Introduction and Background

Our economy and society is in constant change. As globalization is accelerating creating internationally connected economies and societies, coupled with improvements in both transportation and information technology, rural isolation is diminishing greatly. Associated with these trends is increasing competition within ever expanding market economies forcing rural communities and regions to up their community economic development investments. This e2 paper – **Funding Economic Development: *Fulfilling a Community's Responsibility*** – focuses on two important topics central to rural community vitality and prosperity: necessary community re-investment and community economic development funding.

Additional Related Resources

There are related e2 thought papers focused on funding rural community economic development. As your community digs into this topic, you might want to access and review:

- ***Funding Entrepreneurial Ecosystem Building.*** This resource provides insights and innovative thinking regarding how our rural communities can fund entrepreneurial ecosystem building and operations.

- ***Entrepreneurship and Community Philanthropy.*** This paper lays out the strong connection between wealth creation through entrepreneurship and the ability to fund economic development, and particularly entrepreneur-focused development, through community philanthropy strategies.

- While dated, a third resource is our book ***Transfer of Wealth in Rural America – Understanding the Potential, Realizing the Opportunity and Creating Wealth for the Future***. This book connects how entrepreneurs are key wealth creators but also represent potential donors and investors capable of driving community economic development.

Combined, these supplemental pieces augment this paper and can help your community explore how you can capitalize community reinvestment and economic development efforts.

Questions and Additional Information

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Why is This Important?

Throughout our e2 University Guides and papers we consistently make three important points about funding community economic development in rural America. As we explore why this topic is so important let's review these three points as captured in Figure 1 on the next page:

Figure 1 – Three Considerations for Funding Your Community's Development Efforts

Point 1 Local Responsibility	Point 2 Proper Capitalization	Point 3 Making Smart Choices
In the United States, unlike most other developed nations, community economic development is a community responsibility. While federal and state governments are resources in the U.S., the primary responsibility for funding development efforts are local entities.	The second point we make is most community economic development is grossly under-capitalized relative to the size of our communities and their economies. We share illustrations later in this paper to make this point clear. Proper and sustained capitalization is foundational to success.	Our final point is making sure your community is funding community economic development strategies that make sense given your community's genuine development opportunities and assets. Chances are good that entrepreneurship is one of those smart choices particularly for rural communities.

If our three points in Figure 1 make sense to you and your community, then we have laid the foundation for why adequately and consistently funding community economic development is so basic to every community's vitality and long-term prosperity. In a highly competitive and ever-changing world, economy and society, no community can afford to rest on past success and efforts. Community economic development is a 24-7-365-forever commitment. Communities that fail to live up to this commitment risk economic and social irrelevance and eventual decline. Our paper on **Economic Crashes** highlights the consequences suffered by communities and entire regions that failed to look toward the future and invest in their own community economic development.

Funding and Dynamic Change Rates

Funding for community economic development can vary for a number of reasons. The primary reason relates to how dynamic, stressed or stable a community's economy is and its regional situation. Let's explore each of these factors in turn:

Dynamic Economies. Dynamic economies, whether an inner-city neighborhood undergoing gentrification or a rapidly growing mid-sized metropolitan area like Columbus, Ohio, require strong flows of private, public and nongovernmental investment to support the growth. In turn community economic development budgeting is required to support smart growth policies that ensure a more efficient, green and high quality of life community over time.

Stressed Economies. The flip side of dynamic economies are communities experiencing chronic and distressed economies. For these communities there is a need to increase both community investment and development spending to move the community from stress to success. Mobilizing the funding locally to support both investment and development funding is challenged because the community is distressed. But making deep local commitments is possible and leveraging outside funding is often necessary to reach investment and funding levels sufficient to stimulate and support desired transformative change.

Stable Economies. The old saying is that you are either moving forward to falling behind. Over time this saying has truth in it. But for many communities they may experience periods, sometimes years and even decades with rural communities, where they are relatively stable economically and socially. For these communities there may not be immediate urgency for massive community investment and development funding. But in time, even stable communities must invest in their future or risk decline.

Our next stop is focused on detailing what we mean by community re-investment and development funding.

Community Re-Investment and Development Funding

Communities – their economies and societies – are dynamic and ever-changing organisms. For communities to thrive there must be continuous community investment guided by smart community economic development funding. Figure 2 provides a quick summary followed by more detailed illustrations on each of these forms of community investment.

Figure 2 – Community Re-Investment and Development Funding Defined

Community Re-Investment	Development Funding
Maintaining streets, sustaining housing stock, supporting K-12 education, improving recreational opportunities and training workforce are never-ending investments communities must make annually or risk falling behind or worst yet, moving into decline. Community re-investment includes both on-going funding of both built and human community building blocks.	While community re-investment can occur organically as a business makes improvements or a home owner replaces a roof, there are certain community investments that can be optimized by a strong community economic development infrastructure where community priorities are identified and used as a roadmap for public, private and non-governmental community investments.

Let's provide a bit more detail about community investments that are essential to ensure the built and human capital of a community are renewed at a minimum or increased in support of desired growth.

Community Re-Investment

The Community Capitals Framework

Jan and Cornelia Flora, authors and professors at Iowa State University, along with community economic developers from across the nation and world have contributed in developing the **Community Capitals Framework**. This framework is very useful when we first think about potential community re-investment priorities and eventually funding for our development efforts that can enable and guide community investment.

Community re-investment renews capital stocks in all three sectors of our communities – private, public and nonprofit. These investments essentially flow into built and human capital. But there are other community capitals for which communities may invest into and develop including: political, financial, natural, cultural, social and even spiritual capital stocks.

Figure 3 – Community Capitals Framework

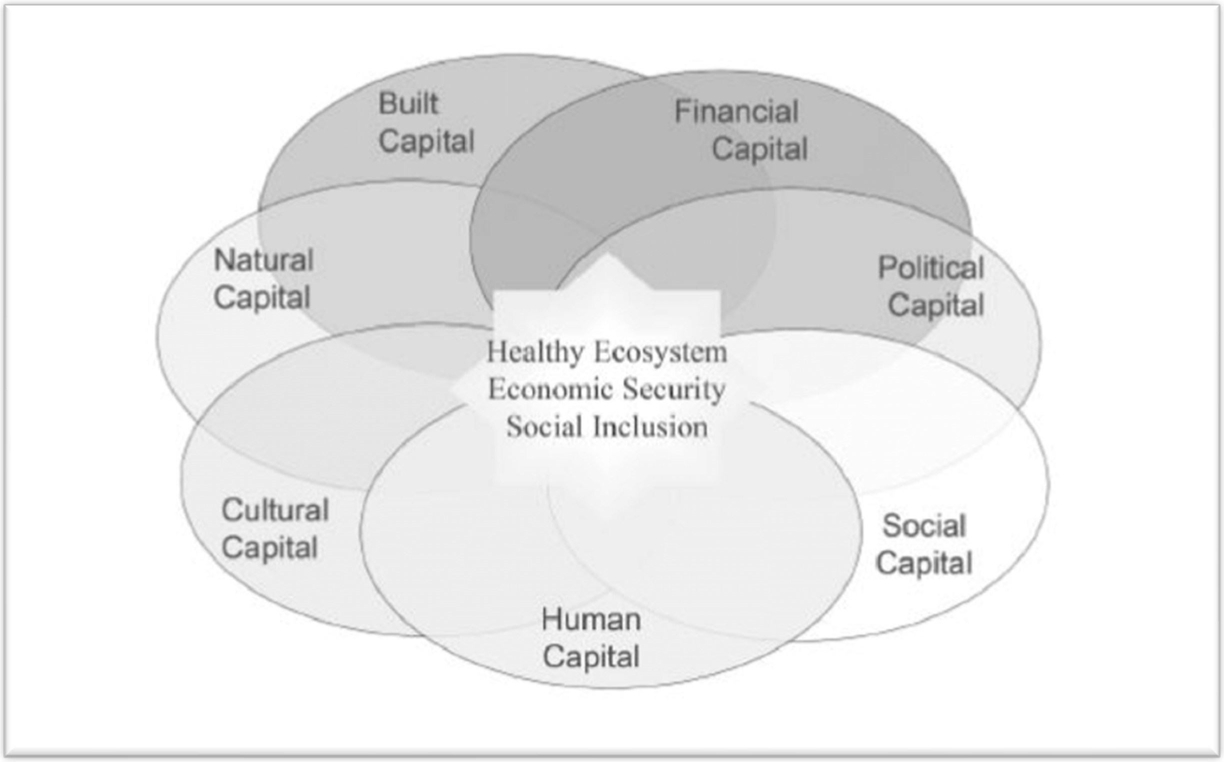

Figure 4 provides information on the kinds of community investments using our e2 Development framework.

Figure 4 – The Community Re-Investment Framework with Examples

Framework Matrix	Community Investment	Development Funding
Private	Housing Stock Business Improvements Worker Training New Businesses	Housing Development Office Main Street Program Workforce Development Program Business Assistance Network
Governmental	Community Center Parks and Recreation K-12 Education Enhancements	Community Developer & Office Recreation Department Bond Issue Team
Nonprofit	Early Childhood Care & Education Impact Investing for Housing Re-Employment Program	Staffed Nonprofit Collaboration Community Foundation Program Staffed Program

Built capital like housing, streets, schools and equipment eventually require upgrading or replacement. The built stock within any community requires constant maintenance and ultimate replacement over time. This reality requires constant community re-investment. If the community is changing or growing, new then additional investment is required to support this growth. The same is true with human capital although it is harder to visualize like a street that has been repaved. There must be continuous investments in the human capital of our communities including leadership development, education, workforce training, life-long learning related to use of information technology and the like. Our 10% target for community investment benchmarked against community economic output is a reasonable starting point for discussion.

Development Funding

Earlier in this paper we noted that community economic development is a local responsibility in the United States. While community investment occurs organically through thousands of individual decisions on a weekly basis, there is a critical need for intentional, opportunity-focused community economic development. For this work to have desired and transformative effects, there needs to be development funding including community visioning, staffing, programs, loan funds and the wide array of community economic development tools and organizational capacities.

In the United States rural communities typically fall into one of three categories with respect to development funding:

1. No Development Game Plan – Limited Funding – Possibly Most Rural Communities
2. A Development Game Plan – Under-Capitalized – Next Largest Group of Communities
3. Smart Game Plan – Robust and Consistent Development Funding – Some Rural Communities

As the old saying goes… 'you cannot reap what you do not sow.' The best community economic development game plan in the world can only have potential impact if it is properly funded, supported and executed. Appropriate development funding is essential for impactful development.

In the next section we provide three illustrations from communities of different sizes for both community investment and development funding.

Three Illustrations

We have found it helpful to provide real-life examples of how we calculate likely targeted community re-investment and development funding. Drawing from e2's decades of work in Nebraska, we are using three different communities illustrating targeted investment and development funding levels based on size and how dynamic the change rate was for each of these communities.

Benchmark Assumptions

For purposes of our analysis we are borrowing lessons learned from the corporate world where roughly speaking the target to ensure competitive and successful corporation overtime requires a 10% annual investment based on annual sales or output into plant, human talent, product and service development and the like. Additionally, at least 1% of annual output should be budgeted for activities that support growth and competitive investments (e.g., research, development, marketing, visioning, growth planning, etc.). For illustration purposes we are employing these two values benchmarked against community output – 10% for community reinvestment and 1% for community economic development budgeting.

It is important to note that there are no well-established benchmarks for community investment or development funding. We are not aware of comprehensive and accurate comparative data on what communities actually spend for re-investment or development funding. There are surveys and some information, but while it is not rigorous in our opinion it can be helpful for comparative analysis, targeting and benchmarking.

Your community might want to identify a group of **aspirational** peer communities and do your own research and analysis to provide more specific targeting. By aspirational peer communities we mean communities like yours, but you feel are doing a great job and that your community might aspire to achieve comparable levels of progress and success.

Figure 4 provides a summary of the three Nebraska communities we picked to illustrate the recommended community reinvestment and economic development funding levels.

Figure 4 – Three Communities Profiled

Metric	Red Cloud, Nebraska Webster County	Scottsbluff, Nebraska Scotts Bluff County	Grand Island, Nebraska Hall County
Demographics:			
2018 Population	3,533	35,989	61,149
Urban/Rural	Rural	Micropolitan	Small Metro
Population Change	Depopulating	Stable	Growing
2018 Estimates:			
Economic Output	$300 million	$3,126 million	$6,770 million
Value-Added	$120 million	$1,510 million	$3,072 million
Per Capita Values:			
Economic Output	$84,900	$86,900	$110,700
Value-Added	$34,000	$42,000	$50,200
Benchmarked to Rural:			
Economic Output	---	102%	130%
Value-Added	---	124%	148%

Source: e2 Entrepreneurial Ecosystems and Census Data, April 2020.

For the range of rural communities across America, these three examples provide some coverage of the diversity of rural communities including very small rural cities and counties to micropolitan sized rural communities based trade center and employment hub communities to even small metropolitan areas that are nested in predominately rural regions. You will notice (check out per capita benchmark values) that as we progress from Red Cloud to Grand Island the economies and societies typically become more complex as illustrated by higher per capita economic output and particularly value-added estimates. This data reflects the on-going hierarchy of communities' theory common with economic geography or regional economics.

In Figure 4 it is important to note that Red Cloud is losing population, Scottsbluff has relatively stable population and Grand Island is seeing good growth. Community investment is a function of what is possible at any given time in specific communities. But development funding needs to correlate to both opportunity and need. Red Cloud has increased its development funding to address economic and population decline resulting in increased community investment through development projects.

Figure 5 provides estimated annualized community re-investment target levels and estimates optimal community economic development budgets for each of these three communities:

Figure 5 – Targeted Community Reinvestment and Development Budgets

Metric	Red Cloud, Nebraska Webster County	Scottsbluff, Nebraska Scotts Bluff County	Grand Island, Nebraska Hall County
Annualized Values:			
Community Reinvestment	$30 million	$313 million	$677 million
Development Budget	$1 million	$31 million	$68 million
Per Capita Values:			
Community Reinvestment	$8,500	$8,700	$11,071
Development Budget	$280	$860	$1,100
Benchmarked to Rural:	---	102%	130%
Community Reinvestment	---	307%	393%
Development Budget			

Source: e2 Entrepreneurial Ecosystems and Census Data, April 2020.

In Figure 5 we provide rule of thumb targeted annual community re-investment and development funding levels on both an absolute and per capita benchmarking basis. These are estimates and actual values for specific communities will need to vary based on their opportunities, challenges and expectations.

Red Cloud and Webster Valley has less capacity to fund its development efforts but possibly a greater need for increasing development due to its decades of decline and population loss when compared to Scottsbluff and Grand Island. Both of these cities/counties have higher targeted development budgets because they have inherently more development opportunities and the capacity to support larger budgets relative to their population bases. Community investment is a function of size and community complexity. Simply put larger and more complex communities require higher levels of community investment relative to smaller and less complicated communities.

A Bridge Too Far?

We began to use these kinds of illustrations 20 years ago as part of our HomeTown Competitiveness work with the W.K. Kellogg Foundation. Initial community reactions were disbelief. But when communities like Red Cloud accepted that their economy generates $300 million annually, these targets fall into more reasonable context. Even the most committed communities struggle to hit these targets and particularly the development budget thresholds. But these targets are yardsticks your community can use to vision and set goals. Without robust and sustained community re-investment and development funding, the prospects for growing better and more vibrant communities becomes much more challenging.

Our final section in this paper focuses on some considerations related to how your community can ensure it has the funding it needs to support development efforts and leverage community investment.

Ensuring Your Community Has the Development Funding It Needs

We wrap up this paper on **Funding Economic Development** with the following considerations:

1. Commitment
2. Understanding Your Community Developmentally
3. Aspiring Peer Communities
4. Engaging Your Community's Stakeholders
5. Using our Other Work as Resources

Staffing Matters

As part of your community's development funding, adequate and stable staffing is very important. While staff cannot and should not replace the work of boards and volunteers, it can greatly increase the capacity – both hours and skills – necessary for effective, efficient and impactful community economic development. With the right kind of staffing, volunteer engagement and sophistication will likely increase exponentially expanding your community's capacity to undertake a range of development activities at any given time. It is important that the relationship between staff and boards/volunteers is appropriately defined or this opportunity for leverage can be lost.

Staffing continuity is very important. Where there is constant churn in staff there is associated disruptions in the work and erosion of progress. While staff will come and go, the ability to "career track" great staff so they are motivated to stay should be part of your community's development funding game plan.

Let's explore each of these funding considerations that can contribute to your community's success in growing and sustaining your development budget:

Commitment. The starting point for growing a robust development budget is a commitment by key stakeholders in your community who are fully vested with the community's responsibility for its own development and future. Where there is deep and broadly shared commitment, the ability to raise and commit funding becomes more feasible. With evidence of impact these same stakeholders are more likely to not only continue their support but expand it. Additionally, other potential funders with demonstrated success are more likely to become engaged broadening and diversifying your funding base and increasing resource commitments.

Understanding Your Community Developmentally. In order for your commitment to set the right development funding goals and ultimately community investment objectives, it is important for your community to understand where you are at developmentally. If you are a community that is stressed and in decline, you have the challenge of upping your commitments to turn your community around. For communities that are doing better and growing you have both the challenge and opportunity to up your development game and funding to enable these growth opportunities.

Aspiring Peer Communities. While we have estimated likely development funding and community investment targets in this paper, they are just that, targets. For your community to set more specific and defensible goals we encourage you to identify three to five communities that are comparable to your community but are doing better because of their development efforts. These communities can inform your stakeholders as to funding and staffing levels and the corresponding community investment being leveraged. Taking time to do this bit of homework can help your community refine its goals but also learn more about why these other communities are doing better. Chances are good that these other communities are willing to share budgeting, staffing, fundraising and other critical operational information that can help your community detail your game plan.

Engaging Your Community's Stakeholders. It is critically important that your community's stakeholders engage in this process. Collective learning and processing of information can foster consensus that enables strong commitments and actual resource mobilization. Avoid the trap of this work being delegated too much to an individual or small group. Making sure the leadership of all likely stakeholder groups are engaged is an important process design consideration.

Using our Other Materials as Resources. At the very beginning of this paper we recommended two other papers e2 has published focusing on funding economic development and particularly entrepreneurship development. Central within these papers is the potential role of successful businesses and the entrepreneurs within them to provide charitable underwriting and ultimately endowments that provide predictable and everlasting funding. With foundational support the ability to leverage and keep other funders (e.g., government, banks, utilities, major employers, etc.) becomes easier and more likely.

Developing Funding Leverages Community Investment

Where there is vision and opportunity, the potential to leverage community investment typically increases significantly. Funding your community's development efforts adequately is likely to broaden and deepen your community's vision of what is needed to make it a more vibrant and prosperous community. Attracting capital, whether from within or external to your community, increases with clearly defined projects and investments that will make a real difference. We encourage you to focus first increasing development funding and then track investment leverage linked to your development works.

It is our hope that this paper is helpful to you and your community as your work to leverage and mobilize the development resources and community investment you need to grow a more successful community over time. Remember, …'if not you, who?'