Written Statement for the Record

The Honorable Robert Boyd
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On Behalf of the National Association of Counties

for the hearing

"Struggling to Grow: Assessing the Challenges for Small Businesses in Rural America"

before the

Committee on Small Business
Subcommittee on Economic Growth, Tax and Capital Access
United States House of Representatives

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Introduction

Chairman Huelskamp, Ranking Member Chu and Members of the Subcommittee, thank you for the opportunity to testify today on both the challenges and opportunities that small and rural economies and small businesses are facing in our current economic climate.

My name is Robert Boyd and I serve on the board of county commissioners for Riley County, Kansas. I am also here today representing the National Association of Counties (NACo).

In addition to serving as a county commissioner, I am a military veteran and small business owner. I hail from a military family and served in the U.S. Army from 1968 to 1988. After retiring as an Army Aviator, I worked for Northwest Airlines as a commercial pilot. Prior to retiring as a commercial pilot in 2008, I started a local dry-cleaning business, which I still own and operate today. Our small company has grown into partnerships of dry cleaners and laundromats in our area, along with business consulting services, aviation management services and franchise restaurants in the Midwest.

In 2012, my desire to help others thrive in the local marketplace led me to run for office and I was elected to serve on the Riley County Board of Commissioners. As a county commissioner, I carry with me that same commitment to developing entrepreneurs and small businesses in an effort to strengthen our local economy which is why I am honored to participate in this hearing today.

Stronger Counties, Stronger America

Founded in 1935, NACo is the only national organization that represents our nation’s 3,069 counties and brings together county officials from across the country to advocate with a collective voice on national policy, exchange ideas and build new leadership skills, pursue transformational county solutions, enrich the public’s understanding of county government and exercise exemplary leadership in public service.

As key intergovernmental partners with the states and federal government, counties are responsible for delivering a broad array of programs and services that provide a foundation for prosperous communities with strong and stable economies. To achieve this foundation, counties make significant investments in our nation’s essential infrastructure; maintain our nation’s justice and public safety system; and invest in public health, including hospitals, nursing homes and mental health programs. And in an election year such as this, counties are responsible for administering fair and transparent federal, state and local elections.

County government provides these vital services to more than 308 million residents, collectively investing over $554.5 billion annually and employing over 3.6 million people to serve the public.

Specifically, as it relates to this hearing, counties also make significant contributions to economic development at the regional and local levels and take a leadership role in coordinating local workforce development and job training programs. Nationally, counties invest close to $11 billion in housing and community development annually.

Although we have various governmental structures, authorities and responsibilities under state law, all county governments are on the front lines working to build healthy, vibrant and safe communities across America.

<u>About Riley County, Kansas</u>

Counties are highly diverse, not only in my home state of Kansas, but across the nation, and vary immensely in size, natural resources, social and political systems, and cultural, economic, public health and environmental responsibilities.

My county, Riley County, Kansas, is a small to mid-sized county with a mix of both rural and urban components. We currently have 75,247 residents across 622 square miles and are blessed to be the home of the Fort Riley military base and Kansas State University which are major economic engines for our local economy and our surrounding communities.

Located right in the middle of the country, Kansas has long been known for our agriculture, transportation and energy industries. Since much of the state is rural, small businesses are also a critical component of our local economy. In fact, in the state of Kansas, there are over 246,000 small businesses that employ almost 600,000 workers. [1]

While we hear on the news almost daily that the national economy has recovered after the Great Recession, it has been more challenging to see those positive effects in our state and county – and in rural counties across America. National or state economic data do not tell what is happening on the ground, where every county and local community also has its own unique set of circumstances and its own challenges and opportunities.

[1] U.S. Small Business Administration, 2016 Small Business Profiles for the States and Territories. Available at https://www.sba.gov/sites/default/files/advocacy/Kansas.pdf

Although the national economy has recovered, many county economies are still struggling

To help provide a national perspective on how county economies are faring from year to year, NACo releases *County Economies*, an annual report examining economic recovery and growth patterns across the nation's 3,069 county economies. The report is developed from an analysis of data from Moody's Analytics and focuses on the annual changes in four economic performance indicators in each county: economic output (GDP), employment, unemployment rates and median home prices. For the 2015 edition, the report also has an analysis of wage growth for county economies, based on U.S. Bureau of Labor Statistics (BLS) data.

Nationally, counties across the country showed signs of economic recovery in 2015, particularly on unemployment rates and home prices. For instance, 462 county economies closed their unemployment gaps and 448 counties saw their median home prices reach pre-recession peaks.

But the outlook specifically for our nation's rural and small counties is more challenging. Only 306 small county economies closed their unemployment gap in 2015 – up from 150 in 2014 – and just over 100 small county economies closed their economic output (GDP) gap in 2015. Further, almost half of our nation's small counties saw a decline in economic output (GDP) for 2015 – particularly rural and small counties in Southern and Midwestern states such as Georgia, Illinois, Kansas, Kentucky, Mississippi, Missouri, Nebraska and Texas.

In total, only 214 county economies have fully recovered to their pre-recession levels by 2015 and 16 percent, or 478 counties, have yet to recover on any of the four economic indicators. Many counties are still experiencing the severe impacts of the latest recession. [2]

My home state of Kansas has also struggled to recover. Prior to the Great Recession, Kansas' economic output was actually growing at a must faster rate than the rest of the country. However, when the recession hit in 2008, our statewide economic output (GDP) fell further and continues to grow slower than the rest of the nation, particularly slower since 2011. [3]

The overwhelming majority of Kansas county economies (100 of 105) have seen job losses or flat employment levels. Sixty-four of the 105 Kansas counties have seen declines in their economic output.

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[2] Istrate, Emilia, Brian Knudsen. County Economies 2015: Opportunities and Challenges, Washington D.C.: National Association of Counties. Available at http://www.naco.org/sites/default/files/documents/2016%20CET-report_01.08.pdf

[3] Menzie Chinn, Kansas in (Technical) Recession. Available at http://econbrowser.com/archives/2016/06/kansas-in-technical-recession

Further, only one of the 105 county economies in the state has seen higher job growth in 2015 relative to the previous year.

Riley County has only recovered to pre-recession levels in two of the four economic indicators NACo examines. While we have seen progress in economic output (GDP) and home prices, we are still struggling with jobs and unemployment rates which have not returned to pre-recession levels. As a result, we observe that young people graduating from Kansas State University do not seem as inclined to stay here to establish new businesses as they once were. Today's graduates are largely moving to other states and communities with greater employment opportunities.

Many of the surrounding rural counties in my area are experiencing an even slower economic recovery than ours. None of the six counties around Riley County have recovered on all four economic indicators. While some have recovered on economic output (GDP), four of the six surrounding counties saw a fall in their GDP within the last year. In addition, five of the six neighboring counties saw job losses in 2015.

Wabaunsee County, Kansas has experienced the hardest time recovering to levels seen before the recession. This a small county with about 7,000 residents. The county economy has not closed its recession gaps on any of the four indicators analyzed. For example, for five consecutive years, the economy lost jobs between 2004 and 2009. This is much longer than the national rate, as the job gap for an average county economy lasted only three years (between 2007 and 2010). Its unemployment rate almost doubled between 2006 and 2009, soaring from 3.7 percent to 7.2 percent.

Our nation's small and rural counties face unique challenges

Unfortunately, many rural counties across the country face similar headwinds. Small counties have to provide the same mandatory services and comply with the same regulations as our suburban and urban counterparts do. And we must do so with limited ability to raise revenue.

Local property taxes remain the major source of revenue for small counties like Riley County – accounting for 56 percent of total revenue for Kansas counties in 2014. Thus, trends in property values can significantly impact county revenues and expenditures. Declining property values push tax rates up and force counties to either find alternate revenue sources or cut spending. In addition, 43 states impose some type of limitation on counties' ability to increase property taxes, further limiting our options.

Moreover, we also confront complex and costly regulatory mandates that can limit local recovery and economic growth. Federal agencies have issued an increasing number of regulations in recent years. In

2015, only 114 laws were enacted by Congress, compared to the 3,140 rules issued by federal agencies.[4] According to the White House Office of Management and Budget (OMB), unfunded mandates from federal rules and regulations cost local governments, our citizens and businesses between $57 billion and $85 billion a year.[5]

In fulfilling our mission to deliver public services to our residents, we are not only subject to state and federal regulations, but also help to implement them at the local level. Therefore, as both regulated entities and regulators, it is critical that counties are fully engaged as intergovernmental partners throughout the entire federal regulatory process.

This growing number of regulations comes at a time when counties – regardless of size – are experiencing significant fiscal constraints and our capacity to fund compliance activities is often limited.

We thank this Committee for its ongoing work to examine the impacts of proposed federal regulations on small jurisdictions and small businesses, and we will continue to work with our federal partners to ensure that the challenges facing small jurisdictions are fully considered.

Despite these challenges, small and rural counties play an important role in strengthening our local communities and economic opportunity

The vitality of rural county economies can be as unique as the county itself. While small and rural economies face distinctive challenges, we also possess unique opportunities. Today, rural counties must work together to leverage our assets to ensure the stability and strength of our local and regional economies.

Together with partners, we find solutions to the most pressing economic development problems facing our communities. Each initiative is unique, aimed at solving an economic problem within the framework of specific local resources and constraints. State authority, county capacity and resources, and the convening power of counties, all shape our response to local challenges.

Counties work to strengthen their local economies in several ways.

[4] Competitive Enterprise Institute, Ten Thousand Commandments: An Annual Snapshot of the Federal Regulatory State (2016 Edition)

[5] Office of Management and Budget, Office of Information and Regulatory Affairs, Executive Office of the White House, 2015 Draft Report to Congress on the Benefits and Costs of Federal Regulations and Agency Compliance with the Unfunded Mandates Reform Act, (2015)

First, we are increasingly collaborating regionally. We work with our neighboring counties to look at not only our individual assets, but our combined assets and market this greater regional economy. Effective marketing for economic development involves not only identifying a region's unique competitive advantage, but also communicating the value of that advantage to companies both inside and outside the region. The marketing effort must rely on tangible assets that create comparative advantages for the region.

Second, counties are also engaging in a range of entrepreneurship and small business development programs from financing to training in order to help businesses create jobs in the community.

Business accelerators exchange small amounts of equity for capital and mentorship, while business incubators support start-up companies through subsidized or free office space or an ongoing mentorship program with established businesses. This support system may take a variety of organizational formats, including county economic development programs or initiatives delivered through non-profit organizations or universities.

Counties also participate in developing training programs for entrepreneurs and small-business owners to help them grow their businesses and in the process generate more jobs, greater revenues for the business and increased tax revenues for the county. Training programs can take many different forms, but most emphasize the importance of equipping trainees with skills in creative thinking, best business practices and problem-solving.

We also provide financing to small businesses by facilitating their access to federal or state loan programs or by leveraging private lenders through matching funds for capital access programs. Some counties have their own loan programs, such as revolving loan funds, to target business owners who might not otherwise qualify for a traditional bank loan. These programs can be capitalized by a county's own revenue, bonds and state appropriations.

For example, Renville County, Minn. operates a revolving loan fund to help local businesses create and retain jobs, with a goal of securing one job for each $10,000 of loans. NACo's 2014 report *Cultivating a Competitive Advantage*, highlights how Yellowstone County, Montana is using a multi-pronged approach to economic development. Through the Big Sky Economic Development organization (BSED), the Billings-Yellowstone County Metropolitan Planning Organization (MPO) and the City College at Montana State University Billings (MSU Billings), Yellowstone County is able to leverage regional assets to attract businesses and pursue various economic development goals. This public private partnership has highlighted the region's high quality of life and economic opportunities to attract existing and expanding businesses while creating hundreds of new jobs in Yellowstone County alone.

Fourth, we make substantial investments in infrastructure. Investments in infrastructure systems – roadways, bridges, transit, railroads, water, sewer, intermodal connectors and telecommunications systems – result in higher property values and quality-of-life improvements, affect business decisions and connect communities into thriving regional economies. Telecommunication infrastructure is especially helpful in rural or technologically underserved counties. Specifically, investment in broadband access helps counties to attract a skilled workforce or overcome issues of geographic isolation. Due to high capital costs associated with public infrastructure, counties frequently collaborate with regional public or private partners to finance, build and maintain infrastructure projects of all sizes and levels of complexity.

Many counties also engage in long-term planning for disaster preparedness and industry diversification to stay resilient in the face of disruptive events. Such events can range from immediate-impact incidents including natural disasters, closings of a main plant in a county to more long-term processes — the decline of a major industry and slowing demand in internal markets. Some federal policy decisions such as the U.S. Department of Defense or U.S. Department of Energy facilities realignment or specific environmental regulations can also have a disruptive effect on some counties. Diverse local economies, with employment, sales and tax revenue distributed broadly across a number of sectors, are more resilient to economic shocks. This leads to more certainty in county budgeting and planning and better quality of life for residents.

These examples are just a snapshot of the ways that counties are working to help our local economies. Regardless of the economic uncertainty faced by many counties throughout the country, we must continue to deliver critical services to our residents in order to provide the basic building blocks for future growth.

Conclusion

In conclusion, Chairman Huelskamp, Ranking Member Chu and members of the committee, while some county economies have seen improvement, there is still a long way to go, especially in rural America. With improved collaboration and flexibility from our intergovernmental partners at the federal and state levels, counties can provide the public services and basic infrastructure needed for economic growth and opportunity.

NACo will continue to monitor the progress of our national economy through the lens of our nation's counties. Small businesses are a critical to the local economy and even drive some of our nation's largest corporations. As intergovernmental partners, it is our shared responsibility to ensure the strength and stability at all levels of our economic portfolio. It is imperative that we move forward together for our families and children, businesses, large and small and all our communities. Stronger counties mean a stronger America.

We thank you once again for holding this important hearing and I look forward to your questions