)

It is the policy of this state to ensure that customers in all regions of this state, including low-income customers and customers in rural and high cost areas, have access to telecommunications and information services, including interexchange services, cable services, wireless services, and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at prices that are reasonably comparable to prices charged for similar services in urban areas.

PURA, Chapter 55,Sec. 55014 Provision of Advanced Telecommunications Services.
(a) In this section, "advanced service" means any telecommunications service other than residential or business basic local exchange telephone service, caller identification service, and customer calling features.

(b) This section applies to a company electing under Chapter 58 or a company that holds a certificate of operating authority or service provider certificate of operating authority.

(c) Notwithstanding any other provision of this title, beginning September 1, 2001, a company to which this section applies that provides advanced telecommunications services within the company's urban service areas, shall, on a bona fide retail request for those services, provide in rural areas of this state served by the company advanced telecommunications services that are reasonably comparable to the advanced services provided in urban areas. The company shall offer the advanced telecommunications services:

(1) at prices, terms, and conditions that are reasonably comparable to the prices, terms, and conditions for similar advanced services provided by the company in urban areas; and

(2) within 15 months after the bona fide request for those advanced services.

(d) Notwithstanding any other provision of this title, a company to which this section applies shall, on a bona fide retail request for those services, offer caller identification service and custom calling features in rural areas served by the company. The company shall offer the services:

(1) at prices, terms, and conditions reasonably comparable to the company's prices, terms, and conditions for similar services in urban areas; and

(2) within 15 months after the bona fide request for those services.

(e) This section may not be construed to require a company to:

(1) begin providing services in a rural area in which the company does not provide local exchange telephone service; or

(2) provide a service in a rural area of this state unless the company provides the service in urban areas of this state.

(f) For purposes of this section, a company to which this section applies is considered to provide services in urban areas of this state if the company provides services in a municipality with a population of more than 190,000.

(g) Notwithstanding any other provision of this title, the commission has all jurisdiction necessary to enforce this section.

Added by Acts 1999, 76th Leg., ch. 1212, §§ 20, eff. Sept. 1, 1999.

Appendix E

SB 1343

North Carolina Governor Jim Hunt signed into law SB 1343 in July 2000:

GENERAL ASSEMBLY OF NORTH CAROLINA SESSION 1999 SENATE BILL 1343 RATIFIED BILL AN ACT TO CREATE THE NORTH CAROLINA RURAL INTERNET ACCESS AUTHORITY AND TO DIRECT THE REGIONAL PARTNERSHIPS, WITH THE ASSISTANCE OF THE NORTH CAROLINA RURAL ECONOMIC DEVELOPMENT CENTER, TO STUDY AND REPORT ON THE INFORMATION TECHNOLOGY INFRASTRUCTURE AND INFORMATION TECHNOLOGY NEEDS OF THE STATE. The General Assembly of North Carolina enacts: Section 1. Article 10 of Chapter 143B of the General Statutes is amended by adding a new Part to read: "Part 2E. North Carolina Rural Internet Access Authority. "§§ **143B-437.40. Short title and intent.** This Part is the `North Carolina Rural Internet Access Authority Act.' The General Assembly finds as follows: (1) Access to computers and the Internet, along with the ability to effectively use these technologies, are becoming increasingly important for full participation in America's economic, political, and social life. (2) Affordable, high-speed Internet access is a key competitive factor for economic development and quality of life in the New Economy of the global marketplace. (3) In the digital age, universal connectivity at affordable prices is a necessity for business transactions, education and training, health care, government services, and the democratic process. (4) Unequal access to computer technology and Internet connectivity by income, educational level and/or geography could deepen and reinforce the divisions that exist in our society. (5) The intent of the Rural Internet Access Authority is to close this digital divide for the citizens of North Carolina. "§§ **143B-437.41. Definitions.** The following definitions apply in this Part: (1) Authority. -- The North Carolina Rural Internet Access Authority. (2) Commission. -- The governing body of the Authority. (3) High-speed broadband Internet access. -- Internet access with transmission speeds of at least 128 kilobits per second for residential customers and at least 256 kilobits per second for business customers. (4) Regional partnership. -- Defined in G.S. 143B-437.21. (5) Rural county. -- A county with a density of fewer than 200 people per square mile based on the 1990 United States decennial census. "§§ **143B-437.42. Creation of Authority and Commission.** (a) Creation. -- The North Carolina Rural Internet Access Authority is created within the Department of Commerce and, notwithstanding any other provision of law, is subject to the direction and supervision of the Secretary of Commerce only with respect to the management functions of coordinating and reporting. These functions of the Secretary of Commerce are ministerial and shall be performed only pursuant to the direction and policy of the Commission. The purpose of the Authority is to manage, oversee, and monitor efforts to provide rural counties with high-speed broadband Internet access. The Authority shall also serve as the central rural Internet access policy planning body of the State and shall communicate and coordinate with State, regional, and local agencies and private entities in order to

implement a coordinated rural Internet

access policy. (b) Commission. -- The Authority is governed by a Commission that consists of 21 members, six members appointed by the Governor, six members appointed by the General Assembly upon the recommendation of the President Pro Tempore of the Senate in accordance with G.S. 120-121, six members appointed by the General Assembly upon the recommendation of the Speaker of the House of Representatives in accordance with G.S. 120-121, and the following three ex officio, voting members: the State's Chief Information Officer, the chair of the North Carolina Rural Economic Development Center, and the Secretary of Commerce. It is the intent of the General Assembly that the appointing authorities, in making appointments, shall appoint members who represent the geographic, gender, and racial diversity of the State, members who represent rural counties, members who represent regional partnerships, and members who represent the communications industry, which may include local telephone exchange companies, rural telephone cooperatives, Internet service providers, commercial wireless communications carriers, and other communications businesses. (c) Oath. -- As the holder of an office, each member of the Commission must take the oath required by Section 7 of Article VI of the North Carolina Constitution before assuming the duties of a Commission member. (d) Terms; Commencement; Staggering. -- Except as provided in subsection (f) of this section, all terms of office shall commence on August 1 of the year the appointment is made. The appointing officers shall designate one-half of their appointees to serve one-year terms; members may serve up to four consecutive one-year terms. The appointing officers shall designate their remaining appointees to serve three-year terms; members may serve up to two consecutive three-year terms. (e) Chair. -- The Governor shall designate one of the members appointed by the Governor as the Chair of the Commission. The Governor shall convene the first meeting of the Commission. (f) Vacancies. -- All members of the Commission shall remain in office until their successors are appointed and qualify. A vacancy in an appointment made by the Governor shall be filled by the Governor for the remainder of the unexpired term. A vacancy in an appointment made by the General Assembly shall be filled in accordance with G.S. 120-122. A person appointed to fill a vacancy must qualify in the same manner as a person appointed for a full term. (g) Removal of Commission Members. -- The Governor may remove any member of the Commission for misfeasance, malfeasance, or nonfeasance in accordance with G.S. 143B-13(d). The Governor or the person who appointed a member may remove the member for using improper influence in accordance with G.S. 143B-13(c). (h) Compensation of the Commission. -- No part of the revenues or assets of the Authority shall inure to the benefit of or be distributable to the members of the Commission or officers or other private persons. The members of the Commission shall receive no salary for their services but may receive per diem and allowances in accordance with G.S. 138-5. (i) Staff. -- The North Carolina Rural Economic Development Center, Inc., shall provide administrative and professional staff support for the Authority under contract. (j) Conflicts of Interest. -- Members of the Authority shall comply with the provisions of G.S. 14-234

prohibiting conflicts of interest. In addition, if any member, officer, or employee of the Authority is interested either directly or indirectly, or is an officer or employee of or has an ownership interest in any firm or corporation, not including units of local government, interested directly or indirectly, in any contract with the Authority, the member, officer, or employee must disclose the interest to the Commission, which must set forth the disclosure in the minutes of the

Commission. The member, officer, or employee having an interest may not participate on behalf of the Authority in the authorization of any contract. "**§§ 143B-437.43. Powers, duties, and goals of the Authority.** (a) Powers. -- The Authority shall have the following powers: (1) To employ, contract with, direct, and supervise all personnel and consultants. (2) To apply for, accept, and utilize grants, contributions, and appropriations in order to carry out its duties and goals as defined in this Part. (3) To enter into contracts and to provide support and assistance to local governments, nonprofit entities, and regional partnerships, in carrying out its duties and goals under this Part. (4) To review and recommend changes in all laws, rules, programs, and policies of this State or any agency or subdivision thereof to further the goals of rural Internet access. (b) Duties. -- The Authority shall have the following duties: (1) To develop and recommend to the Governor, the General Assembly, and the North Carolina Rural Redevelopment Authority a plan to provide rural counties with high-speed broadband Internet access. (2) To propose funding that may be needed from the North Carolina Rural Redevelopment Authority established in Part 2D of this Article and from other appropriate sources for incentives for the private sector to make necessary investments to achieve the Authority's goals and objectives. (3) To set specific targets and milestones to achieve the goals and objectives set out in subsection (c) of this section. (c) Goals. -- The goals and objectives of the Authority are: (1) Local dial-up Internet access provided from every telephone exchange within one year. (2) High-speed Internet access available to every citizen of North Carolina within three years, at prices in rural counties that are comparable to prices in urban North Carolina. (3) Two model Telework Centers in either enterprise tier one or enterprise tier two area established by January 1, 2002. To the extent practicable, the Centers should be established in existing facilities. (4) Significant increases in ownership of computers, related web devices, and Internet subscriptions promoted throughout North Carolina. (5) Accurate, current, and complete information provided through the Internet to citizens about the availability of present telecommunications and Internet services with periodic updates on the future deployment of new telecommunications and Internet services. (6) Development of government Internet applications promoted to make citizen interactions with government agencies and services easier and more convenient and to facilitate the delivery of more comprehensive programs, including training, education, and health care. (7) Open technology approaches employed to encourage all potential providers to participate in the implementation of high-speed Internet access with no technology bias. (8) To coordinate activities, conduct and sponsor research, and recommend and advocate actions, including regulatory and legislative actions to achieve its goals and objectives. (d) Limitations. -- The Authority does not have the power of eminent domain or the power to levy any tax. (e) Reports. -- The Authority must submit quarterly reports to the Governor, the Joint Select Committee on Information Technology,

and the Joint Legislative Commission on Governmental Operations. The reports must summarize the Authority's activities during the quarter and contain any information about the Authority's activities that is requested by the Governor, the Committee, or the Commission." Section 2. G.S. 120-123 is amended by adding a new subdivision to read: "(71) The North Carolina Rural Internet Access Authority created in Part 2E of Article 10 of Chapter 143B of the General Statutes." Section 3. Each regional partnership, as defined in G.S. 143B-437.21, shall, with the assistance of the North Carolina

Rural Economic Development Center, study the information technology infrastructure and information technology needs of each county within its particular region. Each study shall include an inventory of existing information technology infrastructure, an inventory of information technology needs, an analysis of how the information technology needs affect industrial and business recruitment, and recommendations that address the information technology needs of each region. In conducting the studies required by this section, the regional partnerships shall consider the findings of the Connect NC study. The regional partnerships may contract with the North Carolina Rural Economic Development Center as needed to undertake these studies. No later than November 1, 2001, each regional partnership shall report the results of its study, including any legislative proposals, to the Joint Select Committee on Information Technology. Section 4. This act does not obligate the General Assembly to appropriate funds. Section 5. This act is effective when it becomes law. The North Carolina Rural Internet Access Authority created in this act is dissolved effective December 31, 2003. This act is repealed effective December 31, 2003. Part 2E of Article 10 of Chapter 143B of the General Statutes and G.S. 120-123(71), as enacted by this act, are repealed effective December 1, 2003. In the General Assembly read three times and ratified this the 10th day of July, 2000.

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